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Mergers seen futile if banks maintain status quo

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MERGERS in the banking industry would prove to be futile if the new merged entities continue to operate as they were before, thus making them no less competitive than they are now against their foreign counterparts.

Economists said local banks, too, do not have enough provisions for financial services. "In terms of financial services, the local banks are lagging behind. They need to buck up. If they do not do so, it will be very difficult to keep up with the foreign banks," an economist told Business Times.

"In terms of monetary policy, it really does not matter how many banks we have since Bank Negara Malaysia keeps a tight rein on the monetary policy.

"Local banks need to be outward looking and must find a way to re-engineer the way they do business. They need to be technologically driven, knowledge based and provide a high service level to their customers," he said.

On Tuesday, Prime Minister Datuk Seri Dr Mahathir Mohamad said he has his doubts as to whether local banks, even after their mergers, can compete with foreign banks.

"I have my doubts because even as we merge, the foreign banks are merging also. They are becoming bigger and bigger and there is no way we can compete with them," Dr Mahathir said.

Another economist said that banks should view the entire programme of consolidating as an opportunity to expand their operations beyond Malaysian shores.

"Now that the banks are allowed to choose their own partners under the central bank's new guidelines, they should engage in the process with a view to positioning for expansion.

"However, it will be difficult to open up, say a Maybank in New York, if there isn't the client base there. It will be difficult to compete with the American banks in their home ground," the economist said.

He added that the case is different in Malaysia because there is a broad client base for the foreign banks (HSBC, Standard Chartered and Citibank, for instance) with the existence of multinationals such as Motorola, Hewlett Packard and Intel.

"These multinationals will use the services of the foreign banks or at least give a bigger chunk of their business to them. That is the fact and we cannot run away from that."

Another area where banks will have to look at is the culture of the merged entity, he said, adding that certain banks (since they have been in existence for a long time) tend to be very set and entrenched in their ways and banking culture.

"That will be something difficult to address during the merger process because it would mean two or more institutions coming together and finding a common ground.

"We also see, especially during the recession, that risk management is not a strong point of local banks.

"It simply means that local banks are not stringent enough in their credit control, does not have a set of clientele as strong as that of the foreign banks, and credit evaluation and controls not up to mark.

"Why should it be that local banks have a more risky appetite compared to that of foreign banks? These things should be looked into since it does

not mean with the merger process ... all these things will disappear," the economist said.

He added that the strategies undertaken by the Government is to ensure that banks become more competitive.

The economist also questioned if a few small banks should remain in the market since there will be a need for smaller banks to finance small- and medium-sized enterprises.

"There is certainly a need for small banks in the market. If there are only big banks, what would happen to SMIs? Where would they get their funding?

"It would not look good on the central bank if they find a need to issue new licences for smaller banks ... it would reflect that their policies are not well-thought of. Therefore, this is something which the central bank should also consider," he said.

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