monthly repayment at the finance companies parent bank office. In turn, the parent bank current account customers can bank-in cheques through the said finance companies. Currently, there are two finance companies, which engaged in interserve banking with their respective parent banks.

Finally, finance companies in the newly emerged industry may need to cater for the post-merger problems that will arise. The 25 finance companies (14 absorbed by parent banks) with different management styles, corporate cultures, human resources backgrounds, technical and system incomparability, image and business competencies are expected to take time and efforts to integrate and properly merged. Anchor companies, which significantly dominate the merger partners in terms of size and position, will have lesser problems in absorbing the smaller parties. They are merely taking over the merger partners. However, for those mergers of comparable size finance companies, especially when more than two companies are merging, the differences mentioned will be obvious and greatly contribute to the success or failure of the mergers.

5.0 Recommendations and Conclusions

Based on the findings and discussions thus far, this final section of the paper will make recommendations and suggestions to the problems identified.

5.1 Liquidity Position

In order to strengthen their liquidity positions, finance companies are recommended to increase their cash and short-term funds specifically and liquid assets generally. Unlike commercial banks, where they are expected to keep higher cash positions to fulfil the demand (current accounts) deposits legitimate demands, finance companies are not expected to match their holdings in cash
and liquid assets. With the current emphasis on transparency and prompt reporting, cash and short-term funds positions are vital in ensuring the liquidity position of the finance companies not jeopardised. This is because deposit-taking activity is a social event, meaning that it is highly dependent on general public's confidence. If the public perceived that a particular finance company is facing liquidity problems, this lack of confidence may caused some depositors to withdraw their deposits. Serious loss of confidence by the general public may lead to a bank-run and subsequently affect the whole industry. This is extremely important that especially for those finance companies that maintain below industry average cash and short-term funds levels.

For finance companies that belong to the Top 5 and 2nd Liners, they should further strengthen their liquid assets holdings, as they are mostly anchor companies trying to absorb the smaller finance companies. With the deepening of the interbank as well as money market in Malaysia's banking system, proper asset management will definitely be a helping hand to increase the liquid assets holding. Asset portfolio combination must be monitored closely to ensure balance growth. The growth in other riskier assets, especially loans must be accompanied by the growth in liquid assets.

At the same time, a healthier LDR must be maintained. The dependence on liability management, such as purchased liability or deposits must be reduced. Over reliance on purchased liabilities to fund assets growth will increase liquidity risk, especially when the whole banking system is facing tight liquidity. The withdrawal or maturities of purchased liabilities may not be well substituted or may be replaced with a much higher cost. In other words, finance companies must ensure that as far as possible, assets growth must be financed by growth of customers' deposits. Purchased liabilities are only meant to cover short-term mismatch and insignificant variances in the loan-to-customer deposit ratio.
5.2 Assets Quality

In the previous section, we have seen how the deteriorating asset quality affected finance companies’ bottom lines through loan loss and provisions. Over embarking on asset growth through acquiring of high returns, which are also high-risk assets, are not profitable to finance companies in the long run. Accepting higher credit risk may be fruitful in the short-term by showing the instant short-term profit provided the broad economic condition is good. In the long run, the recession will definitely deteriorate the asset quality and subsequently the profitability of finance companies. Hence, finance companies must ensure proper selection process is in place, prudent lending policies and guidelines, loans monitoring efficiency, healthier car dealers relationships and others to assure good asset quality.

Car dealers relationship must be maintained by not jeopardising the finance companies’ efficiency and accuracy in credit evaluation and lending policies adherence. Practices such as accommodating most cases submitted by car dealers for financing speed approval and commission incentive should be avoided or reduced. For car dealers commissions, when the first finance company gave such financial incentive to cars dealers, it may out-perform other competitor to secure business. However, when every finance company are doing so, this financial incentive tends to be alike and indifferent with the situation where no finance companies are giving commissions. Financial compensation will never be enough. With the newly emerged industry structure, finance companies are recommended to compete in the hire purchase business from car dealers with the mindset that the market is now driven by them and not the later.

At individual company level, anchor companies with deteriorating asset quality are recommended to immediately implement stringent credit control policies, aggressively embark on loans restructuring with defaulting borrowers, negotiate with asset management companies in order to dispose or reduce the bad quality
assets. And for future asset acquisitions, it must be carried out in accordance with prudent and stringent credit policies.

5.3 Interest Rate Risk Management

In order to minimise the interest rate risk, finance companies are recommended to increase their interest sensitive assets (ISA). This is in view that the power and controllability of acquiring ISA are relatively bigger than for acquiring interest sensitive liabilities (ISL). Under the normal circumstances, it is relatively easier for finance companies to determine the terms and conditions for loans on borrowers instead of the same on depositors. Hence, they should capitalise on increasing ISA, but at the same time reducing or minimising the effect of ISL.

One way to increase ISA is by having more flexible rates lending. Types of flexible rate lending are housing loans, term loans, revolving facilities and any other loans that levied non fixed interest rates. However, this will face intense competition from commercial banks. With their relatively lower costs of fund, commercial banks will be able to maintain a lower BLR and hence price the flexible rate loans much lower than those of the finance companies. In order to compete effectively, finance companies are recommended to aggressively embark on strategic marketing mix when packaging their loans to borrowers. These may include pricing, product mix, promotions and channel or position the loan package appropriately to the borrowers. These marketing-oriented strategies are seldom employed in finance companies’ business strategy as compared to commercial banks.

For liability management, finance companies should adopt the same concept when competing with each other or commercial banks for deposit funds. As far as possible, lock-in the deposits for longer terms. Longer term liabilities are intended to minimise the maturities gap between ISA and ISL, when the former
tend to be in longer term. Besides, longer-term liabilities will be relatively less interest sensitive than the short-term liabilities.

5.4 Synergies the mergers

The original objective for BNM to merge the finance companies is to ensure that only large finance companies are left in the industry. And they are the companies with appropriate asset size to withstand further crystallisation of risks from economic slow downs. Hence, finance companies, especially the anchor companies have to ensure that the mergers can strengthen their positions and not weakened by the merger problems that may arise.

5.5 Tier-1 Status

Out of the eight finance companies that eventually remain, four have been accorded the Tier-1 status. Based on the regulator’s movement thus far, it will be their final objective to turn all the finance companies into Tier-1 status, which should be the ideal status for finance companies to continue operating. Hence, the remaining four Tier-2 finance companies are recommended to work themselves toward the Tier-1 status in order to compete fairly with the others, to avoid being dualistic as before.

One of the criteria for being accorded Tier-1 status is capital adequacy. We have discussed the capital funds and RWCR requirements by BNM. For those finance companies concerned, they are recommended to gear toward that requirement. To improve on management efficiency in managing the company, it will be an added advantage to have better assets quality, earning capacity and liquidity position in the future. Time is essential with the deadline to comply approaching soon. Finance companies are recommended to efficiently manage the merger,
facing the slow down, cope with the monetary policy and at the same time assure
the CAMEL ratings are in good faith.

5.6 Competition

With the new industry structure, finance companies are recommended to
properly nurture the extent of competition within the industry. They need to
ensure that the competition is healthy, they must know when and where will be
appropriate for them to compete aggressively. They need to determine when
and in which areas they should co-operate with each other in order to maximise
the mutual benefits. For instance, finance companies are suggested to co-
operate when facing the outsiders, like in the case of competing businesses from
car dealers. Another area of possible co-operation is when they compete with
commercial banks for deposit funds and flexible rate lending.

5.8 Conclusions

In brief, finance companies should focus on long term profitability and growth.
Profitability and growth must be achieved healthily and in a prudent manner.
Assets requisition must be carried out within the scope of liability and capital
capacity, after taking into consideration the various risks involved.