

Regional Economic Integration & Financial Inclusion in Asia: Perspectives from tech

Asian Bankers Association General Meeting

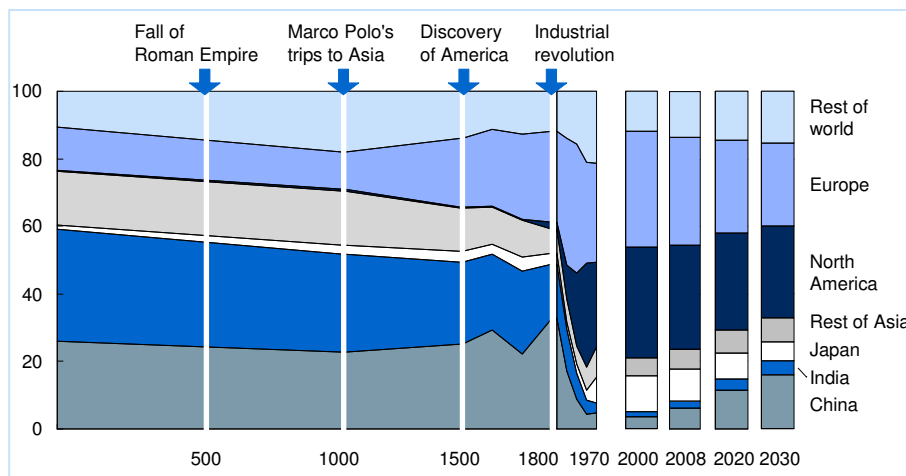
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Asia was the majority of the global economy until the Industrial Revolution – and its economic renaissance is well under way

Share of total world GDP
%

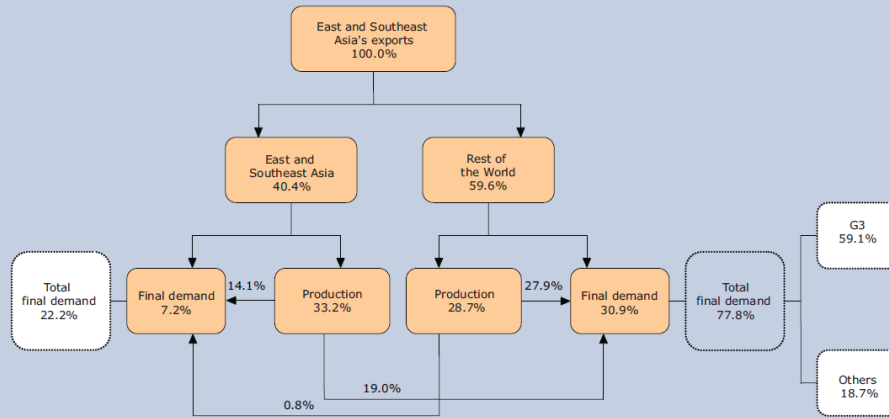


SOURCE: Angus Maddison, Historical Statistics for the World Economy: 1-2003 AD; Global Insight; McKinsey Global Institute analysis

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Regional economic integration driven by supply chains: 78% of Asian exports destined for end markets outside of Asia

Figure 1.2: Breakdown of Emerging Asia's Exports



Note: Emerging Asia includes the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taipei, China; and Thailand.

SOURCE: Asian Development Bank Working Paper Series on Regional Economic Integration, No. 31

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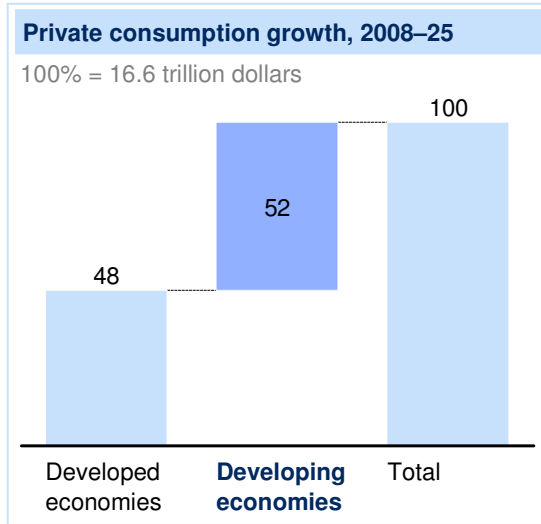
Many of my clients are asking: Where should we build our next factory?

Industry Archetype	Results	Inference
Process industry	<p>China (C) China (I) India Vietnam</p>	<ul style="list-style-type: none"> Scale and value chain depth are key to the success of this industry archetype, with coastal China the clear winner
Capital intensive manufacturing	<p>China (C) China (I) India Vietnam</p>	<ul style="list-style-type: none"> Value chain depth and manufacturing capability are important and here too, coastal China is the preferred location
Labor intensive manufacturing	<p>China (C) China (I) India Vietnam</p>	<ul style="list-style-type: none"> Labor cost is a key factor and though coastal China is the favourite, the gap can be bridged by the hinterland and Vietnam over a short period of time
Knowledge Industry	<p>China (C) China (I) India Vietnam</p>	<ul style="list-style-type: none"> While coastal China seems to be preferred, India could pose a serious threat in this category

SOURCE: McKinsey analysis

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That said, a lot of the “smart money” has moved on – developing economies will account for half of private consumption growth thru 2025



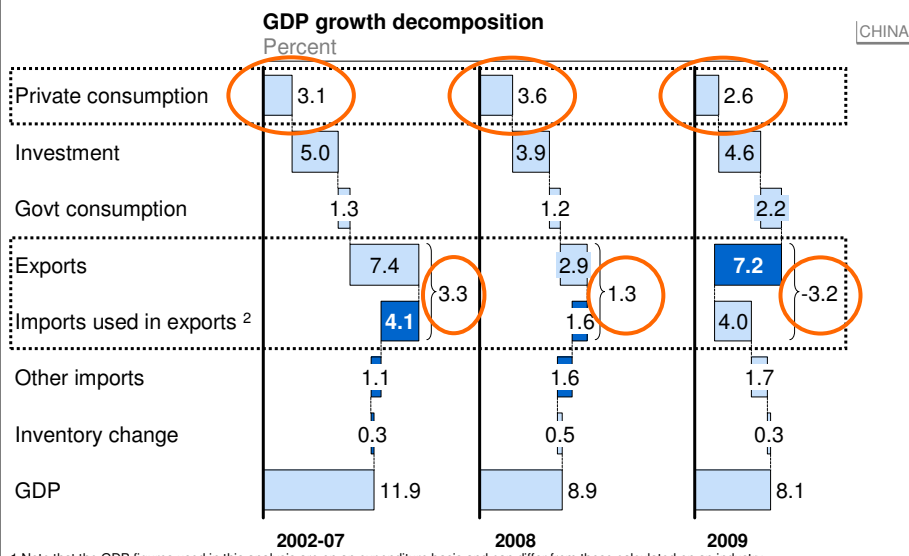
With an average per capita spend of just 15% of that of developed nations, we can expect to see new business models to serve emerging consumers



SOURCE: Global Insight; EIU; McKinsey Global Institute

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We see evidence of the importance of the Asian consumer now...

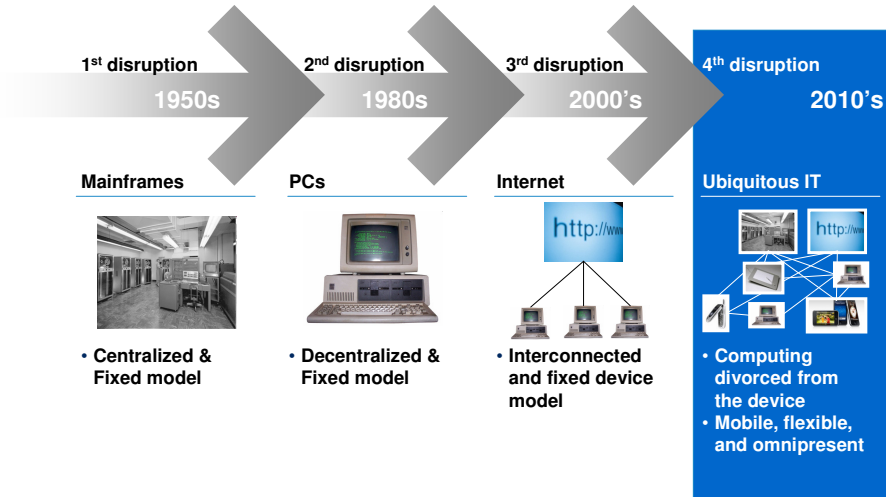


1 Note that the GDP figures used in this analysis are on an expenditure basis and can differ from those calculated on an industry value added basis depending, in part, on update releases from the government

2 Roughly 55% of export content is foreign sourced according to our analysis. We have used this figure to split import contribution to GDP growth into imports used in exports and other imports.

SOURCE: Global Insight; US ITC, "How much of Chinese exports is really made in China? Assessing foreign and domestic value-added in gross exports", Koopman, Wang and Wei, March 2008; McKinsey & Company | 5

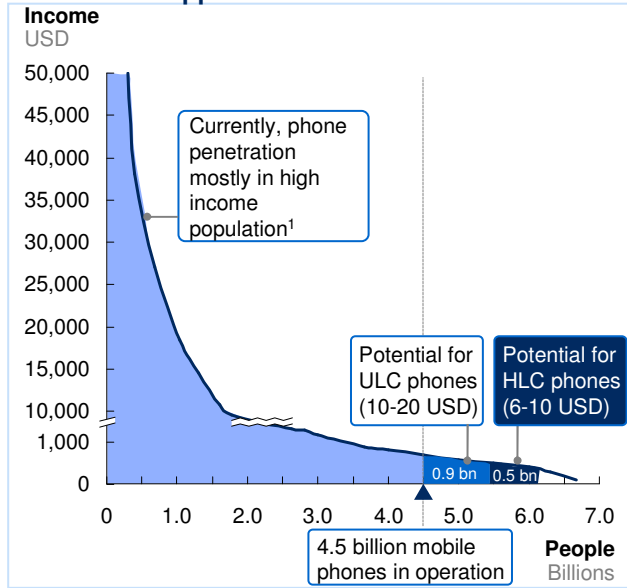
As ICT comes to dominate so much of the economy, are the days of IT disruption over? Or are we on the verge of a 4th major disruption?



“Advanced industries” across Asia are doing their part to make private consumption growth attractive – platforms for financial services?



Implications of these trends – nearly everyone on the planet will have a mobile handset opportunities for new financial services?



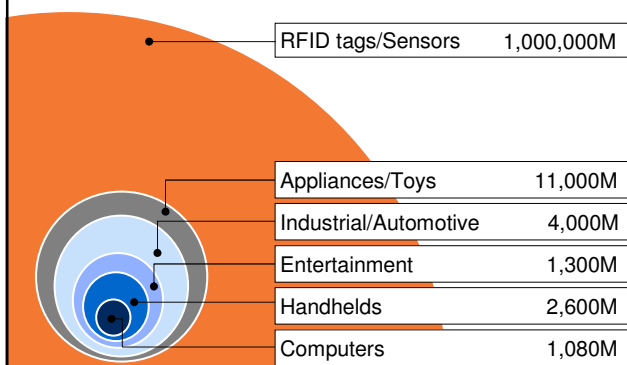
- Large potential of people (~2.5 bn) still without mobile phone
- Average income of this potential is USD 500 p.a.
- Therefore, phone price must be less than 10 USD, creating phone segment below current ULC segment

1 Does not take double ownership of phones into account, nor share of population not penetrated (e.g., babies)
SOURCE: GoldmanSachs, Global Rich List, McKinsey

The emergence of “The Internet of Things” will lead to an exponential growth of interconnected devices . . .

Explosion in the network of users, talent, objects, and information

Worldwide installed network devices, 2012



As more nodes are added to the network

- More information will become available for manipulation and analysis
- Even commonplace items will be “programmable”

The money will be there, but the cost to serve seems prohibitive... we need a Moore's Law equivalent in banking:

- How will financial services develop around today's unbanked consumers that have access to mobile computing?
- How will banks interact with a world where there are ~60 sensors for every human on the planet?