

[Name of institution]

[Name of writer]

Shinsei Bank

Introduction

Shinsei Bank, Limited (the Bank) is a Japan-based financial institution. The Bank operates mainly in three business segments. The Banking segment provides savings accounts services, foreign currency products and loan services, merger and acquisition services, investment, domestic and foreign exchange services, corporate revival services, debt guarantee services and securities trading services, among others. The Securities segment is involved in activities that include securitization and debt underwriting and sale through its domestic consolidated subsidiaries. The Fiduciary segment provides products that encompass monetary claim trusts, securities trusts and fund trusts through its domestic consolidated subsidiary such as Shinsei Trust & Banking Co., Ltd. In addition, Shinsei Bank provides investment trust management and consultation services, credit collection services and others. The Bank completed the acquisition of GE Consumer Finance Co., Ltd. on September 22, 2008.

Company overview

Shinsei Bank is a leading diversified Japanese financial institution providing a full range of financial products and services to both institutional and individual customers. The Bank has total assets of 12.2 trillion yen (US\$135 billion) on a consolidated basis (as of December 2008) Shinsei Bank demands uncompromising levels of integrity and transparency in all its activities to earn the trust of customers, staff and shareholders. The

Bank is committed to delivering long-term profit growth and increasing value for all its stakeholders (Tomiyama, pp 34-267).

The Bank's strategic transformation into a leading Japanese financial services company is considered one of Japan's most impressive turnaround stories. Every action at Shinsei Bank is focused on strengthening a corporate culture that values and respects individual efforts and ideas, and connects people and resources to provide exceptional solutions to customers. The Bank's strategy is to provide 'Better Banking' to both individual and institutional customers by carefully considering their unique needs. Since its inception in 2000, Shinsei Bank has expanded its investment banking and retail banking businesses in order to diversify and stabilize revenue streams. It has simultaneously focused on improving the quality of its assets and strengthening its financial fundamentals (reflections-shivanand.blogspot.com).

The Bank's customer focused approach has been recognized and appreciated by its customers all over Japan. The fact that it has been ranked as the Best bank in Japan for three consecutive years (2004, 2005 and 2006) is a clear validation of the respect the Bank enjoys amongst stakeholders. This was the result of a survey on customer satisfaction carried out by the Nihon Keizai Shimbun, among Japanese financial institutions. Shinsei Bank has also been awarded the NASSCOM award for its partnership with Indian IT services companies (www.japaninc.com).

Shinsei Bank's group companies in Consumer and Commercial Finance business speedily provide varied and creative finance solutions in accordance with the needs of corporate and individual customers. Business activities and job types in the non-bank business operations of the Shinsei Bank group companies range extensively, and widely

varied options for career development are available for employees after joining. What is more, employees have opportunities to grow through experiencing a variety of different work and participating in the intensive training programs offered (Cui Xinjian, pp 345-178).

Shinsei Bank Vision

We are Japan's preeminent financial services firm, delivering trusted solutions to grow sustainable value with our customers, our employees, and our shareholders (www.japaninc.com).

Shinsei Values

- Customer Focus: We provide unparalleled solutions with speed and ability based on our customer's evolving needs.
- Integrity: We demand uncompromising levels of integrity and transparency in all of our activities.
- Accountability: We are accountable for results, including the sound application of risk management, compliance, control, and customer protection.
- Teamwork: We connect people and resources to provide exceptional customer solutions and sustain a culture where employee ideas are respected and valued.
- Community: We are committed to the development of our employees, our customers, and our shareholders, and will serve the communities in which they live.

Shinsei AMC

Shinsei AMC (Indian arm of Shinsei Bank, Japan) has decided to launch the asset management business in India and has received all the regulatory approvals towards the same. Shinsei aims to become a trusted investment solutions provider, offering innovative products, quality service and consistent performance to our customers by introducing and managing a bouquet of Investment products that Enhance and optimize returns while keeping risk factors at reasonable levels.

At Shinsei, we are entering the Indian marketplace amidst times of uncertainties, but our belief is that there is always a great opportunity during times of crisis. One should not take short term decisions to achieve long term goals and that's why, we believe that this is the best time for us to move forward and provide innovative investment solutions to you and your customers (Li Kaimeng, pp 34-178).

Consumer Finance Market

The revision of the Money Lending Business Law, Interest Limitation Law and Investment Law together with the current macroeconomic downturn is expected to lead to dramatic restructuring and market contraction for direct consumer lenders. The lowering of maximum lending rates will reduce the profitable lending market to only the higher-quality or lower-risk customer segments while the implementation of lending limits for each borrower will cap supply and create barriers to those lenders who do not have existing lending relationships with lower risk customers. Additionally, the anticipated slowdown of the Japanese economy is expected to lead to an increase in credit costs. As a result of these changes, it is expected that money lenders will be required to drastically

restructure their businesses and rationalize costs to secure long-term profitability.

Consolidation among major money lenders with access to stable, low-cost funding should continue. At the same time, we believe there will continue to be sound customer demand for financing despite this market transformation. Furthermore, the underlying demand for responsible consumer borrowing will increase as the number of lenders decreases due to further consolidation in the market (Lardy, pp 23-189).

Shinsei Bank Group's Consumer Finance Business Strategy

The provision of solutions in our Individual Group, which consists of our consumer lending and retail banking operations, remains a top priority for the Shinsei Bank Group and we expect these businesses to generate an increasing share of Shinsei revenue growth going forward. The continued provision of sound consumer finance solutions by lenders remains critical, particularly in the area of consumer finance, which is at a turning point and is also essential for the Japanese economy. To further strengthen and improve profitability and competitiveness as a major player in the market, the Shinsei Bank Group will realign its consumer finance businesses, which include its subsidiaries GECE, Shinki and APLUS, based on core competencies and then reallocate management resources, leverage brands and optimize operations accordingly. The pressured market offers many challenges to money lenders, but the Shinsei Bank Group believes this is an attractive earnings opportunity and will focus on carrying out rigorous cost-cutting measures while working to attract a larger share of lower-risk new customers through our responsible lending (Aronson, pp 345-167).

Specific Measures Regarding the Consumer Finance Business

The Shinsei Bank Group's consumer finance realignment will begin with our two direct consumer lenders, Shinki and GECF. Effective today, Shinsei Bank, Shinki and GECF have entered into a "Basic Agreement Concerning Business Integration and Reorganization" to conduct a thorough review of both organizations' operations and resources with the objective to identify overlapping areas for potentially shared resources in an attempt to improve their competitiveness through higher productivity and performance. A "Business Integration Committee" will be established during February 2009, comprising members of senior management from Shinsei Bank, Shinki and GECF, to consummate the business integration and reorganization (reflections-shivanand.blogspot.com).

GECF is a wholly owned Shinsei Bank Group company while Shinki is a 67.7% consolidated subsidiary that is listed on the Tokyo Stock Exchange (code: 8568). Shinsei Bank and GECF will jointly initiate a tender offer bid ("TOB" for Shinki's shares, beginning February 4, 2009, (please refer to press release "Shinsei Bank and GE Consumer Finance Announce Commencement of Tender Offer for Shinki's Shares" for details). There is no intent to legally merge or consolidate GECF and Shinki in the near future. However, as stated in the press release for the commencement of tender offer for Shinki's Shares, there is a possibility that Shinki could become a 100% wholly-owned subsidiary of the Shinsei Bank Group, depending upon circumstances (www.japaninc.com).

GECF

In addition to the aforementioned business integration with Shinki, GECF, which operates under the Lake brand name as the Shinsei Bank Group's core direct consumer lender, will reduce the number of Lake's manned branches from 42 to 7. Furthermore, GECF has already begun leveraging synergies with other Shinsei Bank Group companies. For example, Shinsei Bank has been providing GECF customer access to its ATMs since January 26, 2009 in order to increase customer convenience. On the other hand, GECF will withdraw from the credit card and mortgage businesses as these businesses lack scale and remain profit challenged. However, the fully automated and efficient home lending platform of Shinsei Bank will be used to grow the mortgage business of the Shinsei Bank Group in the future. These improvements are expected to result in significant profitability improvement for GECF that is expected to materialize by mid-year fiscal year 2009 and fully accrue to GECF from fiscal year 2010 (Li Kaimeng., pp 34-178).

APLUS

APLUS will concentrate on improving the efficiency of its operations to increase its profitability. In order to achieve this, APLUS is deploying the same best-in-class information technology methods used in Shinsei Bank's core operations to establish and promote an innovative, highly efficient "paperless" sales finance business and will continually upgrade its auto loan and other operating platforms to further enhance its presence in these markets. APLUS will also carry out a fundamental review of the fee structure and card issuance process for its credit card operations in order to improve its efficiency and achieve a higher level of profitability and continue to pursue rigorous

expense rationalization across all businesses. These actions will facilitate enhanced operational capabilities and position the company to become one of the lowest cost providers in the industry (reflections-shivanand.blogspot.com).

Swot analysis

Strengths

- The bank is well capitalised and this has enabled it to perform relatively well against other banks in recent economic events.
- The level of capitalisation means that, going forward, the bank is unlikely to need to borrow from the government: this will enable it to retain more autonomy.
- The bank has a strong presence in emerging markets, putting it in a good position to take advantage of future growth in those economies.
- The bank's global presence in Europe, Asia and South America helps to spread risk and offers significant economies of scale.
- Despite rebranding relatively recently (1999), the Shinsei brand has become well-established and is considered particularly valuable within the industry.

Weaknesses

- Shinsei associates itself strongly with investment in the small business sector, but the current economic situation has led to increased risks, potentially compromising the activity levels in this area of the operation.
- The bank was involved with sub-prime markets in the US and has had to write off large figures lent to high-risk borrowers.

- Despite falls in the UK interest rate, Shinsei has increased its mortgage rates. This may be perceived negatively by borrowers and potential borrowers, adds pressure to an already depressed housing market and could ultimately lead to more defaulting as borrowers struggle with higher repayments.
- A redundancy programme announced recently may affect morale among staff, leading to decreased production and loyalty.
- Shinsei's branding emphasises its global presence, and this may be seen negatively by some customers in its implication of homogenisation and lack of personalisation.

Opportunities

- Shinsei's high level of capitalisation places it in a strong position to acquire assets
- Banks finding trading conditions particularly difficult at present may be available at low cost
- Shinsei also has adequate capital to purchase stronger banks such as Bank Ekonomi in Indonesia, in which it has purchased a stake to continue its Asian expansion despite challenging economic times.
- Shinsei's generally strong position presents the opportunity to outperform competitors during the economic downturn and to build a reputation for being one of the safer banks for depositors, helping to increase resources for lending.
- Negative press coverage of competitors may encourage customers to choose Shinsei instead.

Threats

- Trust in banks has decreased due to financial losses suffered by investors, who may be more inclined to invest elsewhere.
- Financial losses affecting banks and investors on a global scale have resulted in less credit being available to customers. In this is coupled with increases in living costs resulting in less money being saved.
- The falling property market has created a rise in numbers of homeowners with negative equity. If a property is worth less than was borrowed to finance its purchase, there is little likelihood that the bank will recoup all its losses if owners default.
- Claims have been made that Shinsei has understated losses resulting from US sub-prime markets, and this could undermine confidence in the bank.

Conclusion

Shinsei Bank, one of great success stories in Japan, has always been an example of how legacy companies in Japan can be turned around with good management and smart methods. The "methods" include a great deal of innovation towards simplicity by one of heros Jay Dvivedi. Jay has been evangelizing his approach to IT which uses mostly open Internet, small, off-the-shelf components and a way of breaking complexity into small pieces. I've sent a number of my friends to Jay to have him share his inspiration, but the methods are so different that understanding and believing that they work often takes more than just a conference room meeting.

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