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And then there were nine?

THE proverbial ball is in Utama Banking Group's court. The Government and Rashid Hussain - the man as well as the corporation - are clearly losing patience, both finding it necessary to tell the Sarawak-based bank that if it was serious about seeking a deal, it should act accordingly and show more urgency. As things stand, talks between RHB Bank and Utama are as good as scuppered, with Datuk Seri Dr Mahathir Mohamad even saying that negotiations have "broken down", and that he thinks a merger between the two is now unlikely. Utama is understandably very careful regarding with which bank it wants to enter into a union. After all, it is a watershed development for the bank, and it is for keeps, which means the stakeholders must make sure that various issues, particularly management control and pricing, are fully worked out and agreed upon before they would sign on the dotted line. That it will not compromise on its interests is apparent, given that it is prepared even to miss its December 31 2001 merger deadline.

Earlier reports had suggested that Utama in fact would rather not merge with anyone at all, reasoning that it could be the country's 11th anchor bank, and one which is more or less dedicated to serving the needs of Sabah and Sarawak. However, the Prime Minister has dismissed the possibility, and more than once too. Instead, the bank is now told to find a new partner by June, if a merger with RHB Bank is not to be, or risk having its licence revoked. The authorities have actually been more than accommodating in dealing with Utama, seeing that prior to talking with RHB Bank it had already gone through three prospective "suitors" in Affin Holdings, the Arab-Malaysian Group and EON Bank. If market talk is to be believed, on each occasion, the issue of control was ultimately the cause of the breakdown in negotiations. A sense of independence and identity by a business organisation is admirable, but the reality is Utama, despite its strong base in Sabah and Sarawak, is still a smallish bank, and no partner would willingly hand it control of the merged entity.

On paper, it can go it alone to raise money to meet the RM2 billion shareholders' funds requirement. But even if economic circumstances and investor sentiment permit, shareholder support for such an exercise will surely be tempered by the fact that the bank has found itself in a situation where it has to play catch-up with the rest of the players in the industry. In addition, there is the reflection on the authorities to consider, if the bank indeed secures approval for the scheme. And how will it affect the ongoing consolidation of the stockbroking and insurance sectors, if Utama is accorded special privileges? Already, it is a compromise that 10 core institutions have emerged from the bank merger exercise; it was supposed to be only six. and the deadline to complete the programme was also pushed back a couple of times. On the other hand, forces are at play that may see the biggest of Malaysian banks, never mind Utama, acting on their own to consolidate their positions in the face of the twin challenge of liberalisation and globalisation.

For example, there is talk that a spurned RHB Bank could on the rebound run into the arms of Bumiputra-Commerce Bank; which is an exciting prospect indeed, considering that the merged entity would be a banking powerhouse that rivals current leader Malayan Banking. More importantly, such a mega-merger could trigger a new round of industry-wide consolidation, and maybe six core banks as had been planned - or fewer -

would remain after all. Some might argue that the situation regarding Utama is the result of the authorities trying to set and force the pace for the industry to become competitive and to remain relevant. But chances are this view will be moot sooner, and not later, than most people think. The merger programme, from the outset, was never an end in itself. It was intended only to kickstart banking reform in the country, and a monumental kick it was too. Stragglers like Utama aside, momentum has been gained and there is now no stopping the industry from continuing to move forward.

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