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Zeti: Phase 2 of banking mergers likely in 2005

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THE second phase of local banks and financial institutions' merger can be expected in 2005, Bank Negara Malaysia Governor Tan Sri Dr Zeti Akhtar Aziz said yesterday.

She said the central bank will not intervene in the merger process, but "will leave it to the more competitive environment to determine the number of anchor banks".

"It is part of the plan to see more consolidation taking place in the next few years.

"The second round of the merger will take place in three to four years," she told reporters after launching the Registered Financial Planning (RFP) programme by the life insurance industry.

Zeti was commenting on Prime Minister Datuk Seri Dr Mahathir Mohamad's recent statement that the Government may consider reducing the number of anchor banks, which currently stands at 10.

"Maybe, we have to do it very gently," he had said at the Association of Merchant Banks' annual dinner in Kuala Lumpur last Friday.

Dr Mahathir, who is also the Finance Minister, had said that the merger of local financial institutions was inevitable as the Government anticipated greater challenges from outside with the emergence of globalisation that allows foreign banks to operate in the country.

"This would mean that local banks have to compete with foreign banks. If local banks are tiny, they may not be able to compete. So, by consolidating these banks, the Government hopes to make them strong to be able to compete," Dr Mahathir had said.

The previous round of banking consolidation was initiated by the Government in 2000 when it imposed a RM2 billion capitalisation requirement on banks.

This resulted in 54 banks being reduced to the 10 core banking groups operating today.

The Financial Sector Master Plan outlines that ideally, Malaysia needs three to four large banks to provide a full range of financial operations, and another three to four medium-sized banks to offer more specialised services.

In welcoming the RFP programme, Zeti said it is vital for the local insurance industry to demonstrate financial resilience, international best practices, cutting-edge innovation, product and channel diversity, high ethics and high level of professional standards.

"With increased uncertainty prevailing in the global economic outlook and in the financial markets, effective financial planning will assume greater prominence at both the retail and corporate levels.

"Households, in particular, will benefit from financial planning in order to be more self-reliant and resilient against the increased volatility in the financial markets," said Zeti, who is also the Malaysian Insurance Institute (MII) chairman.

She added that it is also vital to raise the performance standards in the Malaysian insurance industry as the traditional boundaries between insurers, asset managers and banks are being "increasingly blurred" with banks and insurers taking advantage of bancassurance and multi-product personal financial advisers.

The RFP course is jointly developed by the Life Insurance Association of Malaysia (Liam), MII and the National Association of Malaysian Life

Insurance and Financial Advisors (Namlifa).

The programme will be conferred by the Malaysian Financial Planning Council, which is the national body for financial planning in the insurance industry.

Liam chairman K.H. Chia hopes that the RFP programme would integrate various financial planning courses for the insurance industry.

"The time has come for the life insurance industry to integrate the two courses conducted by MII and Namlifa into a common programme for the industry.

"It is a truly Malaysian education programme in financial planning, with syllabus and materials been developed jointly by the academicians (MII) and practitioners (Namlifa)."

In the first half of this year, the insurance industry recorded a combined premium income of RM7.8 billion for life and general sectors, up 13.4 per cent from RM6.9 billion in the same period of 2001.

Assets of the life and general insurance funds in the first half of this year also recorded double-digit growth of 13 per cent to RM63.2 billion from RM55.9 billion in mid-2001.

The penetration rate of life insurance in Malaysia currently stands at 32 per cent compared with 27.3 per cent in 1997.