



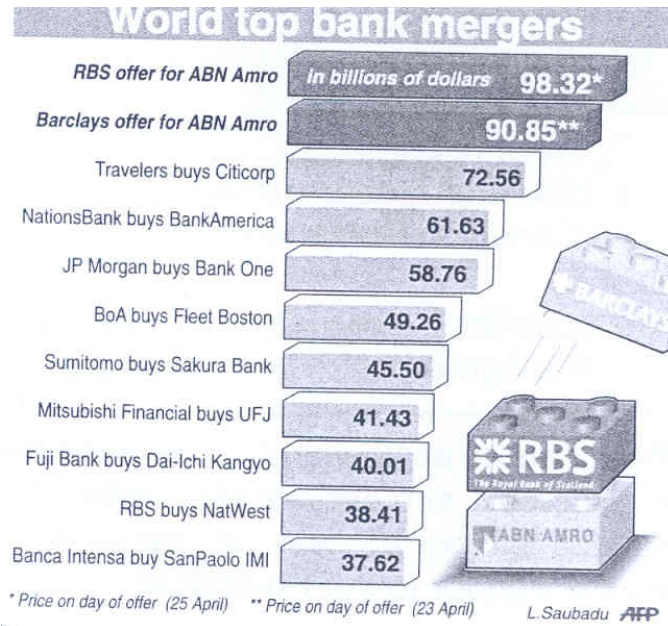
**MALAYSIAN BANK MERGERS AND CONSOLIDATION-  
TAKING A CUE FROM THE GLOBAL SITUATION**



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Source: NST Press

The international banking and financial sector continues to witness mergers and acquisitions on an increasingly grander scale, with the largest so far being the offer on the 25<sup>th</sup> of April by Royal Bank of Scotland to take over ABN Amro for US\$ 98.32 Billion. What are the reasons behind such mega-mergers, and how do they relate with the recent trend of mergers and consolidations in the banking industry of Malaysia?

John Hunkin of CIBC World Markets states that the real driver behind the desire to consolidate is globalisation, a force that is dramatically changing how companies compete and succeed. Many scale-driven industries have already grown to global proportions, including oil & gas (supermajor ExxonMobil being a prime example), mining, forest products, aircraft and pharmaceutical industries (GlaxoKline). Industries involving many consumer goods such as personal computers, cars, TVs, soft drinks, shoes and even movie production have also globalised. Indeed, as can be seen in the graph above, even the financial and banking services are also globalising. Companies in all industries are getting much bigger with greater reach than ever before- the bigger a company is, the better able it will be to deal with economic shocks and compete on a global scale.

Malaysia is similarly witnessing an unprecedented spate of mergers and acquisitions in the banking industry. These mergers and acquisitions are part of the country's Financial Sector Master Plan put into effect after the Asian Economic Crisis of 1997-98 to ensure that the nation's banking sector not only can withstand another economic/financial crisis but also be able to **compete internationally in this increasingly globalised environment.**

### **Financial Sector Master Plan (FSM)**

The Financial Sector Master Plan's objective is to serve as a catalyst to improve the competitiveness, resilience and dynamism of the financial system via best practices.

Some notable objectives are:

1. to meet the increasingly more sophisticated demands of consumers and businesses;
2. ability to adapt and adjust to the technological advances;
3. ability to face challenges from globalisation and liberalisation;
4. and ability to withstand the economic cycle, thereby contributing to overall economic growth and stability.

Under the Financial Sector Master Plan, in a bid to prepare Malaysian players for the real world, the merchant banks, stock broking companies and discount houses are encouraged to merge to create a whole new animal in the Malaysian financial services industry – investment banks, which will eventually spearhead the local capital market industry and compete in the international arena after post-liberalisation.

The plan, covering 2001 to 2010, comes in three phases:

- a) Phase one is to strengthen domestic banking institutions along with steps to create the necessary infrastructure for a more market-based consumer protection framework.

By the fourth year, domestic banking institutions are expected to be strong enough for competition.

- b) Phase two will see the playing field for incumbent foreign banks will be leveled. Some restrictions set upon incumbent foreign banks will be removed, such as allowing them to share automated teller machines (ATM) networks with local banks.

- c) Phase three begins in the seventh year (2007) when Malaysia will open up its banking industry to new foreign players in line with the World Trade Organisation (WTO) liberalisation program.

By the end of 2000, Malaysia had 31 commercial banks, of which 14 were fully foreign-owned, 19 finance companies, 12 merchant banks and seven discount houses. Currently, excluding the discount houses, the domestic banking institutions control about 75% of banking sector in terms of total assets and total deposits.

The Malaysian government has been encouraging Malaysian banks to combine to prepare for greater competition as the government opens the banking industry to overseas rivals such as Citigroup Inc. in a bid to lure investment to Southeast Asia's third-largest economy. In October of 2006, the Prime Minister said that the government wanted the banking industry to consolidate more rapidly. Malaysia has eased ownership limits on domestic investment banks and Islamic banking units of local lenders.

Recently, Bumiputra-Commerce Holdings Bhd (BCHB), Malaysia's second-largest lender dismissed rumours that it was seeking to merge with another local lender, namely RHB Group, the fourth-largest bank in Malaysia (which had only recently been taken over by the Employees Provident Fund). BCHB had kickstarted the second wave of banking consolidation in 2006 by acquiring Southern Bank Bhd for RM6.7 billion. Even so, BCHB is currently on the lookout for M&A opportunities in other Southeast Asian countries in order to help it to achieve the most valued universal bank status in the region and to enable it to take on stronger regional rivals such as DBS Group Holdings of Singapore. An example of the ASEAN expansion being undertaken by BCHB is when it acquired Indonesia's PT Bank Niaga and the broking business of GK Goh Holdings of Singapore.

Thus it can be seen that even though it would require more than just a few mergers between banks in Malaysia in order to enable them to compete head-on against the world's leading banks, the Financial Sector Master Plan has already laid out the framework to enable Malaysian financial institutions to not only survive the influx of foreign competitors from 2007 onwards, but also position themselves in order to provide better service and choice to their customers.