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Winning strategies for China's financial-services sector

As China's strong financial-services market matures, the companies in it must develop new business and operating models to compete for a more diverse and demanding customer base.



China's financial-services industry has grown quite rapidly over the past decade—product offerings, talent pools, and sales channels are increasing in scale and quality across sectors. With so many new opportunities available, companies raced to capture market share in many segments and products. Today, the industry's prospects in China remain attractive, and much more alluring than they are almost anywhere else. However, financial-services firms there now face a decade of transformation in which they must adapt to structural shifts ranging from new customer demands to the market's maturation. To win in changing times, these firms must refocus on profits and customer service.

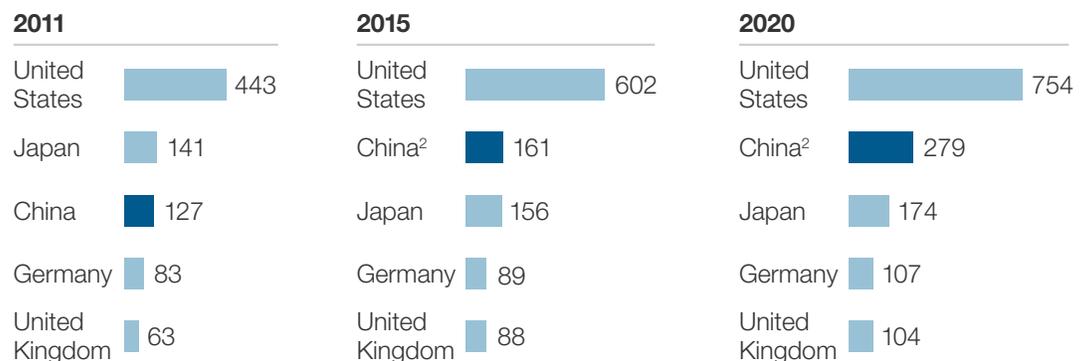
To provide guidance on the evolving Chinese landscape, McKinsey's financial-services practice is releasing a series of reports that discuss major trends and strategic priorities. The first three reports, available on mckinseyquarterly.com, discuss the following sectors:

- **Retail banking.** China's retail-banking market holds great potential for the future—in fact, it is poised to become the world's second largest by 2015. Recognizing the opportunity, Chinese retail banks have concentrated over the past decade on increasing scale rather than profitability. But as *Next-generation retail banking in China: Building eight transformational capabilities* argues, this business model isn't sustainable. Banks are now under more pressure to increase returns on assets and customer satisfaction. In some segments, such as the credit-card market in major cities, penetration has reached the point where substantial growth is no longer attainable solely by acquiring new customers. Retail banks won't win in this market unless they shift emphasis to improving profit per customer. That change will force them to focus on three objectives: building better primary relationships with customers, creating smarter and more focused acquisition strategies, and developing low-cost and scalable operating models.

Exhibit

China will become the second-largest retail-banking market in the world by 2015, with an annual revenue pool of around \$280 billion by 2020.

Estimated retail-banking revenue (after cost of risk) for top 5 countries globally,¹ \$ billion



¹2011 data are estimated; 2015 and 2020 data are forecast.

²China forecast based on conservative scenario.

- **Securities markets.** After several near-death experiences two years ago, leading securities firms strengthened their capital ratios and adjusted their business and economic models to restore profitability. There is still much room for improvement, however, as *The next decade of innovation and transformation in China's securities industry* demonstrates. Most firms still provide their retail and institutional customers with a limited range of commoditized services focused on cash execution. Their business models help them perform well during boom markets but are inadequate during downturns. In the future, winning firms will provide broader, more differentiated offerings to remain relevant—for example, personal advisory services for high-net-worth individuals, prime-brokerage products, or deep market insights for institutional investors.
- **Life insurance.** Although China's life-insurance market slowed in 2012, significant gains could materialize in the future given the emergence of the country's middle class, rapid urbanization, and an aging population. *Growth under uncertainty: Trends, issues, and outlook of China's life insurance industry* describes how companies can capture new opportunities by undertaking a holistic transformation touching every aspect of their business. In addition to revitalizing traditional sales channels (agents and bancassurance), companies must expand their product mix and create more offerings that focus on the core value proposition of life insurance: guaranteeing income for survivors. Finally, they must put more emphasis on customer needs throughout the entire product life cycle—marketing, packaging, distribution, and product design.

Across all three sectors, the challenges that lie ahead may seem daunting. But as the financial sector continues its transformation in a more mature and complex market, one thing is certain: firms will be at a disadvantage if they don't make difficult decisions about their strategies and business models now. ○