

4.0 The Newly Emerged Industry

The finance companies industry is perceived as oligopolistic with not more than 10 firms leading the industry. Further more, the industry appears to be dualistic in nature with a few large companies commanding a substantial share of the market while many small and medium companies competed strongly for small balance. This is a concentrated oligopolistic market (Sieh 1995). However, bearing the consequences of the financial crisis and merger proposal announced by BNM in the early 1998, will the industry structure change?

Under the merger plans, the existing 39 finance companies will be reduced to 8 finance companies once the proposal completed. Operationally, BNM has identified four Tier-1 finance companies and three others as anchor companies to merge with or take over the small and medium size finance companies. The anchor companies and their respective merger partners are listed in Table 4.1 below. Besides, there are three finance companies, which will embark on strategic alliances, two with each other and the other with a commercial bank. Finally, their respective parent banks will absorb the remaining 14 finance companies. These finance companies once absorbed will not be allowed to conduct new finance companies business, such as hire purchase. But, they can manage and wind down the existing hire purchase portfolio and may turn the branch premises into commercial bank operations.

With the small and medium size finance companies eliminated from the industry, there will be left 8 finance companies; which are expected to comply with the minimum capital funds requirement of RM600 million by end of year 2000. In other words, the regulator wants only the big players to continue in the industry. This newly emerged industry structure will still be oligopolistic, but no more dualistic. Now, the number of finance companies is small enough for each finance company to realise that its competitors may respond to anything that it does and that it should take such possible responses into account.

TABLE 4.1: Merger Proposal for Finance Companies Industry

Mergers:

Anchor Finance Company	Merger Partner
1 Mayban Finance Bhd	Amanah Finance M'sia Bhd
2 Public Finance Bhd	Kewangan Industri Bhd Boon Siew Finance Bhd
3 Hong Leong Finance Bhd	Bolton Finance Bhd Kewangan Bersatu Bhd
4 Arab-M'sian Finance Bhd	Abrar Finance Bhd SimeFinance Bhd Advance Finance Bhd
5 EON Finance Bhd/ Credit Corporation (M'sia) Bhd	City Finance Bhd Cempaka Finance Bhd Perkasa Finance Bhd
6 United Merchant Finance Bhd	BBMB Kewangan Bhd Perdana Finance Bhd Interfinance Bhd Delta Finance Bhd

Strategic Alliances:

- 7 **Affin Finance Bhd with Asia Commercial Finance (M) Bhd**
- 8 **MBf Finance Bhd** (with Bank of Commerce Bhd)
recently called off when BNM took over MBf operationally

Absorption by Parent Banks:

PhileoAllied Finance (M'sia) Bhd	Multi-Purpose Finance Bhd
Southern Finance Company Bhd	Kewangan Utama Bhd
Hock Hua Finance Bhd	BSN Finance Bhd
RHB Finance Bhd	HSBC Finance (M'sia) Bhd
Sabah Finance Bhd	United Overseas Finance Bhd
Chew Geok Lin Finance Bhd	OCBC Finance Bhd
Oriental Finance Bhd	OUB Finance (M'sia) Bhd

Source: BNM, First Quarter 1998 Quarterly Bulletin

With the elimination of small and medium size finance companies, the competition is expected to be more congruent nation-wide. This is because most of the small and medium players are competing at local area basis. For instance, certain local areas may have all the 39 finance company branches in competition; customers and car dealers have 39 choices to choose. Competition will be highly intense and smaller finance companies may endanger (accepting higher level of risk) themselves in order to compete for businesses from the big players. With the new industry structure, the maximum the competitors can go will be 8 finance companies only. For depositors, finance companies are still expecting stiff competitions from commercial banks. However, for hire purchase business, the market power is expected to return to finance companies instead of car dealers as discussed earlier. In this respect, the extent of competition for hire purchase business will rely on finance companies themselves, that is, to co-operate or to compete?

Besides traditional business like deposits and loans, the eight finance companies are expected to expand or venture into Tier-1 activities and interserve banking. Currently, four out of the eight finance companies have been accorded the Tier-1 status. Tier-1 status is accorded by BNM after the finance company achieved the criteria set, which include the area of CAMEL; capital adequacy, assets quality, management efficiency, earning capacity and liquidity. Tier-1 activities include provision of factoring services, domestic remittance services, granting of unsecured loans up to RM500, 000, participate in venture capital financing and issuance of NID up to five times the capital funds. However, these Tier-1 activities can only be carried out by finance companies accorded with the status only.

For interserve banking, it is actually a global banking services offer to the customers. For finance companies owned by commercial bank, they are now allowed to integrate their service delivery system with their parent banks. Their customers can now undertake their services at the finance companies' parent bank and vice versa. For instance, a hire purchase customer can pay his