



UNIVERSITI PUTRA MALAYSIA

**AN AGGRESSIVE STRATEGY
FOR ASIA COMMERCIAL FINANCE (M) BHD**

KUMAR A/L P/MUTTU

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AN AGGRESSIVE STRATEGY FOR ASIA COMMERCIAL FINANCE (M) BHD

BY

KUMAR A/L P/MUTTU

GSO 1405

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EXECUTIVE SUMMARY

Asia Commercial Finance (M) Berhad (ACF) has been in business for more than 30 years and it offers wide range of financial products. Over the years the company has shown a steady growth in its business, although need to compete with 39 other finance companies in Malaysia.

The prospect of ACF as finance company is encouraging due to :

- i) The need for financial assistance by productive sectors in the country.
- ii) The hire purchase facility still remains as important factor in automobile industry
- iii) Increased in South East Asia's trading activities.

Recently , Bank Negara Malaysia (BNM) imposed 8% credit growth For all financial institutions in Malaysia by end of 1999. The performance of ACF is diminishing instead of improving. The branch managers were forced to market the company's financial products aggressively. But, the branches are unable to capture more market share due to aggressive strategies of it's competitors.

The management of ACF need to adopt prudent practice in approving loans, thus not resulting in poor credit decisions. The asset quality of ACF is deteriorating, therefore the company enhanced the lending activities. On the other hand the rigidity of the management becomes the barrier for lending expansion.

In order for the company to improve its asset quality and capture more market share, the most appropriate strategy is to merge with other financial institutions and subsequently to improve the company's asset quality. The company also will able to compete with foreign financial institutions when government liberalize the sector.

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CASE TEXT

1.0. Branches Performance Meeting

The General Manager (GM), Mr. Tee and the Branch Managers of Asia Commercial Finance (M) Berhad (ACF), were reviewing strategies and policies, with special emphasis on all aspects of marketing. The GM commented “As you are fully aware, Bank Negara Malaysia (BNM) requires all Financial Institutions (FI) to achieve a minimum loan growth of at least 8.0% by end of 1998. BNM will closely monitor the progress of each FI in complying with this requirement”. Performance of ACF in this respect is dismal. Instead of recording positive growth the loan base of decreased by 6.3% to RM2,481,965 as at 30th June 1999 compared with RM2,481,663 on December 31,1998. If this persists the performance of ACF by year end would be poor what with the increasing percentage of Non-Performing Loans and the diminishing loan base, added the GM. The most remarkable achievement for the GM is to improve the asset quality of ACF and prevent from BNM’s intervention. “How could ACF improve its asset quality?” This is the question lingering in the mind of the GM.

2.0. Company Background

Asia Commercial Finance (M) Sdn Bhd was incorporated on February 24, 1966 and converted to a public company under the present name Asia Commercial Finance



(M) Berhad on December 23, 1966. The initial authorised and paid-up capital of the company were RM10,000.00 and RM500,000 respectively.

According to the company's General Manager, Mr. Tee, ACF was primarily involved in carrying on business of licensed finance company. ACF is one of the most established finance companies in Malaysia, having been in business for more than 30 years. It offered a wide range of financial products and services. However, hire purchase financing contributes more than 60% of its business base. Meanwhile, housing and fixed loans contributes about 22%, its money market activities contributes 15% and other services contributes 7%. The general manager also explained that, ACF has shown a steady growth in business operations despite having to compete with the 39 other finance companies in Malaysia, of which 24 were banking-group owned. ACF also competes with other commercial and merchant bankers especially in the area of corporate and business financing and housing loans.

Over the years, ACF has improved its processes and developed internal guidelines to mitigate in the industry able to multiply its branch network to total 56 branches throughout Malaysia, added the General Manager. It has been also to establish an enviable position in the industry of being market seventh among all the licensed finance companies in Malaysia in term of asset, loans, and profit before tax and eight in term of total deposits. (refer to appendix 1).

Despite the deliberate moderation in loans growth in the year 1998 in response to the call by authorities, the company registered an increase in loan base of 32.7% for the year. The growth of the deposit base was 17.3% for 1998 due to tight liquidity situation in the last quarter. The finance company capitalized on its established network of favourably located branches to expand its business base, servicing an enlarged clientele. Overall, vibrant growth of loans was charted with conscious efforts directed at maintaining credit quality, added the GM.

According to Mr. Tee, for the year 1999, the company focused its lending efforts on the productives, sector with priority attention placed on manufacturing activities, especially the export based sector, small and medium sized enterprises as well as the development and end-financing of low and medium cost houses. Acceleration of the rate of growth of deposits base was recognized and focused in the year 1999. The drive was backed by an enhanced level of service provided to customers with the completion of the migration to a multi-site on-line computer system linking all branches in support of the finance company's operation.

3.0. Credit Policy Of Asia Commercial Finance (M) Bhd

The Senior Credit Manager, Mr. Lee explained that, ACF is committed to a growth pattern that is moderate in terms of the industry's standards. The management do not seek to take unnecessary or unusual financial risks, nor do the management of ACF

wish to promote growth beyond the company's ability and resources. The company's position in terms of market share for the year 1997 was ranked as follows.

Activity	Market Share
Loans	4.7%
Deposits	4.0%

Mr. Chuah also indicated, the company is dedicated to a pattern of solid, steady growth, and to a company policy that incorporates the highest standards of personal and business integrity and ethics in our relationship with fellow employees, all segments of the general public and the customers. It is the company's commitment to provide financial products of the highest quality for the targeted level and to act responsibly and positively in our relationship with other members of the industry. It is the organization's goal to make the company a positive factor in how the customers perceive the local financial organization. The organization will be in business for the long term and expect this attitude to provide and motivate employee's interactions with each other and with the public, and in every decision-making and production area of the company.

According to Mr. Chuah, the following guidelines have been adopted for loans approvals:-

- a. Credit terms should not be offered to accounts that do not meet criteria for low risk.
- b. Account evaluation procedures shall be geared to an annual bad-debt loss (percentage of loans and funds) that is not in excess of the average for the industry.
- c. Credit approvals on decisions are subject to various level discretionary powers. Basically all approving authority were centralized at Head Office to ensure the adoption of more prudent practices. (refer to exhibit 1 & 2)

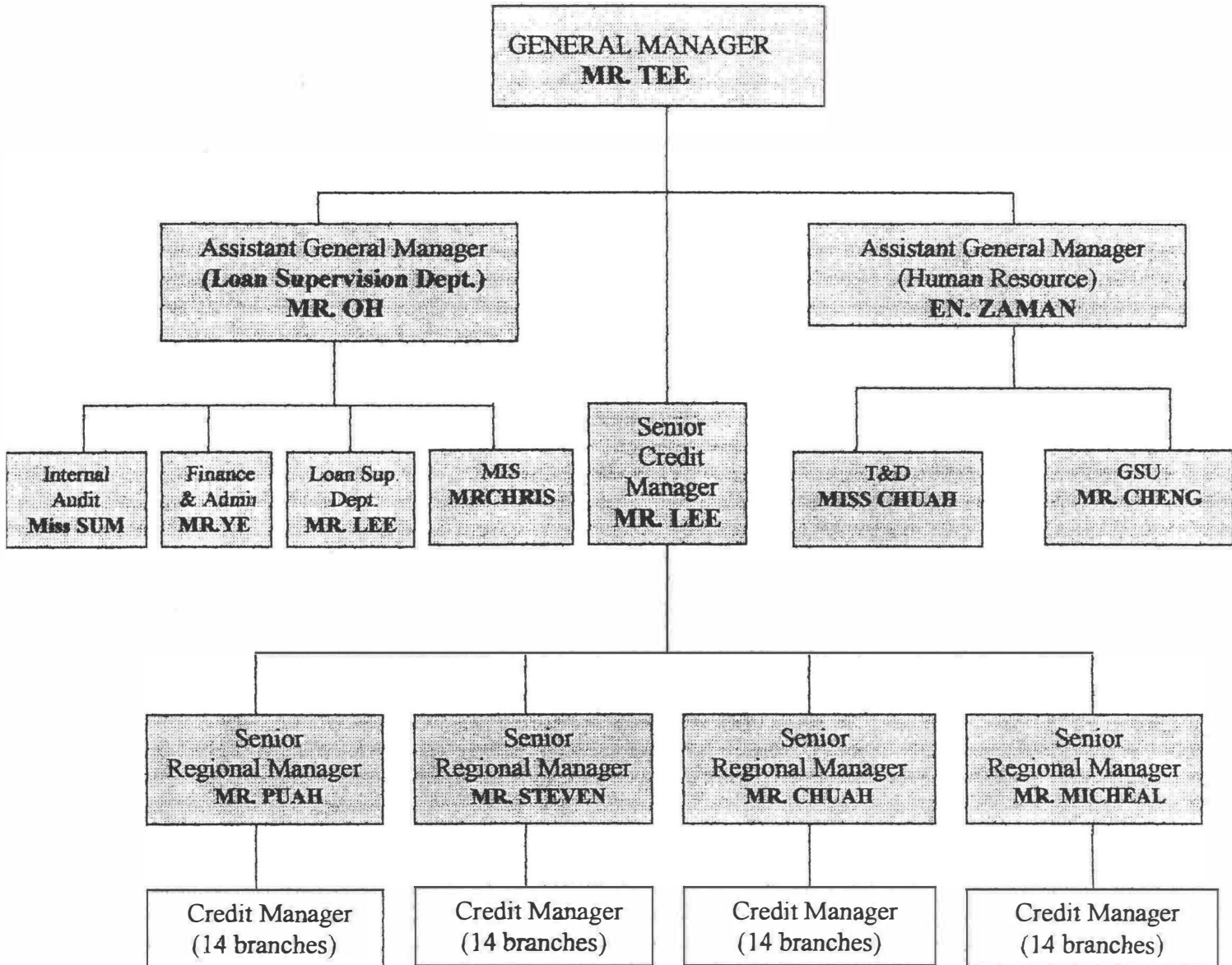
Approving Authority level (Loans approving limit)

Loans Committee	-	more than RM750,000.00
General Manager	-	less than RM750,000.00
Senior Credit Manager	-	less than RM300,000.00
Regional Manager	-	less than RM200,000.00



ASIA COMMERCIAL FINANCE (M) BHD'S

ORGANIZATION STRUCTURE



4.0. YEAR 2000 COMPLIANCE / INFORMATION TECHNOLOGY

According to the AGM, Mr. Oh, since 1997, the company had taken active steps towards addressing the year 2000 (Y2K) Readiness Issue. The relevant systems, information technology related on otherwise had reviewed and assessed. The company was already well advanced in its schedule of action plans to upgrade, renovate and replace its equipment and operating software wherever deemed necessary. The management has also taken the initiative to notify, the management has also taken the initiative to notify the customers and other business counterparties of the Y2K issue, including assessment of their readiness and related risks.

The company also recognized the importance of geographical coverage of branches and information technology in order to have a competitive advantage. The company utilized RM8 million on the online computerization and RM3.85 million on operating of new branches at strategic locations. The company had embarked on a vigorous product development and product enhancement programme. Several new products were introduced to gain competitive advantage.

ACF also had increase it's Automated Teller Machines (ATM) networks tremendously and located the machines strategically. The intergration of the Malaysian Electronic Payment System (MEPS) with GREAT network has significantly improved automated teller services for the customers, added the AGM.



5.0. HUMAN RESOURCE AND TRAINING

The Human Resource Senior Manager explained, staff training corporate goals. The amount expended on the company's staff training programme has exceeded the minimum requirement of 2.5% of total staff salaries set by Bank Negara Malaysia.

In The year, a total 123 in-house training courses were organized. With the emergence of a technically more demanding operating environment, ACF increased its emphasis on technical-related training programmes. ACF also has long recognized the contributions of its human resources. Through the years, investment in Human Resources Development is seen as intergral to the realization of its long-term business plans and corporate goals, added En. Zaman.

6.0. CORPORATE SPONSORSHIP

The current situation under review saw a continuous and conscientious effort on the part of the company to fulfil its role as a caring corporate citizen. The finance company's commitment in which it operates was evidenced by its active participation in several sponsorship programs and the support lent to various charities.

“Recently the company responded the plight of the JE victims and their family. ACF contributed RM50,000.00 for the JE funds. Despite the economic downturn we are facing, it is gratifying to note that the company’s progresses towards the realization of its corporate ambitions, it will continue to extend its hand to improve the quality of life for Malaysians”, The Human Resource Manager described.

7.0. RISK MANAGEMENT

The Company’s Management policy covers all aspects of risks in various areas which embraces credit, market, liquidity, portfolio concentration, operational, business and treasury activities. With growing awareness of its importance, a Risk Management Unit has been set up to continually reassess., monitor and take proactive strategies to mitigate the respective risks. The unit is independent of the business units and equipped with prudent internal controls and risk management systems to develop the right approach to risks identified, the GM explained.

8.0.Competition

During the meeting the Kajang Branch Manager, Encik Effendi commented, “over the years, the Kajang branch ACF has shown a steady growth in its business operations despite having to compete with 12 other finance companies and 16 banks in Kajang town” (Refer to appendix 2). Even-though ACF Kajang is not bank-backed, it has established itself amongst the top five finance in Kajang by the provision of competitives rates and quality products and service. ACF’s core business is hire purchase financing, therefor it’s main competition is other finance companies despite the banks. In Kajang ACF faced stiff competition BHD (AMFB) and Credit Corporation Malaysia (CCM) and generally form all banks its property loans. Currently BHL is well-known for its aggressiveness. Besides that the branch also facing competition from credit companies, whereby the credit company owned used cars and finance assistance provided by them selves, added the Branch Manager.

8.1. Arab Malaysian Finance Bhd (AMFB)

AMFB is well-known for the aggressive in marketing hire purchase financing AMFB also provide the disbursement before transfer facility (DBT) where the finance company will release the loan to the car dealer before register the new owner’s name. In addition to that the company also offers higher margins of financing for passenger

cars with attractive interest rates which appeal to the buyers. In terms of Information Technology, AMFB provides Personal Computers to selected dealer to enable them to print the hire purchase agreement instantly. What enables AMFB to capture more and more market share is their decentralized loan approval system. The authority for approving passenger car loans was granted to the branch manager, unlike many other finance companies which still practice centralized approval. The AMFB branch manager would visit the car dealers and grant instant approval for those applicants who are qualified for the loans.

8.2. Credit Corporation Of Malaysia (CCM)

One of the Branch Manager commented “merely servicing their 3 sister companies which are USPD, EON and ACM is sufficeint to attain their monthly budget and they are not so keen in being involved in the used car loans business”. CCM procedures state that the hire purchase loans submitted by any the sister companies must be approved or rejected is within 24 hours without much bureaucratic red-tape. CCM also provides incentives for the new car salesman who recommend hire purchase financing to them. e.g. overseas trip for the top salesman. What enchanced CCM’s growth in the hire purchase financing is the approving authority is given to the branch manager and there is a mutual understanding between CCM and EON, USPD and ACM that the finance company will be more flexible for granting loans for purchasing the cars from these companies.

8.3. BHL Bank

BHL Bank is the most efficient competitor in marketing their housing loan products. BHL bank ties-up with developers to end finance the major projects in town. They set-up booths at the sales office and practice instant approval for housing loans. According to the branch manager “upon paying the 10% we immediately pre-approve the purchase housing loans subject to submitting the income documents later. This we ensure the purchase are committed with our housing loans products”. The bank will immediately issue the letter of offer to the qualified borrowers while indicating that it is subject to the submission of the relevant income documents later. This “one-stop concept” makes it more convenient for the borrowers and save them a lot of time. In addition to this, due to its strong financial rates which are impossible for a finance company like ACF to match.

It is also common for the banks such as BHL to offer overdraft (OD) facilities for their borrowers. For the borrowers who engaged with the OD facility is not required to give these months notice to settle the loan and the repayment as much they as long does not exceed the OD facility.

9.0. Dilemma On Marketing

Encik Effendi commented that flexibility and decentralized approval approach makes other competitors able to capture more market share. He also believes that the

increase in the non-performing loans had diverted his concentration from the marketing of ACF's financial product to the recovery of loans. Besides that, decentralization to reporting system making him to spend more time in the office for verification purposes.

The current practice of loans approvals coming from Head Office which has a lot of bureaucratic red-tape and the reluctance to make quick decisions had demoralized the marketing team (refer to exhibit 1&2). In addition, the car dealers have not keen in supporting the branch because they perceive the management at the Head Office as having been too rigid and too highly prudent in approving car hire purchase loans.

The developers in Kajang feel more comfortable in passing loans to instantly-approving financiers. Bankers such as BHL, Multi Purpose bank and MBB practice granting instant approvals at the developers sales office. This has been the main obstacle for Encik Effendi and his marketing team in penetrating the property market.

The marketing officer of ACF Kajang, in certain circumstances feels enraged when he has been able to "capture" a case with a margin of financing agreed by him according to the company's guidelines turned down or reduced the loan amount by the centralized approving authorities. These loans would have been approved by the competitor as requested moreover in certain occasions head office approved loans at higher interest rates than what was recommended by ACF Kajang. As a result of,

Encik Effendi and his marketing officer faced a tough time in convincing the customers on the justifications behind the higher rate.

The branch's business seems to deteriorate due to the rigidity of the management. There have been cases where applications for loans were withdrawn by the applicants because the head office wanted guarantors although the applicant is qualified and has a good repayment track record. The reason given was that the loans are not for new cars (i.e. manufactured in 1996 and later).

10.0. Dilemma on Recovery

As shown in exhibit 3, Encik Effendi also commented he was unable to make may quick decision for the recovery department. Delayed decision-making on proposals to restructure the loans resulted in further deterioration in the Non-Performing loan rate. Most of the proposals will be unsuccessful due to the management's rigid practices. There are cases where the management required proof of high regular income before even considering the restructuring of the loans, but the hirer's business has slowed down considerably and he was unable to prove such income documents although the proposal is financially sound and reasonable and ACF would be wise to consider.

Encik Effendi also faced barriers in fulfilling his recovery task efficiently. According to him the red-tape bureaucracy, has made him unable to make quick decisions on the

repossessions of vehicle. “My repossession fees limit is only RM500.00 and in occasions where the repossessors demand for more than RM500.00, I need to obtain the approval from the head office and it takes an average of 2 days to get answer. By the time the branche receives the approval, the repossessors would no longer be able to trace the vehicle”, said Encik Effendi.

For some housing loan customers, they through a nightmare when the finance company arbitrarily increased the interest rates when they defaulted. The borrowers defaulted on their monthly installments because of their tight cash situation during the economy downturn period. When the finance companies increase their monthly installements by increasing the interest rate, this leads to higher deterioration in the Non-Performing loans.

11.0. Past Actions:

According to the branch manager, the drastic actions which were taken during the critical period of last quarter of 1997 reflects the company’s image. In complying with BNM’s guidelines, the company had taken several steps which do not augur well for the automobile industry. The actions taken in this direction were:-

- a. Termination of facilities where availability period or where validity period of letters of undertaking had expired.

- b. Reduction of approval limits where situation permits.
- c. Increase of interest for approved loans where validity period of letters of undertaking is not expired.
- d. Delayed in releasing the cheques to the dealers.
- e. Accept loans from selected car dealers only.

The company's implementation of BNM's prudential guidelines had created an unfavourable image among the car dealers in Kajang. "Due to the previous actions taken by the management, we are facing a tough time in penetrating hire purchase industry in town" added the branch manager. He wondered what could be done to restore ACF's tarnished reputation among the dealers. He was also worried on achieving the targeted loans disbursement. "Is there anything the management can do to remedy these problems?" he asked the GM.

12.0. 1998 Monetary Policy

The Assistant General Manager, Mr. Oh commented, BNM has taken vigilant steps to ensure that banking institution continues to be strong. Prudential standards governing the domestic financial market will be improved to ensure that they are comparable with the standards observed in the international financial markets. To future strengthen the banking system, BNM had taken the following measures:-