

MONEY & INVESTING

HSBC targets rich Russians

Citi is also betting lucrative segment can shake off crisis

By GREGORY L. WHITE

MOSCOW—Russia has been hit especially hard by the global economic crisis, with unemployment surging and incomes plunging. But that isn't deterring some Western banks, who are betting Russia's rich will be on the rebound soon.

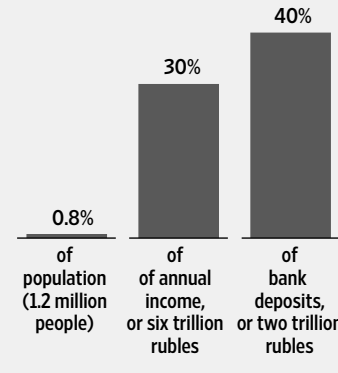
HSBC Holdings PLC was planning to kick off its push into the Russian retail market with a chic event Tuesday for Moscow's beau monde, in a specially erected tent just up the street from the Kremlin. Citigroup Inc.'s chief executive, meanwhile, was in Russia last week to meet with officials including President Dmitry Medvedev to underline the bank's commitment to Russia, where Citibank has become one of the country's most profitable players, in part by targeting the upper middle class.

Though the crisis has slowed growth, "this segment will come back much faster," says Sanjeeb Chaudhuri, CEO of Citi's consumer and commercial banking for Central and Eastern Europe. "We see no reason to slow down our investments."

While emerging markets are typically associated with masses of low-income consumers, for bankers, the high concentration of wealth in places like Russia, China and Brazil means the thin slice near the top of

Concentrated wealth

Russia's upper-middle-class "mass affluent" wield financial clout far beyond their numbers.



Source: Citibank-New Economic School study released April 2009

the market can be very lucrative.

"They still have disposable income and they're still disposing of it," says Stuart Lawson, head of HSBC in Russia. HSBC will offer its "plus" and "premier" services, with minimum balances of 750,000 and 1.5 million rubles (\$24,200 and \$48,500), respectively. With the average wage about 18,000 rubles a month, about half of Russians have no savings at all, according to polls.

Citibank began offering its Citigold service to a segment of wealthy Russians known as "mass affluent" in 2002, and has "tens of thousands" of clients now, according to a spokesman. The minimum deposit is 1.3 million rubles.

Although this target market accounts for just less than 1% of the population—about 1.2 million Russians—it earns 30% of the income and holds 40% of the bank deposits, according to a Citibank-sponsored study released in April.

Both Citibank and HSBC are hoping that Russian consumers will still find established foreign names more reliable than domestic private banks, despite the negative news about bank troubles in the West.

"As the crisis rolled in, the retail market moved toward state banks and foreign banks," says HSBC's Mr. Lawson. With mandates to serve the entire nation, Russia's big state banks haven't focused on wealthier customers as closely as the foreign banks have, however.

Citibank's Mr. Chaudhuri says high-end customers want a range of products from simple deposit accounts to offshore investments in a variety of currencies.

Before the crisis, Citi wooed its premium clients with invitation-only concerts and parties at Moscow's hottest nightspots. Now the approach is more practical: seminars on financial management and international economics.

HSBC is betting that Russia's rich still want some glitz. After the party and free classical concerts in Moscow this week, it will sponsor events at a tony restaurant linked to the Wimbledon tennis tournament in July, followed by a tango festival in August.

"It's actually a very good time" to enter the market, Mr. Lawson says.

AHEAD OF THE TAPE

Genworth's rise: Hope or charity?

Stock price surged eightfold since March, but firm bears mortgage-insurance losses

By SCOTT PATTERSON

One smart bet the past few months has been life insurer Genworth Financial. Its shares have jumped more than eightfold to \$6.67 since early March, fueled by the stock-market rally and easing tensions in credit markets.

Other life insurers have also rallied. MetLife has more than doubled. Lincoln National has nearly quadrupled, while Hartford Financial Services Group has more than quadrupled.

Last week, Barclays Capital analyst Eric Berg boosted his price target for Genworth to \$9 a share from \$5, calling the Richmond, Va., company a "long-term value play" that will out-grow current woes. Other analysts have boosted their share-price targets, too.

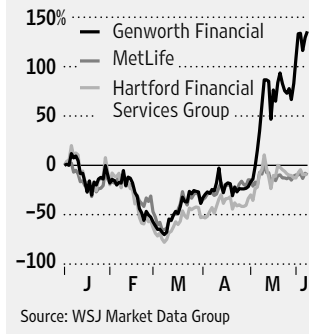
Genworth Chief Executive Michael Fraizer says the insurer has \$7 billion in cash and doesn't have any substantial debt maturing until 2011. "The facts are that we're moving ahead," he said in an interview.

Still, the stock surge is curious. Unlike many other life insurers, Genworth is burdened by big losses in its mortgage-insurance business.

It had hoped to tap the Treasury Department's Troubled Asset Relief Program, but it didn't meet a deadline, leaving it ineligible. Yet Genworth's shares have risen higher in percentage terms than Hartford's and Lincoln's, two insurers expected to take TARP funds.

Surging insurers

Share performance, year to date



Source: WSJ Market Data Group

One corner of the market isn't upbeat: credit-default swaps—in effect, contracts betting on whether Genworth will default on its debt. This can be seen in spreads, which reflect the cost of buying the contract. The higher the spread, the more worry.

Spreads on Genworth's debt are about 10 percentage points, according to Markit. That is down substantially from a few months ago, but remains elevated, only slightly lower than spreads for American International Group. CDS spreads on MetLife are about 3.5 points; spreads on Hartford are about four points.

Genworth's revenue has been dropping, down 37% in the first quarter from a year earlier in part because of weakness in its life-insurance and long-term-care businesses.

Investors piling into Genworth in effect are betting that the housing market will stabilize soon, that credit markets are out of the woods and that the stock rally will last.

That is a lot to hope for.

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Bank of England sets plans to revive corporate financing

By NATASHA BRERETON

LONDON—The Bank of England on Monday unveiled two plans to help U.K. companies get their hands on working capital.

The central bank said in a consultative paper that it plans "in the near future" to start buying high-quality, sterling-denominated securities backed by short-term credit to firms and consumers. The short-term credit could include credit-card loans or equipment leases. The BOE also said it would consult with industry specialists on a similar program to provide working capital financing to the suppliers of U.K. investment-grade companies. In both new programs the BOE would invest in a tradable security, but credit risk would lie with the company benefiting from the BOE's program.

British companies are struggling as banks cut back on overdraft and trade-finance facilities, said Marc Ostwald, market strategist at Monument Securities. He said the BOE seems to be trying to develop as a substitute a market-based lending mechanism for small and midsize enterprises. "Great idea, but the missing link is a state investment bank which raises the

money and then lends to the SMEs," Mr. Ostwald said.

The BOE is already aiming to buy £125 billion (\$199.7 million) of U.K. government bonds, or gilts, as well as commercial paper and corporate bonds using freshly created central-bank money via its Asset Purchase Facility, to boost money supply and nominal demand, and to ease strains in selected markets.

But BOE policy makers have repeatedly signaled their worries that businesses still don't have enough access to credit, with Deputy Governor Charlie Bean recently saying that the availability of credit is "very much at the forefront of our concerns."

A spokeswoman for the Association of British Insurers said that the plan wasn't directly linked to trade credit insurance—which is a government program designed to protect suppliers against the risk of non-payment by buyers of goods—but that the move was a positive development in a similar direction.

"One of the problems in supply chains is that banks have not been willing to lend, so we are supportive of anything that allows businesses to borrow and gets supply chains working again," she said.

GLOBAL MARKETS LINEUP

Commodities Prices of futures contracts with the most open interest

Table with columns: Commodity, Exchange, Last price, Net, ONE-DAY CHANGE, Contract high, Contract low. Includes items like Corn, Soybeans, Wheat, Live cattle, Cocoa, Coffee, Sugar, Cotton, Crude palm oil, Gold, Silver, Aluminum, Tin, Copper, Lead, Zinc, Nickel, Crude oil, Heating oil, RBOB gasoline, Natural gas, Brent crude, Gas oil.

Source: Thomson Reuters; WSJ Market Data Group

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Major stock market indexes

Table with columns: Region/Country, Index, Close, Net change, Percentage change, Yr.-to-date, 52-wk. Includes ASIA-PACIFIC, EUROPE, AMERICAS, and EURO ZONE.

*P/E ratios use trailing 12-months, as reported earnings. European and Americas index data are as of 12:00 p.m. ET. Sources: Thomson Reuters; WSJ Market Data Group

Dow Jones and Dow Jones Stoxx Indexes

Table with columns: Dividend yield, Price-to-earnings ratio, Dows Jones Index, Last, Net change, Daily, Year-to-date, 52-wk. annualized, Three-yr., PERFORMANCE. Includes Islamic Market, Sustainability, and various regional indexes.

*Fundamentals are based on data in U.S. dollar. Footnotes: c-in local currency, d-dividends reinvested, p-previous day. Note: All data as of 11:30 a.m. ET. Source: Dow Jones Indexes

Cross rates U.S.-dollar and euro foreign-exchange rates in global trading

Table with columns: U.S., US\$, AS, £, CS, YUAN, EURO, HKS, RUPEE, RUPHIAH, YEN, NZ\$, WON, RINGGIT, PH. PESO, S\$, SFRANC, TWS, BAHT. Lists exchange rates for various countries.

Source: Thomson Reuters via WSJ Market Data Group

Currencies London close on June 8

Table with columns: AMERICAS, EUROPE, ASIA-PACIFIC, MIDDLE EAST/AFRICA. Lists currencies like Argentina peso, Brazil real, Canada dollar, etc., with exchange rates.

a-floating rate b-commercial rate c-government rate c-commercial rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund ; based on exchange rates for U.S., British and Japanese currencies. Note: Based on trading among banks in amounts of \$1 million and more, as quoted by Thomson Reuters.

Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Table with columns: Region/Country, Index, Close, Net change, Percentage change, Yr.-to-date, 52-wk. Includes Euro Zone, DJ Euro Stoxx, and various regional indexes.

Reuters Group PLC is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones Indexes.

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI Barra as of June 8, 2009

Table with columns: Dividend yield, Price-to-earnings ratio, Morgan Stanley Index, Last, Daily, PERFORMANCE, LOCAL-CURRENCY. Lists various MSCI indexes like ALL COUNTRY (AC) WORLD, World Small Cap, etc.

*Twenty-three developed and 26 emerging markets Source: MSCI Barra

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- Debashis Chatterjee, Director, Indian Institute of Management, Kozhikode

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