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Mediating bank mergers

THE Prime Minister's suggestion that banks which could not agree on merger terms seek arbitration is an interesting one. In making the proposal, Datuk Seri Dr Mahathir Mohamad said that if the banks cannot make an assessment because of a dispute over the value of banks, perhaps arbitration should be considered. Since he was responding to questions on the impasse between RHB Bank Bhd and Bank of Commerce Bhd, perhaps the bankers involved should heed the advice of the Prime Minister. But before that, all involved should not overlook his other advice that the parties involved in such merger talks be "reasonable".

Certainly the calling off of talks between the two banks is a drawback in the Government's attempt to get the financial institutions in this country to merge. There are too many around - 37 commercial banks, 40 finance companies and 12 merchant banks. With the opening up of financial services markets under the World Trade Organisation liberalisation rules, the smaller banks will not have much of a chance against foreign banking giants which will definitely make their way into our market. The lessons of Thailand, Indonesia and South Korea in recent months should also be learnt. The economy needs strong financial institutions to support growth and development. By merging, it is hoped that local banks will become stronger and more able to compete with foreign banks. Even the world's largest banks have merged or are thinking of merging as a preparation for the financial services sector liberalisation.

The necessity to merge during the current economic situation is even more pressing. This is why the Government does not wish to see any bank taking its time to merge; hence, the March 31 deadline. Dr Mahathir feels that local banks risk the danger of being taken over by foreigners if they do not merge. Because of the ringgit's depreciation, foreigners now hold an advantage as they can buy shares in local banks at a cheaper price. In fact, some banks are effectively foreign-owned already. The same could happen to local finance companies, insurance firms, and telecommunication companies. If they are small and weak, they can be taken over easily.

The good thing is that Dr Mahathir has said the Government is not going to force banks to merge. This is a welcome assurance, indeed. Banks should take this as a sign of confidence on the part of the Government in their ability to do as they think best for them and the industry. Any form of excessive participation by the Government in the effort to get banks to merge will be construed as intervention, or an attempt to bailout some parties by allowing them to merge with others.

In this context, Dr Mahathir's suggestion for arbitration must not be allowed to be misconstrued as a veiled form of intervention, either by the banks involved or by outside parties who call themselves observers and analysts. If, say, either party in the case of the proposed merger between Bank of Commerce and RHB Bank is unwilling to pursue negotiations, that decision must be respected. But if both parties are willing to give it a shot because they see synergy and mutual benefits, then an arbitrator can be called in to assist in the negotiations.

The question now, of course, is who should arbitrate? Certainly, there is no shortage of authorities that could fit the role. The Foreign Investment Committee and the Securities Commission have experienced people who have dealt with countless corporate proposals, including mergers. An analyst who spoke to this newspaper said perhaps what is needed is an

extension to the roles of bodies such as these in making the final arbitration conclusion based on their reviews. Perhaps the National Economic Action Council could fill this role. Since the proposed merger of banks can be considered part of measures to help with the economic recovery, the NEAC is suited for this job, although its job scope says nothing about acting as an arbitrator in merger negotiations. But some things call for immediate action, and the NEAC was established specifically for such a situation.

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