In 2014, capital markets institutions finally inched toward steadier ground. Global investment banking fees reached a total of USD 69 billion during the first nine months of 2014, the strongest since 2007. Out of this number, the Asia Pacific region (excluding Japan) accounted for USD 9 billion (13%) of the pie, surpassing its previous record in 2011. Furthermore, the Asia Pacific debt capital markets reached record volumes of USD 894 billion, an increase of 22% from the first nine months of 2013.¹

Yet this upbeat narrative was tempered by a perfect storm of macro events including lower than expected growth in emerging markets, declining commodity prices and the strengthening dollar with the spectre of rising rates. While the end of the US Federal Reserve’s quantitative easing programme brings worries of rate hikes, the unexpected injection of an additional stimulus by the Bank of Japan has caught many by surprise.

In this paper, we focus our attention on the current state of capital markets in Asia and assess how the region compares to the rest of the world. To better understand the developments in Asia, we have also identified five mega trends for discussion. In this constantly evolving market, it is imperative for capital markets players to keep abreast of not only industry-specific trends but also the mega consumer and institutional trends shaping the region. This paper concludes by positing a number of implications that capital markets firms should consider for their businesses, as well as the capabilities that they will need to develop going forward.

As the region changes with consumer and institutional demands becoming more sophisticated, the winners will be those who can position themselves ahead of these trends.

I would like to thank Arnub Ghosh, Joyce Mak and others in the Deloitte Southeast Asia who supported the development of this report.

Mohit Mehrotra
Deloitte Consulting

¹ Thomson Reuters, Dealogic
The current state of capital markets in Asia

Asia lags in capital market development with the Asian equity, debt and derivatives markets relatively smaller in size when compared to other markets such as the US or Europe. With the exception of Hong Kong, Malaysia and Singapore, most other countries in Asia have fewer listed companies and lower market capitalisation relative to GDP as compared to developed market benchmarks (Figure 1). Furthermore, the Asian corporate bond market is only a fraction of that in the US or Europe (Figure 2) as Asian corporates continue to rely heavily on bank funding, resulting in limited demand for corporate bonds. In the derivatives market, over-the-counter (OTC) trading accounts for the largest component in Asia, but its value is significantly smaller when compared to other global markets (Figure 3).

Figure 1: Market capitalisation as a percentage of GDP (2012)

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Capitalisation as a Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>422%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>156%</td>
</tr>
<tr>
<td>Singapore</td>
<td>144%</td>
</tr>
<tr>
<td>UK</td>
<td>123%</td>
</tr>
<tr>
<td>US</td>
<td>115%</td>
</tr>
<tr>
<td>Philippines</td>
<td>106%</td>
</tr>
<tr>
<td>Thailand</td>
<td>105%</td>
</tr>
<tr>
<td>South Korea</td>
<td>97%</td>
</tr>
<tr>
<td>India</td>
<td>68%</td>
</tr>
<tr>
<td>Japan</td>
<td>62%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>45%</td>
</tr>
<tr>
<td>China</td>
<td>45%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>21%</td>
</tr>
<tr>
<td>Mongolia</td>
<td>13%</td>
</tr>
</tbody>
</table>

Figure 2: Outstanding corporate bonds (USD trillion, 2014)

- United States: 22
- Europe: 18
- Asia ex-Japan: 5


Figure 3: OTC derivatives notional outstanding (2012)

USD 633 Trillion

- United States: 35%
- Europe: 50%
- Asia ex-Japan: 7%
- Japan: 8%
- Europe and others: 3%

Figure 4 below illustrates the disproportionate distribution of banking fees across the regions. With a less developed capital market, Asia Pacific excluding Japan only captured 13% of the global investment banking fees.

**Figure 4: Investment banking fees (Q1-Q3 2014)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Fees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>USD 37 billion</td>
<td>54%</td>
</tr>
<tr>
<td>EMEA</td>
<td>USD 20 billion</td>
<td>29%</td>
</tr>
<tr>
<td>Asia Pacific ex-Japan</td>
<td>USD 9 billion</td>
<td>13%</td>
</tr>
<tr>
<td>Japan</td>
<td>USD 3 billion</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters

Although Asia’s share of the pie in capital markets is significantly smaller when compared to other regions, it is important to acknowledge the growth potential of the Asian market. While the US and UK dominates capital market investments, there seems to be increasing attention on the developments of capital markets in Asia as the region is home to many emerging economies that are growing at unprecedented rates. Consequently, many companies are attracted to invest in Asia with some businesses relocating their headquarters to this part of the world. The onus is on the governments to set up sustainable infrastructure to support the growth. When done right, enormous opportunities are available.
Many Asian governments have recognised the opportunities and introduced various initiatives to further capital markets developments. In the equity markets, stock exchanges were established in the growing economies while initiatives in the bond markets are focused on fostering regional integration.

Initiatives to develop equity markets

- Cambodia: Stock exchange established in 2012
- China: Qualified foreign institutional investor programme launched in 2003. Shanghai-Hong Kong stock connect scheme launched in late 2014
- Laos: Stock exchange established in 2010
- Thailand, Malaysia and Singapore: ASEAN Trading Link launched in 2014 to create a single access point for cross-border trading
- Vietnam: Stock exchange established in 2005

Initiatives to develop bond markets

- Asian Bond Markets Initiative (2002): Encouraged local currency bond market development and increased diversity of bonds and issuers
- Asian Bond Funds 1 & 2 (2003-2005): Invested pooled savings in the bond markets to reduce market barriers for investors and improve liquidity in sovereign bond markets
- Bond Market Forum (2010): Promoted harmonisation of market practices and regulations to facilitate cross-border bond issuance
- Credit Guarantee and Investment Facility (2010): Credit enhancement promoted larger and cross-border corporate bond issues
- ASEAN Economic Community (2015): Single market production base to promote regional integration of trade, services and capital markets

As a result of the initiatives, Asian capital markets across asset classes have been rapidly developing. Equity issuance in Asia has grown at an impressive pace since the financial crisis (Figure 5) and bond issuances repeatedly broke record highs over the past couple of years (Figure 6). In the derivatives market, the growth in Asia is evident with increased trading volumes (Figure 7).

Figure 5: Asia quarterly equity issuance

![Equity issue (USD billion) and Number of issues](image)

Source: Thomson Financial, Futures Industry Association

Figure 6: Asia quarterly bond issuance

![Bond issue (USD billion) and Number of issues](image)

Source: Thomson Financial, Futures Industry Association

Figure 7: Volume of exchange-traded futures and options in Asia (billions of contracts)

![Volume of exchange-traded futures and options](image)

Source: Thomson Financial, Futures Industry Association

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2 World Federation of Exchanges; Deutsche Bank
Mega trends and opportunities

While the global economic recovery lent some stability to the capital markets, they continue to be complex and dynamic in nature, making it essential to keep a constant watch on developments in order to gain insight into some of the most important trends shaping these markets. Asia in particular is set to witness a significant transition with changes in population demographics, the rise of digital natives, proliferation of a sharing economy, and localisation.

Ageing Asia
In Asia, the number of people aged 50 years old and above is expected to grow dramatically over the next 10 years. Across all 12 of its key markets, this group is expected to grow 42% between 2014 and 2025 to reach over 1 billion people, and with significant purchasing power. Figure 8 illustrates the estimated spending per capita across the different markets in Asia.

Figure 8: Ageing population statistics in Asia projected till 2025

Source: United Nations, EIU, OECD, Deloitte Analysis
Working women

As society progresses, it experiences greater gender equality and increased employment opportunities for women. With more women in Asia entering the workforce, there will be a narrowing of gender gaps in labour force participation between men and women.

Figure 9: Labour force participation gender gaps (% 2006-2027)

Notably, the number of working women in Asia is growing at a faster rate as compared to other regions such as Europe and North America. The gender gaps in labour force participation are expected to decrease by 75% by 2027.

Figure 10: Female labour force (million 2007-2017)

Source: ILO, Goldman Sachs, Deloitte Analysis
Digital natives

We are now living in an era of digitisation, inhabited by the digital natives of Generations Y and Z. Generation Y is the first cohort to grow up with the constant presence of computers at home and with access to over 250 cable television channels. On the other hand, Generation Z enjoys high access to technology from birth and is even more accustomed to the lifelong use of communication and media technologies such as the Internet, instant messaging and mobile. As they come of age, these two demographic cohorts are likely to demand ubiquitous access to digital products and services. With Generation X becoming increasingly digitally-savvy as well, the majority of the population is expected to be technologically-adept by 2025.

Figure 11: Population and consumer spending projections

<table>
<thead>
<tr>
<th>Projected population size and consumer spending, 2020 (% of population, consumer spending USD)</th>
<th>Total spending (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>India</td>
</tr>
<tr>
<td>1.4Bn</td>
<td>1.3Bn</td>
</tr>
<tr>
<td>18% $0.8Tn</td>
<td>23% $1.6Tn</td>
</tr>
<tr>
<td>30% $2.6Tn</td>
<td>30% $0.9Tn</td>
</tr>
<tr>
<td>12% $0.2Tn</td>
<td>25% $0.5Tn</td>
</tr>
</tbody>
</table>


Source: US Census International Database, BNY Mellon, Deloitte Analysis

Generation Y has a projected population of 1.2 billion people by 2020, the largest segment in Asia. They are also estimated to account for USD 3.5 trillion of total spending. However, Generation Y is found to be sceptical of and lacking trust in the financial services sector, posing a unique set of challenges in serving them.
Sharing economy

The sharing economy refers to an ecosystem built around the sharing of resources. It includes the shared creation, production and consumption of goods and services by different people and organisations. Some examples of businesses in the sharing economy include crowdsourcing companies like Kickstarter and indiegogo; transportation applications such as Uber and Grabtaxi; and hospitality sites like Airbnb and PandaBed.

The sharing economy is disrupting traditional business models, with 78% of consumers in Asia willing to participate in it. With the help of technology and sharing platforms, consumers are increasingly looking to fulfill their needs by purchasing good and services from other consumers, cutting traditional businesses out of the equation in most instances.

Localisation

As smaller cities grow at a faster rate than big cities, there will be over 240 cities in Asia with more than 1 million people each by 2020, with China and India accounting for 83% them. The estimated number of cities excludes the 100 new ‘smart cities’ that India plans to build by 2022.3

Figure 12: Asia cities growth rate and size

Source: UN Data, City Mayors Foundation, Deloitte Analysis

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3 India Times
Capturing opportunities
To prepare for the evolution, capital markets firms need to assess their abilities to respond to opportunities emerging from these mega trends. The following are some focus areas that firms should consider evaluating.

Technology dynamics
Technology will enable a new era and investments in it will support growth, customer experience and security. Firms will start to recognise the benefits of integrating fragmented platforms and leveraging on unstructured data for real-time insights. Specifically, a fully integrated mobile solution may be the key retail differentiator.

Competition and markets
Mergers and acquisitions could be spurred by the need for new capabilities and network with large firms requiring specialisation and new solutions, as well as small firms facing compliance pressure. Moreover, the change in geographical focus may also require network ramp up.

Clients and products
A shift in the consumer landscape provides opportunities for firms to differentiate. For instance, the emergence of new segments such as the elderly and working women will likely require firms to explore new ways to serve them. Firms can also leverage on analytics to improve segmentation and highlight cross selling opportunities. It is expected that fee-based products, especially in the wealth management sector, will remain a focus moving forward.

Policy, regulations and risks
The policy-driven market is now the new norm. We have seen several policies been introduced in recent years such as the Bank of Japan’s increase in asset purchase amidst the end of the US Federal Reserve’s quantitative easing programme, as well as the mega-pension to ramp up investments in stocks and foreign bonds. The highly correlated equities returns, driven by government support, have seen investors moving from active to passive investments. Firms are also increasing their efforts to push for higher regulatory ratings and enhance management and governance of cyber threats.

Financial management
Chief Financial Officers are seen taking on a more strategic role in improving capital efficiency as corporates are under pressure to “unstash” record levels of cash equivalent to 9% of GDP in Japan. One way to do so is to deploy capital management tools at the business and transaction levels.

Organisational effectiveness
In view of the uncertain and rapidly changing environment, it is important that organisations foster agility in order to respond. Firms can do so by focusing on strategies, ecosystem and minds. Furthermore, it may be worthwhile to explore the industrialisation of processes to unlock new sources of efficiency.
Potential implications for consideration

Having identified the key trends impacting Asia, capital market firms should consider the implications that they pose and review their readiness to address these challenges. The following are some actionable takeaways for consideration:

- Firms need to reassess their abilities to concurrently serve the four generations of end-consumers and develop capabilities if required. The focus should be on the development of “investor continuum” plays given that many markets are undergoing inter-generational wealth transfer;

- With the rise of women and the roles they play in the Asian workforce, firms must develop capabilities to serve a diversified investor base. This will help develop a segmented play to allow greater participation of women in the retail investor community;

- The small and medium enterprises (SMEs) group is a significant market in Asia with more than 50 million SMEs accounting for up to 60% of GDP in selected Asian countries. It is important that firms develop solutions for this specific sector, as well as greater capital market access in order for them to play a key role in Asia’s growth story;

- Opportunities from intra-Asia trades of over USD 3 trillion have surpassed trade flows between Asia and the west. This results in increased demand for local currency-based capital market solutions to facilitate and streamline intra-regional trade; and

- With the growth in population of digital natives, there is a need for firms to invest in solutions and new technology platforms to be ahead in the digital era.

Firms that are able to find a firm footing by positioning themselves ahead of these trends will enjoy a significant head start in this dynamic and fast evolving region. After all, success always comes to those who prepare for the opportunity.

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4 APEC, World Trade Organisation, Deloitte Analysis
Find out more

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