CONFIDENTIALITY

Our clients’ industries are extremely competitive, and the maintenance of confidentiality with respect to our clients’ plans and data is critical. Oliver Wyman rigorously applies internal confidentiality practices to protect the confidentiality of all client information.

Similarly, our industry is very competitive. We view our approaches and insights as proprietary and therefore look to our clients to protect our interests in our proposals, presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the prior written consent of Oliver Wyman.

© Oliver Wyman
SUMMARY OF WHERE WE ARE IN CHINA

Painful Q1 with uncertainty going forward

China is returning to work
• Unprecedented government action restricted cases largely to Hubei, and now has shut off China from the world
• 80%-90% of production has been resumed; supply shock now becoming a demand shock

Q1 GDP growth will be dampened, but it has always been a slow quarter; Q2 and beyond will partly depend on government action...
• Short term economic contraction in Q1 inevitable; bank NPL rises
• Government has introduced a series of policies to support employment and SMEs
• We expect China GDP growth in 2020 of 4%-5%, based on further expected stimulus; our downside estimate is about 3.5%-4.2%

...and inevitably affected by the global spreading of COVID-19
• With a fast spreading global pandemic and a looming risk of global recession, we expect sluggish demand for Chinese export
• Further uncertainty due to populist and anti-globalization sentiment, which carries an impact in the much longer term

Layered impact on Hong Kong

COVID-19 has ‘layered’ additional stress on an already challenged Hong Kong economy
• Geopolitical tension since mid-2019 has a strong negative impact on HK’s economy, already leading it into a recession
• With the recent increase in the case count due to importation, HK imposed a stronger and wider border control while highlighting the importance of social distancing
• HK SMEs and retailers, and food & beverage outlets are now facing a far greater liquidity pressure than ever

Path forward more uncertain for HK
• Curbing down case counts quickly will be critical, but interconnectivity of economy remains a challenge
• Creative & targeted government support will be essential for HK’s speedy recovery, however there is limited scope given currency peg for monetary policy
• Transmission from real economy to financial sector only now starting to happen, with NPLs starting to rise

© Oliver Wyman
## Executive Summary – Outbreak Impact on the Financial Services Industry

### Industry Trend Before COVID-19 Outbreak

<table>
<thead>
<tr>
<th>Banks</th>
<th>Securities Firms</th>
<th>Insurance Companies</th>
<th>Asset Managers</th>
<th>Wealth Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growth in asset and profitability began to decelerate, but still above 5%</td>
<td>• Fundamental shifts from ‘shadow banking’ to ‘capital market’ bring tremendous opportunities</td>
<td>• Double digit growth with government’s promotion of commercial insurance, esp. in the health lines</td>
<td>• New regulations launched to promote active portfolio management while curb on shadow banking</td>
<td>• Slowing economy and downturn of credit cycle resulted in multiple product “bursts” and put extensive pressure on the WM industry, esp. for third party WM companies</td>
</tr>
<tr>
<td>• Proactively address regulatory guidance on de-leveraging and orderly resolution of the perceived asset quality issue</td>
<td>• Expect market consolidation and pressure for small players</td>
<td>• Shift in product mix from investment to protection coping with regulatory direction</td>
<td>• Systematic shift from “quasi” investment managers to “professional” ones</td>
<td></td>
</tr>
</tbody>
</table>

### COVID-19 Outbreak Impact on Market Trend

- Increasing penetration of online business
- Highlights of capabilities in deal with business continuity planning & management

- New NPL accumulating that challenges NPL management capabilities
- Loosing in trade finance as global supply chain further diversifying production lines out of China
- Indirect pressure from negative sentiment in capital market in short-term, but expected to normalize in the long-run
- Short-term pressure on new premium and claims pay-out
- Deepening risk education and increasing insurance awareness accelerate long-term growths
- Discounted valuation in secondary and primary market during outbreak, but expected to normalize in the long-run
- Unstable sales team due to sharp declining in new business and commission
- Increasing reputational risk with more “blow ups” as economy further slow down
- Accelerate Industry reshuffle
# 7 Key Agendas for FS Executives to Capture New Growth Opportunities While Defending Existing Position

<table>
<thead>
<tr>
<th>Key Agenda</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Digital acceleration</td>
<td>The outbreak future boosts online usage of financial services; traditional FS players should consider where to compete in the value chain as tech players further flourishing</td>
</tr>
<tr>
<td>2 Health insurance growth strategy</td>
<td>With the promotion of insurance awareness by the outbreak, opportunities for health insurers are unprecedented and can be captured with well developed growth strategy</td>
</tr>
<tr>
<td>3 Healthcare sector holistic solution</td>
<td>Develop sector specific solutions to ride with the potential healthcare boom after the outbreak will help banks generate substantial growth</td>
</tr>
<tr>
<td>4 Supply chain migration opportunities</td>
<td>As the outbreak accelerates global supply chain to diversify production and sourcing lines out of China, Chinese banks’ role along the shift should be redefined for new business opportunities</td>
</tr>
<tr>
<td>5 NPL Management</td>
<td>NPL management will be essential for Chinese banks to deal with increasing bad loans after the outbreak and retain long-term creditworthiness</td>
</tr>
<tr>
<td>6 Business continuity management</td>
<td>The outbreak put extensive pressure on business continuity management (BCM), which should have been developed and tested during normal time</td>
</tr>
<tr>
<td>7 Recession readiness</td>
<td>As the risk of global pandemic is rising, financial institutions and regulators should be prepared for a potential global recession</td>
</tr>
</tbody>
</table>
01
MACRO IMPACT
PANDEMIC SITUATION (AS OF APRIL 1)
While the outbreak has been effectively contained in China, epicenters of the pandemic have shifted to Europe and North America; the increase of total confirmed cases globally continues to accelerate

Characteristics of COVID-19
- Highly infectious through droplet and airborne transmission
- Lower death rate compared to SARS
- Senior citizen and people with pre-existing conditions are more vulnerable
- Varying incubation period ranging from 1-14 days

While the situation has stabilized in China thanks to strict measures by the state ...
- 7 provinces are reporting 0 active cases
- Majority of new confirmed cases are imported from abroad, prompting tightened border control and reduced international air traffic
- Domestic focus has shifted to restarting economic activities and tracking asymptomatic patients

... COVID-19’s global spread has continued to accelerate

Total / New confirmed cases outside of China

<table>
<thead>
<tr>
<th>Countries with highest number of cases</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>163,199</td>
</tr>
<tr>
<td>Italy</td>
<td>105,792</td>
</tr>
<tr>
<td>Spain</td>
<td>94,417</td>
</tr>
<tr>
<td>Germany</td>
<td>67,366</td>
</tr>
<tr>
<td>France</td>
<td>51,477</td>
</tr>
<tr>
<td>Iran</td>
<td>44,606</td>
</tr>
<tr>
<td>U.K.</td>
<td>25,154</td>
</tr>
<tr>
<td>Switzerland</td>
<td>16,108</td>
</tr>
<tr>
<td>Turkey</td>
<td>13,531</td>
</tr>
</tbody>
</table>

Source: WHO, National Health Commission of the People’s Republic of China, Oliver Wyman analysis

© Oliver Wyman
MACRO IMPACT: MAINLAND CHINA

The Chinese government put the economy on hold to control the outbreak, translating into severe short-term downturn

COVID-19 led to stricter response compared to SARS

- **Shorter time to implement nationwide epidemic response**
  - ~5 months for SARS
  - ~2 months for COVID-19

- **Stricter control on population movement**
  - Designated Hospitals sealed off during SARS
  - Entire Hubei Province sealed off during SARS

More severe economic impact by COVID-19

- **China GDP contribution by sector in 2003 vs. 2019 (%)**
  - Primary: 16% (2003), 10% (2019)
  - Secondary: 45% (2003), 39% (2019)
  - Tertiary: 39% (2003), 51% (2019)

- **Domestic production**
  - Due to travel restrictions and home quarantine rules
    - Massive disruption of labor supply resulting in a severe drop in economic activities
    - Double-digit YoY decline (Jan-Feb) across industrial output (-13.5%), retail consumption (-20.5%), and property investment (-16.3%)
    - Sharp drop of PMI to 35.7 for manufacturing and 29.6 for non-manufacturing in February
  - As the pandemic is more under control in China today, economic activities in the domestic market has started to quickly recover

- **Sluggish foreign demand**
  - Continued decline in foreign demand due to the spread of COVID-19 globally, slowing down the recovery as factories running out of orders

Source: WIND, National Bureau of Statistics, The Economist, Reuters, Oliver Wyman analysis

© Oliver Wyman
**ECONOMIC IMPACT: MAINLAND CHINA**

As more companies resume operations, the government has announced multiple stimulus packages for the economy; however, with increasing global uncertainties in sight, the effect of these measures is still to be observed.

**Stimulus from the government are expected, but their effectiveness remains unclear, with risks of overheating**

- As of the end of March, over 76% of SMEs and 98.6% of national industrial companies have resumed production.
- Chinese governments have introduced a series of policies to reboot the economy, with further measures believed to be implemented, including industrial, fiscal, and monetary policies.
- Unlike the case for 08-09 when stimulus programs were designed to be funneled through the financial system, government support has been more targeted:
  - Job creation: relief in social security payment, etc.
  - Small businesses targeted: national wide extension of maturity and interest forbearance.
- However, even if the support/stimulus proves to be effective, uncertainties still exist:
  - The rapidly developing global pandemic threatens to lead to a global recession and quite likely depression.
  - Populist/anti-globalization sentiment may hit a stride in Western countries post the pandemic.
  - A potential longer term damage in public image for China if not dealt with carefully.

**Possible economic performance for China in 2020 (%)**

Source: National Statistical Bureau, Caixin. Oliver Wyman analysis.
ECONOMIC IMPACT: HONG KONG

Piling on the declining trend caused by social unrests in Hong Kong in 2019, COVID-19 is expected to worsen the local economy – targeted government support will be essential for a speedy recovery.

Economic decline in ’19 due to social unrests

Virus outbreak will worsen the situation

Hong Kong GDP (Billion HKD)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2018 Q4</th>
<th>2019 Q1</th>
<th>2019 Q2</th>
<th>2019 Q3</th>
<th>2019 Q4</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>755</td>
<td>713</td>
<td>698</td>
<td>723</td>
<td>700</td>
<td>659</td>
<td>649</td>
<td>704</td>
<td>710</td>
</tr>
</tbody>
</table>

Hong Kong total retail sales (Billion HKD)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2018 Q4</th>
<th>2019 Q1</th>
<th>2019 Q2</th>
<th>2019 Q3</th>
<th>2019 Q4</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>124</td>
<td>128</td>
<td>113</td>
<td>94</td>
<td>96</td>
<td>82</td>
<td>81</td>
<td>102</td>
<td>111</td>
</tr>
</tbody>
</table>

Source: Census and Statistics Department of HKSAR, Oliver Wyman analysis

© Oliver Wyman
02

KEY AGENDA FOR FINANCIAL SERVICES EXECUTIVES
IMPACT ON FINANCIAL SERVICE: RISK AND WARNING

Failures in SMEs and a slower income growth may pose a deeper impact on the economy; at the same time, it is often difficult to target precisely with stimulus – defaults from those 2 sectors may have poses further risks

SMEs facing survival crisis in the outbreak

- SMEs are forced to shut down during the outbreak, and are hard to survive for more than 3 months due to cash flow constraints
  - >90% postponed their business re-open date
  - >50% delayed for 2+ weeks and have no clear re-open till now
- According to PBOC, MSMEs contribute
  - >60% GDP and >50% tax
  - >80% employment in China now

Higher unemployment (6.2% in Feb) and lower personal disposable income due to corporate layoff and SME failure

Disposable income growth rate (%)  

China commercial bank NPL Ratio (%)  

- COVID-19 may have larger impact on SMEs and individuals as large corp. usually have better capability to cope with uncertainties (e.g. more capital and liquidity cushion) and can get more government support
- Considering current credit cycle, increasing NPL is inevitable
- However, if excessive credit easing policy is applied (e.g. extension for individuals and SMEs), NPL might be even higher in the following cycles

Source: WIND, National Statistical Bureau, PBOC, Economy Daily and Postal Savings Bank of China, Oliver Wyman analysis

© Oliver Wyman
### IMPACT ON FINANCIAL SERVICE: OPPORTUNITIES AND CHALLENGES

While offline economy is hit hard by the outbreak, an opportunity window has opened for online businesses and various financial institutions.

#### Boom in online retail

| Online healthcare | • Ping’An Doctor’s new user registration saw 10x growth, number of consultations scheduled in Feb is 9x of pre-outbreak monthly average, **total visits topped 1.1BN**
|                  | • 30% of consultation on DingXiangYuan is about COVID-19; its bilingual real-time report received 3.5TN views by end of March |

| O2O E-commerce  | • For major players (incl. Miss Fresh, JDDJ, Hema, Dingdong, Yonghui), transactions during the outbreak increased by 200%-500%
|                | • Customers are expected to be better educated for online grocery purchase |

| Online education | • DAU increased by 1100%-1500% for major online education apps after school cancelation during the outbreak |

| Remote office software | • New user increase growth rate\(^1\) for remote office APP / software reaches 580%+ during the outbreak
|                       | • New user increase growth rate\(^1\) of Dingding, Zoom and corporate WeChat hit 703%, 662%, and 299% respectively |

#### Increasing online financials services usage

**Online financial services to fulfil everyday demand**

- **Online banking & wealth management**
  - Alipay daily mutual fund purchase **increased by 400%** in the first 2 weeks in Feb
  - China Merchants Bank online WM customer interaction totaled **240K times** in Feb

- **Online insurance brokerage:**
  - New China Life launched new products via WeChat and achieved **1392% YoY growth** in Feb
  - Zhong’An scored **55% premium growth** during the first two months of outbreak and expects **health insurance to grow by 70% in 2020**

**Payment/instalment service support for increasing online service transaction**

**To-B financial services**

- **2B SaaS platform**
  - A 2B turn key asset management platform signed **a dozen new service contracts** with FIs, including third party wealth management firms, insurance firms, and trust companies

- **ERP system and cash flow management to support business continuity**

---

1. New user increase growth rate\(^1\) = (new user increase during 2020 COVID-19 outbreak / Spring Festival – new user increase in 2019 Spring Festival) / new user increase during 2020 COVID-19 / Spring Festival

Source: Questmobile, expert interview, internet data, Oliver Wyman analysis

<table>
<thead>
<tr>
<th>Industry trend before COVID-19 outbreak</th>
<th>Banks</th>
<th>Securities Firms</th>
<th>Insurance Companies</th>
<th>Asset Managers</th>
<th>Wealth Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growth in asset and profitability began to decelerate, but still above 5%</td>
<td>• Fundamental shifts from ‘shadow banking’ to ‘capital market’ bring tremendous opportunities</td>
<td>• Double digit growth with government’s promotion of commercial insurance, esp. in the health lines</td>
<td>• New regulations launched to promote active portfolio management while curb on shadow banking</td>
<td>• Slowing economy and downturn of credit cycle resulted in multiple product “bursts” and put extensive pressure on the WM industry, esp. for third party WM companies</td>
<td></td>
</tr>
<tr>
<td>• Proactively address regulatory guidance on de-leveraging and orderly resolution of the perceived asset quality issue</td>
<td>• Expect market consolidation and pressure for small players</td>
<td>• Shift in product mix from investment to protection coping with regulatory direction</td>
<td>• Systematic shift from “quasi” investment managers to “professional” ones</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| COVID-19 outbreak impact on market trend | | | | | |
|------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------|--------------------------------------|
| • Increasing penetration of online business | • Highlights of capabilities in deal with business continuity planning & management | • New NPL accumulating that challenges NPL management capabilities | • Indirect pressure from negative sentiment in capital market in short-term, but expected to normalize in the long-run | • Short-term pressure on new premium and claims pay-out |
| • Loosing in trade finance as global supply chain further diversifying production lines out of China | • Deepening risk education and increasing insurance awareness accelerate long-term growths | • Discounted valuation in secondary and primary market during outbreak, but expected to normalize in the long-run | • Unstable sales team due to sharp declining in new business and commission |
| | + Deepening risk education and increasing insurance awareness accelerate long-term growths | | + Increasing reputational risk with more “blow ups” as economy further slow down |
| | | | | + Accelerate Industry reshuffle |
WE HAVE OBSERVED 7 KEY AGENDAS FOR FS EXECUTIVES TO CAPTURE NEW GROWTH OPPORTUNITIES WHILE DEFEND EXISTING POSITION

<table>
<thead>
<tr>
<th>Key Agenda</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Digital acceleration</td>
<td>The outbreak future boosts online usage of financial services; traditional FS players should consider where to compete in the value chain as tech players further flourishing</td>
</tr>
<tr>
<td>2 Health insurance growth strategy</td>
<td>With the promotion of insurance awareness by the outbreak, opportunities for health insurers are unprecedented and can be captured with well developed growth strategy</td>
</tr>
<tr>
<td>3 Healthcare sector holistic solution</td>
<td>Develop sector specific solutions to ride with the potential healthcare boom after the outbreak will help banks generate substantial growth</td>
</tr>
<tr>
<td>4 Supply chain migration opportunities</td>
<td>As the outbreak accelerates global supply chain to diversify production and sourcing lines out of China, Chinese banks’ role along the shift should be redefined for new business opportunities</td>
</tr>
<tr>
<td>5 NPL Management</td>
<td>NPL management will be essential for Chinese banks to deal with increasing bad loans after the outbreak and retain long-term creditworthiness</td>
</tr>
<tr>
<td>6 Business continuity management</td>
<td>The outbreak put extensive pressure on business continuity management (BCM), which should have been developed and tested during normal time</td>
</tr>
<tr>
<td>7 Recession readiness</td>
<td>As the risk of global pandemic is rising, financial institutions and regulators should be prepared for a potential global recession</td>
</tr>
</tbody>
</table>
**DIGITAL ACCELERATION**

Incumbent FIs are at risk of losing client ownership as ‘new challengers’ emerge across the FS value chain, while the outbreak has made the situation more urgent for traditional FIs.

---

**Clients**

- Client Platforms
- Ecosystem Players
- Monoline FinTech Players
- Digital/Virtual Banks
- New Emerging Infrastructures

---

**Incumbent**

Client Interface

Products/Solutions

Infrastructure

---

**New**

New Distribution Network

Traditional Distribution Flows

© Oliver Wyman
Digital Strategy
- Develop digitalization transformation plan that manage threats and channel disruptive forces for growth
- Tailor strategy with digitization and industry expertise

Digital Partnership
- Identify use cases for effective partnership
- Prospect partners and support partnership proposition development
- Develop tangential plan and operating model for the partnership

Digital Analytics
- Prioritize objectives and define business requirements
- Develop and deploy customized analytical tools to accelerate time-to-value

Digital Cost Allocation
- Create cost transparency and change cross-BU engagement model
- Enable better decisions based on data
- Provide an equity story on digital investments

Digital Risk Management
- Identity new risks emerging from digitalization
- Redefine risk functions to become risk and digital centres of excellence to both support business and mitigate risks

DIGITAL ACCELERATION
Accelerated digital transformation could be achieved through the following 5 critical topics
HEALTH INSURANCE GROWTH STRATEGY

A well developed growth strategy with in-depth market understanding and customer insights can help health insurers seize the next wave of market growth after the outbreak.

Data driven customer segmentation and insights
- Break the barriers of insurance data, financial data, and health data
- Develop customer profile of behaviour and needs beyond demographic tags only

Solution mindset to serve clients’ life-long needs
- Deep understanding of clients’ risk mitigation needs at different stages of life
- Provide “insurance allocation solution and services” rather than push for single products

Modularized design to achieve customization
- Provide insurance solution tailored to clients’ needs through combination of product modules
- Balance the number of modules and statistical significance of data

Diversified channel strategy
- Leverage online channels and traffics
- Build interactive and integrated sales process to achieve “research online buy offline (ROBO)” and improve productivity

Analytics based product innovation
- Big data driven needs understanding and new product design to fulfil market gaps
- Potential use of dynamic pricing based on “hot data”

Intelligent underwriting
- Improve underwriting efficiency and risk selection through big data risk control and AI technology

Insurance policy management
- Establish cloud-based standardized policy storage system
- Improve policy data collection for internal analysis and reporting
- Improve customer experience and stickiness through customer facing insurance policy management system

Intelligent claim settlement
- Achieve online quick claim settlement for majority of cases with the help of AI technology

Differentiate with value-added services
- Provide services throughout before accident, during accident, and claim settlement
- Improve claims control through medical services and direct payments
- Leverage data from value-added services to improve risk pricing and risk selection

© Oliver Wyman
HEALTHCARE SECTOR HOLISTIC SOLUTION

To ride the expected healthcare boom after the outbreak, banks should transform from serving distinct clients to serving the whole value chain.
HEALTHCARE SECTOR HOLISTIC SOLUTION

Case study: One bank’s strategy involved the design of tailor made products to address payments pain-points across healthcare sector’s ecosystem.

Exploring broader industry processes and financial interlinkages highlighted pain points:

- Significant delays and reconciliation issues in claims processing (e.g., insurance claims).
- High administrative costs incurred in chasing and reconciling outstanding receivables (e.g., supplier pharmaceuticals).
- Mostly manual payment processing with no unified platform.
- Higher working capital requirements, poor service delivery, and duplication and billing issues.

enabling the bank to tailor product solutions and become integral part of healthcare ecosystem:

The bank developed tailor made product solutions through specialized banking business:

- Integrated centralized payment gateway
- Patient and insurer cards
- Financing and advisory

Wider range of tailored products/services for healthcare professionals through subsidiaries:

- Equipment financing
- Health claims and payment solutions
- Practice Purchase & Improvement
- Insurance, etc.

Source: Oliver Wyman Analysis
### 3 HEALTHCARE SECTOR HOLISTIC SOLUTION

Banks which implemented sector strategy solution have enjoyed substantial growth across wide range of business metrics

#### Sector solution strategy impact

Based on past project experience for sectors after implementing sector solutions

<table>
<thead>
<tr>
<th>% Range</th>
<th>Metric Description</th>
<th>Impact details</th>
</tr>
</thead>
<tbody>
<tr>
<td>15–20%</td>
<td>RoRWA uplift</td>
<td>• Driven by a combination of factors:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Higher client share of wallet</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Increased fee income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Lower customer acquisition and servicing costs</td>
</tr>
<tr>
<td>30–40%</td>
<td>Growth in CASA balance</td>
<td>• Achieve transaction bank status to attract deposit-rich sub-segment of the prioritized sectors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Develop solution that address current pain-points in meeting their banking needs</td>
</tr>
<tr>
<td>20–30%</td>
<td>Lower customer acquisition costs</td>
<td>• Leverage anchor relationships in a sector to reach attractive customer sub-segments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Set up value chain solutions and programs to allow rapid customer acquisition</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman project experience
SUPPLY CHAIN MIGRATION OPPORTUNITIES

Supply chain migrating out of China will be a gradual process, while pre-amping the business opportunities along the shift will lead to first mover advantage.

Complicated Planning
- Multiple target countries to fill up the full production capacity of China
- Partial migration vs. end-to-end pending on suppliers of parts and components
- Long ramp up time required leads to reshoring risk

Multiple-border complexity
- With upstream manufacturing, downstream installation, and end customers potentially all in different countries, it creates complexity for supply chain management

Treasury capability upgrade
- Increasing multi-country exposures and funding needs increase corporate’s vulnerability
- Offshore treasury management as new territory for some Chinese corporates

Industry upgrade challenge
- Capital originally deployed in China production lines need to be redeployed after migration...
- ... which will likely flow into new economy sectors (such as smart automobiles, gig economy, etc.) that are in need of banking solutions

Challenges for corporates

Opportunities for banks
- **Advisor services** on cross-broader trade and customs processes to help clients make well-informed decisions
- **Provide financing** for suppliers in target country to help build capacity
- **Advisor services** on supply chain management (i.e., procure to pay solutions) and working capital (i.e., funding strategy)
- **FX and rates solution** across various countries to improve production margin
- **Risk management solutions** (such as forwards) to hedge new business risks
- **Treasury advisory** to help corporate setup and optimize offshore treasury management structure
- **Next generation banking proposition** for new economy sectors to help them grow, such as
  - Micropayment services in smart automobiles
  - Massive payment and reconciliation flows in gig economy
Oliver Wyman’s NPL Management framework can help Chinese banks effectively deal with accumulating NPLs and improve credit positioning.

<table>
<thead>
<tr>
<th>Core dimensions</th>
<th>Examples of typical components of each dimension</th>
</tr>
</thead>
</table>
| A Organization and Governance| • Organizational structure, team and channel configuration, departments and committees   
                          | • Units responsibility perimeter                                                                       |
| B Customer segmentation       | • Customers segmentation, as the foundation of tailored resolution strategies                               |
| C Analytics and tools         | • Suite of analytical tools (segmentation, solutions, valuation, impact assessment)                  
                          | • Tools required to support processes                                                                     |
| D Resolution strategies and processes| • Differentiated resolution strategies and processes for each customer segment                           
                          | • Level of industrialization required vs. case-by-case management                                        |
                          | • Processes to enable identification and treatment of clients at risk                                      |
                          | • Client handover processes                                                                               |
| E Colleterial Management      | • Collateral management and valuation                                                                   
                          | • Standardized and clear process                                                                        |
| F Out-sourcing Management     | • Analytics based out-sourcing decision making                                                             |
                          | • Out-sourcing counterparties evaluation in batches                                                      |
                          | • Redistribution of cases among out-sourcing counterparties based on evaluation                          |
| G Monitoring and reporting    | • Resolution efficiency monitoring                                                                     |
                          | • Resolution dashboard and reporting                                                                     |
                          | • Operational and financial reporting                                                                   |
| H Talent and personnel        | • Training and up-skilling                                                                               |
                          | • Capacity management                                                                                    |
                          | • Performance management framework                                                                      |
| I Technology and Infrastructure| • Case manager tools to support decisioning and workflow management                           |
                          | • Data management infrastructure                                                                       |
**NPL MANAGEMENT**

Meanwhile, market leaders and/or regulatory could potentially build an NPL electronic trading platform to help improve NPL management efficiency for the whole market.

**Illustration of NPL marketplace**

Banks submit NPLs to platform

Investors acquire assets via platform

Platform operator:
- Services platform
- Extracts data on assets/transactions from platform

**Benefits of NPL marketplace**

- Information transparency
- Lower costs
- Increased liquidity
BUSINESS CONTINUITY MANAGEMENT

Business Continuity Management is a holistic management process that improves an organization's resilience to disruption of normal operations, such as the outbreak of a crisis. It involves identifying potential threats to an organization and the impacts to business operations those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability of an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

ISO's definition of BCM

Holistic management process that identifies potential threats to an organization and the impacts to business operations those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability of an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

Objective of BCM

- To develop Business Continuity Plans (BCPs) to ensure continuation of critical functions in the event of a crisis
- To implement and practice these plans so they can be executed effectively, if and when a crisis actually occurs
- To improve efficiency and effectiveness of these plans over time, continually adapting to changing risks

Source: ISO 22301, Oliver Wyman analysis
Oliver Wyman has developed a comprehensive and clear target state framework, as well as a vision for BCM function to guide the transformation.

Oliver Wyman’s Business Continuity Management (BCM) framework

1. Designed and annually reviewed by IT department
2. Process guidelines will be documented in Crisis Management Plan (CMP)
Recession Readiness

Recovery and Resolution Planning (RRP) is designed to address financial institution failures, especially bank failures, and is key to systemic resilience in the potential recession scenario.

<table>
<thead>
<tr>
<th>Question</th>
<th>Recovery Plan</th>
<th>Resolution Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goals</strong></td>
<td>“How does a FI react in an emergency situation?”</td>
<td>“How can a FI be resolved in a structured way?”</td>
</tr>
<tr>
<td><strong>Goals</strong></td>
<td>• Recovery of the FI from a distressed situation by adopting appropriate measures</td>
<td>• Proofing resolvability of the FI</td>
</tr>
<tr>
<td></td>
<td>• Ensuring a sufficiently large and well-designed portfolio of recovery measures</td>
<td>• Ensuring the stability of the entire financial system in case of FI failure</td>
</tr>
<tr>
<td></td>
<td>• Ensuring the stability of the entire financial system in case of FI failure</td>
<td>• Minimizing burden to taxpayers</td>
</tr>
<tr>
<td><strong>Components</strong></td>
<td>• Structure and business model</td>
<td>• Capitalization, liquidity situation</td>
</tr>
<tr>
<td></td>
<td>• Core business lines, critical functions</td>
<td>• Critical systems/infrastructure</td>
</tr>
<tr>
<td></td>
<td>• Connectedness analysis</td>
<td>• Loss absorption capacity</td>
</tr>
<tr>
<td></td>
<td>• Early warning triggers</td>
<td>• Separability</td>
</tr>
<tr>
<td></td>
<td>• Recovery triggers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Thresholds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Definition of stress scenarios (qual. + quant.)</td>
<td>• Resolution approach (SPE vs MPE)</td>
</tr>
<tr>
<td></td>
<td>• Market-wide vs. specific</td>
<td>• Resolution scenarios</td>
</tr>
<tr>
<td></td>
<td>• Short- vs. long-term</td>
<td>• Implementation of resolution</td>
</tr>
<tr>
<td></td>
<td>• General recovery measure framework</td>
<td>• Recapitalization – Bail-in incl. analysis of liability cascades and loss absorption capacity</td>
</tr>
<tr>
<td></td>
<td>• Specific recovery measures for scenarios</td>
<td>• Structural resolution measures (sales, bridge-institute, asset transfers)</td>
</tr>
<tr>
<td></td>
<td>• General governance framework vs. crisis situation</td>
<td>• Ensuring sufficient financial resources and operative actionability in case of resolution</td>
</tr>
<tr>
<td></td>
<td>• Escalation processes</td>
<td>– Specific governance concept</td>
</tr>
<tr>
<td></td>
<td>• Communication processes</td>
<td>– Availability of information</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Valuation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Internal/external communication</td>
</tr>
</tbody>
</table>

Legend: Common elements
## RECESSION READINESS

We see 7 key lessons that China financial institutions can learn from international experience here.

### Key Lessons learned

<table>
<thead>
<tr>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>V</th>
<th>VI</th>
<th>VII</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIs had not adequately planned for their own recovery in the event of severe stress</td>
<td>Resolution by acquisition needs to be handled with care to avoid contagion to the acquirer</td>
<td>Clarity around supervisory governance is essential to effective crisis management</td>
<td>Planning in advance for FI failure reduces the cost of that failure</td>
<td>Early and decisive action has a higher immediate cost – but materially lower long-term cost</td>
<td>The largest and most complex institutions need a different resolution approach</td>
<td>Balance sheet structure and state support weakened market discipline</td>
</tr>
</tbody>
</table>
AUTHORS

Hang Qian, Partner

• Partner in in the Financial Services practice in Oliver Wyman
• Hang focuses on strategy consulting in consumer finance, retail banking, fintech and digitalization sector; he also specializes in risk management

Jason Ekberg, Partner

• Partner and Head of Institutional and Corporate Banking practice in Asia
• Jason focuses on strategy consulting for leading corporate and investment banks across Asia

Jasper Yip, Principal

• Principal in the Financial Services practice in Oliver Wyman
• Jasper has extensive experience with various corporate and institutional banking clients and private equity firms across Greater China and South East Asia

Justin Chen, Principal

• Principal in the Financial Services practice in Oliver Wyman
• Justin covers a wide range of topic in financial risk sector, incl. risk capital planning and strategy, risk modelling, recovery planning and compliance risk management and monitoring

Lingyi He, Associate

• Associate in the Financial Services practice in Oliver Wyman
• Lingyi has extensive experience in wealth and asset management, insurance, and risk management

Linda He, Senior Consultant

• Senior Consultant based in Oliver Wyman’s Shanghai Office
• Linda has extensive experience in insurance, fintech and retail banking

Please contact following email if any questions or suggestions
ENQUIRY.GC@OliverWyman.COM
QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties. In addition, this report does not represent legal, medical, accounting, safety or other specialized advice. For any such advice, Oliver Wyman recommends seeking and obtaining advice from a qualified professional.