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## BANK NEGARA MAY PUT SQUEEZE ON BANKS TO MERGE

By: Michael Raj

KUALA LUMPUR, Sept 13 (Bernama) -- Bank Negara, finding that banks and financial institutions have not been receptive to calls to merge into bigger entities, may be expected to undertake firmer measures to see the proposal through.

Banking industry analysts said since moral suasion had not borne the desired results, the central bank might put on the squeeze by no longer giving approval, especially for small and medium-sized banks, to expand their branch network.

They might also not be allowed to install automated teller machines (ATMs), which had been likened to off-bank branches, in moves designed to help them face the onslaught of foreign competition in the long run.

A major step taken by the central bank to create larger, more established, more efficient and well-capitalised banks was introducing the two-tier banking system whereby only banks which fulfilled certain criteria would be Tier-1 banks and they would be given a wider scope of business opportunities.

Analysts said a scenario where Bank Negara might want to see would be to have about six banks under Tier-1 and half a dozen more under Tier-2, with capital requirements for Tier-I possibly raised to RM1 billion by 1998 from RM500 million now.

This would translate into the emergence of a more consolidated, ably equipped and reinforced local banking sector to face up to increased global competition.

So far one merger had taken place when Bank Simpanan Nasional took over Bank Buruh to form BSN Commercial Bank last year.

Another proposed merger which was announced so far was undertaken by Singapore-based OCBC, which would merge its Malaysian operations with The Pacific Bank.

Analysts revealed that the "foot dragging" towards such mergers have been due to owners of small banks asking for hefty prices.

The hefty price tags had often been cited as the main stumbling block towards mergers as it would not be viable on the return on investment.

As things stand, Malaysian banks are far from ably competing globally as only one bank, Malayan Banking Bhd, feature among the top 100 banks in Asia while there are only four in Asia's top 500.

The analysts said this sad state of affairs must change, and the right antidote is through mergers, where they would be better-placed to compete internationally, especially in view of Malaysia's commitment to further liberalise its financial services sector under the General Agreement on Trade in Services (GATS).

The cap on branch expansion might put a dampener on the development plans of smaller banks, but they should see the central bank's rationale for mergers, which is to enable the creation of larger and well-established institutions.

A scenario where foreign banks would compete with local banks for the market on equal terms is not too far away, but if local institutions continue their old ways, they would have no chance of competing.

With 26 Malaysian commercial banks, the fact remains that Malaysia is "overbanked," and without the critical mass, it would be difficult for them to grow and compete globally, the analysts pointed out.

The failure by most Malaysian banks to undertake proper risk analysis

often prevents them from taking risks which are well within their capacity to take and as a result they lose out to foreign competition.

Prime Minister Datuk Seri Dr Mahathir Mohamad drove home the point recently when he said that most Malaysian banks were timid and only operated on a sure thing which did not differentiate them from moneylenders or "chettians".

Through mergers, they said they could also take on larger risks, and in a way, adhere to the Prime Minister's call for local banks to take more risks locally as well as overseas.

The analysts said that time is running for local banks and they need to merge for their own good, especially when Malaysia inevitably opens its doors to a world marked by fierce international competition where only the fittest would survive. -- BERNAMA

MR SHY