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End-2000 deadline for bank mergers (HL)

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END of next year is the new deadline for the completion of all banking mergers in the country and banks are free to choose their own group leaders and partners, Bank Negara Malaysia says.

The financial institutions have to revert to the central bank by January 2000 with their respective merger groupings and agreements in principle from major shareholders, its governor Tan Sri Ali Abul Hassan Sulaiman said in a statement yesterday.

"The flexibility that is now provided...does not in anyway reduce the importance of bank consolidation," he said, warning that Bank Negara will "intervene directly to select the merger partners if shareholders do not make full use of the flexibility accorded".

The only difference is that greater responsibility is now placed with shareholders of domestic institutions to initiate and drive the merger process, he added.

The statement followed an announcement by Prime Minister Datuk Seri Dr Mahathir Mohamad last week that a more flexible approach to the consolidation of the financial services industry would be adopted.

The central bank had on July 29 set key deadlines for the country's 55 domestic financial institutions to be merged into six core groups by April 1 2000.

Since then, some strong objections had been raised, particularly with regards to the number and composition of the banking groups, and the timeframe, Bank Negara said.

Upon obtaining approval in principle from the central bank, the banking institutions will be allowed to terminate their respective memorandums of understanding signed earlier.

A separate circular will be issued to banking institutions today which will outline the operational details of the exercise.

Consolidation of the banking sector remains a priority in the light of the impending liberalisation and globalisation, Bank Negara stressed.

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

On concerns over the possibility of massive retrenchments, the central bank governor noted that the merger between Bank of Commerce and Bank Bumiputera Malaysia had not resulted in any staff lay-off.

Where there is a need to redeploy personnel, particularly at the senior level, the fast pace of economic recovery will provide ample opportunities for alternative employment, while others will be fully compensated through voluntary separation schemes, he said.

Ali also took the opportunity to remind banking institutions that the merger exercise should not disrupt their normal operations and that they should continue to place emphasis on loan growth, which is a vital ingredient in the recovery process of the economy.