Restructuring and Re-engineering of Local Commercial Banks in Thailand
From Family-owned Bank to A Universal Bank

By
Akira Suehiro, Professor and Dr.
Institute of Social Science, University of Tokyo

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1 Introduction: Issues and Argument

After the currency and financial crisis in 1997, Thai government launched on two major institutional reforms in collaboration with international financial institutions such as the International Monetary Fund and the World Bank. Two reforms include financial institutional restructuring which focuses on improvement of the banking sector including NPLs solution and corporate restructuring which purposes to reorganize listed companies by introducing an Anglo-American concept of good corporate governance.

For Non-performing Loans (NPLs) in commercial banking sector, their ratios have constantly decreased from 42.9% in December 1998, through 38.6% in December 1999, to 17.7% in December 2000, and further to 10.5% in December 2001. In June 2001, Thaksin new government decided to incorporate the Thai Assets Management Corporation (TAMC) to solve both a large-scale NPLs per unit held by local private commercial banks and huge amount of NPLs held by government-controlled banks. So far as corporate restructuring and information disclosure-based stock market reform initiated by the Stock Exchange of Thailand (SET) are concerned, around eighty per cent of listed companies already met the SET guidance on “good corporate governance” which was announced in January 1998, in which a listed company was requested to set up an independent audit committee, to appoint at least two independent directors and to disclose detailed information to public investors by the end of 2000. Accordingly, we can say that institutional reforms themselves were successfully introduced into Thailand by the end of 2000.

Nevertheless, local commercial banks seem to have hardly played a significant role as financial intermediary in the process of economic recovery, although they have been successful in reducing their NPL ratios and in enhancing default risks. Indeed, outstanding banking loans have never recovered from 1997. Rather they have gradually decreased towards 2001: 6,061 billion baht in December 1997, 5,473 billion baht in December 1998, 5,248 billion baht in December 1999, 4,724 billion baht in December 2000, and 4,448 billion baht in December 2001. It is apparent that Thai economy has faced severe credit crunch, and which becomes a serious obstacle for real economic recovery. Likewise, local stock market also has showed inactive movement, although listed companies faithfully followed the SET guidance since 1998. For instance, the SET Indices have never showed any improvement between 1997 and 2001: 373 in 1997, 348 in 1998, 443 in 1999, 270 in 2000, and 281 in 2001 (as of the end of each year). These figures suggest that institutional reforms do not always result in productive policy effect due to a variety of elements affecting the real world of economy.

On the other hand, several commercial banks began to demonstrate quick improvement in their corporate performance in terms of not only NPL ratios but also net profit margins, ROA and ROE, and management efficiency. Impressively, almost all of commercial banks are reported to produce net profits in the first quarter of 2002 as we see 16.76% in the case of the Thai Farmers Bank (see Table 6: Column 6). Such improvement of corporate performance in banking sector may be attributed to two major factors of change in ownership patterns from local owner families to a distinguished foreign banks such as ABN Amro and self-efforts in reorganizing process undertaken by leading local commercial banks themselves.

What should be noted here is the fact that many scholars have paid much more attention on change in ownership patterns, especially the take-over by foreign banks in local banking sector. In fact, four banks out of thirteen existing local commercial banks, or one-third, were finally taken over by Dutch ABN Amro, UOB of Singapore, DBS of Singapore and British Standard Chartered Bank. This process produces some strong impression that Thai banking sector is going to be put under the eventual control of foreign banks. New policy of the government in 1998 which permitted 100% foreign-ownership in banking sector in next ten years also enhances this impression. However, we should not overlook another important fact that the top five local commercial banks have never changed their ultimate owners even after the crisis, and they still control 75% of total assets and deposits among 13 existing local commercial banks. This fact suggests us that self-efforts among leading local commercial banks to reorganize their activities in accordance with new circumstances become more and more important when we examine the role of the banking sector in corporate finance in Thailand.

What is interesting to us is that we find two different patterns in these self-efforts for banks' restructuring process. Clear-cut difference may be seen between the case of the Thai Farmers Bank owned by the Lamsam Family who have aimed at transforming their bank from a traditional family-owned bank (*thanakhan baep khrop-khrua*) into a Universal Bank (*thanakhan sakon*) and the

Bangkok Bank owned by the Sophonpanit family who have intended to enhance owner family's control over management in competing with foreign bank's challenge. At the present time, it is not easy for us to exactly judge which way will finally contribute to the improvement of their corporate performance and to the recovery of banking loans in the future. Rather, it is important for us to raise here the questions of what are major characteristics to be observed in banking sector of Thailand for the past decades, what has happened among local commercial banks before and after the crisis, and what kind of elements determine the difference in local commercial banks' performance.

2 Overview of Banking Sector in Thailand

Looking at distribution of outstanding loans and total assets classified by the type of financial institutions of Thailand in terms of their ownership patterns, we can find four major points as follows (See Diagrams 1A to 1K) :

First. Unlike in the cases of East Asian countries, Philippines, Malaysia, and Indonesia, government-sponsored banks which were incorporated to intentionally provide policy loans in line with trade and industrial policies have played by far a smaller role in Thailand. As we see in Diagrams 1A and 1B, these banks such as Industrial Finance Corporation of Thailand (IFCT), Export-Import Bank of Thailand (EXIM Bank), Bank for Agriculture and Agricultural Cooperatives, Government Saving Bank, and Small Industries Finance Corporation come together to occupy merely 13 % in total loans and 14% in total assets in 2000 (same in the past time). Non-commercial banking sector such as finance companies and insurance companies also played less important roles. By contrast, commercial banks have always occupied over 70% in total loans or total assets. Similar patter is observed in Singapore as well.

Second. Unlike in Singapore where foreign banks actively advanced into banking service, foreign banks in Thailand have constantly occupied smaller proportion in loans and total assets, although their number accounted for 14 commercial banks and 21 offshore-type banks. Among any type of banks, local or Thai-owned banks occupied 79% of total assets in 1996 (Diagram 1E), and 88% of total assets among existing 13 locally registered commercial banks in 2000 (Diagram 1C).

Third. Among local commercial banks, the top five have always accounted for overwhelming percentage in total assets or loans, or 74% in 1983 and 75% in 2000 respectively (Diagrams 1F and 1G). This fact suggests us that the number of registered banks are limited, economic concentration in banking sector is relatively high, and upper-ranked banks or the top five should be objectives to be studied when we examine their corporate performance.

Fourth. More carefully examining both ownership patterns of leading local commercial banks and their business extension to other sectors, we see the prominent role of the five groups or the Five Financial Conglomerates who had constantly played a significant role in both financial and non-financial sector (Diagrams 1H and 1I).

Fifth. It is sure that foreign banks actively took over local commercial banks after the crisis (4 banks). But their combined percentages accounted for merely 7% of total assets, while the balance or 93% still belong to Thai-owned banks (Thai ultimate owners based on an owner family group or the government).

These fact-findings suggest us that it is more important for us to analyze the role of private commercial banks rather than government-sponsored ones, and to focus on local commercial banks rather than foreign-owned ones.

3 Classification of Local Commercial Banks before and after the Crisis

How can we explain on-going changes in both ownership patterns and differencess in corporate performance such as NPL ratios after the crisis. To answer these questions, the author introduces unique criteria to identify and classify local commercial banks. These criteria include:

1) whether a bank has changed its ultimate owner before or after the crisis or not.
2) whether an ultimate owner group has been stable or not.
3) what are characteristics of an ultimate owner group. A particular owner family, multiple families in competing to seek for management control, the government, or a foreign bank.
4) the ranking in terms of the size of loans or total assets. Upper-, middle- and lower- ranked groups.
5) the level of NPL ratios against outstanding loans.

According to these criteria, we classify 14 (later 13) local commercial banks into four major categories:

A) **six banks with no change in ultimate owners;**
B) four local banks taken over by foreign banks after the crisis;
C) two banks transferred to the government tentative control before the crisis; and
D) two banks transferred to the government tentative control after the crisis.

Most important element determining the change in bank’s ownership after the crisis is a stability in ownership structure before the crisis. Those banks who became targets for newly rising financial groups such as the FIN Group or speculators since 1992 and 1993 unexceptionally turned into troubled ones, and then were transformed into the government-controlled ones or were taken over by foreign banks.

4 Ownership Patterns in Commercial Banks after the Crisis

Another interesting facts relating to ownership patterns which are described in Table 2 are summarized into four points as follows:

1) Four out of five leading local commercial banks with no change in ownership structure belong to the so-called "financial conglomerates" which are owned and controlled by specific owner families or an institution (Crown Property Bureau).
2) Specific owner families have unexceptionally reduced their shareholdings from around 20 to 30% before the crisis to less than 10% after the crisis.
3) In contrast to the decrease in owner families' shareholdings, those of foreign investors have quickly increased to 30% (Bank of Ayudhya) to 49% (Bangkok Bank and Thai Farmers Bank) excepting the Thai Military Bank (11%) due to both quick increase in equity capital in accordance with the BIS regulation on equity and deregulation by the government on foreign ownership in banking sector in 1998 (principally permitted 100% foreign ownership in next ten years).
4) In line with increase in foreign shareholdings, combined percentages of minority shareholders who hold less than 0.5% of total shareholdings also jumped to between 41% and 52% after the crisis.

Such prominent changes in ownership patterns inevitably request owners of leading local commercial banks to pay more attention to the economic interest of foreign investors and minority shareholders. In other words, they must follow the SET guidance on good corporate governance on the basis of Anglo-American standard which was introduced in order to attract foreign investors and to strengthen the minority shareholders' right. Not only the take-over of local banks by foreign banks but also the increase of foreign and minority shareholders' stakes become important elements for local banks to restructure their corporate activity.

5 Economic Dominance of Financial Conglomerates in the Banking Sector

Looking at the development of banking sector in Thailand for the past time (See Table 3), we find several characteristics as follows:

1) After enactment of Commercial Banking Act in 1962, the Ministry of Finance has strictly

regulated incorporation of new local banks and new foreign-owned full-branches in Thailand. Because of this regulation, the number of commercial banks was fixed at 16 banks in local groups and 14 branches in foreign banks between 1966 and 1988 when the Asia Trust Bank was integrated into the Krung Thai Bank.

2) Among these 30 banks, local commercial banks have always demonstrated overwhelming percentages (85% to 90%) in any indicator of assets, deposits and loans. In turn, among 16 local commercial banks, the **top five banks** have constantly increased their proportions from 1961 to 1983. Indeed, the top five banks increased their combined percentages in deposits from 69% in 1961 to 75% in 1983, while increased those in total assets from 66% to 74% in the same period. Such high-degreed economic concentration in the banking sector did not change even after the crisis.

3) Among the top five banks and other three banks (Bangkok Metropolitan Bank, First Bangkok City Bank and Bank of Asia), specific families have constantly increased their shareholdings in each bank and have exclusively controlled their management by the early time of the 1970s. These cases are found: **(A) Sophonpanit family in the Bangkok Bank; (B) Lamsam family in the Thai Farmers Bank; (C) Rattanarak family in the Bank of Ayudhya; (D) Taechaphaibun family in three banks of Bangkok Metropolitan Bank, First Bangkok City Bank and Bank of Asia; (E) Crown Property Bureau in Siam Commercial Bank**.

4) These five groups or "**Five Financial Conglomerates**", have strengthened their control on the banking sector between 1961 and 1983. Their combined percentages in total deposits increased from 46% in 1961 to 69% in 1983, while those of total assets also increased from 46% to 71% in the same period (See Table 3).

5) These five financial conglomerates have also extended their business base in the process of industrial development in Thailand not only to a financial sector such as banking, finance companies, non-life insurance business and housing loans but also to manufacturing, commerce, property business and warehousing. In the process of the development of these groups into conglomerate-type groups, a commercial bank has served as a core organ to finance related companies through the means of intra-shareholdings and inter-locking of directorship.

6) After the introduction of the Revised Commercial Banking Act in May 1979, all the local commercial banks were ordered to diversify their shareholders in which combined percentages of minority shareholders with less than 0.6% of total shareholdings would exceed 50% of total shareholdings, while specific shareholders could not hold stocks of a particular bank with 10% and over. Following this new policy, Bangkok Bank, for instance, increased the number of its shareholders from 9,594 persons in 1978 to 29,011 in 1984. New Act aiming at shareholdings' diversification inevitably resulted in reduction of each owner family's stake in the commercial bank concerned. However, owner family groups have continuously managed to control their

core commercial banks by monopolizing the key posts in management such as the Board chairman, executive chairman, president, vice president and executive directos. Table 4 clearly shows how owner family members have exerted control over management of each bank beyond the generation.

Typical case may be seen in the development of the Bangkok Bank. After Chin Sophonpanit was promoted to occupy the post of its General Manager in 1952, he had served as a general manager or President between 1952 and 1977, and became the Chairman between 1973 and 1983. Chartri, his second son, was appointed as the President (CEO) in 1980. After Chartri was appointed as the Chairman in 1995, Chartsiri, Chatri's eldest son, was appointed as the President, succeeding his father's post. Between 1952 and the present time (2002), we find that only one person was recruited from the outside of owner family members to serve as a professional president, and this person or Bunchu Rochanasathian was in charge of the President for merely four years between 1977 and 1980. Looking at other three major banks in Table 4, we also see that owner family members (mostly an eldest son of founder or successor) have exclusively monopolized the key posts as in the cases of the Thai Farmers Bank and the Bangkok Metropolitan Bank since its incorporation, and as in the case of the Bank of Ayudhya since 1961 when Chuan Rattanarak eventually took over its management.

Ownership structure of the financial conglomerates is somewhat complicated due to the historical development of their business activity and the wide scope of their business arm. Nevertheless, four financial conglomerates excepting the Crown Property Bureau share a similar pattern in their ownership patterns. Major shareholders in related companies consist of five groups: 1) individual owner family members; 2) owner family fully-owned investment companies (cf. Sophon Co.,Ltd. in the Sophonpanit family and Sombat Lamsam Co.,Ltd. in Lamsam family); 3) non-family owned investment companies; 4) a core commercial bank; and 5) core finance companies and non-financial companies.

Diagram 2 depicts multi-layer ownership structure in the Lamsam family and the Thai Farmers Bank Group as a whole. After reducing owner family members' shareholdings in related companies as well as in the Thai Farmers Bank, the Lamsam family began to employ Sombat Lamsam Co.,Ltd. (an investment company) and the Muang Thai Life Assurance Co.,Ltd. (non-listed) as institutions to continue to dominate their subsidiaries. As of the end of 1999, Thai Farmers Bank itself invested in at least five listed companies and around 140 non-listed companies with a wide variety in shareholdings of between less than 5% and 100% full-control.

On the other hand, Loxley PLC (telecommunications and information industries) and Sansiri PLC (property business) also served as semi-core firms to form mini-business empires respectively inside the Lamsam Group. It is not difficult for us to understand that these complicated ownership structure has always irritated foreign investors who were interested in commercial banks and telecommunications firms listed on local stock market. Indeed, foreign banks finally rejected the proposal when the Bangkok Metropolitan Bank (BMB) requested their financial help in increasing equity capital just after the crisis. And the BMB was ordered to close down its business because of its heavy NPLs in connected loans to related companies of the Taechaphaibun family such as Wong Petchabun Co.,Ltd. in 1998. Bank of Thailand survey revealed that the BMB's connected loans to the Wong Petchabun Co.,Ltd. which operated the World Trade Center alone amounted to as much as 2,200 million baht by the end of 1997.

6 Rise and Collapse of New Financial Groups in the Economic Boom Era

Until the mid of the 1980s, it is impossible to exactly understand the development of financial sector including finance companies (non-banking sector) without careful examination of strategy and activity of financial conglomerates. However, since the end of the 1980s, Thailand began to enjoy unprecedented economic boom owing to both increasing foreign direct investment and stock market boom. This economic expansion was further accelerated by financial liberalization policies which started in 1990. Especially two major groups of lower-ranked commercial banks and non-banking groups specializing in finance companies have quickly expanded their businesses in the process of financial liberalization. The rise of such financial companies-based groups as the Finance One, the General Finance, the National Finance and the CMIC Finance may be related to new development in non-banking sector as follows:.

1) Thanks to deregulation on the business area of finance companies, they could quickly increase their loans to new fields such as property business and consumers' loans. Indeed, for 17 years between 1980 and 1996, outstanding loans of finance companies increased by 27.1 times against 15.9 times in commercial banks. Likewise, between 1991 and 1996, finance companies also increased their outstanding loans by 3.6 times against 2.7 times in commercial banks. If the amount of total outstanding loans by commercial banks is put as 100, we see that the weight of finance companies increased from 30 in 1991 to 39 in 1996.
2) Such quick increase in finance company's proportion in total loans was connected with their strategy of concentrating loans in high risk-high yielding sector such as property business. For instance, in 1980, manufacturing sector was ranked as the largest client or 25% of finance company's total loans, followed by individuals or consumers' loans (17%) and construction and property business (14%). In turn, in 1996, construction and property business accounted for the largest proportion (28%) and consumers' loans also increased to 26%, while manufacturing

sector dropped down to 15%. Such dramatic change in credit structure has imperatively led finance companies to instability in operation in conjunction with deepening bubble economy in Thailand since 1994.

3) Business expansion of finance companies was also closely connected with their speculative behavior aiming at extra profit in stock resell or hostile take-over through stock market after the 1990s. Middle- and lower-ranked local commercial banks such as Laem Thong Bank, Bangkok Bank of Commerce, Thai Danu Bank and Bank of Asia unexceptionally became the targets for newly rising financial groups to take over. Among newly financial groups, the Finance One Group (or the FIN Group) was reported to have been most active in the take-over of existing commercial banks and non-banking finance companies. These activities of finance companies-based groups had eventually sustained the stock market boom until 1994 on the one hand, but they had caused instability of existing commercial banks in ownership structure on the other hand (See Table 1).

It is very natural that when the currency and financial crisis attacked Thailand in 1997, the crisis at first damaged most severely these new financial groups. Table 5 is made to show the whole picture of 91 finance companies according to the characteristics of ultimate owners and to summarize the situation of these finance companies after the crisis. In December 1997, the government ordered 56 finance companies to close their business. These 56 firms included all 13 finance companies belonging to newly rising groups, 9 finance companies belonging to non-financial conglomerate-type local banks, and 28 finance companies belonging to non-financial groups such as industrial groups. By the end of 1997, all of newly rising financial groups who had grown up under the economic boom during the 1990s completely disbanded.

On the other hand, so far as finance companies belonging to the five financial conglomerates are concerned, those who were ordered to close accounted for 6 out of total 21 firms. But this fact does not mean the survival of financial conglomerates in non-banking sector as before. In fact, among existing 15 firms, 6 finance companies were forced to transfer the majority of their shareholdings to foreign partners and other 4 finance companies were merged with a state-owned institution under the supervision of the government. After all, merely five finance companies could survive after the crisis. In addition, since the Bangkok Metropolitan Bank was forced to put under the government control in January 1998 and all the four finance companies owned by Taechaphaibun family were also ordered to close one of five financial conglomerates lost its stake in the financial sector in Thailand.

Such collapse in non-banking sector after the crisis made four financial conglomerates to switch their basic strategy from diversification into the non-banking sector to concentration of their managerial resources into the banking sector. It is true that financial institutional restructuring scheme initiated by the government in collaboration with IMF and World Bank has contributed as an important driving force for leading commercial banks to launch on their own self-relied reforms in management and operation. But it should not be overlooked another important fact that the collapse in the non-banking sector also forced financial conglomerates to turn their eyes to reconstruction of the core sector, namely banking sector.

7 Corporate Performance of Leading Local Commercial Banks after the Crisis

How can we evaluate corporate performance of local commercial banks after the crisis? How can we explain the difference in corporate performance among leading local commercial banks in relation to their restructuring process? In order to answer these questions, the author provides four tables concerning their financial highlights or corporate performance.

1) Table 6 summarizes changes in NPL ratios between 1997 and 2002 in special reference to the top five local commercial banks. Looking at Table 6, Government-owned Krung Thai Bank demonstrated the best record or 8.11% in March 2002. But if we include the figure of NPLs transferred to the Assets Management Corporation (45.90%), its combined NPL ratios jumped to 54.01%. Other four leading banks seem to have been successful in reduction of NPL ratios since the end of 1998 (the government adopted a global standard on NPLs or no-return loans with three months and over in June 1998). Most impressive performance is seen in the Thai Farmers Bank, followed by Bangkok Bank and Bank of Ayudhya.

2) Table 7 is another interesting table to show performance of 13 local commercial banks after the crisis. This table is a summary of rating on local commercial banks by the Thai Bankers Association who employ various indicators in terms of growth rate, performance in banking, marketing capacity, management style, external image and efficiency in management. What is interesting to us is the fact that two local banks of the Thai Farmers Bank and the Siam Commercial Bank have always obtained high score for the past three years, while Bangkok Bank has ranked fifth or fourth rank. Different result is derived from the NPL ratios in Table 6. Commercial banks which were taken over by foreign banks also could improve its evaluation in rating as we see the case of ABN Amro Bank of Asia.

3) Table 8 in turn shows a summary of managerial efficiency in terms of revenue per employee in two periods: before and after the crisis. Employing this criterion, Bangkok Bank still demonstrates in 2000 the best score (4.61 million baht per person), followed by the Thai Farmers Bank (4.33 million baht) and the Siam Commercial Bank (4.26 million baht). This fact

suggests us that Bangkok Bank has been most active in reorganization of banking operation after the crisis.

4) Table 9 is a summary report of major financial indicators for five leading local commercial banks in terms of recovery in assets, recovery in revenue, changes in stock market price, return on assets (ROA), return on equity (ROE) and profit margin. It is difficult for us to derive a single conclusion from these indicators. Nevertheless, it is safe to say that two major banks of the Bangkok Bank and the Thai Farmers Bank have shown good performance since 2000. So far as net profit margin in first quarter of 2002, Thai Farmers Bank demonstrates remarked record or 16.76% as compared to 9.25% in Bangkok Bank and 9.12% in Bank of Ayudhya (Krung Thai Bank is an exceptional case because a large proportion of NPLs were transferred to the AMC).

What should be noted here is the fact that there is a different approach between the Bangkok Bank (BBL) and the Thai Farmers Bank (TFB) in restructuring and re-engineering their corporate activity. In next section, let us examine this problem.

8 Type 1 Thai Farmers Bank: Re-engineering for A Universal Bank

Thai Farmers Bank (TFB) has served as the core bank of a financial conglomerate led by the Lamsam family. Before the crisis took place, Banthun Lamsam who has been in charge of the President of TFB since 1992 decided to reorganize his bank into a universal bank (*thanakhan sakon*), which means a modern type commercial bank. According to his idea, traditional family-owned type banks (*thanakhan baep khrop-khrua*) will not be able to compete anymore with foreign banks even in retail business. It is imperative for Thai commercial banks to adjust their operation and corporate structure to modern banks in line with new circumstances of economic liberalization and globalization.

Based on these concepts, Banthun started the so-called “re-engineering scheme” of TFB in 1997 in cooperation with an American consulting firm, and after the crisis he has accelerated this scheme to overcome deepening financial crisis. The detailed process of this re-engineering scheme is summarized into Table 10. As Table 10 shows, Banthun completely met the requirement of the SET guidance on good corporate governance by setting up an independent Audit Committee (1998), [Director] Nomination Committee (2000), [Director] Compensation Committee (2000) and the Advisory Board to the Management (2000) (See Diagram 3). At the same time, he replaced old Board members who had for a long time devoted themselves to the owner family by three fresh Thai professionals in April 2000.

At this moment, he also invited two foreign financial specialists as directors to the Board. Appointment of foreign directors in TFB is the first attempt among leading local commercial banks. Immediately after the reorganization at the level of the Board of Directors, he also invited foreign professionals to occupy the key posts in the Board of Management too. These posts include the vice president being responsible for personnel management and performance appraisal, the vice president for retail business, and special advisor to the corporate strategy as a whole. It is apparent that Banthun intentionally employed a big-ban approach by appointing foreign professional to the key posts which are usually recognized to be advantageous for local staffs such as in retail business. Owing to these reforms, TFB could enjoy notable recovery in financial highlights and could achieve improvement of ranking in the Thai Bankers Association's list as we already confirmed in Tables 6 to 9.

9 Type 2 Bangkok Bank: Restructuring of Family-owned Bank

In contrast to the case of TFB, Bangkok Bank (BBL), another giant bank in Thailand, seems to appeal to a different way in promoting its restructuring scheme. So far as the SET guidance on good corporate governance is concerned, BBL also set up an independent Audit Committee, but did not form Nomination and Compensation Committees. BBL also announced three major strategies focusing on customers' service and information technology in 2000, but they are not so impressive when we compare them to more comprehensive TFB strategic plans covering eight items (See Table 10). Furthermore, BBL did hardly touch on the directorship in both the Board of Directors and the Executive Committee. Although Chartri, the Chairman of the Board, invited Khosit Phanphaimrat (the former key person in the National Economic & Social Development Board and Finance Minister in 1997) as a new Executive Chairman to the Board of Management after the crisis, he rather enhanced owner family line in BBL decision making, and empowered his eldest son, Chartsiri, with more authority.

What distinguishes BBL reform from TFB one is the difference in handling NPLs. Unlike TFB which set up new section being responsible for credit control inside eight groups (See Diagram 3), BBL formed an independent special team to exclusively handle NPLs and separated it from existing organization chart, and then put this team under the direct control of the CEO/President, that is Chartsiri Sophonpanit. This team is obliged to submit daily-based report in detail to the President room, and in turn the Executive Committee quickly judges whether each case of NPLs needs implementation of re-schedule program or not. According to the author's interview research with specialists at a local legal and consulting office, they informed him that NPL ratios of BBL was not lowest among leading local commercial banks but its figures were most reliable and its financial position was most stable due to its strict control on various debt restructuring schemes. Ironically unlike the appointment of foreign directors in TBF, empowerment of owner family members makes BBL possible to tackle NPL problems more effectively.

However, looking at the latest financial statement of each bank in the first quarter of 2002, TFB apparently demonstrates better performance in terms of both net profit margins and efficiency in banking operation. As Table 9 indicates, TFB shows 16.76% in net profit margins against 9.25% in BBL, while TFB shows 27.92% in ROE against 14.39% in BBL. Good corporate performance is also confirmed by another important indicator which represents efficiency in banking operation as computed with the ratio of income from operation against gross income of interest and dividend. Computing these ratios, TFB shows the highest one (20.9%) in the first quarter of 2002, followed by the Siam Commercial Bank (13.3%), Bangkok Bank (11.8%) and Bank of Ayudhya (11.4%). As long as we employ these figures as indicators to show competitiveness in the banking sector, TFB approach seems to provide a better way than that of BBL.

10 Conclusion: The Strength of Local Commercial Banks

As the author already argued in Introduction of this paper, whether restructuring of financial sector in Thailand will work well or not is closely related not only to the implementation of institutional reforms initiated by the government in accordance with global standard but also to the development of self-efforts undertaken by leading local commercial banks who still continue to dominate over 70% of total deposits and loans. Deregulation on foreign ownership in the banking sector does not always contribute to improvement of corporate performance in local commercial banks. Likewise, direct introduction of BIS regulations on equity capital and default risk control does not always result in improvement of corporate performance including real reduction in NPLs unless leading local commercial banks themselves actually undertake active response to new circumstances.

In this paper, the author noted the dominant role of financial conglomerates playing in a financial sector of Thailand for the past time. And then he argued that the Bangkok Metropolitan Bank Group, one of five financial conglomerates, faced the collapse after the crisis because they had heavily involved in connected loans in their business expansion. Financial crisis and institutional reforms now force existing financial conglomerates to concentrate their efforts in reorganization of banking business itself rather than expansion into non-banking sectors. What is important to us that core commercial banks belonging to these former financial conglomerates are still included into a group of the largest five commercial banks. Accordingly, it is necessary for us to examine more carefully these banks rather than small-sized banks which were taken over by foreign banks.

In this context, the author briefly introduced two different ways in restructuring process: TFB approach on the basis of Western style banking system (universal bank) and appointment of foreign directors as key posts and BBL approach on the basis of traditional banking style with enhanced leadership of owner family. Looking at the short-term financial statement, TBF approach seems to demonstrate better results rather than BBL approach. However, if we take the mid-term conditions of real solution of NPLs and actual recovery of banking loans into consideration, it is not so easy to conclude that the former approach is the most desirable way for Thai economy. This is because that TFB approach is less acceptable for other leading local commercial banks or the government-controlled banks.

Lastly, it is notable that two giant banks occasionally share the same characteristic in which the top leader with the background of owner family members has appealed to his strong leadership in restructuring process. **We should not neglect the important fact that Banthun Lamsam could implement absolutely a dramatic reform under his flagship because he still belongs to the ultimate owner of TFB even in the present time**. In other words, the resource of economic power of these two banks still depend heavily on their ownership structure in general and the ultimate owner's control over management originated in the succession of office of each giant bank in particular. It is impossible for us to exactly evaluate the success of restructuring of these banks with no adequate consideration to their ownership structure after the crisis.

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