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THE HKSAR BANKING INDUSTRY: HAS IT FORGOT THE LESSONS OF THE PAST ?

Ever since the Guoco Group Ltd acquired Overseas Trust Bank Ltd, back in October 1993, ousting, by agreement, the former, senior management team, most of whom had been seconded from The Hongkong and Shanghai Banking Corporation Ltd, following OTB, getting into financial trouble, necessitating intervention by the then Hongkong Government, there has been a most decided change in the 'philosophy' and attitude of OTB's senior staff.

It was not the matter of 'a new broom, sweeping well' -- because the former senior management of OTB was not only adequate, but it had helped, greatly, in re-establishing OTB as a powerhouse in the HKSAR banking industry -- it was a matter of Guoco's senior management, adopting a seemingly negative attitude with regard to OTB, and, many, if not all, of its long-established customers.

Senior Hongkong-Chinese management of OTB, under the direct control of Dao Heng Bank Ltd, with the Managing Director of Dao Heng Bank, Mr Randolph Gordon Sullivan, successfully, imposing his will on OTB's staff soon after the takeover and, to some extent, even today, appeared to be loathe to make decisions of materiality.

The long-serving, Chinese staff of OTB was said to be under instructions of Guoco's senior management to defer decisions of any note to Guoco, or Dao Heng Bank's European Managing Director, for determination.

This applied to all OTB customers, regardless of ethnicity, financial strength, or the length of time that the customer had been with the bank.

Chinese senior staff -- the European contingent of OTB were all kicked out, or resigned, suddenly, on the assumption of control by Guoco Group Ltd -- were not shy to apologise to long-established customers, explaining that they were under instructions not to make decisions about lending, or establishing new facilities of any kind, without express, written approval of Dao Heng Bank's Managing Director, Mr Randolph Gordon Sullivan.

Whether or not OTB's staff was uttering a series of falsehoods will, most likely, never be known, but it was certain that the Managing Director of Dao Heng Bank, Mr Randolph Gordon Sullivan, has never been accessible to most, if not all, of OTB's more, well-heeled customers -- or so it appeared to most customers with whom TARGET contacted at the time.

The situation has not changed, appreciably, and, perhaps, that is the reason that OTB is not anywhere near its past glory, although, to be completely fair to the bank, it is doing very nicely in spite of everything.

However, for a banking group, which is a publicly listed entity, it could be held that Guoco's image fell more than a couple of notches, following its takeover of OTB.

Perhaps, Guoco's Chairman, Mr Quek Leng Chan, does not care too much for public relations, or the image of his banks, since he is, after all, on a level, in the wealth stakes, with the great Mr Li Ka Shing, of Cheung Kong (Holdings) Ltd.

In fact, it would be correct to say that the services, offered by OTB, today, are not a patch on the services that used to be rendered when Messrs Paddy Dawson and Richard Hardy, both former General Managers of OTB, were in charge of the bank's day-to-day operations.

Further, senior management of OTB, today, is rarely, if ever, available to talk to any customer, regardless of the customer's status, or high net worth.

There used to be a time in Hongkong when bank lending was based on one, or more, of the following criterion:

> **<u>Number One</u>** The collateral, which the prospective borrower had in hand, to support an application for a loan;
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> **<u>Number Two</u>** The cash-flow, which the prospective borrower could demonstrate, to support an application for a loan; and,
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> **<u>Number Three</u>** Simply, put -- What is the name of the prospective borrower?

<u>Number One</u> was the historic, British banking system's criterion for the determination of whether or not a lending institution should assent to a customer's request for funding.

<u>Number Two</u> is, predominantly, the US banking system's criterion for the determination of whether or not a lending institution should assent to a customer's request for funding.

<u>Number Three</u> was, and, probably, still is, the Chinese banking system's criterion for lending.

What appears to have been forgotten, of late, is the old, well worn, and proved to be absolutely correct, formula for lending.

It goes along the lines that there is a great difference between a *'secure'* loan and a *'sound'* loan.

In the matter of security, applying the theory to **<u>Number One</u>** -- a piece of property, a building, a ship, etc -- may vanish; and, so will the bank's money.

In the matter of cash flow, applying the theory of **<u>Number Two</u>**, the party, borrowing the money from the bank, may fall on hard times -- and, then, the cash-flow is dried up; and, so will be the bank's money.

In the matter of **<u>Number Three</u>**, the whole idea is that a man stands by his name, regardless of the circumstances: That is a *sound* loan.

And the man, who loses his face, has lost everything: A man, it is held, has but one face to lose.

<u>Times Change</u>

Times have changed, and from the shores of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) have gone many of our best brains and tradesmen, from doctors, to academics, even to well-respected, Chinese dim- sum cooks.

They have gone for a number of reasons, to be sure, but the threat of the (politically) unknown, no doubt, has been the determining factor for their defection.

Today, HKSAR banks seem to think that lending should be based, primarily, on the collateral, which the prospective borrower can muster -- **<u>Number One</u>**.

In addition, many banks, today, are demanding a personal guarantee from the beneficial owner of a company/corporate entity to support a loan application.

At the same time, while some banks are willing to lend, based on real property, at rates, approaching Prime and, sometimes, at rates which are less than Prime, when it comes to lending money to businesses, even very old, well-established and very respectable businesses, backed by people of a high net worth, these same banks, more than likely, ask for Prime plus 3 percent (or more).

Strangely, the HKSAR was built up, not on speculation on property and share trading, but on and by the ingenuity of, mainly, Chinese entrepreneurs who established businesses in Hongkong when others did not have the courage so to do.

These entrepreneurs, most of whom were on the run from the People's Liberation Army (PLA) of the late Comrade Chairman Mao Zedong (they, now, claim to love the PLA), established, what today are household names, from trading, to shipping, to producing luxury yachts, to manufacturing wigs, electronics, garments, etc.

On the basis of the current climate in the banking industry of the HKSAR, with but a few exceptions, the HKSAR is doomed to extinction.

Unless there is a change in the general banking philosophy.

Perhaps, back to basics should be the call.

But, the foundational question, which must be asked, today, is this: Is the HKSAR businessman of today good for his word as was the situation of yesteryear when a man's word was considered his bond?

The answer to this question lies in the respect and reliance that the HKSAR businessman places on his bank, for he will ask, of his banker: Will he stand by me when it rains as well as when the sun shall shine?

Industry must rely on support from banks for a multitude of services, from the execution of Letters of Credit, to the automatic payment of wages to staff accounts, to the simple matter of issuing credit cards to senior management personnel, to funding the purchase of new and improved machinery.

Without bank support, entrepreneurs are hamstrung.

Without bank support, Hutchison International Ltd would never have been able to survive.

The late Sir Douglas Clague talked the former Chairmen of The Hongkong and Shanghai Banking Corporation Ltd, Mr Guy Sayer, followed by Mr Michael Sandberg, to finance Sir Douglas's vision of creating, what is, today, one of the largest, diversified conglomerates in the HKSAR.

True, Sir Douglas ran into cash-flow troubles, but that was due, in part if not in whole, to Sir Douglas's inability to obtain good and competent middle management: Sir Douglas could come up with the ideas, but middle management proved to be incapable of the execution of his ideas.

The former Managing Director of The Hongkong Land Company Ltd, Mr Trevor Bedford, suffered similarly because, at one time, The Hongkong Land Company Ltd was, technically, insolvent due, solely, to this one man.

The main difference between Sir Douglas and Mr Trevor Bedford, however, was that, whereas, Sir Douglas could see what needed to be done in order to be successful, Mr Trevor Bedford engaged in long-term building projects, using short-term funds.

He never had a clue about high finance.

<u>No Trading Means No HKSAR</u>

Trading is, today, and shall be tomorrow, the lifeblood of the HKSAR.

While the market value of property is a good indicator of the strength of an economy -- in fact, it could be said that the market value of property is the backbone of an economy -- property is only acquired by companies/people who can afford to purchase, or lease, real property.

In order for there to be a ready market for bricks and mortar, there has to be people/entities in possession, either of an adequate cash flow, or in the possession of readily available, disposable income.

So property prices are dependent, almost entirely, on the strength of the factors which make for a strong (trading) economy.

It has been said, on numerous occasions, that the HKSAR is veering more and more towards a service industry economy -- banking, insurance, shipping, transshipment, etc -- but it would appear that still some $HK1,348 billion is accounted for, in the statistics of the HKSAR, by the hard work and ingenuity of manufacturers.

It is true that the HKSAR cannot compete with the PRC with regard to the establishment of new factories to produce consumer goods in large quantities at competitive prices, but the HKSAR, on the other hand, is still leap years ahead of the PRC when it comes to producing high-tech goods, required, for instance, in the computer industry and the electronics industry.

Going upmarket is the only way for HKSAR industrialists to survive in the long pull since they, definitely, cannot compete with the PRC in certain spheres of activity.

The days of producing shoddy goods in the HKSAR are gone: These are, now, consigned and produced in the PRC.

Like Denmark and Sweden of the early 1970s, HKSAR industrialists have to upgrade products and services in order to remain competitive on the international stage.

Times have changed; and, the HKSAR must be sufficiently malleable and resilient, in its future planning, if it is going to survive the harsh winters of the competition of Asia.

But this cannot be done unless the HKSAR reverts back to the lessons of the past: A sound economy, like a sound loan, is better than a secured economy, like a secured loan.

And the HKSAR banking industry must relearn, yet again, to be reasonable and accommodating, within certain guidelines, naturally, in the similar philosophy that afforded the financial 'muscle' to these 412-odd square miles, and contributed, greatly, to what is, today, the Hongkong Special Administrative Region of the People's Republic of China.

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