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YEARENDER-BANKS

LOCAL BANKS MAY HAVE TO BE ON THEIR TOES FOR NEXT ROUND OF MERGERS

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KUALA LUMPUR, Dec 9 (Bernama) -- The 10 anchor banks currently undergoing in-house consolidation may need to be prepared from next year for possible moves leading to a "second round" merger.

They had all finally completed the first round this year when Bank Utama finally inked the deal with RHB Bank after having gone through the "long and winding road" in the merger negotiations.

Local financial circles were all abuzz when Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also the Finance Minister, hinted in early November that there would be further reduction in the number of anchor banking groups.

Bank Negara Malaysia governor Tan Sri Dr Zeti Akhtar Aziz then said she expected that the second round merger would take place in about three years' time.

By then, there would be three or four large local banks offering a full range of services while the rest would offer services in retail banking and for small and medium-scale entrepreneurs as espoused under the Financial Sector Master Plan.

Whatever the time frame or final number, the merger process is to make them bigger and stronger to face the onslaught of greater foreign competition in time to come. More importantly, it is about becoming relevant as well by being able to fund the various vital sectors of the national economy, given the rapid changes that had taken place, especially in the transformation towards a knowledge economy.

An analyst said local banks would have their hands full in 2003 in planning and consolidating their in-house operations.

"Some banks like Public Bank had started their in-house consolidation planning," he said.

The analyst viewed the proposal made by Public Bank to privatise Public Finance as a move towards preparing for the next round of mergers.

However, the executive vice president for policy and control of Bumiputra-Commerce Bank Bhd, Nik Hassan Nik Mohd Amin, said it was not necessary yet for the banks to get prepared for the second round merger next year as yet.

"Some of us will wait for the right time as in-house consolidation is an on-going process ever since the first-round merger. Banks always need to integrate within their organisations and to keep abreast with technology," he said.

Referring to market-driven forces for the next round of bank mergers, he said one problem was that the market would not wait for anybody and banks would fall into the merger process when they crossed the path when the opportunity arose.

"When there is the opportunity, it (the merger) will just happen," Nik Hassan said.

He added that for the next step, many banks were expected to find tune its technology application to stay competitive.

Besides merger issues, Nik Hassan said banks also needed to address the issue of regional integration and risks diversification.

As their exposure to the international market continued to widen, local banks would be compelled to diversify their risks, he said.

Commenting on the banks' performances next year, Nik Hassan said in terms of non-performing loan (NPL) rates, they would be stable.

"I see no changes in the rate of improvement. It will be the same," he said.

However, Standard & Poor's (S&P), in a posting on its website, projected that the decline in Malaysia's NPL rates next year would be slow as the improvement in asset quality of local corporate entities was behind the growth rate of the country's economy.

As such, S&P has revised its outlook for next year on Malaysia's banking sector to stable from positive.

As for other developments on the banking scene, the merger between RHB Bank and Bank Utama produced a new milestone in the local banking industry: a foreigner was appointed chief executive officer (CEO) of RHB Bank when Michael Hague, Standard Chartered Bank Malaysia's former CEO, was hand-picked for the position. -- BERNAMA

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