



Banking on the rebound

By Jean Chia

As Asia's banks pick up the pieces in the wake of the regional financial crisis, the merger of Singapore's Keppel Bank and Tat Lee Bank could be a trendsetter for changes in the industry.

The ever-more-spectacular mega-merger seems to be the instrument of choice when it comes to reshaping the financial sector in the United States and Europe. But the recently completed union of two small banks in Singapore strongly suggests that in Asia, consolidation in this industry often will evolve along very different lines.

The 1998 merger of Keppel Bank and Tat Lee Bank was a comparatively modest transaction in terms of size, but it had a level of complexity that rivaled many larger deals and a sense of urgency that made it a high-stakes transaction. Although it was an in-market merger, in many ways it foreshadowed some of the challenges of cross-border deals.

The Keppel/Tat Lee deal was Singapore's first bank merger in 20 years. As such, it was closely watched by regulators and analysts, who saw it as a test of the credibility of the authorities' ambitious efforts to



reform the sector, make local institutions more competitive and boost the country's position as a regional financial center. That it succeeded, and within a very tight deadline—the new Keppel TatLee Bank officially opened on January 4, 1999, just seven months after the onset of the merger—made many observers consider it a bellwether transaction, not only for Singapore banking but also for similar transactions as the industry rebuilds throughout the region.

Emergency

The catalyst for the merger was Asia's calamitous financial crisis, which ripped holes in bank balance sheets from Seoul to Jakarta. The fallout from lax credit controls combined with currency devaluations and high interest rates to create a mountain of nonperforming loans at the region's banks—which eventually peaked at as much as 70 percent of total lending in Indonesia, 50 percent in Thailand and 25 percent in Malaysia. Singapore did not escape

unscathed: Last year, the country's five largest banks set aside a record \$1.88 billion in bad loan provisions, an increase of nearly 80 percent over 1997 levels. Net earnings for the five, which had fallen by 30 percent in 1997, slid again in 1998—by almost one-third.

The crisis coincided with efforts already begun by Singapore's Financial Sector Review Group, which had been charged by the Monetary Authority of Singapore to recommend how to intensify the repositioning of the financial services sector and the upgrading of the local industry to meet international standards. The emergency underscored the need for reform, demonstrating the vulnerability of domestic banks to regional and global problems. The convergence of crisis and reform sent a very clear message: The inevitable growth of foreign competition on their home turf meant that Singapore banks had to become viable regional players. To have the scale to compete effectively

both at home and overseas, some banks would have to merge.

Keppel and Tat Lee—distant Nos. 5 and 6 respectively among Singapore's banks—were logical candidates for such a union. Keppel (\$7.7 billion in assets) was only one-fifth the size of No. 1 DBS Bank; Tat Lee was even smaller (\$6 billion). A merger would narrow dramatically the gap that had separated the two banks from Singapore's Big Four; it would also give the new entity the balance sheet clout and the range of services necessary to meet the new competitive realities.

It didn't hurt matters that one of the principals in the merger, Keppel Bank CEO Benedict Kwek, was something of a veteran of such deals. In 1991, he had been hired by Keppel Corp., a government-linked diversified holding company, to oversee the integration of recently acquired Asia Commercial Bank—like Tat Lee, a small, family-owned institution—into the conglomerate (Asia Commercial

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Bank was rechristened Keppel Bank). The Keppel group had already begun to refocus on core businesses, including financial services.

For Kwek, the larger strategic imperatives of a merger were obvious. “You need size to be a major player,” he notes, and a merger would accomplish this much more quickly than organic growth. “Going into the region will be important because Singapore is a small market,” he adds. “With liberalization, the field will be crowded and competitive.” The financial crisis simply made the size argument more compelling: “It was easier for a bigger organization to take the knocks.”

Equally important, the two institutions had a good, complementary franchise fit. High-tech Keppel, a local pioneer in telephone and Internet banking, combined an upscale retail clientele of business professionals with corporate customers from among Singapore’s government blue-chip companies. Tat Lee catered to the island’s thriving small- and medium-sized entrepreneurial enterprises through a traditional branch network. Despite the competition, both retail and commercial banking will remain attractive markets in Singapore in light of the regional slowdown. Each bank also had a presence outside the country—Keppel in Hong Kong, India, Malaysia, Thailand and the Philippines, Tat Lee in Indonesia and Hong Kong—from which to expand the new institution’s regional presence.

High stakes

Not that it was going to be easy. Bank mergers were very rare in Singapore, so there was little in the way of precedent to go by. Given the high priority authorities had put on bank reform, the Keppel/Tat Lee operation would effectively become the model for future deals in the sector. At once

a high-stakes and high-visibility operation, it had to be done right.

And quickly: “Many bank mergers around the world fail because they just take too long,” points out Choong Tuck Oon, the partner who led a 30-person Accenture team that worked on the Keppel/Tat Lee project (which also involved more than 250 bank personnel). A long, drawn-out integration of the two banks, particularly against a background of financial uncertainty, could undermine confidence in the new institution and the government’s reform initiative. To avoid this, the parties gave themselves seven months to complete the integration (most global bank merger integrations take between 18 and 24 months).

Those complementary attributes that made the banks such a good fit also contained differences that were not so easy to reconcile. “We were dealing with two different operating philosophies, decision-making approaches and management styles,” recalls Choong. One bank was part of a conglomerate and was run by professional managers; the other had an owner-operator management model.

“We fielded an entirely Asian team,” continues Choong, “which took pains to better understand the culture and decision-making processes of each organization and work in collaboration with management to shape and initiate people-integration and team-building programs.” It was critical to ensure that none of the franchise value that each bank brought to the merger—Tat Lee’s entrepreneurs, for example—was lost. “So although the target operating model was defined for the merged Keppel TatLee Bank, it was vital to retain some of the customer-facing and relationship management aspects of the ‘old’ institutions.”

Even something as simple as language had to be carefully taken into account. Keppel customers were mostly Western-educated English speakers, while Tat Lee's largely Chinese-educated clientele tended to communicate in Mandarin. Clearly, the merged bank's relationship officers had to be selected with this in mind.

Given everything that was riding on the merger, communication was vital. "We needed to be as transparent as possible about our goals," says Kwek, "and explain the rationale for the merger." The Accenture team worked directly with top management to craft the merger message and identify the best method of communication. Special emphasis was placed on getting line managers and branch managers to become change champions. "We were highly impressed with the focus, teamwork and leadership of the bank's management team," notes Choong.

Integration work also meant making tough calls on costs, product and policy alignment, operational and staffing overlap, technical architecture and systems alignment—the challenge for systems alone meant tying together 4 core platforms, 30 application systems and 6,000 computer programs. When the dust settled, the new bank had shed 10 branches and 300 jobs. The cost/income ratio of the merged bank fell from the mid-40s pre-merger to the mid-30s (compared with ratios in the 50s at most American and other global banks). The total recurring annual savings from both consolidation and revenue generation is projected to be \$30 million.

Customer retention was key. A merger-specific customer-retention program helped keep attrition during the transition to less than 6 percent; global bench-

marks range from 15 to 30 percent during mergers.

Keppel TatLee Bank still faces a number of challenges. Nonperforming loans hit 12.5 percent of total lending last year; net profit fell 28 percent as the bank set aside almost \$62 million for bad debts (this in addition to \$290 million in provisions made to Tat Lee Bank's balance sheet before the merger, largely to cover exposure in Indonesia).

Unfazed, Keppel Corp. has set an aggressive return-on-equity target of 12 percent in three to five years for its flagship bank (the local industry average today is less than 10 percent). Overseas, the bank is considering an expanded presence in Hong Kong and mainland China, and is reportedly shopping for a bank in Thailand. Meanwhile, the Keppel group has said it intends eventually to consolidate its regional financial holdings under the Keppel TatLee brand.

Emboldened by a successful merger, Keppel TatLee Bank is clearly positioning itself for Southeast Asia's rebound. ■

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