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Banks will need time to merge: Goldman Sachs (HL)

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BANKING institutions in Malaysia must be allowed sufficient time to merge to enable all parties to iron out strategic, administrative, legal, systems and staffing issues, says Goldman Sachs in a report. Carrying an October 5 dateline, the special analysis on the consolidation of the financial services industry, entitled "From crisis to restructuring to recovery", noted that numerous issues would otherwise emerge to distract many bankers from their day-to-day operations. The investment house was referring to Bank Negara Malaysia's move, announced late-July, to have the country's existing 58 financial institutions merged into six large anchor groups, for which several key deadlines were set.

However, Prime Minister Datuk Seri Dr Mahathir Mohamad had earlier this week said that the Government would be flexible about the exercise, both in terms of the number of anchor banks and the deadlines.

In expressing support for the merger programme, Goldman Sachs said the consolidation process will enable banks to attain critical mass, achieve economies of scale, improve efficiency and boost revenues using technology to support cross-selling and universal banking.

"Just as market capitalisation and valuation is the currency for acquisitions today, a bank's revenue base is the currency with which it can build a superior infrastructure," it said.

Goldman Sachs pointed out that the current domestic banking system is rather fragmented with too many financial institutions relative to population and deposit pool.

For example, under the present structure, the top five banks account for only 36 per cent of total banking system deposits. The comparable figures for Hong Kong and Singapore are 80 and 90 per cent, respectively.

Based on the new structure comprising six anchor banks, deposit market share for the top five Malaysian banks would rise to 58 per cent.

The investment house is also optimistic that "arranged marriages" would work if properly implemented.

"Although there are few global comparables against which to assess the potential success of 'forced' mergers, we believe the end-result can still be positive, assuming the requisite restructuring steps are taken post integration."

It cited as examples, Singapore's DBS Bank merger with Post Office Savings Bank and Keppel Bank with Tat Lee Bank.

Although the DBS Bank-POSB tie-up has yet to realise significant cost savings, Keppel TatLee Bank expects to save 20 per cent of the combined group's operating expenses, and that too within the first year of the merger, Goldman Sachs said.

In addition, Malaysia's past policy which generally allowed market forces to dictate merger permutations had failed to see any significant results.

"Most bank or finance company owners have feverishly resisted mergers to preserve ownership, control and accessibility to financing, since several banking groups are majority-held by individuals with disparate business interests."

The central bank's merger plan for finance companies announced in March aimed at forming eight anchor finance companies had "failed to bear fruit" apart from the absorption of 15 finance companies by their parent banks.

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