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Banks now free to choose their own merger partners

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KUALA LUMPUR, Wed. - Banks are now allowed to choose their own merger partners and they have until the end of January to do so and up to December 2000 to complete the exercise, Bank Negara announced today.

"All banking institutions will now be given the flexibility to form their own merger groups and to choose their own leader in each group," Governor Tan Sri Ali Abul Hassan Sulaiman said in a statement.

He said they were required to revert to Bank Negara by the end of January next year on their merger partners and to secure an agreement in principle from the major shareholders of banks in their group.

Once the central bank approves the new groupings, the banks would be allowed to terminate their earlier memorandums of understanding signed with others.

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

Ali Abul Hassan noted that a separate circular would be issued to all banks tomorrow outlining the operational details of the merger exercise.

Bank Negara first announced the consolidation programme for the domestic banking sector on July 29.

The central bank said there had since been some strong objections on certain aspects of the programme especially pertaining to the number and composition of the banking groups and the time frame.

Bank Negara's original plan for the country's 55 banking institutions was to merge into six groups, each led by an anchor bank identified by Bank Negara.

The six anchor banks are Malayan Banking Bhd, Bumiputra-Commerce Bank Bhd, Public Bank Bhd, Southern Bank Bhd, Multi-Purpose Bank Bhd and Perwira Affin Bank Bhd.

The 55 domestic banking institutions are made up of 20 commercial banks, 23 finance companies and 12 merchant banks.

Prime Minister Datuk Seri Dr Mahathir Mohamad had repeatedly described the six anchor banks as an arbitrary number thus giving indications that there could be more.

On the flexibility announced today, Ali Abul Hassan said it did not in any way reduce the importance of bank consolidation which was inevitable given "the impending liberalisation and globalisation of the banking sector".

"A fragmented banking system will only increase the vulnerability of the financial system and indeed the vulnerability of the economy as a whole," he said.

Ali Abul Hassan said given the need to have a strong and resilient banking system, the policy to consolidate domestic banks would therefore continue to remain Bank Negara's priority.

The only difference was that under the new approach, greater responsibility was now with the shareholders of the banks to initiate and drive the merger process. Bank Negara, however, would directly intervene to select the merger partners should the banks not make full use of the flexibility accorded.

Ali said the consolidation "should not result in an increase in the level of unemployment in the country".

Citing an example, he said: "The recent merger of Bank Bumiputra Malaysia Bhd and Bank of Commerce (M) Bhd did not result in any staff lay-

off and this clearly shows that bank mergers need not lead to any retrenchment.

"Even if there was 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 such staff would also be compensated fully through voluntary separation schemes, adding that there should be no forced retrenchment.

Bank Negara also reminded all banks that the merger exercise should not in any way disrupt their normal operations and that they should continue to place particular emphasis on loan growth which is vital in the economic recovery process.

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