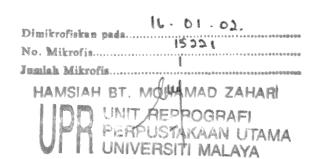
# The Efficiency Effects of Mergers Between Malaysian Finance Companies

## BEDDAN S/0 VEERASAMY

### UNIVERSITY OF MALAYA 1999



# The Efficiency Effects of Mergers Between Malaysian Finance Companies

#### **BEDDAN S/O VEERASAMY**

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Dedicated Specially to My beloved Family;

"To my loving mother, brothers, sisters, nephews, nieces for your love, sacrifices and encouragement.

Also dedicated to my lovely wife who assists me to type this project paper".

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#### Abstract

The finance companies in Malaysia seem to be able to withstand the current crisis better than those in the region. One should not overlook the negative impact on the asset quality of the finance companies resulting from lower economic growth, higher interest rates, and the depressed stock market on corporate financial position. The slump in the property and construction sectors have created difficulties for some developers who are highly geared to default on their finance companies loans. Difficulties in the corporate sector will raise the finance companies' nonperforming loans as a percentage of total loans and may cause difficulties to weaker finance companies. Mergers are encouraged to consolidate the finance companies in order that they become strong, well-managed and well capitalised as well as more competitive internationally. Moreover, the banks and finance companies are the growth engine of economy of a nation, if any imbalance of the sector will create tension and inconfidence among the investors and the public. In order to sustain the confidence and strengthened the sector, the central bank encourages the finance companies mergers to enhance the liquidity of the finance companies. Hence, the objective of the research is to analyse the efficiency effects of mergers between finance companies in Malaysia. An overview of finance companies mergers, and consolidation process and control will be discussed. The causes and effects, and benefit of merging of local finance companies will also be highlighted in this project paper.

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#### **ABBREVIATIONS**

BAFIA - Bank and Financial Institutions ACT

BNM - Bank Negara Malaysia

CAMEL - Capital adequacy, Asset quality, Management

Efficiency, Earning Performance and Liquidity

Position

CCM - Credit Corporation (Malaysia) Berhad

CEO - Chief Executive Officer

DTC - Deposit -Taking Co-Operatives

EL - Eligible Liabilities

EON - Edaran Otomobil National

FCA - Finance Companies Act

GATS - General Agreement on Trade In Service

IT - Information Technology

MoU - Memorandum of Understanding

NPL - Non- Performing Loans

NPV - Net Present Value

NTA - Net Tangible Asset

RHB - Rashid Hussain Bank

RWCR - Risk Weighted Capital Ratio

TTRS - Two-Tier Regulatory System

WTO - World Trade Organisation

#### **APPENDIX**

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