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IN LOVE WITH BANKS

Daim Goes Global

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Daim And His Banks



After several aborted plans to own banks in Malaysia, former finance minister Tun Daim Zainuddin gets a promising banking network in place with his Swiss-based ICB Group.

Stories by Halim Wahab

THE International Commercial Bank Group (ICB) is as much a mystery as the man behind it.

It carries his traits and pursues his ambitions, but little is known about the group except that it is closely linked to former two-time finance minister Tun Daim Zainuddin.

Despite lacking the size of top players, the achievements of the Swiss-based banking group have been quite impressive in their own way, with total assets growing at an average of 60% per year.

It traces its history to the opening of its first bank in the Czech Republic in 1993. Anchored by this, a decade later the group spread its wings to eight countries spanning cities like Prague and Budapest in Eastern Europe and

Conakry and Accra in Africa.

Yet, ICB's network of banks in these emerging markets did not attract media attention until late last year, when it teamed up with Singapore's Temasek Holdings in a Sorak Financial Holdings Pte Ltd consortium to acquire Indonesian bank PT Bank Internasional Indonesia.

The partnership has put the spotlight on both ICB and Daim, whose foray into Indonesia includes a controlling stake of 57.9% in another Indonesian bank, PT Bank Bumiputera Indonesia.

It appears that while Daim has gone low profile since his resignation as finance minister in 2001, conversely ICB has been building its reputation as a credible global player, teaming up with major foreign partners to expand into the Southeast Asian region.



IC Bank

IC Bank R.

ICB's Westend branch in Budapest



Daim addressing an ICB Group CEO conference in Kuala Lumpur

As former Prime Minister Tun Mahathir Mohamad's chief economic troubleshooter, Daim was credited with pulling Malaysia out of the recession in the mid-80s, then by slashing public debts and relaxing investment rules, and again in the late 1990s.

Being the entrepreneur that he is, is there more than meets the eye with ICB expanding its banking empire closer to home?

Stamping its mark

Daim's close associates describe him as a person 'who is in love with banks'. But, as the man operates his ventures very much like his nature, privately, there is scant information on the past performance of the banking group. Nonetheless, this is set to change soon.

In a rare insight into ICB's operations, *Malaysian Business* reveals for the first time why Daim picked Eastern Europe and Africa as the launching pad for his international banking business. We also provide a glimpse of the group's growth

prospects, future direction and plans.

Since Daim declined to be interviewed, we spoke to the general manager of ICB Global Management Sdn Bhd, Harith Harun, who oversees ICB's global network from Kuala Lumpur. (See excerpts of interview on page 31)

global banking group and be identified as a key player in emerging markets.

Going by the extensive network that Daim has built up in the past 10 years, it looks like it's just a matter of time for this plan to reach fruition. In any case, with stakes in two banks in Indonesia and a total

It has to be noted that the loan growth was funded entirely by customers' deposits. Hence, the substantial increase in deposits indicates that the public has confidence in us.

'ICB will continue to expand in markets where it sees ample opportunities for growth. We are fairly strong in Africa, in six countries now, and we plan to open in several more countries in the next few years,' Harith says.

Consequently, in the next five years, ICB aims to consolidate its operations worldwide into a successful and respected

of 24 branches in Hungary, Albania, the Czech Republic, Ghana, Guinea, Tanzania, Mozambique and Sierra Leone, ICB already earns recognition as the first Malaysian-owned global bank.

Harith declines to provide profit and asset figures, but says the return on equity (ROE) of the respective banks has ranged from 5% to 20% on average over the past

three years. Likewise, growth in assets, revenue and income has been within expectations, with total assets growing at an average rate of 60% a year.

'It has to be noted that the loan growth was funded entirely by customers' deposits. Hence, the substantial increase in deposits indicates that the public has confidence in us,' he says.

Interestingly, while the investment holding company of the banking group, ICB Financial Group Holdings Ltd, is located in Zurich, Switzerland, the hub and nerve centre of its sprawling network is in Kuala Lumpur, where ICB Global Management is located.

For the group, this is about logistics and strategy. Harith says the company was set up in 2001 to provide technical support and consultancy services to the banks under the group. It acts as liaison between the management of the banks, its shareholders and directors and conducts feasibility studies, manages the establishment of new banks and seeks new business opportunities for the group. The company has 10 employees.

A year ago, following the steady expansion of his international banking network, Daim set up ICB Financial Group as an investment holding



Harith: ICB will continue to expand in markets where it sees ample opportunities for growth

company to rationalise his investments in the respective banks. According to Harith, Daim wholly owns ICB Financial Group.

'Daim is principle shareholder of these banks. In some countries, the law sets a certain limit on the maximum shareholding by a single shareholder and

in such instances, other Malaysian shareholders have taken up stakes in the bank,' he says.

A check reveals the presence of several Malaysian shareholders in some of these banks. For example, IC Banka in the Czech Republic, in its FY2003 annual report, lists Daim's long-time associate Robert Tan Hua Choon, or the Casio King, as a shareholder together with former Czech Prime Minister Dr Marian Calfa.

The 'interrupted' banker

For the record, before ICB came into the picture, the 66-year-old Daim had already owned stakes in two banks, albeit briefly as he had to dispose of them when he was made finance minister.

Perceived as an influential player due to his close ties with top party officials and businessmen, Daim took control of Malaysian French Bank in 1982 when it was incorporated to take over Banque Indosuez, a privately owned French bank in Malaysia.

The French Government had then nationalised all French banks, but as Malaysian laws did not allow banks owned by foreign governments to operate in the country, Daim bought it from its owners. He later sold the bank to Multi-Purpose Holdings Bhd in 1984.

The other bank was United Malayan Banking Corporation (UMBC), then Malaysia's third largest bank, which Daim acquired the same year. However, his appointment as finance minister soon after gave rise to allegations of conflict of interest. He subsequently sold his UMBC stake.

But Daim's association with local banks did not end there. In 1997, he was linked to the acquisition of a controlling stake in Hock Hua Bank (Sabah) by Langkah Bahagia Sdn Bhd. One of Langkah Bahagia's shareholders, Mohd Nasir Ali, had then publicly declared that he was acting on behalf of Daim, who was at that time Economic Adviser to the Government. Daim later sold the stake when he was appointed finance minister in 1999 for the second time.

Despite Daim's assertion that he was no longer linked with Langkah Bahagia, the market still sees his fingerprint on the company. In the years that followed, Hock



The interior of the bank in Prague

Hua Bank, which became International Bank Malaysia, merged with Multi-Purpose Bank that was later renamed Alliance Bank Malaysia.

Langkah Bahagia has since sold its 15.37% stake in the bank's holding company, Malaysian Plantations, to Temasek. Interestingly, the Singapore investment company had teamed up with ICB in a consortium that acquired PT Bank Indonesia in November last year.

Why Eastern Europe and Africa?

As Daim had little success in owning a Malaysian bank in the past two decades because of the interruption by calls to serve the country, his involvement in ICB may be a natural progression.

A close associate offers an explanation for Daim's decision to focus on the Eastern European and African markets. 'Daim is shy and he doesn't like crowded places. So, Eastern Europe and Africa are natural destinations as hardly anybody knows him there,' he notes.

Still, they are not exactly traditional financial centres where Malaysian banks are willing to tread. A case in point is that one of the biggest banks in the country has branches in Cambodia, Vietnam and Papua New Guinea, to name a few, but not in Eastern Europe or Africa. Unless properly managed, retail banking is a high-risk leverage business and this is true in Malaysia or anywhere else.

An industry observer says although it usually takes one to



The ICB Makola branch in Ghana

customer profile, make-up of business and economic growth.

'Local banks generally do not blaze the trail, but tend to follow the client to provide support to their existing customers who have expanded overseas. It is tough especially if it is a single-bank operation,' he says.

Thus, he contends that despite ICB's modest

than to acquire them. For this reason, Harith says, ICB is able to exercise control over the cost, recruitment of staff and policy and direction of the banks. It also does not inherit the work culture or bad-loan portfolios.

He underscores ICB's optimism



t w o years for a new branch to break-even in Malaysia, the gestation period differs from country to country based on the

size, the banking group should be commended for being able to build up its business over the years.

Aptly, the group's model in these countries has been to set up banks rather

in these markets, which he feels provide relatively greater opportunities for growth in the long term.

'Of course there are risks operating in these new, non-traditional markets. But we are selective in terms of the countries in which to invest. Based on the performance of the banks in the ICB

Group, we can say that we have made the right choice,' he observes.

From a different perspective, Harith points to one of ICB's primary objectives, which is to help promote the development of bilateral trade and investment between Malaysia and the host countries.

'In this instance, we have assisted some of our customers in Africa and Central Europe to find new suppliers as well as buyers in Malaysia. Their Malaysian counterparts feel more comfortable knowing they are dealing with a Malaysian-owned bank in these countries,' he says.

In April 1997, Daim led a private visit of Malaysian businessmen to nine countries across Africa in an effort to enhance bilateral and trade relations as well as to seek investment opportunities. Guests included close friends and the London-based *New Straits Times* correspondent. There were many follow-up visits by Daim since.

Inadvertently, those visits have given rise to the perception that Daim had used his influence to meet with the leaders of these countries to set up businesses there.

between their countries and Malaysia.

'ICB is an example to other Malaysians who may want to consider investing in Ghana. Many think Ghana is a backward country but it is not,' says an embassy official in Kuala Lumpur.

He feels Daim's investments in Ghana, including those in social development projects that benefit both parties, reflect his support of the country and Africa in general. 'People consult him if they want to go to Ghana,' he says.

It is the same in Albania. An official from the embassy says it is important for a Malaysian-owned bank like ICB to be in Tirana as it acts as a platform to enhance trade and investment between the two countries.

Bracing for competition

ICB set up its first two banks in Prague and Budapest respectively in 1993, at a time when both the Czech Republic and Hungary were emerging from the shadows of the communist empire and were opening up their economies to foreign investors.

anticipation of the country's entry into the European Union (EU) in May 2004.

It acquired several branches of a savings cooperative to expand the branch network and customer base, replaced the old IT system with an integrated on-line system, hired a new and skilled workforce and introduced new products such as bankcards and Internet banking.

Although the larger than usual expenditure had contributed to a loss in FY2002, the bank's performance has improved markedly since then, with total assets increasing by 100%. The bank is expected to return to the black this year.

The respective banks under the group have generally performed to expectations. A few have achieved recognition for their excellent performance. ICB Guinea, for instance, has won *The Banker* magazine's annual award for 'Bank of the Year in Guinea 2004', while the bank in Ghana is a member of the 'Ghana Club 100', which gives recognition to



banker downplays such talk.

'There is no need to use influence to set up banks in these countries. There is no conflict of interest as anyone can open a bank in those countries,' he says.

Generally, ICB's ventures in the emerging markets are seen in a positive light by the host countries. Foreign embassy officials from countries where ICB operates not only praise the group, but also say ICB helps boost bilateral trade

Likewise, the group expanded to Africa in 1996 when the Hungarian Government was actively encouraging local companies and businessmen to invest there.

As such, according to Harith, ICB has acquired a fairly good knowledge of the local business conditions and practices, having invested substantially in people and systems.

In Hungary, the group made some strategic changes in the bank to prepare for the continuing consolidation and rising competition in the banking industry in

Meeting the leaders

Daim with:

- 1 President Thabo Mbeki of South Africa;
- 2 President Benjamin Mkapa of Tanzania;
- 3 President John Kufuor of Ghana;
- 4 President Ahmad Tejan Kabbah of Sierra Leone;
- 5 President Lansana Conte of Guinea;
- 6 President Yahya Jammeh of The Gambia;
- 7 President Abdoulaye Wade of Senegal; and
- 8 Prime Minister Ahmed Mohamed Ag Hamani of Mali.

successful organisations based on growth and profitability.

Still, there are challenges looming over the horizon, particularly in the Eastern European market.

'The entry of Hungary and the Czech Republic into the EU has to a certain extent changed the banking landscape. Large multi-national banks are squeezing out the smaller ones to the periphery. To survive, we have to be an efficient and innovative niche player,' says Harith. But, he contends that ICB has anticipated these changes and has already put in place strategies to face the challenges.

In view of the changing trends, Africa will be the thrust of ICB's expansion drive. The group will be operating in two more countries in the continent soon, in Sierra Leone this month and The Gambia in November. It also expects to receive licences to operate in three other countries in Africa later this year.

Harith says based on the performance in recent years, growth will be more significant from the African operations, which, it is understood, offers a lot more scope and better margins.

Today, at group level, ICB employs over 1,100 people in 10 countries. However, for Eastern Europe and Africa, due to the lack of experienced personnel, ICB still relies on Malaysians to manage the banks. Hungary and the Czech Republic are exceptions, as operations there have reached a level where local managers are now capable of taking over.

The future

It looks like while Daim prefers to remain low key, ICB may take a higher profile in the near future following its partnership with Temasek, and its foray into Indonesia.

Incidentally, Temasek is now seen as a serious investor in the country following the warmer relations between Malaysia and Singapore. Temasek noted recently it would co-invest with companies that are interested to invest internationally, away from their home bases.

This has heightened speculation that there is a good chance of ICB teaming up with Temasek again, or any other foreign players for that matter, as the former is



The ornate architecture of the ICB in Prague

already seen as a reputable and credible player given its extensive network and international relationships.

'Indonesia will not be ICB's last stop. There is more to come,' says an observer.

Perhaps, his remarks will ring true sooner than expected as the banking group is already eyeing new opportunities.

'Indonesia is our first investment in Southeast Asia. However, we are not limiting our expansion to the region but

are also looking for opportunities in other parts of Asia,' Harith says.

Analysts feel ICB would do well to look at China, Asia's fastest growing economy.

This notwithstanding, Daim seems to be having better luck with ICB so far, having maintained a tight grip on the group for the past 10 years. It will be interesting to see if he will continue to do so over the long haul, in view of the big plans that have been laid out for the group. **mb**