

# [The merger of finance companies in malaysia](https://assignbuster.com/the-merger-of-finance-companies-in-malaysia/)

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Nowadays, there are no morefinancecompanies in Malaysia. This situation occurred due to Asian financial crisis in mid year of 1997. Start with Thailand whereas Thai government has decided to float Thai Baht due to financial crisis. A few days later, the crisis spread out to Malaysia and Malaysia currency Ringgit was attacked by speculators. The Prime Minister during that time Dato’ Seri Dr. Mahathir Mohammad has claimedmoneybroker George Soros is the cause of the crisis and he taking drastic action with imposed strict capital controls and introduced RM 3. 0 equal to USD$ 1. 00.

The Asian Financial Crisis was a period of financial crisis that gripped much of Asia and raised fears of a worldwide economic meltdown due to financial collapsed. The crisis left many Malaysian banking institutions with high levels of non-performing loans (NPL) it also has given big impact to the financial institution. Debtors are failed to settle their debt because of losing job. During that time, Malaysia has too much financial institution that operates same services and function and the resources are wasted from this sector.

On 29 July 1997 the Governor of Bank Negara Malaysia (BNM) announced a merger programmed for domestic banking institutions under BNM their agencies. The merger will ensure that the domestic banking institution will be able to withstand pressures and challenges arising fromglobalizationand from an increasingly competitive globalenvironment. The rescues planned from International Monetary Fund (IMF) to effectively close the small financial institutions are totally declined. Malaysia did not believe that the IMF prescription of closing down the problem bank was the way to go, therefore do it their own way.

The policies and strategies using monetary policy, fiscal policy and restructuring of financial sector then implemented. Malaysia’s response to the crisis, part of financial sector’s restructuring involved an industry-wide bank consolidation program within which the Malaysian banking sector underwent a comprehensive merger exercise. BNM was planning to merge a certain financial institution into six anchor bank but this plan was not well accepted by the shareholders and players of the banking sector.

Due to few circumstances and after more thought was given to the plan, over a period of two years BNM finally forced the merger of 58 financial institutions comprising commercial banks, merchant banks and finance companies into 10 domestic groups. The ten anchor banks are Malayan Banking Bhd, Bumiputra-Commerce Bank Bhd, RHB Bank Bhd, Public Bank Bhd, Arab-Malaysian Bank Berhad, Hong Leong Bank Bhd, Perwira Affin Bank Berhad, Multi-Purpose Bank Berhad, Southern Bank Bhd and EON Bank Bhd. The anchor bank system was to consolidate the financial system to improve competitiveness and to reduce the number of bankruptcies in the financial system.

Furthermore, government also provides some tax credit incentive to the financial institutions that involve in merger processes. Meaning, government has put some sacrificing and risk in the national income by given some tax incentive. The merger also allows for smaller financial institution to participate in larger bank activity. One of the finance companies affected from this situation is MBf Finance (Malaysia Borneo Finance). Before the crisis, MBf Finance is the biggest finance company in Malaysia with 153 branches and has almost 10 percent of Malaysia’s population as customers.

Their credit card services are used in Taiwan, Indonesia and Philippines. MBf Finance has shown their non performing loan (NPL) because of the crisis but MBf Finance like the other finance companies has struggled as the country economic collapse has force their borrowers into default. Some analyst says that NPL of MBf Finance was not high on an industry basis but they may rise higher than those of the rest because the company has 15 percent of the market and its credit control is not at strength enough.

Meanwhile, the credit card balances of MBf Finance had not serviced for three months while housing and car debts had not serviced for three month. If MBf Finance loans provisions and writes off the dud loans, the owner and the shareholders must infuse new money but that may not be an option given. This is one of the examples in finance companies situation that made Bank Negara Malaysia announced on what they called ‘ pre-emptive action’ that designed to strengthen the troubled company’s management which is anchor companies would merge with their smaller counterpart.

Unfortunately, MBF Finance is not the anchor one that listed by BNM like Mayban Finance and Public Bank. MBf Finance had wanted to acquire a merchant bank but they could not get the approval. After that, BNM has yet grant MBf Finance and give requirement to be chosen as an anchor firm. The company satisfied the criterion for minimum shareholder fund less investment in subsidiaries of RM 300 million. But, MBf Finance apparently does not fulfilled requirement to be chosen as an anchor bank because of this five things, i) capital adequacy, ii) asset quality, iii) management efficiency, iv) earnings performance and v) liquidity position.

After that, MBF had talking to Mayban Finance but the negotiations are officially off. Mayban Finance reportedly offered a price of more than RM 1 billion but MBf Finance is said to have balked at the mode of payment which was to be cash and stocks. MBf Finance officially denied that the company is now negotiating with the Public Finance. After that, MBf Finance tie-up with Bank of Commerce (M) Berhad but it was called off on February 1999. Time is running out, the March 31 2000 is the deadline for the respective finance companies to identify and agree on their merger partner as well as to agree in principle on the terms and conditions.

The governor of BNM also stressed that prices should reflect fair value so that the acquiring company’s financial position is not weakened. BNM has since taken over the management of MBf Finance after the company’s shareholders failed to draft a feasible recapitalisation plan. MBf Finance does not seen to have given up hope that it could survive as an independent entity somehow. But the prospect is looking more and more like a long shot. A truncated empire may not be all bad to MBf group.

Three years after the crisis, the anchor bank Arab Malaysian Finance Berhad (AMFB) acquired MBf Finance on 2001. The total capital base of AMFB was RM 1. 67 billion while its capital adequacy ratio had reach 12. 91 percent. In the year of 2002, Arab Malaysian Finance Berhad merges with MBF Finance Berhad following the vesting of the assets and liabilities of AMFB into MBf Finance Berhad. MBf Finance Berhad changed its name to AmFinance Berhad while AMFB was converted into a holding company and formerly known as AmBank Group.

This situation happened again in 2008 definitely not in Malaysia but in United States of America. The merger process was between commercial and investment bank. Merill Lynch went for restructuring which later absorbed into Bank of America and on October 2008 Wachovia and Wells Fargo merged then followed with Bears and Stearns acquired by JP Morgans. The strategy are similar which is all investment bank declared bankrupt after that absorbed into commercial bank or merged with other larger bank.

Back to Malaysia, all the merger process was expected to bring about greater efficiency to domestic banking operations. During consolidation process, some analyst are questioning the purpose of the merger because they has been looked from the past that nothing much improvement are reached with this implementation. But they change their view and opinion when the good progresses appear after a few moment from the implementation although the economy are still growing slow.

In a nutshell, my opinion from what happened during the crisis moment, all banks in Malaysia failed to cover their liability i. e. the creditor asked for their investment money return because they want to leave Malaysia market as soon as possible. The creditors already know that all the assets are fully invested out with loan provided by banks. At that moment, all financial institutions are in the border of bankruptcy force Malaysia government to use national reserved to cover up the banks’ debt.

The government must given some severity of the losses and to maintain integrity of public savings and stability of the financial system. After the crisis, Malaysia had learned from the past and if this crisis going to happen again, banking industry got to super strong to face any intense possibility. So among initiatives implemented to strengthen the bank’s balance sheet is to merge the smaller banking to be the anchor and strong but government did not consolidate all because to create healthy and competitive environment in banking industry.