

17/11/2002

Big in your own backyard doesn't count for much

P.Y. Chin

COME 2005 and being big in their own backyard will no longer be good enough. So Malaysian banks will now be involved in another round of mergers in preparation of when the international "big boys" move in as Malaysia opens its door to global financial liberalisation.

Prime Minister Datuk Seri Dr Mahathir Mohamed had already flagged off the second round of the merger "race" when he announced about two weeks ago that the Government might consider reducing the number of anchor banks from the present 10.

A day later, Bank Negara Governor Tan Sri Dr Zeti Akhtar Aziz set a 2005 deadline for the next round of bank mergers.

However, the Prime Minister, possibly in a move to allay fears among bankers, said "we are not very rigid about" the 2005 deadline.

Many must be wondering why the next round is so soon since the first round of mergers was completed only this year.

But time is running out for Malaysian banks for they have to compete with the international giants, which will be moving into the Malaysian financial turf come 2005.

Zeti's announcement that "the second round of the merger will take place in three to four years" will in fact place the second round of bank mergers in the 2005-06 period.

The Government initiated the first round of bank mergers in 2000 when it imposed a RM2 billion-capitalisation rule on banks.

This rule forced 54 banks to merge into 10 banks.

The 10 are Bumiputra-Commerce Bank, Malayan Banking, Public Bank, Arab-Malaysian Bank, Hong Leong Bank, Affin Bank, EON Bank, Southern Bank, RHB Bank and Alliance Bank (RHB Bank recently merged with Bank Utama).

Though the Prime Minister said there would be further consolidation, he did not say how many anchor banks there would be after the second round.

This is where speculations have been rife as to which banks would end up the final winners.

In later statements, the Prime Minister, who is also the Finance Minister, added that the Government initially wanted only six anchor banks, but "because of some difficulties, 10 were allowed".

Many are well aware of the politicking that went on behind the scene when the first round of consolidation was initiated.

At that time, Tun Daim Zainuddin was the Finance Minister and he reportedly wanted only six anchor banks.

However, strong lobbying by some bank owners left out of the list of six and some "vested interests" managed to raise the figure to 10.

All that now is history. But history may be repeating itself when the second round of consolidation intensifies as the deadline draws near.

To that, the Prime Minister said, "maybe later, they will see the light and want to reduce the number of banks".

Zeti was also non-committal, saying that the central bank would not intervene in the merger process but "will leave it to the more competitive environment to determine the number of anchor banks".

Many took these comments to mean that Zeti had so far not received any "firm indications" from "higher authorities" on the exact number of anchor banks.

In the Financial Master Plan, drawn up by Zeti and Bank Negara, it was stated that ideally the country should have three or four large banks that

would provide a full range of financial services, and another three or four smaller banks offering more specialised services.

If the recommendations in the Financial Master Plan are followed, and there is no reason not to, then there is justification for the sudden sharp drop in the share price of Maybank the day after the announcement was made.

The share price closed three per cent lower at RM8.05 against a 0.25 per cent drop in the overall KL stock market.

Though this was seen as a knee-jerk reaction to the announcement, many speculated on the possibility that the second round of mergers would end Maybank's market dominance.

These days the talk in banking circles is not when the second round will come, but rather which banks would end up on the list of three or four, a number that is seen as more realistic than six.

If it is six, then it could be Bumiputra-Commerce, Maybank, a merged entity of Public Bank and Hong Leong Bank, Arab-Malaysian (with one or two other smaller banks), Utama Bank with RHB Bank and maybe one other bank, and the rest lumped together.

If it is four, then it could be Bumiputra-Commerce, Maybank, Arab-Malaysian and Utama-RHB Bank, with the rest absorbed by either one of these four.

It is small wonder that the Prime Minister said "we have to do it very gently" as the equation not only has a financial fallout but also a political one.

After all, Public Bank and Hong Leong Bank are non-Bumiputera banks, and their mergers to exist or exit would have to be handled carefully.

In the first round of mergers, there was strong resistance when it came to the smaller family banks being swallowed by the bigger banks.

Owners of the smaller banks at that time were more concerned with their pride than national interest or financial survival.

This time round the issue of pride may be almost non-existent as some of the owners of the present 10 anchor banks have expressed privately that they would be calling it a day.

At least one or two banks have succession problems.

There is one other argument regarding bank mergers.

The merger exercise is now among local banks, which in essence means that local banks are growing in size within the national boundary.

But with financial globalisation, however big a local bank is, it is only as big as the national boundary.

In the case of global banking giants like Citibank and HSBC, size is not restricted to their country of origin. The whole world is their playground.

In the unlikely situation that all the local banks merged into one giant banking entity, the global spread of the merged group would still be nowhere near the likes of Citibank or HSBC, whose tentacles have spread worldwide.

It is in this context that one must understand the vision of Bumiputra-Commerce Bank in seeking to buy Bank Niaga of Indonesia.

The latest in this deal is that the Indonesian Bank Restructuring Agency has finally agreed to sell a 51-per-cent stake in Bank Niaga to Bumiputra-Commerce for 26.5 rupiah (1.1 sen) per share or one trillion rupiahs.

It is therefore imperative for local banks, even though they may have the size after the final merger, to expand overseas by buying foreign banks or merging with cash-strapped ones.

In this way, one can then say Malaysian banks have arrived, becoming truly international in size and reach.

Otherwise, they are big only in their own backyard. And this isn't

saying much.