

20 OCT 1999

MERGER-FREE

BANKS FREE TO MERGE ON THEIR OWN, CHOOSE OWN LEADER, SAYS BNM

KUALA LUMPUR, Oct 20 (Bernama) -- Bank Negara Malaysia (BNM) today announced that local banking institutions will now be free to form their own merger groups and choose their own leader in each group to lead the merger process.

This represents a major departure from the previous ruling by BNM for the merger of 58 financial institutions into six anchor banking groups.

Domestic institutions would be allowed to terminate the memorandum of understanding signed with the earlier partners by Sept 30, 1999, central bank governor Tan Sri Ali Abul Hassan Sulaiman said.

"They should then proceed to complete all aspects of the merger exercise by end-December 2000," he said in a statement here.

Ali said the move was made in view of the recent announcements by Prime Minister Datuk Seri Dr Mahathir Mohamad and the statement by Second Finance Minister Datuk Mustapa Mohamed in Parliament.

The institutions are also required to revert to Bank Negara by end-January 2000 on their respective merger groupings as well as the agreement in principle from the major shareholders of the banking institutions in the group.

"Upon BNM's approval in principle of the new merger groupings, the domestic banking institutions would be allowed to terminate the MOUs signed with the earlier partners and they should then proceed to complete all aspects of the merger exercise by end-December 2000," he said.

Under the original proposal, the 58 financial institutions then would consolidate into six anchor groups led Malayan Banking, Multi-Purpose Bank, Bumiputra-Commerce Bank, Perwira Affin Bank, Public Bank and Southern Bank.

Thereafter, there was speculation that Arab-Malaysian Bank and Hong Leong Bank wanted to break away from their arrangement in the proposed mergers.

Ali said the (latest) flexibility provided to the banking institutions does not in any way reduce the importance of bank consolidation.

"We now have 55 banking institutions, made up of 20 commercial banks, 23 finance companies and 12 merchant banks and this number would have to be substantially reduced," he said.

The 58 institutions were reduced to 55 following the merger between Bank of Commerce and Bank Bumiputra Malaysia Bhd.

"We need a strong and efficient banking system that is resilient in order to support the financing needs of the economy so that the nation can continue to achieve a strong and sustainable growth," he said.

Given the impending liberalisation and globalisation of the banking sector, the consolidation of domestic banking institutions is inevitable, he said, adding that a fragmented system would only increase the vulnerability of the financial system and vulnerability of the economy as a whole.

Ali also said the policy to consolidate domestic banking institutions and strengthen the banking system would therefore continue to remain a priority objective of BNM.

The only difference is that under the new approach, greater responsibility is now with the shareholders of the domestic banking institutions to initiate and drive the merger process.

"In the event that the shareholders of the banking institutions do not make full use of the flexibility accorded to merge among themselves, BNM

would intervene directly to select the merger partners to ensure that the consolidation objective is achieved," he said.

Ali said a separate circular would be issued to all banking institutions tomorrow to outline the operational details of the merger exercise.

Ali also emphasised that the proposed bank consolidation exercise would not increase the level of unemployment in the country as evidenced by the recent merger of Bank Bumiputra and Bank of Commerce which did not lead to staff lay-offs.

"Even where there is a need to redeploy some staff, particularly at the senior level, the fast recovering Malaysian economy would provide ample opportunities for alternative employment," he said.

Ali said that such staff would also be compensated fully through voluntary separation scheme and there should be no forced retrenchment in the bank consolidation exercise, he said.

He also reminded banks that the merger exercise should not disrupt their normal operations and they should continue to place special emphasis on loan growth, a vital ingredient of the recovery process of the economy.

--BERNAMA

MR SHY