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PM: Banks can work out mergers themselves (HL)

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THE National Economic Action Council (NEAC) has decided to be flexible with regards to the number of anchor banks tasked with spearheading the consolidation of the financial services industry, Prime Minister Datuk Seri Dr Mahathir Mohamad says.

It has also agreed at a recent meeting that banks will not be forced to merge before they are ready, he said.

The NEAC is chaired by the Prime Minister and comprises Cabinet ministers and public and private sector representatives, including from financial institutions.

Its executive director is First Finance Minister Tun Daim Zainuddin. The plan as outlined by Bank Negara Malaysia is for the existing 58 domestic financial institutions to be merged into six core groups by next April, with Bumiputra-Commerce Bank, Malayan Banking, Multi-Purpose Bank, Perwira Affin Bank, Public Bank and Southern Bank serving as lead banks. "We will not stick strictly to six banks. Maybe there will be more, may be less.

"We can look again at which should be the lead banks and the time taken for the mergers to be effected...we are not in that great a hurry," Dr Mahathir said after officiating at the annual general assembly of the Associated Chinese Chambers of Commerce and Industry of Malaysia in Klang yesterday.

"Foreign advisers have urged us to do everything quickly, but we are concerned about the well-being of our banking industry. So we will give (the banks) time," he said.

Several banks have expressed disappointment over the decision to have only six anchor banks, Dr Mahathir said, adding that the Government is prepared to listen to those who feel they cannot accept the suggested arrangement.

"If they have very strong reasons, we want to know," he said.

When the central bank announced the programme to form six groups from the 21 commercial banks, 25 finance companies and 12 merchant banks ahead of the sector's liberalisation in 2003, it was largely aimed at galvanising the financial institutions to merge, the Prime Minister said. This was because previous calls had fallen on deaf ears. Following Bank Negara's announcement, "everybody woke up".

They acted very quickly on fear of getting into trouble, he added.

Asked if the April deadline for banks to commence operations as merged entities would be retained, he said the Government will see if this is possible.

"We don't want to do something that will damage the banking sector." The central bank had set key deadlines to ensure an orderly merger process.

All financial institutions were given two months till September 30 to sign merger memorandums of understanding (MOUs), and this they have done. They were then to complete due diligence by November 15, and sign sale and purchase agreements by December 31.

Next, approvals from the regulatory authorities and shareholders would have to be secured by February 29 2000 and completion of the mergers effected through vesting orders by March 31 2000 so as to commence business as merged entities on April 1.

Dr Mahathir said the banks should still try to meet the deadlines, but

if for some reason they cannot "we are not going to ram it down their throat".

"(As for the MOUs) that is an undertaking, we will leave it to them to work out how to proceed... (with regards to) the lead banks, we are open to suggestion...the commitment is already to merge."

The Government may step in if banks cannot agree among themselves, he said.

The Prime Minister also noted that the banks' lending activities had been somewhat affected by uncertainties arising from the merger programme. It is hoped that they will now be more forthcoming in terms of disbursing loans, especially to the small-and-medium scale industries, he said.