

## CHAPTER 6

### CONCLUSION

As a developing nation, there is no denying that Malaysia requires a strong and efficient banking system that is resilient and capable of supporting the financial needs of the economy to enable the country to achieve a strong and sustainable growth in the future. The economic crisis of 1985 and the subsequent economic and financial crisis of 1997/98 showed how fragile and vulnerable a weak and fragmented banking system can be. The consolidation/merger exercise was seen as one of the preconditions towards meeting a strong, efficient and competitive banking sector. Too many banks mean a fragmented and inefficient use of resources. Having just a few banking groups would allow operation, branches and services to be more streamlined.

In the context here, the issue was not the merger directive itself but the eventual implementation strategy whereby BNM decided on the initial choice of 6 banks as anchor bank as well as deciding on their merging partner. The anchor banks were eventually increased to 10. Even then, BNM did not come out with clear criteria in how it selected the 10 banks. BNM has said that it took into account a number of factors in deciding. Size was not the only criterion used in the selection. An important criteria was the resilience of the banking institution during the financial and economic crisis implying that banks that failed were not

chosen. However, RHB and AMMB, which had to seek aid from Danamodal in 1998 to overcome inadequate capitalization, were given anchor bank status. Affin too needed BNM rescue in the 1985 crisis.

The choice of Multi Purpose Bank as an anchor bank has been widely questioned, as it was too small a bank to buy many of the partner banks. It had an asset size of only RM7.1 billion and shareholders fund of RM550 million compared to Pacific Bank for e.g which was already a Tier one bank with an asset size of RM10 billion and shareholders fund of RM880 million in 1998.

The merger exercise and the choice of the anchor banks was also seen by some analysts as an attempt to strengthen bumiputera interests in the banking sector which has traditionally been dominated by the Chinese. The initial proposal only saw 2 Chinese controlled bank i.e. Southern Bank and Public Bank being chosen. These inferences were plentiful in the absence of any criteria spelled out by BNM.

However based on the analysis done, it was found that the choice of the 10 anchor banks has its merits based on the indicators used namely the profitability indicator, asset growth, capital adequacy, shareholders analysis, past merger experiences and branch networking.

Maybank is the country's largest bank with prudent management and has strong asset quality. As of 1999, it had 264 domestic branches and 30 foreign branches providing employment to more than 12,000 people. It had control of 23% of market share of commercial banking sector in 1999. The nearest competitor to Maybank was Bumiputera Commerce Bank with an asset size of RM57 billion, 260 branches employing more than 9000 staff. RHB comes next with an asset size of RM49 billion having successfully complete 2 mergers. The choice of Public Bank too is unquestionable. It had an asset size of RM30 billion, having about 180 branches and employing more than 5000 staff and good returns throughout the period of study, The bank has also won numerous awards pertaining to excellent customer service and strong management.

Based on the analysis however, BNM could also have given considerations to a few other banks such as Ban Hin Lee Bank, Pacific Bank and Phileo Allied. Wah Tat and Bank Utama were also strong banks with good asset management and impressive performances but they were too localized in Sarawak and Sabah with limited expansion in other regions. Pacific Bank was the only Tier 1 domestic bank not considered inspite of its good performance. In 1999, it had a profit after tax of RM72 million with 69 branches all over the country and employing more than 2000 staff. Comparatively EON which was given anchor bank status, had only an asset size of RM8 billion, profit after tax of RM61 million and had 46 branches employing about 1300 staff. Phileo Allied had an asset size of RM10 billion, profit after tax of RM221 million and about 34 branches and one of the

best IT system in the banking sector. Comparatively Multi Purpose only had an asset size of RM9.3 billion and a profit after tax of RM72 million in 1999. Ban Hin Lee Bank was only a medium sized institution but was well capitalized and did not have problems that needed bailing out. Bank Utama is still having problems trying to sort out its merging partner

Based on this, it could be deduced that that besides performance criteria used, there were also other considerations taken into account in selecting the anchor banks including protecting government interests.

There is a clear bias towards banks that has large capital base, assets size, deposits, loans and branch network. The issue of profitability did not seem to feature much as the returns on asset and return on equity between the anchor and non-anchor banks were not significantly different. In some instances, small non-anchor banks outperformed the bigger anchor on these two measures. The overriding emphasis is that banks have the experience, financial clout and asset base to ensure the merger integration takes place swiftly and without interruption. The ability to lead in the post merger period to ensure that gains from mergers are actually realized is a challenge.

The merger exercise is a step in the right direction. Concluding the merger agreement is an accomplishment by itself but is probably the easier phase of the entire consolidation exercise. With the guidance, persuasion and even threats

from the BNM, most except Bank Utama have concluded agreements. The next phase is when the industry has to deliver on the various benefits of the merger exercise. The industry as a whole will have to show higher efficiency through lower cost and higher value added services. In a nutshell, the economies of scale and scope have to be seen.

This study did not touch on the choice of groupings within the anchor bank groups. Post merger performance can be very much affected by the merging partners. The level of integration including rationalization of management, facilities, will impact post merger performance. These are areas of interest that has a bearing on whether the benefit of merger is realized.

The literature review started with the crisis and the impetus it provided to accelerate the merger process. From the review, it is clear that the bank-operating environment is as important as the micro issue of bank management. Lax internal controls, regulatory weaknesses, weak governance mechanism, incentives to take unwarranted risk and the general economic policies can have an adverse influence on the way banks are managed. There is no guarantee that large banks will be resilient and be able to compete. Bank Bumiputra had to be rescued three times. Therefore, the external environment, to the extent that it does not create incentives to take unwarranted risk and the internal management skills are prerequisites for the creation of a strong and resilient banking industry in Malaysia. As George Santayana said, "those who cannot remember the past

are condemned to repeat it”, and bankers and regulators and policy makers alike seem to have short memories.

For the 10 anchor banks, they have a great challenge ahead for them. The new decade is just a beginning. Each of the merged entity has an uphill climb with a number of issues to be handled within a short span of time to be truly competitive in a global market scenario. BNM has announced that with eventual liberalization in the financial services, banks have to be even bigger and stronger. As such, the 10 anchor banks may be put through another consolidation exercise. Eventually only 4 or 5 banking groups may remain. The role of the anchor banks in the future development of the banking and also financial sector hence is extremely important.

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