

CHAPTER III

A SITUATIONAL ANALYSIS

3.1 ECONOMIC ENVIRONMENT

Malaysia's economic policies will emphasize on the building of confidence in Malaysia's long term economic viability. Public investment in infrastructure projects, including a new airport, highways, and rail system, will be used as a means of boosting the nation's economic growth and implementing the government's policy. Improved export prospects as a result of market development efforts in Asian nations will contribute to higher economic growth. The nation's economic growth also will be boosted by China's anticipated economic expansion over the next several years since Malaysia's entrepreneurs are now venturing aggressively into the Chinese market and this provides much of the service component of China's external trade transactions. Real economic growth will average over 8 % during the medium term. In addition, Malaysia will continue to play a more significant role in financial services, as more and more local enterprises will raise capitals and debts for their overseas ventures through Malaysia's financial and capital markets.

Malaysia's economy has been consistently strong despite moderate economic growth in the international economy. Growth in Gross Domestic Product (GDP) in

the first quarter of 1994 was 8.5 %. Following the recession of the mid-80s, the Malaysian economy has grown at about 8.1 % per year in 1991 to 1993. During the same period, global economic growth was just 1.4 % per year, indicating that the Malaysian economy is resistant to a poor global economy. The writer see no structural reasons why growth would decline substantially in Malaysia over the next few years as unemployment in 1994 is approximately at 3.0 %. The government predicts the unemployment rate will fall even lower to 2.8 % and Gross National Product (GNP) will grow to 9.0%. Despite a slight growth in inflation in 1992 and 1993, the inflation rate has nevertheless remained under control at a figure of just below 5.0 %.

The population has grown by 400,000 persons in each of the last two years, 1992 and 1993. The population in Kuala Lumpur, the market of chief interest to Bank of America Malaysia, is projected to grow at 2.5 % over 1995 and 1996. The actual trend in population growth in Peninsular Malaysia and Kuala Lumpur during the period 1980 to 1990 is shown in Table 3.1. By using the average growth rates over the past 10 years, it is possible to project the population growth for the 1991 - 2000 period (See Table 3.2).

Malaysia's population is becoming more urban with 50.6 % of the population living in urban areas in 1991, up from 26.8 % in 1970. Consumptions indicators in June 1994 indicate higher private sector spending. Loans by the banking system for consumption credit and imports of consumption goods rose by

Table 3.1 Population Growth 1980 - 1990
Peninsular Malaysia And Kuala Lumpur

Year	Peninsular Malaysia ('000)	Growth Rate (%)	Kuala Lumpur ('000)	Growth Rate (%)
1980	11,250	-	978	-
1981	11,500	2.22	1,003	2.56
1982	11,935	3.78	1,028	2.49
1983	12,345	3.43	1,052	2.33
1984	12,651	2.48	1,076	2.28
1985	12,981	2.61	1,103	2.51
1986	13,323	2.63	1,131	3.54
1987	13,653	2.48	1,159	2.48
1988	13,959	2.24	1,189	2.59
1989	14,297	2.42	1,218	2.44
1990	14,615	2.24	1,249	2.55
Average Growth Rate		2.65		2.48

Source : Department of Statistics, Malaysia.

**Table 3.2 Projected Population Growth 1991 - 2000
Peninsular Malaysia And Kuala Lumpur**

Year	Peninsular Malaysia @ 2.65 % p.a. ('000)	Kuala Lumpur @ 2.5 % p.a. ('000)
1991	15,000	1,280
1992	15,400	1,310
1993	15,810	1,350
1994	16,230	1,380
1995	16,660	1,410
1996	17,100	1,450
1997	17,550	1,480
1998	18,020	1,520
1999	18,500	1,560
2000	18,990	1,600

an average of 14.0 % in the last two quarters. From the above data, the effects are already evident to banks, i.e., Gross National Savings (GNS) rose 8.7 % from 1992 to 1993. The government has indicated it will pursue policies to encourage savings.

The healthy Malaysian economy is an invitation to Bank of America Malaysia to look beyond regulatory constraints and competition and to find opportunities in its retail banking market.

3.2 COMPETITIVE ENVIRONMENT

Retail banking customers in Kuala Lumpur can choose from 23 local banks and 14 foreign banks. The City area is well banked and most Malaysian banks have made it their mission to provide banking services in rural sections. Collectively, the banks in Malaysia offer a full range of retail products. The top five local banks and the top five foreign banks together have approximately 74 % of the deposits and 70 % of the loans and advances.

The foreign banks have 13 % of the branches but 24 % of the deposits and 34 % of the loans and advances (as at December 31, 1991). Their good performance is at least partly attributable to being more concentrated in urban areas. Additionally, foreign banks offer added prestige that some Malaysians value and foreign banks generally provide better service. Approximately 63 % of banking in Kuala Lumpur is controlled by domestic banks. Some domestic banks are enormous

and automation technology is fast catching up within them. These banks tend to cater for the mass market and perceived to be slow to respond to the market. However, they are a competitive threat due to their huge branch networks, physical reach and locality convenience. Most Malaysians have at least one account with a local bank. As a result, they attract a high percentage of retail deposits.

The primary non-Malaysian competition in the retail banking market is from three other foreign banks. Figure 3.1 depicts the retail banking programmes by domestic banks vis-a-vis foreign banks.

Banks	Number Of Branches	Consumer Banking Programmes
Domestic Banks	1020	Service Centres
Citibank	3	Consumer Services Group
Hongkong Bank	36	Relationship Banking
Standard Chartered Bank	35	Preferred Customer Banking
Bank of America	1	Preferred Customer Banking

Figure 3.1 Retail Banking Programmes By Domestic Banks Vis-a-vis Foreign Banks

Citibank

Currently the market leader in the consumer banking segment, Citibank virtually

single-handedly created the consumer banking market as it exists today over the past 15 years. Citibank's consumer banking operation was launched with a wide range of products. Effective marketing campaigns were used to create awareness and demand for financial products that either had not existed before or had little awareness among the target market. Citibank's major strengths include their strategic commitment to international consumer banking, their continued market innovation, and their presence in the banking industry in Malaysia since 1959.

Citibank's entry into the market was not flawless, but generally, it has learned from its mistakes and made improvements to its delivery. Citibank currently has only three branches in Malaysia (two in Kuala Lumpur and one in Penang) but has managed to develop alternative distribution strategies such as participating in corporate employee loan programmes. Citibank's product array currently includes local deposits, loans against securities, unsecured lines of credit, credit cards, and some real estate mortgages. In addition, Citibank has installed ATMs at all of their locations although has not been allowed to enter a shared ATM agreement with the local banks.

Hongkong Bank

A foreign bank which is reasonably aggressive in retail banking. Hongkong Bank has been advantaged with 36 branches in several cities and towns and many long term relationships. Hongkong Bank was the first to introduce ATMs to Malaysia. Currently, it is on a promotional campaign for its retail banking programme called

"The Partner" which emphasizes on relationship banking. Hongkong Bank has been successful in this strategy in retaining its customer.

Standard Chartered Bank

One of the oldest foreign banks with 35 branches throughout Malaysia. Standard Chartered's main strengths are its branch network and thus its large deposit base. Generally, when Standard Chartered Bank embark on any project, it is based on the important criterias of excellent customer service and competitive pricing. On all of its products, Standard Chartered will study how a product will have impact on customers, how they will use it, whether it is too complicated or confusing and what make them buy the product. Understanding of these questions will eventually lead to its competitive advantage.

In general, the retail banking market is competitive from other foreign banks as well as domestic banks, but Bank of America Malaysia should be able to compete effectively. Its institutional expertise and resources will make it a strong player. If it creates a strong image for itself in Malaysia, Bank of America Malaysia will benefit from positive perceptions about foreign banks. In addition, the economic indications discussed earlier suggest that demand for banking services will increase. The assets of commercial banks rose at an average annual growth rate of 15.6 % from 1989 to 1992³. If these trends continue, the outlook is bright.

3. Money And Banking In Malaysia, p35.

3.3 TARGET MARKET

The retail banking market offers an attractive growth opportunity for Bank of America Malaysia. Despite strong competitive and a regulatory environment restrictive of foreign banks, Bank of America Malaysia is well positioned to profit from a retail bank market set within the growing Malaysian economy. Kuala Lumpur is the most populous city in Malaysia with an estimated 1.4 million people. This estimation is distributed across upscale, midscale and mass market income segments. Although few statistical studies of the population are conducted regularly, numerous sources estimate that the emerging middle class of consumers may include as many as 60,000 people⁴.

Throughout this study, we have assumed conservatively that the target market is the upscale households in the city of Kuala Lumpur, in which Bank of America Malaysia has a branch. This would include approximately 14,000 households with verifiable income more than RM6,000 per month. After the initial successful entry into the market, it should be possible to expand Bank of America Malaysia's reach to include the next set of the expanding middle class market.

Kuala Lumpur has a high literacy rate with predominant languages and dialects varying by the race of the populace. However, virtually all upscale people

4. The figure was adopted from the Kuala Lumpur Structure Plan for households earning between RM2,000 - RM6,000.

are educated to speak and read English. It is assumed that Bank of America Malaysia's target market will be upscale, urban, English literate, sophisticated, and worldly. They will be preferred clients who choose Bank of America because of its high quality service, and its ability to deliver products and services quickly, accurately, and efficiently.

Generally, higher income individuals in Kuala Lumpur are more likely to favour foreign banks with at least one foreign bank account. As in 1990, higher income households whose monthly income is above RM6,000 constitute approximately 2 % of the total household in Kuala Lumpur. Household income distribution as far as can be ascertained from statistical information gathered is as shown in Table 3.3. Virtually all professionals believe that foreign banks are preferable to local banks. When queried about factors that would cause a member of the target market to change to a foreign bank, "quick and efficient" and "good atmosphere" rank highest. Bank of America Malaysia was favoured for its international network of branches.

Customers of banking services in Kuala Lumpur are similar to that of other parts of the world in terms of what is considered most important in choosing a bank --- physical accessibility and a wide branch network rate highest. City folks are also concerned with how comfortable it is to deal with the bank. Generally, these considerations work against Bank of America Malaysia and the foreign banks as their expansion are restricted.

**Table 3.3 Household⁵ Income Distribution
Kuala Lumpur And Malaysia**

Kuala Lumpur			
Monthly Income (RM)	Number Of Households ('000)		
	1990	1995 (est.)	2000 (est.)
< 2000	207	176	153
2000 - 6000	38	91	132
> 6000	4	14	45
Peninsular Malaysia			
Monthly Income (RM)	Number Of Households ('000)		
	1990	1995 (est.)	2000 (est.)
< 2000	2592	2200	1910
2000 - 6000	478	1140	1656
> 6000	53	184	558

Source : Rahim & Company.

5. According to the Department of Statistics, the average household consists of 4.75 persons. However, for ease of calculation, a household is accepted as a group of 5 persons sharing a dwelling.

3.4 BANK OF AMERICA MALAYSIA

3.4.1 History

Malaysia operations --- Bank of America opened its first and only branch in Malaysia on June 1, 1959. It was the second American bank to open an office in the then Malaya and presently still maintains its only branch in Malaysia⁶. By 1994, Bank of America Malaysia completed 35 years of operations in Malaysia with a commitment to offer a wide range of banking services. In 1989, it was one of the many foreign banks that instrumented in initiating the concept of SWIFT.

Institutional history --- BankAmerica Corporation is a bank holding company incorporated on October 7, 1968. Its principal asset is Bank of America N.T. & S.A. which began business as the Bank of Italy on October 17, 1904. It pioneered in branch banking and consumer loans and its assets multiplied. On November 1, 1930, the Bank of Italy changed its name to Bank of America N.T. & S.A. and following a reorganisation, became a subsidiary of BankAmerica Corporation on April 1, 1969. Its first overseas branch was opened in 1935 and by 1965, it has 34 international branches. This number rose to 100 in 1970 and presently it has 122 offices in 35 countries in addition to well over 1,000 offices in the United States.

6. Upon the merger on April 22, 1992 of the parent companies of Bank of America with Security Pacific Asian Bank Limited (SPABL) in the United States, SPABL is therefore a subsidiary of Bank of America but Bank Negara Malaysia has refused them to merge their operations in Malaysia, thus SPABL Malaysia was sold off to the Arab-Malaysian Banking Group.

At present, Bank of America N.T. & S.A. is the second largest bank in the United States with assets of USD 188 billion and 88,000 employees worldwide as of June 30, 1992. With its headquarters in San Francisco, Bank of America maintains a very strong retail presence in the entire West Coast of the United States. As a global financial intermediary with operations across Asia, Europe and Latin America, the bank is involved in the procurement of capital, investment of funds and management of financial risks for businesses, government agencies and financial institutions.

3.4.2 Current Status

Office	:	Bank of America Malaysia Berhad Wisma Goldhill Jalan Raja Chulan 50200 Kuala Lumpur
Status	:	Full licensed bank
No. of branches in Malaysia	:	1
No. of ATMs	:	Nil
Employees	:	146

Although Bank of America Malaysia business focus in Malaysia thus far has been wholesale corporate banking, it has been operating a full service branch for several years. The bank has been offering services to individuals in a limited way, including checking accounts, time certificates of deposits (TCD), funds transfers, draft issuance, travellers' cheques, etc. Individual deposits have provided stable,

low-cost funding for the significant growth of the bank's wholesale business.

In recent years, as other banks have moved aggressively into consumer banking, Bank of America Malaysia set a defensive strategy, protecting existing deposits rather than aggressively pursuing the consumer business. Over the years, the bank has taken a few measures to remain competitive --- it established "Preferred Banking" officers to service depositors' needs, upgraded branch facilities for individuals, streamlined the existing loans against time deposits and invested in some advertising. However, in the absence of any clear strategic initiative in this area, the incremental contribution from this business segment has been limited.

Personnel

Bank of America Malaysia has shown that it has the ability to attract and retain high quality personnel. This will be critical to the establishment of any retail banking operation. It will be necessary to provide Malaysian employees extensive retail banking training in California, in order for them to capitalise on the good profitability from retail customers.

Product Expertise

Bank of America Malaysia does have the advantage of some experience with several of the products recommended in this report. It already offers local deposit products that will require some refinement in terms of additional product features. The retail portfolio product is similar to an existing wholesale portfolio business, with minor

differences. Experience with US Dollar denominated Bank of America travellers cheques can be leveraged in developing a local currency travellers cheques.

Business Relationship

In the course of its current business, Bank of America Malaysia has developed good relationships with corporate customers, correspondent banks, manufacturers, dealerships, merchants and hotel chains. Given the limited branch distribution, it will be essential to leverage these relationships effectively to establish alternative delivery strategies for the retail banking business.

Bank Of America's Image In Malaysia

Bank of America Malaysia enjoys a generally positive image as a foreign bank in Malaysia and has developed a reputation for not overpromising and for being able to follow through and deliver efficiently.

Bank of America Malaysia is perceived by some as being costly but this may not be detrimental given the relatively high income of the target market and the appeal of elitism in Kuala Lumpur. Bank of America Malaysia has relatively low "top of mind" awareness from the target market at this time, having been overshadowed by Citibank's high visibility and the diversion of business by another American bank, The Chase Manhattan Bank.