KA WAH BANK
STANDING TALL IN HONG KONG
WHY KA WAH STANDS OUT FROM THE HONG KONG SCENE

Carrian, Eda, Hang Lung, Sun Hung Kai. A recent series of disasters and near-disasters has littered Hong Kong's financial waters with wrecks and unseaworthy vessels. The island has been battered by economic and geopolitical gaits, typhoons, and seismic tremors. In the past few years, recession and protectionism in the West have cut deeply into Hong Kong's traditional exports. It has become starkly clear that, when Britain's time runs out in 1997, the lease will not be renewed. At one point in the 1970s, a stock market collapse plunged the Hang Seng index from 1,700 to 150 in two years. Equally dramatic and potentially as damaging, at one point in 1983 the Hong Kong dollar dropped 15% in two days. However, most Hong Kong banks have weathered the storms and some have come through with colours flying. Among the most successful is Ka Wah Bank, the international flagship of the remarkable Singaporean international financier C.S. Low, who with his family has followed the Lam family of Hong Kong as the bank's chief executives and controlling stockholders.

Experts on Hong Kong say that, of the several especially solid indigenous banks in this important international financial centre, Ka Wah is starting to stand out. Their reasoning is discussed in detail later. Meanwhile, a summary:

The Low-Lam family combination

A number of authoritative observers regard C.S. Low as a genuine financial wizard; they also stress two points about Ka Wah's other leading figures. One is the fact that Low's key colleagues include two of his brothers, and that they provide vital as well as expert support in the bank's highest levels of management, especially in its extensive and expanding international business. The other is that Dr Daniel Lam, son of Ka Wah's founder, not only continues to chair the board of directors but plays an extremely significant role in the bank's relationships and development within Hong Kong.

Modern management methods

Unlike many family-controlled concerns in Hong Kong, Ka Wah has a modern style of management, aided by computerization and state-of-the-art communications. Lawrence J. Toal, a senior vice-president of Chase Manhattan, who is general manager of the bank in Hong Kong, says: From my very first meeting with the Lows, they seemed to me to have the best sense of long-range thinking and planning of any of the people I've met in the market. In general, they have very sound management practices.

An out-of-the-ordinary business base

While the Lows have expanded Ka Wah's Hong Kong branch network in a manner that Toal describes as sound as well as rapid, their main advantage over many other Chinese banks in Hong Kong is their strength overseas. Before taking over Ka Wah, C.S. Low created a financial network that covers much of south-east Asia. As David K.P. Li, who heads the Bank of East Asia explains: Ka Wah is different because the Low brothers know Malaysia and Singapore and Thailand so well. They bring a lot of their clientele from that region into Hong Kong, and finance a lot of the two-way trade between Hong Kong and those countries.

David L. Hendrix, general manager of Crocker National, who has been in the area 10 years, makes a similar assessment: Because of the Lows' overseas background and connections, they can do business which most of the local banks can't.

With these advantages, and C.S. Low's dynamism and his willingness to commit enormous amounts of personal capital, Ka Wah has come a very long way in a very short time. Clearly, as the following pages demonstrate, it is going a lot farther.
Executive board of Ka Wah (left to right): president C.S. Low, executive vice presidents Alex S.C. Lam, Low Chun Seng, Low Cheng Hian, Victor K.C. Tan, and Tan Soo Kiu.
KA WAH BANK

BEHIND KA WAH’S REMARKABLE PROGRESS

By the basic yardstick of asset growth, Ka Wah has grown from a small local savings and loan bank to an internationally significant one in an amazingly short time. As the 1982 annual report noted with not unreasonable pride, Ka Wah had “doubled its assets every other year for the last five.” These assets are now near to US$1 billion.

But to become an internationally significant bank is not just a matter of making a lot of loans. As one merchant banker in Hong Kong observed: “It’s easy to put on assets; what’s difficult is to put on assets that get repaid. The Lowes have done this extremely well.”

This success shows in Ka Wah’s profits. Between 1975 and 1983 the bank’s net earnings rose by about 2,200% to more than US$7.5 million. They did so through an uncommon combination of characteristics which have brought Ka Wah high respect among Hong Kong’s leading financial professionals.

This respect is demonstrated in three ways. In the quality of Ka Wah’s financial associates; in the support these associates provide; and in the comments they and other Hong Kong authorities offer on the bank’s management and performance.

When Ka Wah went public in 1980, the lead underwriters were Chase Manhattan Asia. When it sold floating rate certificates of deposit in 1981, the agent was Bank of America. And when it sold rights issues — as it did in 1981 and 1982 — Chase again took the lead.

The quality of the bank’s associations extend to its attorneys. In the US they are Wall Street’s Shearman and Sterling. And it extends to Ka Wah’s correspondents. At the top level, there are Chase Manhattan and Bankers Trust; the next tier includes Barclays, Chemical, Citibank, Crocker, First Interstate, Irving Trust, Mellon, Midland, National Westminster, and Security Pacific.

These blue-chip international banks provide Ka Wah with the best type of testimonial. As one leading Hong Kong merchant banker put it: “Ka Wah must be well regarded by people like Bankers Trust and Chase or these banks would not have them as correspondents.” Or, in the words of Ka Wah’s executive vice president Low Chun Seng: “Not everyone gets a line of credit with Mellon.”

The correspondents, moreover, gave Ka Wah an even stronger and more practical testimonial when the financial hurricane hit Hong Kong last autumn. “All our primary correspondents increased their lines to us,” noted the executive vice president in charge of treasury, Victor K.C. Tan.

Valdemar Bertelsen III, general manager of Bankers Trust in Hong Kong, major manages several of Ka Wah’s major accounts.

Great Pacific Finance — In which the Low family and Ka Wah hold a controlling interest — provides an important link with Singapore.
Ka Wah’s assets soar...

...but equity keeps pace...

...and so do profits
confirmed that the problems the banking sector experienced at that time did not adversely affect his bank's opinions of Ka Wah. "In fact we increased the facilities we made available to them," he said. Lawrence Toal, general manager of Chase Manhattan, says very much the same thing: "We choose our correspondents very carefully, and we have confidence in Ka Wah and its management."

These sentiments are echoed almost word for word (at least in translation) at the Bank of China, with which Ka Wah also has strong relationships. Managing director Xue Wen-Lin speaks of "the excellent quality" of Ka Wah's management, and says: "It is in the first class [of Hong Kong's local banks]."

There are two aspects of Ka Wah that these bankers particularly appreciate. One is the professionalism of the Low family. The other is their adherence to old-fashioned banking principles.

**Conservative ratios**

Ka Wah's numbers management is conservative. Leverage is never more than 12 to 1; liquidity is kept between 35% and 50%; three-quarters of loans are secured; and 70% are for less than 12 months.

Other bankers believe these statistics are genuinely representative of the realities at Ka Wah. David Hendrix, general manager of Crocker National, says that, whereas most local banks are unwilling to give detailed information about their loans: "We know a lot about Ka Wah's portfolio because they're so forthcoming."

**Avoiding excesses**


The origin of the bank's caution may be found in the Lows' background. The brothers have been through hard times as well as good, and have known poverty as they now know wealth. They are, as executive vice president Tan Soo Kiu says, "survivors", and they are always mindful of their limitations. "Even with our recent growth," says one of the Low brothers, "we are extremely careful with our maximum exposure to any one client. We have therefore shied away from the big property loans and syndications, in which the loan participations tend to be very large."

**Knowing the customer**

Another reason why Ka Wah has shied away from loans of this type is that they are extremely strict in observing another banking principle: know your customer thoroughly before making a loan. This kept Ka Wah safely out of a situation which has since turned distinctly sour - that of the Carrian group.

**Expertise throughout the Pacific Basin**

Ka Wah's refusal to take advantage of what seemed to many banks a golden opportunity in Carrian, a group whose origins lay elsewhere in south-east Asia, was partly a result of the Lows' exceptional knowledge of Malaysia, Singapore, Thailand, Indonesia and, to a lesser extent, Taiwan. They know the potential sources and users of funds in these countries, especially among the overseas Chinese, many of whom are the leading business people there.

This knowledge is helpful to their correspondents, too. Hendrix says: "The
Ka Wah is different because the Low brothers know Malaysia, Singapore, and Thailand

its associates away from bad ones. It can be first in line on promising situations, but absent from risky ones.

It’s a question of knowing who is who,” says a British banker, who admires, that, despite his many years in the area, he is often totally baffled. Many of the indigenous Hong Kong banks are also often baffled when they go into other south east Asian areas, he adds, which is why they had got into “some pretty silly messes.”

It might be thought that the other side of the coin would work against the Lows. As they are foreigners in Hong Kong, they could run into this type of difficulty on the island and its adjacent territories. But this doesn’t happen, observers say, because the Lows can count on two excellent sources of local expertise — the Lam family and the top-flight Hong Kong people the Lows have retained, hired, trained, promoted and cherished within the bank.

The Lam connection

“An exceptional feature of Ka Wah which does not shine through the numbers in their accounts,” said a leading foreign merchant banker, “is that an important part of their base in Hong Kong is an ethnic one: the Chiu Chow, which is about 25% of the Hong Kong population.”

Many foreigners do not realize that the difference between one Chinese dialect and another is not at all the same as the difference between a Cockney and a Texas accent. It’s more like the difference between Spanish and German.

The Chiu Chow is an important and industrious section of the community, and its members include a higher-than-average proportion of the wealthiest overseas Chinese. One is Li Ka Shing — the celebrated Hong Kong property magnate, whose name frequently figures on lists of the world’s wealthiest men.

The Lam family are pillars of this community. Ka Wah’s chairman, Daniel Lam, has twice been president of Hong Kong’s Chiu Chow Chamber of Commerce. This distinction, he proudly points out, has been accorded to only two other people, one of whom was his late father. The importance of such links in the business community of the Orient is even greater than in the West. Chuang Shih-Ping, chairman of Nanyang Commercial Bank, whose headquarters are in Peking, goes out of his way to mention: “The chairman of Ka Wah is a good friend of mine — as was his father — and we have great respect for each other, coming from the same village of China.”

No nepotism

In addition to its chairman Daniel Lam, Ka Wah has a first-class team of professional managers. “One of Ka Wah’s strengths,” says David Li, head of the Bank of East Asia, “is that while all the Low brothers are able, they’ve put together a very professional team, and they promote others outside the family.”

This is unusual for a local bank; adds Li, and the executive director of a well-known foreign merchant bank agreed: “Although they’re family-owned, a key point is that they bring in able outsiders like senior vice presidents Raymond Lo and William Tsui.”

Lo and Tsui both majored in business at an US university and obtained professional accounting qualifications overseas before joining Ka Wah.

The proportion of Hong Kong people in Ka Wah’s top and middle management has risen rapidly. When C.S. Low first took control, he and his brothers brought in a number of experienced financial executives from their Singapore and Malaysia operations. Today, 70% of the key positions are held by Hong Kong citizens, and Low expects most future management vacancies will be similarly filled.

To prepare candidates for these vacancies, Ka Wah spends enthusiastically on training, particularly on sending its staff for months of on-the-job training at the world’s leading financial institutions. Two traders are about to take off to hone their skills in financial futures at First National Bank of Chicago. Over the past three years, about 60 Ka Wah staff have taken part in similar training programmes at banks such as Citibank, Chase, Chemical, Bank of America, Midland, and Swiss Bank Corporation in Zurich.

A particularly strong proponent of such training is Low Chun Seng, who attributes his enthusiasm to his previous experience as a senior executive of Exxon. Unless you’re prepared to dedicate very substantial amounts of time and money to training, he says, “you can’t build a world-class organization,” which is clearly what Ka Wah aims to do.

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KA WAH BANK

WHAT — AND WHO — IS BEHIND THE BANK?

The man behind Ka Wah — C.S. Low, who controls 42% of the shares — is a shy but sprightly man of 47, a devotee of Chinese martial arts who looks at least 10 years younger. His grandfather was a multi-millionaire, and so is he, but C.S. Low spent years scavenging the parks of Singapore for cigarette butts to sell for food, and he learned his sense of the market by helping his mother sell clothes at a roadside stand.

Though Low rarely gives interviews and is reluctant to discuss his personal life, these are some of the facts already known about him. Some of the facts that follow are less well-known. They are no less interesting than his ideas on the future of south-east Asia. His thoughts on why some companies prosper, while others wither and fall, should be of value to any banker or businessman who dreams of building a financial empire.

The institution Low founded has its origins in the Malaysia of the early 1960s. Malaysia then, as it is to a lesser extent today, was a land of tremendous opportunities. It has great natural resources, and few people. Its government was determined to develop it — fast. To do so, it offered valuable incentives to foreign and domestic investors alike.

Enter C.S. Low. Born in China in 1937, he and his parents fled the Sino-Japanese war, reaching Singapore penniless, in 1940. The family grew to 10. Life was not easy.

At 19, nonetheless, Low was selected as an officer trainee of Chartered Bank in Singapore. While working there he passed a number of demanding professional examinations, such as that of the London Institute of Bankers. In the 1950s, this normally took about 10 years; Low completed it in a record time of just three. At 23 he had designed and set in motion the Singapore interbank clearing system. He then set off for Kuala Lumpur, and by 27 he had helped to establish much of the branch network of the then United Malay Bank. By 28, he was chief inspector.

At 31, he struck out on his own. He had already put his market instinct to good use, by buying and selling rubber and palm-oil plantations, and shares such as Malayan Tobaccos, Guinness, and Central Sugars, had made him his first million dollars.

In 1968, he founded the first of his own businesses — Central Malaysian Finance — with 24 offices throughout the country. He also became a manufacturing industrialist, and a commodities processor.

Low was already demonstrating something of a Midas touch. He disposed of the industrial properties at a substantial profit in 1972, and made a killing the next year when he sold Island Hotels. He took the palm-oil companies public. And Central Malaysian was on the way to becoming the biggest finance company in the country.

By 1973, however, new political winds were blowing through Malaysia. Under its prime minister Tun Razak, a substantial proportion of all businesses were in a short time to pass to Bumiputra Malaysians. Low respected the new economic trends in Malaysia and started to diversify his business interests worldwide.

An opening was occurring at the Ka Wah bank in Hong Kong. Between 1970

People from south-east Asia have the highest regard for Mr Low

Chang Ohsh-Ping, Nanyang Commercial Bank

An interview with C.S. Low by Euromoney special editor

Over the past 20 years, the economies of the Pacific Basin have enjoyed a growth rate roughly double that of the industrialized West. What are the main factors behind the relative rapidity of this growth? First, the area is endowed with tremendous natural resources. Second, the US market has been opened for virtually every segment of manufactured goods from Japan, South Korea and Taiwan. Then, the area is also exceptionally rich in its people. On the one hand, you have about 40 million highly-motivated overseas Chinese. And on the other, the area consists mostly of developing nations — nations which are able to blend the best Western ideas and techniques with their own inherent philosophies of life.

Third, governments of these nations have been largely able to avoid internal wars and, for the most part, we have been able to avoid involvement in proxy wars.

Finally, and most important, there's the awakening of China, and its use of the Pacific Basin as a conduit and intermediary for its own modernization. For the next century or two, this process will be very exciting — and for at least the next 20 or 30 years it will be centred on Hong Kong.

From what you say, you regard the prospects for growth of the region as continuing to be pretty exciting. What are the risks and dangers you are putting into your planning and calculations? The biggest threat comes from the grand design of Soviet expansionism. The biggest danger is that a proxy war might be fought in this area, over either Cambodia, Taiwan or Korea. The ultimate destiny of Hong Kong is linked with that of Taiwan. To the extent possible, China will use its development of relationships with Hong Kong as a model for the development of its relationships with Taiwan.

What about the dangers of protectionism? Of course, protectionism has been a growing concern to Hong Kong — although, for better or worse, Hong Kong has lived and survived with it for the last 10 years. Trade protectionism has been a great constraint on most developing nations in the world. I seriously think that the US, being the biggest economy in the world, must do something to prevent protectionism's growth. Otherwise all trading nations in the free world are going to suffer in a vicious circle. But the major danger to Hong Kong is more quintessentially geopolitical — the danger, in some part of the region, of a proxy war.
and 1974, according to Ka Wah's 1980 prospectus, a group of US investors had acquired control of this small bank, hitherto the property of Daniel Lam, and his late father, the founder. In December 1974, using funds acquired from his highly successful Malaysian operations, Low took over.

To strengthen Ka Wah's capital base, and to comply with the Malaysian New Economic Policy, Low sold off a number of his Malaysian assets. Among them: 6,000 acres of palm-oil estate, prime office buildings in Kuala Lumpur, and 90% of the equity in Central Malaysian Finance. The sum raised was some US$40 million.

Low still retains some holdings in Malaysia — for instance, in Afflinit and Low, one of the country's most successful brokerage operations — and he has greatly extended his operations in Singapore. These include a successful brokerage house, Cathay Securities; real estate; and, perhaps most important, an indirect controlling interest in Great Pacific Finance — one of the fastest-growing companies of its kind in fast-growing Singapore. It is difficult to put a precise figure on the total net worth of the Lows, but outside analysts estimate the value of their Singapore assets alone at more than US$100 million.

Low has none of the brashness or self-satisfaction often associated with self-made millionaires. "He is a very dynamic and compelling personality, but he gives a lot of warmth," says a friendly competitor, David Li, head of the Bank of East Asia. And US and British bankers, interviewed in Hong Kong, spoke of him in similar terms. Their comments on Low's acumen and abilities are equally enthusiastic, as are those of bankers from the other side of the "bamboo curtain."

Chase has a relationship with the Low family which goes back to before it came to Hong Kong, says Oliver Greaves, managing director of the bank's merchant arm, and it has always been a good one. "I've personally known CS for 10 years," he adds. Chuang Shih-Ping, chairman of Nanyang Commercial Bank, echoes this regard: "The Hong Kong community and people from south-east Asia have the
highest regard for Mr Low," he says.

Low's philosophy derives from his early experience as a survivor and from his observation of the postwar survival of Singapore and Japan. He explains that the societies of Japan and Singapore—and for that matter, of Hong Kong—were created on barren rock. In the first place their very survival—and, later, their prosperity—depended on the intelligence and willingness of the work of their people. "No one owed them a living," he comments.

For such peoples, in such geographical and geopolitical situations, to stay healthy and continue to prosper, there is one golden rule: plan ahead. And this rule, Low argues, applies equally to business as to society. The Hong Kong financial crisis of last autumn was, he claims, largely precipitated by the bankers' failure to practice this discipline:

"You must never allow events to overtake you. To avoid their doing so, you must have an enlightened and experienced board of directors capable of making rapid responses to the surprising and difficult situations that are inherent in an international financial centre such as Hong Kong. Your board must have the courage to take calculated risks, and to make temporarily unpopular decisions in the pursuit of long-term objectives."

"You must have a cohesive management team, strong in its work ethic, highly motivated, and knowledgeable of and sensitive to market forces. The secret is that your leaders must not only be entrepreneurs; they must also be skilled in organization and planning, and be capable in the allocation of professionals."

While of particular importance to the success of operations in inherently volatile markets such as Hong Kong, Low's principles are of universal application, especially since most financial markets have become increasingly volatile.

Low has applied his principle of being prepared in Hong Kong, and to his moves into the financial markets of the West. His basic strategy is to go into products and market places he and his colleagues know. Thus in Hong Kong, the bank has subsidiaries in insurance, merchant and investment banking, investment advice and the provision of nominee services. In Singapore it is active in consumer finance. And both there and in Malaysia it is active in securities.

Following Low's precepts, the boards of these companies are constantly reviewing possible scenarios, and pre-empting risks that might arise from economic and political developments. As his answers to the questions in the box reveal, Low is extremely aware of the ways in which geopolitical developments may affect his plans for growth and he is already, as his precepts dictate, planning ahead.
LOW’S PLANS FOR KA WAH’S EXPANDING FUTURE

As might be expected from his precepts and principles, C.S. Low has well-defined plans and projects. “We have confidence,” he says, “in this part of the world generally, and in Hong Kong in particular. We will continue to develop more branches in Hong Kong, and more services to the ‘special economic zones’ in China. We’ll be helping to bring more investment into Hong Kong and into these special zones, and we’ll be developing, probably via joint ventures, new projects for our finance and insurance companies — in Malaysia and Singapore and Brunei, for example. At the same time, the entry of foreign banks into Hong Kong opens reciprocal opportunities for us in Europe and North America.”

It is vital to Ka Wah, Low stresses, that the bank finds its niche in these markets. In Los Angeles, where it opened its first overseas branch in 1982, the niche is the business of the big concentration of Asians and Asian wealth. In Toronto, where it opened a representative office in 1983, the niche is similar. In New York, where it opened a full branch, also last year, the niche is in the huge foreign exchange market. As Low says, quite simply: “About 90% of the ultimate clearance of trade is in US dollars, so Ka Wah has to be there.”

Next on Ka Wah’s target list is London. “It is the money centre of Europe,” says Low. “It has its historical connections with our major markets — Malaysia, Hong Kong, and Singapore — and we know the British are determined to establish tremendous trade flows through Hong Kong to China.” And after London it will be Frankfurt or Hamburg, “because,” says Low, “of the trade between Germany and
our major markets and because of the huge potential for downstream investments and transfer of German technology."

Clearly China figures prominently in Low's plans. The vast country, with its huge population and enormous potential market, must be important to any Pacific-based planner who thinks, as Low does, in geopolitical rather than purely financial terms, and who has the vision to look far into the future.

It is as well that China thinks as favourably as it does of Low and Ka Wah. The chairman of the Nanyang Commercial Bank, Chuang Shih-Ping, talks warmly of Ka Wah's management skills and good services, and has demonstrated his high opinion in the most concrete way. He says that Ka Wah handles an important part of Nanyang's business where the latter does not have correspondents in the western world and that Nanyang reciprocates with services for Ka Wah in China. At the Bank of China, managing director Xue Wen-Lin says his bank "always maintains an active, cordial, and very close business relationship with Ka Wah".

Perhaps Xue Wen-Lin, in his key role as China's banker in Hong Kong, should have
The last word. "Ka Wah is very strong, and has an excellent clean record," he says. "Mr Low himself and his in-depth connections are extremely beneficial to the role played by Ka Wah in Hong Kong and Mr Low has excellent traditional Chinese ethical spirit."

Low's wealth and connections augur well for the strength and growth of Ka Wah bank, he adds. In saying so, in the context of Hong Kong in 1984, he seems to be sending a clear message to the whole financial world. If the next century, as many believe, is to be the century of the Pacific Basin, Low and Ka Wah are well placed to be among the leading financial institutions that will be operating there. □

[The Bank of China] always maintains an active, cordial and very close business relationship with Ka Wah

Xue Wen-Lin

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