Chapter IX

Finance, Banking and Insurance

CHAPTER IX

Finance, Banking and Insurance

I. INTRODUCTION

9.01 The finance, banking and insurance sector played an important role in the mobilization and allocation of funds to support the growth and development of the economy during the Fifth Malaysia Plan period. The banking system, development finance institutions, the capital market and the insurance industry provided the financial support necessary for the expansion and development of agricultural, manufacturing and tourism activities. The sector extended funds at reasonable cost, thus enhancing the environment for economic expansion.

9.02 The finance, banking and insurance sector will continue to provide the supportive and complementary role for the further development of the economy during the Sixth Malaysia Plan period. The efficiency of the sector in mobilizing and allocating funds will continue to be enhanced. Measures will continue to be undertaken to widen and deepen the financial system. The financing mechanism and financial management will be further modernized and strengthened to meet the anticipated increased requirements of funds by the private sector. Continuous upgrading of skills and improvements in the standard of professionalism in this sector will be emphasized.

II. PROGRESS, 1986-90

9.03 During the Fifth Plan Period, the finance, banking and insurance sector grew significantly at 8.4 per cent per annum was higher than the projected Plan target of 6.8 per cent. Its share to Gross Domestic Product (GDP) rose from 8.8 per cent in 1985 to 9.7 per cent in 1990, while employment in the sector increased from 199,000 to 242,000. The financial system extended loans amounting to $58,400 million to the private sector during the period for the expansion and development of the major sectors of the economy. The total resources of the financial system increased significantly from $169,000 million at the end of 1985 to $320,400 million at the end of 1990, or at an average annual rate of 13.7 per cent.

Banking System

Assets and Deposits

9.04 The banking system, comprising the commercial banks, finance companies and merchant banks, accounted for about 56 per cent of the total assets of the financial system as at the end of 1990. The total assets of the banking system, as shown in *Table 9-1*, expanded at an average annual rate of 12.8 per cent from $98,362 million at the end of 1985 to $179,717 million at the end of 1990. Within the banking system, the commercial banks continued to dominate in terms of assets and deposits, although the finance companies recorded the fastest growth rate of 17.2 per cent per annum in assets during the period. The finance companies' share of deposits also increased from 20.7 per cent of total deposits to 27.2 per cent during the period.

Loans

9.05 In line with the broad-based expansion of the economy, demand for credit generally remained strong during the Fifth Plan period with total outstanding loans from the banking system increasing at 11.6 per cent per annum from $65,999 million at the end of 1985 to $114,047 million at the end of 1990. A significant proportion of the loans extended continued to be channelled to the broad property sector, comprising construction, real estate development and housing for individuals, although there was a marked shift in the direction of credit towards a more even distribution among the major groups with manufacturing, which led the economic growth, absorbing the largest share of loans, as shown in *Table 9-2*.

9.06 The three priority sectors, as defined under the lending guidelines, namely, housing loans for individuals, small-scale enterprises and the Bumiputera community, continued to have adequate access to bank credit at preferential rates. In line with developments in the economy, lending guidelines to the commercial banks and finance companies have been progressively liberalized and removed. By the end of the Fifth Plan period, these guidelines included lending to the Bumiputera community and for loans made under the Principal

TABLE 9-1

TOTAL ASSETS, DEPOSITS AND LOANS OF THE BANKING SYSTEM, 1985-90

($ million as at end of year)

	TOTAL ASSETS					TOTAL DEPOSITS					TOTAL OUTSTANDING LOANS				
	1985	*Share (%)*	*1990*	*Share (%)*	*Average Annual Growth Rate 5MP (%)*	*1985*	*Share (%)*	*1990*	*Share (%)*	*Average Annual Growth Rate 5MP (%)*	*1985*	*Share (%)*	*1990*	*Share (%)*	*Average Annual Growth Rate 5MP (%)*
Commercial Banks	74,233	*75.5*	129,197	*71.9*	*11.7*	51,009	72.7	74,963	*67.7*	*8.0*	48,982	*74.2*	80,763	*70.8*	*10.5*
Finance Companies	17,833	*18.1*	39,457	*22.0*	*17.2*	14,541	*20.7*	30,099	*27.2*	*15.7*	12,326	*18.7*	27,031	*23.7*	*17.0*
Merchant Banks	6,296	*6.4*	11,063	*6.1*	*11.9*	4,645	*6.6*	5,709	*5.1*	*4.2*	4,691	*7.1*	6,252	*5.5*	*5.9*
Total	98,362	*100.0*	179,717	*100.0*	*12.9*	70,195	*100.0*	110,771	*100.0*	*9.5*	65,999	*100.0*	114,046	*100.0*	*11.6*

Guarantee Scheme (PGS) of the Credit Guarantee Corporation (CGC). Interest rate ceilings were set for loans extended for the purchase of owner-occupied houses, where the price of the house did not exceed $100,000 each, and for loans extended under PGS. Total loans extended to these three sectors rose significantly, particularly for the Bumiputera community. Loans extended to the Bumiputera community increased from $17,267 million at the end of 1985 to $31,475 million at the end of 1990 to account for 28.9 per cent of the total loans outstanding.

TABLE 9-2

LOANS TO MAJOR SECTORS BY THE BANKING SYSTEM, 1980-90
($ million as at end of year)

Sectors	1980	Share (%)	1985	Share (%)	1990	Share (%)	Change during 4MP	Share (%)	Change during 5MP	Share (%)
Agriculture	2,142	*8.1*	3,793	*5.8*	5,648	*4.9*	1,651	*4.2*	1,855	*3.8*
Mining	288	*1.1*	672	*1.0*	1,067	*1.0*	384	*1.0*	395	*1.0*
Manufacturing	5,443	*20.7*	10,054	*15.2*	21,528	*18.9*	4,611	*11.6*	11,474	*23.8*
Construction	1,808	*6.9*	4,525	*6.9*	8,142	*7.1*	2,717	*6.8*	3,617	*7.5*
Real Estate	2,282	*8.7*	10,325	*15.6*	12,902	*11.3*	8,043	*20.3*	2,577	*5.3*
Housing	2,852	*10.8*	8,135	*12.3*	13,006	*11.4*	5,283	*13.3*	4,871	*10.1*
General Services	5,217	*19.8*	10,136	*15.4*	13,548	*11.9*	4,919	*12.4*	3,412	*7.1*
Business Services	819	*3.1*	7,014	*10.6*	12,040	*10.6*	6,195	*15.6*	5,026	*10.5*
Transport	654	*2.5*	1,256	*1.9*	2,440	*2.1*	602	*1.5*	1,184	*2.5*
Consumption Credit	961	*3.7*	2,992	*4.5*	11,694	*10.3*	2,031	*5.1*	8,702	*18.1*
Others	3,836	*14.6*	7,097	*10.8*	12,032	*10.5*	3,261	*8.2*	4,935	*10.3*
Total	26,302	*100.0*	65,999	*100.0*	114,047	*100.0*	39,697	*100.0*	48,048	*100.0*

Special Funds

9.07 In addition to the incentives provided under the Promotion of Investment Act, 1986, several financial and fiscal measures were introduced during the Fifth Plan to stimulate both domestic and foreign investments. Special funds were also introduced by the Government to assist and stimulate the growth of several priority sectors. The New Investment Fund (NIF) was launched in 1985, with an initial allocation of $1,000 million by the Government to stimulate new investments in selected sectors, namely, manufacturing, agriculture, tourism and mining, as part of the Government's efforts to promote growth and shift new lending away from low priority sectors of property and real estate. To support the Government's efforts to promote private sector cash cropping on a commercial basis, the Government further provided an additional $200 million, raising total NIF funds to $1,200 million. The Fund was further expanded by an additional $500 million, bringing the total to $1,700 million.

9.08 As at the end of 1990, a total of $1,428 million involving 422 projects were approved under the NIF scheme, of which $1,024 million was for the manufacturing sector, $277 million for agriculture, $80 million for tourism and $47 million under the cash-crop scheme. The NIF had contributed to the economic recovery from the 1985/86 recession. In 1988, with the Malaysian economy well on the recovery path and ample liquidity in the banking system, it was decided that the NIF scheme would no longer be extended.

9.09 The $500 million *Enterprise Rehabilitation Fund* (ERF) was established with the objective of conserving and developing the scarce pool of Bumiputera entrepreneurs built up in the last decade. As at the end of 1990, 1,485 applications were received, of which 692 projects were approved, amounting to about $479.9 million. In view of the fact that the rehabilitation of abandoned housing projects was the focus of ERF, a separate scheme, the *Abandoned Housing Projects Fund* with a total allocation of $600 million was subsequently set up in June 1990 to revive abandoned housing projects and to provide affected house buyers with good titles. At the end of 1990, a total of 33 applications, amounting to $137 million was approved under this Fund.

9.10 In addition, to nurture the growth of Bumiputera entrepreneurs, a $250 million *New Entrepreneurs Fund* (NEF) was set up in December 1989 to provide financing at a concessionary interest rate to Bumiputera entrepreneurs to undertake new ventures, particularly in manufacturing, agriculture, tourism and export-oriented industries or industries supporting the export drive. As at the end of 1990, 280 applications were received, of which 153 were approved, amounting to $21.7 million.

Bank Liquidity

9.11 Bank liquidity was relatively tight during the early part of the Fifth Plan period due to the recession. However, with the strengthening of the balance of payments, easy liquidity prevailed. The liquidity remained ample for the banking system and this was reflected by the loan-deposit ratio of the banking system, which declined from 90.4 per cent at the end of 1985 to 89.4 per cent at the end of 1990.

Development of the Banking System

9.12 During the period 1985-86, several medium-sized banks and deposit-taking cooperatives (DTCs) experienced huge losses. This has raised general concerns over the integrity and stability of the financial system as a whole. To maintain the soundness and stability of the financial system, the Government deployed manpower and other resources to turn around the ailing financial institutions and rescue the 24 DTCs. In this regard, three-pronged strategies were adopted. Firstly, steps were taken to remove or rebuild the major weak links in the financial system. Secondly, financial reforms were introduced to widen and deepen the financial market in order to enhance competition and efficiency, and finally, standards were upgraded to instil greater professionalism and discipline into the system. Through the process of capital reconstruction and management revamp, assisted by an upturn in economic activities, the ailing financial institutions were turned around with operational profits, while successful rescue schemes were formulated and implemented for the 24 DTCs.

9.13 Several measures were taken to improve the efficiency of the banking system during the Fifth Plan. In this regard most of the banking and financial institutions were computerized to better serve their customers. An on-line book entry system for Government papers and *Cagamas* bonds and an on-line interbank funds transfer system known as SPEEDS (*Sistem Pemindahan Elektronik untuk Dana dan Sekuriti*) were also introduced. Measures to harness electronic technology to speed up and increase the efficiency of payments and information transfer were also implemented. SWIFT (Society of Worldwide Interbank Financial Telecommunication), an international financial telecommunication system, was also introduced, while cheque clearing throughout the country was expedited with the launching of SPAN I *(Sistem Penjelasan Automatik Nasional)* and SPAN II. Retail payments were also considerably modernized, with the rapid expansion of automated teller machine (ATM) network, which permits cash withdrawals, funds transfer, payment of utility bills and EFTPOS (Electronic Fund Transfer at Point of Sale).

9.14 On the legislative front, the Banking and Financial Institution Act, 1989 (BAFIA) was enacted to modernize and streamline the laws relating to the conduct of banking and financial activities. Besides enabling all financial institutions supervised by Central Bank (other than insurance companies) to be placed under one regulatory regime, BAFIA also incorporated provisions to allow the Central Bank, with the concurrence of the Minister of Finance, to monitor and, if necessary, extend its arm to the fringe banking sector should the need arise. The Act also empowers the Central Bank to investigate and prosecute illegal deposit takers. Thus, the gap in the supervision of the financial sector has been significantly reduced.

9.15 Measures were also undertaken to eliminate structural barriers in order to create a more competitive environment. In addition, major reforms were also implemented to deepen the capital and money markets as well as enhance efficiency in the system. These include a more flexible interest rate regime, the introduction of new instruments, such as *Cagamas* bonds, corporate bonds and property trusts, computerization of the trading system for Government securities and *Cagamas* bonds, and providing greater flexibility to the banking institutions in liquidity and funds management.

9.16 Concurrently, measures were undertaken to tighten financial discipline in the system. A code of ethics to promote and maintain a uniform ethical standard among directors and employees of the banking system was introduced. Guidelines for the management on non-performing loans and bad debts as well as a framework of capital adequacy and requirement for a greater public disclosure by the banking institutions were also introduced during the Fifth Plan period. Steps were also taken to upgrade and overcome the shortage of trained staff in the banking industry. Guidelines were formulated to discourage staff pinching among financial institutions and promote industry-wide training and manpower development.

Development Finance Institutions

9.17 The development finance institutions, comprising the Malaysian Industrial Development Finance (MIDF), the Borneo Development Cooperation, the Sabah Development Bank, *Bank Pembangunan Malaysia, Bank Industri Malaysia* and *Bank Pertanian Malaysia* complemented the role of the banking system in terms of providing medium-and-long-term capital financing as well as supplying a range of financial services not normally provided by commercial banks and finance companies. The total assets of these development finance institutions increased by 10 per cent per annum from $4,100 million at the end of 1985 to $6,600 million at the end of 1990, with MIDF as the leading source of industrial development funds and *Bank Pertanian Malaysia* as the largest source of loans for rural credit which amounted to $906.7 million at the end of 1990.

Other Institutions

9.18 *The National Savings Bank* (BSN) experienced a period of rapid growth and modernization during the Fifth Plan period. It was marked by the massive branch expansion programme that raised the number of branches from 15 at the end of 1985 to 313 by the end of 1990. Accordingly, the number of ATMs installed also increased. The modernization programme included the computerization as well as the provision of a comprehensive range of financial services. The number of depositors grew significantly from 5.6 million at the end of 1985 to over 8.3 million as at the end of 1990. Correspondingly, the total assets of the bank rose from $1,726 million to $3,000 million. Total loans extended increased from $14.5 million to $535 million.

9.19 *The Employees Provident Fund* (EPF) is the premier social security scheme in the country, with assets totalling more than $46,766 million held in trust for the benefit of 5.9 million members as at the end of 1990. The EPF is the single most important source of non-inflationary finance to the Government, with $36,130 million or 79.1 per cent of its investment portfolio invested in the Malaysian Government Securities (MGS) as at the end of 1990. The remaining investible funds were channelled into various other avenues of investment such as the granting of loans to Government agencies and approved companies, investing in promissory notes, and participating in the equity and money market.

Capital Market

Growth Trends

9.20 The capital market comprises all the public and private debt securities, and quoted corporate stocks and shares. Total funds raised in the capital market rose rapidly from $ 4,223 million in 1985 to $ 14,688 million in 1990. The Government securities market provided a major source of funds for financing the development expenditure of the public sector. The amount of outstanding Government securities increased from $36,681 million as at the end of 1985 to $62,106 million as at the end of 1990. The Government securities market underwent a significant transformation during the Fifth Plan period. Since 1987, Malaysian

Government securities have been issued with market-related coupon rates for the purpose of developing an active and viable secondary market. A principal dealership system was established in January 1989 for the same purpose. A total of 23 financial institutions have been appointed as principal dealers for Government securities. The system has taken off very satisfactorily and a viable secondary market in Government securities, Treasury bills and *Cagamas* bonds is fast developing.

9.21 To deepen the capital market, the Government encouraged the establishment of *Cagamas Berhad* in 1986. *Cagamas Berhad* has issued bonds (*Cagamas* Bonds) totalling $2,900 million to finance its purchases of housing loans from banks and finance companies. The authorities also took measures to promote the development of a viable private debt securities market. In this regard, Guidelines on the Issue of Private Debt Securities were published in December 1988 on the legal and administrative framework for bond financing. Since then, a market in private debt securities has begun to emerge. The total amount of funds raised through a variety of instruments, including convertible unsecured loan stocks, conventional bonds, commercial papers and Islamic bonds, had increased more than tenfold from $225 million in 1987 to $2,387 million in 1990.

9.22 The amount of funds raised by the private sector in the capital market was relatively small compared with the amount raised by the Federal Government. However, the volume of transactions in the corporate securities in the secondary market, comprising mainly the Kuala Lumpur Stock Exchange (KLSE) and to a lesser extent the Bumiputera Stock Exchange (BSE), significantly outweighed the transactions in the Government securities. Unlike the Government securities, the ownership structure of the corporate securities was more diversified, being distributed among individual investors. The annual turnover of KLSE rose at an annual average of 37.1 per cent from 2,869.7 million units in 1985 to 13,138 million units in 1990. In terms of volume, turnover on KLSE was dominated by trading in the industrial shares which accounted for 45 per cent of the total turnover in 1990.

9.23 The Government undertook serious efforts to develop KLSE into a sophisticated international stock exchange. The Corporatization Policy, aimed at strengthening the capital base of the stockbroking companies as well as enhancing the level of professionalism in the securities industry was introduced in 1986. In this regard, the minimum paid-up capital requirement of the stockbroking company was set at not less than $20 million and the minimum liquid fund requirement of stockbroking company was also revised. Of the 53 stockbroking companies, 11 were corporatized during the Fifth Plan period. Out of this, four of them were corporatized through participation of foreign corporations and the balance were through local companies. In line with its modernization efforts, the Advanced Warning and Surveillance Unit (AWAS) was formed in 1987 to alert KLSE of stockbroking houses and public listed companies which were facing problems. The Semi-automated Trading System (SCORE) was introduced to replace completely the traditional outcry system. A fixed delivery and settlement system was also introduced to enhance the efficiency of the clearing and settlement functions. The implementation of the privatization programme has resulted in widening and broadening the KLSE board significantly with the listing of several large companies, such as *Telekom Malaysia Berhad*, Malaysia International Shipping Corporation and Malaysian Airlines. In an effort to fully develop KLSE, all Malaysian companies were directed to be delisted from the Stock Exchange of Singapore from January 1990. To enhance the growth of smaller companies, the Second Board was introduced in 1988 to enable potential companies to be listed in order to tap capital funds from the market through listing on KLSE.

9.24 During the Fifth Plan period, the Government undertook initiatives to promote the development of a corporate bond market and a secondary market in Government securities and in corporate bonds. Towards this end, a number of supportive reforms were introduced since 1986 to develop the Government securities market. These reform measures included the unpegging of interest rates on deposits, allowing the banking system to maintain its liquidity ratio and statutory reserves ratio on an average basis, expanding the number of money market participants, increasing the number of financial instruments, and using Kuala Lumpur Interbank Overnight Rate (KLIBOR) as an official indicator of money market conditions. The statutory reserves ratio of the commercial banks, the finance companies and the merchant banks were, at the same time, realigned to bring about greater competition. To further improve the operational efficiency of trading in securities, a scripless book-entry securities trading and funds transfer system, SPEEDS, was launched in 1990, which had since enhanced the secondary trading of MGS considerably.

9.25 On the corporate bonds market, the first major move to promote a private debt securities (PDS) market was undertaken in 1986 with the setting up of *Cagamas Berhad*, the national mortgage corporation. The function of *Cagamas* is essentially to be an intermediary between primary lenders of housing loans and investors of long-term funds, while assuming the role of a credible issuer of mortgage securities. PDS achieved a milestone in its development with the incorporation of a credit rating agency in November 1990. In addition, in order to encourage large corporations to raise funds by issuing term notes as well as facilitate the development of both the primary and secondary markets for PDS, a set of guidelines on the issue of private debt securities was introduced in December, 1988.

Amanah Saham Nasional Scheme

9.26 *Amanah Saham Nasional Scheme* (ASN) attracted a net amount of more than $5,200 million from Bumiputera investors during the Fifth Plan period, with an accumulated investment of $11,000 million as at the end of 1990. The number of investors participating in the scheme also increased from 2.0 million to 2.5 million. The latter represents 46 per cent of the estimated 5.4 million Bumiputera individuals eligible to participate in the scheme. This was achieved through continuous vigorous marketing campaigns as well as through the introduction of various convenient schemes such as participation through direct mailing and monthly salary deductions. More efficient services were also provided to investors through the strengthening of branches of *Amanah Saham Nasional Berhad*, the managers of ASN, throughout Malaysia.

9.27 The funds mobilized from investors were invested in selected companies to provide appropriate returns on investment. As at the end of 1990, the investment portfolio of ASN comprised 67 companies, of which 60 companies are quoted on KLSE. Thus, from 1986 to 1990, with the active participation of Bumiputera investors in ASN, savings was mobilized to increase participation of Bumiputera individuals in the corporate sector through a unit trust scheme.

Venture Capital

9.28 Venture capital is a new form of equity investment in Malaysia, with only four venture capital companies operating in the country. To date, these venture capital companies have invested in 15 ventures, totalling $14.6 million, comprising new and existing companies with high growth potential. The priority areas of investment by these companies were in manufacturing, agro-based businesses and tourism.

Insurance

Growth Trends

9.29 Total premium income of life and general sector grew at 10.3 per cent per annum from $1,838 million in 1985 to $3,005.2 million in 1990. New annual premium income of *life business* recorded an average annual growth rate of about 13.3 per cent from $231.4 million in 1985 to $432 million in 1990. The increase in disposable income resulting from the nation's rapid economic development generated a sustained demand for life and associated sectors. Total annual premiums in force rose by an annual rate of 15 per cent from $800 million in 1985 to $1,600 million in 1990. The *general insurance business,* however, expanded at a slower pace compared with the life sector during the Fifth Plan period, where written premiums grew at 8.6 per cent per annum from $1,200 million in 1985 to $1,800 million in 1990. Total net written premiums (gross premiums less reinsurance within and outside Malaysia) grew at 7.6 per cent per annum from $900 million to $1,400 million in 1990. The higher growth of net premium income reflected an increase in the retention ratio of the industry from 75.7 per cent in 1985 to 76.9 per cent in 1990. Total claims (net of local reinsurance recoveries) paid by the industry rose by 7.2 per cent per annum from $621.5 million in 1985 to $883 million in 1990.

9.30 *Mobilization of Funds.* Insurers continued to play an important role in mobilizing domestic resources and remained an important source of funds for both the public and private sectors. Total assets of the insurance industry grew at 11.9 per cent per annum from $5,268 million at the end of 1985 to $9,258 million at the end of 1990, constituting 2.8 per cent of the total assets of the financial system. About 75 per cent of the total insurance fund was attributed to the life insurance sector. The assets of the *life insurance funds* amounted to $6,900 million at the end of 1990 and were invested largely in Government securities, which accounted for 29 per cent of total life fund assets. The proportion of assets invested in corporate securities, loans, fixed assets and other assets were 19.1 per cent, 19.2 per cent, 4.5 per cent and 3.3 per cent, respectively. The balance were in the form of cash and deposits which amounted to 20.5 per cent. In terms of assets, life funds constituted 2.1 per cent of the total assets of the financial system. *General insurance fund* assets, which amounted to $2,300 million at the end of 1990, have a more liquid asset portfolio, with cash and deposits comprising 34.6 per cent of its investments.

9.31 *Takaful Business. Syarikat Takaful Malaysia Sdn. Bhd.* (STMSB), the only company operating *takaful* business (Islamic insurance) since July 1985, continued to experience rapid growth. The assets of STMSB, both from the family and the general takaful funds, increased from $1.9 million in 1986 to $38.2 million in 1990. Contributions collected in 1990 amounted to $28.4 million compared with only $2.3 million in 1986. General takaful business represented 70.4 per cent of the total contribution in 1990.

9.32 *Reinsurance Overseas.* The written premiums of the general insurance sector increased from $1,214.5 million in 1985 to $1,834 million in 1990. Reinsurance premiums ceded overseas also increased from $295.6 million to $423.9 million during the same period. However, as a proportion of written premiums, reinsurance premium ceded overseas declined slightly from 24.3 per cent to 23.1 per cent. The highest cessions were in respect of fire business which amounted to $114.1 million or 38.6 per cent of total reinsurance premiums ceded overseas in 1985 and $183.5 million or 43.2 per cent in 1990. However, the reinsurance premiums ceded overseas represented gross outflows in respect of foreign exchange as there would be reinsurance claims, recoveries and commissions.

Training

9.33 The insurance industry continued to face a shortage of suitably qualified personnel. In line with the Government's emphasis for more qualified personnel and the industry's consequential efforts to attract such personnel into the business, the number of professionally qualified insurance personnel increased by 12.8 per cent per annum during the Fifth Plan period. However, the increase in local professionals with insurance and actuarial skills was not sufficient to match the growth of insurance business. This has resulted in the demand for such professionals being met through continued dependence on foreign technical expertise in specialized fields of insurance and risk management. At the end of 1990, out of the total 2,472 professionals and graduates employed in the insurance industry, only 22 were actuaries compared with 18 in 1985. Presently, formal insurance education is provided by *Universiti Kebangsaan Malaysia* and MARA Institute of Technology. In addition, the Malaysian Insurance Institute (MII), as the industry's training and examining body of professional insurance examinations in Malaysia, has intensified efforts in playing a major role by increasing and upgrading its examination, education and training programmes.

III. PROSPECTS, 1991-95

9.34 With the private sector assuming the role as the main engine of growth during the Sixth Plan period, the monetary and banking policies will be increasingly oriented towards encouraging greater and more sophisticated financial intermediation. This will include strengthening and improving the efficiency of the financial institutions, as well as enhancing the development of the money and capital markets in order to effectively raise and mobilize savings for productive uses through the financial system. With the increasing complexity and sophistication demanded on the financial system, the number and range of financial instruments will be increased through the development of, among others, a sound primary and a secondary corporate bond markets, in order to widen the choice of available financial instruments for both the borrowers and investors.

Banking System

9.35 During the Sixth Plan, the Government will continue its efforts to nurture a strong, dynamic and modern banking industry to meet the growing needs of the rapidly expanding economy. Consolidation of the banking sector will continue. Following measures undertaken during the Fifth Plan to remove asymmetrical regulations among different groups of institutions, competition has intensified. Pressures arising from competition are expected to encourage small and undercapitalized institutions to merge into stronger entities. More banking institutions are expected to seek public listing, particularly those medium-sized institutions intending to improve their market share and conduct a wider range of financial activities. Public listing will allow financial institutions to raise equity from the market and have a wider shareholding structure. Institutions will have a sharper profit-orientation and are expected to be better managed by appointed professional bankers.

9.36 The banks are also expected to be more universal in their business activities providing a wider range of other financial services, such as corporate advice, portfolio management, trust activities, venture investments and underwriting activities. Banks will be further encouraged to participate, within prudent limits, in the equity of manufacturing companies, particularly those in the start-up or take-off stages. The bigger banks will continue to be allowed to invest in a range of financial services such as finance company, stock broking, equity and property trust management and nominee companies.

9.37 To remain competitive, banking institutions will continue to accelerate the pace of automation in their banking operations by introducing innovative and wider range of services to provide speedier, more efficient and economical services to their customers. The attempts by the banking institutions to bring the latest technology in banking automation will benefit their customers as it is envisaged that in the future more complex banking transactions can be done at the customer's convenience.

9.38 The Government will continue to pursue its twin policy of structural deregulation and prudential re-regulation. Market reforms, new instruments and, where necessary, new institutions will be judiciously introduced along with the on-going process of prudential re-regulation so that efficiency and sophistication can be increased without jeopardising safety and prudential standards. The activities of the banking system and other financial intermediaries would be governed by the provisions of BAFIA, 1989. While BAFIA may be further refined to clarify certain ambiguities and rectify some inconsistencies in the Act, the legislative framework is well in place to support the Government's efforts to foster a modern and efficient as well as a safe and sound banking system.

9.39 The Government will continue to pay particular attention to manpower development and training in the banking industry. Towards this end, the minimum Staff Training Expenditure (STE) guidelines currently enforced will be continuously reviewed and monitored. At the same time, local universities will introduce more courses in the finance and banking related fields in order to ensure sufficient qualified manpower for the rapidly expanding banking industry.

Other Financial Intermediaries

9.40 Increased emphasis will be placed on improving the efficiency of development finance institutions. A critical review will be undertaken to consolidate their role and functions with a view to strengthening the financial base of these agencies and improving their operations, especially in the management of loans and debts. Towards this end, the Government will study the feasibility of an amalgamation of the various development finance institutions to reduce their overhead expenses and increase their efficiency. This will enhance Government efforts in the attainment of a greater focus in extending long-term loans to the manufacturing and agriculture sectors as well as in providing financial support for the small- and medium-scale industries (SMIs), especially in the development of the Bumiputera Commercial and Industrial Community (BCIC).

9.41 BSN will continue to expand its network of branches and range of services to cater not only for existing customers but also to reach out to new markets that have business potential. The bank's objective is to become a leader in the retail banking sector and to command a major share of the banking business of households in Malaysia. In order to realize these objectives, the bank will focus its strategies on strengthening its branches and delivery systems, improving the range and quality of its products, undertaking aggressive and effective marketing and selling programmes, and providing quality customer services. BSN will also consider the introduction of hire purchase loans and business loans during the Sixth Plan period.

Capital Market

9.42 With the increasing sophistication and diversification of the economy, the role of the capital market in sustaining economic development has become more significant. In this regard, there is a need to continue efforts to deepen the capital market through the introduction of suitable new instruments as well as the creation and maintenance of viable secondary markets for all instruments. In addition, the use of property trust and country funds will be encouraged and is expected to provide greater additional instruments for investment. To further support the development of debt securities markets, the Government will consider further diversification of EPF to be invested in these securities. In the Sixth Plan, a programme to rationalize and streamline the legal and administrative framework governing the private debt securities market will be drawn up and implemented. The salient features of this programme are to further encourage the issue of private debt securities by credit-worthy corporations and develop viable secondary markets for the various instruments issued, through appropriate institutional and market arrangements, including the possible extension of the principal dealer network to such private debt securities.

9.43 An essential feature in an active and developed capital market is the existence of credit rating that would guide the investors to decide on an acceptable price for debt securities according to the credit-worthiness of the issuers. The establishment of an independent credit rating agency will enhance confidence and will increase investor demand for corporate bonds. This would encourage the corporate sector to raise funds directly from the market. Increasingly, there will be less reliance on bank credit for corporate funding as the bond market provides the corporate sector a cheaper and more flexible avenue for funding.

9.44 Efforts will also be undertaken to further develop KLSE into a sophisticated international stock exchange. In this regard, KLSE will introduce the Central Depository System (CDS) in 1991. CDS will reduce the problems associated with the physical delivery and transfer of scrips as well as improve the efficiency of corporate distributions, thus enabling cross border transactions which will help enhance the image of KLSE among the international bourses. Measures will also be undertaken to upgrade the quality of service of the stockbroking companies with intensified research activities to improve broker services. In addition, the corporatization of the stockbroking companies would be continued with the aim of strengthening further the corporate securities industry. The Government will continue to encourage stockbroking companies to merge or go for listing as a measure to consolidate and strengthen the industry.

9.45 In order to meet the demand of the increasingly sophisticated securities industry, the Government will consider the establishment of a single regulatory body to promote the development of the capital market. The task force set up to review the Malaysian capital market has considered the possibility of establishing a securities commission for this purpose. The proposed agency or commission will be given the responsibility to streamline the regulations of the securities market and to speed up the processing of applications and approvals for transactions.

9.46 During the Sixth Plan, ASN and ASB will continue to be an important vehicle to mobilize savings of Bumiputera individuals and to increase Bumiputera participation in the corporate sector. The savings generated will be channelled to increase Bumiputera interest in the existing companies of the ASN and ASB portfolios as well as purchase new investments. Improvements in the mobilization of savings will be achieved through the introduction of improved services via the computerization of the operations of ASN and ASB throughout Malaysia. This exercise also involves the computerization of post offices throughout the country. By January 1991, 280 major post offices will be computerized, while the remaining 225 post offices will be computerized by 1993. This will provide an extensive branch network of computerized post offices to mobilize Bumiputera savings, especially the small savers.

Financial Futures Market

9.47 To complement the securities market, the Government intends to promote the establishment of a financial futures and options market to assist investors to hedge their risk exposures in the securities market. Towards this end, the establishment of a new exchange, namely the Kuala Lumpur Options and Financial Futures Exchange, will be considered.

Venture Capital

9.48 The business community in general is largely unaware of the opportunities and benefits of venture capital as a form of long-term and high risk fund compared with the conventional methods of raising finance from the traditional sources. During the Sixth Plan, the Government will gear up its efforts to promote and develop venture capital financing. The financial and legal requirements to support the growth of venture capital will be improved. Initial or seed funds for venture capital will be introduced by the Development Finance Institutions in the effort to initiate the growth of specialized activity. In this regard, the emphasis and the target market of this venture capital fund will be in the development of technology-based SMIs involved in R&D commercialization and product development.

Insurance

9.49 During the Sixth Plan, the insurance industry will be further strengthened in order to achieve stable growth as well as provide improved services. Efforts will be concentrated in steering the insurance industry towards a stronger footing, structurally and operationally. The strategy is to impose prudent financial discipline on insurers and upgrade managerial professionalism and expertise among insurers and their intermediaries. This will ensure that the industry is able to meet the insurance needs of the country by offering quality service at reasonable cost.

Measures to Strengthen the Insurance Industry

9.50 *The Insurance Act, 1963* will be amended. The main thrust of the revision would be to raise the minimum capital requirement of insurer's operations, improve financial surveillance of insurer operations as well as provide clearer and more stringent guidelines on investment requirement and operating cost controls and specific requirement for claims provision for greater consumer protection. In consonance with this move, data bases of the insurance industry will be developed. These data bases will facilitate the diagnosis of the industry's problems as well as assist the Government in monitoring the performance of insurers more effectively.

9.51 *Upgrading Capacity and Capability.* Efforts will also be undertaken to improve the performance of the general insurance companies. Several measures will be adopted by the Government to maximize domestic retention capacity of the industry and to generate new income. A proposed scheme for large risks is being developed, aimed at reducing heavy reinsurances abroad of such risks, with local insurers acting only as fronts for reinsurers abroad.

9.52 *Upgrading Technical Expertise.* Human resource development is an important aspect for the expansion of the industry. The Government will seek to upgrade technical skills within the industry by devoting greater time and efforts in raising professional standards through strengthening the organization and training programmes of MII. As an additional boost to training activity, the Government has imposed a levy to be collected from those insurers who are not investing sufficiently in the training of manpower. The levies so collected will be managed and used by MII to finance industry-wide training programmes for the industry.

9.53 Continuous efforts will be undertaken to improve the quality of service to the public. In this regard, actions will continue to be undertaken to introduce uniform accounting standards with a greater degree of public disclosure of financial information. At the same time, the insurers, insurance brokers and agents will be encouraged to adopt professional code of ethics as a step towards upgrading of professionalism within the industry.

9.54 Recognizing the problems in the industry and the need to enhance the industry for it to play its rightful role in the economy, a two-prong approach will continue to be the strategy, namely, enhancing income through new markets, such as pooling of insurance of large risks and reducing expenditure by cutting overheads, acquisition costs and losses due to fraud. The technical skills within the industry would also need to be upgraded to meet the increasing sophisticated needs of the insuring public. Over the medium term, it is envisaged that the insurance industry should evolve to be a more effective and efficient mechanism for the transfer and pooling of risks as well as a major player in the capital market.

Labuan As An International Offshore Financial Centre

9.55 The legislative framework for Labuan as an international offshore financial centre (IOFC) was established by the passage of six bills in the Parliament in June 1990. The activities identified for Labuan include offshore banking and insurance, trust and fund management, offshore investment holding and licensing companies and other offshore activities carried out by multinational companies, excluding shipping and petroleum operations.

9.56 The Government will take several necessary steps to ensure the successful development of Labuan as an IOFC. In this regard, the basic infrastructural facilities in Labuan will be further developed and improved. The number of flight services between Labuan and Kuala Lumpur and the rest of the established financial centres in the region will also be improved and increased. Other facilities such as a modern hospital and medical centre and an international school will be constructed. Since the existing administrative system in Labuan is not conducive to the development of IOFC, several improvements and modernization to the present administrative system will be undertaken. Aggressive promotional efforts will continue to be undertaken to market Labuan as an IOFC, domestically and internationally. In establishing Labuan as an IOFC, the Government will ensure that a high degree of professionalism and credibility in the services provided will be maintained and *bona fide* funds are deposited in Labuan.

IV. ALLOCATION

9.57 The Federal Government development allocation and estimated expenditure for the Fifth Plan period and the allocation for the Sixth Plan period for the finance sector are $535.1 million, $534.1 million and $660.9 million, respectively, as shown in *Table 9-3.* In line with the Government's emphasis on development of SMIs, a substantial allocation for the Sixth Plan is for the provision of credit and financial services for the promotion of SMIs. Emphasis will also be given to the promotion of hi-tech and commercialization of potential R&D projects through venture capital financing.

V. CONCLUSION

9.58 The finance, banking and insurance sector has contributed significantly to the growth and development of the economy. It performed very well and grew with greater maturity, efficiency and effectiveness, particularly in facilitating resource mobilization and allocation. For the Sixth Plan, this sector is expected to further facilitate growth and development, especially for the priority sectors of the economy. Government efforts at ensuring the growth of an efficient and effective finance, banking and insurance sector will be emphasized, especially in ensuring continuous improvements in financial prudence, discipline and professionalism in the sector. The Government will continue to provide the necessary support for the creation of an efficient finance, banking and insurance sector, as part of the efforts to ensure a conducive investment climate for private enterprise and initiative.

TABLE 9-3

DEVELOPMENT ALLOCATION FOR THE FINANCE, BANKING AND INSURANCE SECTOR, 1986-95

($ million)

Programme	*5MP* Allocation	*5MP* Expenditure	*6MP* Allocation
Export credit	10.0	10.0	75.7
Venture capital for High Tech	0	0	115.0
Industrial Promotion	66.5	66.5	100.0
Small & medium enterprises loans	147.2	146.2	356.5
Other financial services	26.4	26.4	13.7
Government Equity	285.0	285.0	0
Total	**535.1**	**534.1**	**660.9**