

# **Chapter XIII**

## **Finance**



## CHAPTER XIII

# Finance

### I. INTRODUCTION

The finance sector, which includes banking and insurance as well as real estate and business services, continued to play an important role in the growth and development of the economy during the Fourth Malaysia Plan period, 1981-85. Financial activities provided the support facilities necessary for the expansion and development of the major sectors of the economy, particularly agriculture and manufacturing. In spite of the world recession, the sector grew at a higher rate than that of the Gross Domestic Product (GDP). The contribution of the finance sector to GDP and employment, therefore, increased during the period 1981-85.

During the Fifth Malaysia Plan period, 1986-90, the finance sector is expected to make greater contribution to the further growth of the productive sectors of the economy, particularly agriculture, manufacturing, and tourism. The sector is expected to continue to make available financial resources at reasonable cost and provide a conducive climate for private investment, especially in the priority sectors. The finance sector is also expected to contribute towards improving the invisibles trade balance.

### II. PROGRESS, 1981-85

During the period, the finance sector expanded at 7.2 per cent per annum, slightly below the Fourth Plan target of 7.8 per cent. In spite of this shortfall in growth rate, the contribution of the sector to GDP rose from \$3,687 million or 8.3 per cent in 1980 to \$5,212 or 8.8 per cent in 1985. Similarly, employment in this sector increased from 78,300 to 101,600 or from 1.6 per cent to 1.9 per cent of total employment, during the same period.

#### **Banking system**

*Assets, deposits, and loans.* The banking system comprising commercial banks, finance companies, and merchant banks, was dominated by the commercial banks in terms of assets, deposits and loans. The total assets of the banking system, as shown in Table 13-1 expanded at an average annual rate of 19.7 per cent from

\$49,050 million at the end of 1980 to \$98,362 million at the end of 1985. The finance companies recorded the fastest growth rate 25.9 per cent per annum in assets among the three major financial institutions. The annual growth rates for merchant banks and commercial banks were 23.1 per cent and 18.2 per cent, respectively.

The merchant banks experienced a significant increase in deposits and registered the fastest growth rate of 31.4 per cent per annum during the Fourth Plan period. The finance companies performed better than the commercial banks in deposit mobilization and recorded an average annual growth rate of 24.4 per cent compared with 16.0 per cent achieved by the commercial banks. Consequently, over the years, the finance companies were able to gain a larger share of deposits of the banking system increasing from 16.1 per cent of total deposits in 1980 to 20.7 per cent in 1985.

Despite the slowdown in economic activity, demand for credit during the Fourth Plan period as a whole remained strong. Since 1984, it became evident that credit growth was not matched by an adequate increase in deposits mobilized by the commercial banks, which faced strong competition from finance companies offering higher interest rates for depositors. Consequently, the commercial banks experienced relatively tight liquidity conditions, particularly during the latter part of the Fourth Plan period. This was reflected in the loan-deposit ratio of the commercial banks which increased from 86.7 per cent at the end of 1980 to 96.0 per cent at the end of 1985.

TABLE 13-1

**MALAYSIA: TOTAL ASSETS, DEPOSITS, AND LOANS OF THE  
BANKING SYSTEM, 1980 AND 1985**  
(\$ million as at end of year)

<i>Financial Institution</i>	<i>Total assets</i>		<i>Total deposits</i>		<i>Total loans</i>	
	<i>1980</i>	<i>1985<sup>1</sup></i>	<i>1980</i>	<i>1985<sup>1</sup></i>	<i>1980</i>	<i>1985<sup>1</sup></i>
Commercial banks	32,186	74,233	24,257	51,009	21,031	48,979
Finance companies	5,635	17,833	4,874	14,542	3,576	12,320
Merchant banks	2,229	6,296	1,184	4,644	1,695	4,691
<b>Total</b>	<b>49,050</b>	<b>98,362</b>	<b>30,315</b>	<b>70,195</b>	<b>26,302</b>	<b>65,990</b>

Source: Central Bank of Malaysia.

Note: <sup>1</sup>As at November, 1985.

The continued strong demand for loans in the face of slower deposit growth, which led to keen competition for deposits among the major groups of financial institutions, placed strong pressures on domestic interest rates. The average interbank overnight money rate rose by 1.6 percentage points from 5.2 per cent in 1980 to 6.8 per cent in 1985.

The finance companies registered the highest growth rate for loans during the period, with 28.1 per cent per annum compared with 22.6 per cent for merchant banks and 18.4 per cent for commercial banks. In line with their greater share of deposits, loans extended by the finance companies increased substantially from 13.6 per cent of the total credit provided by the banking system at the end of 1980 to 18.7 per cent at the end of 1985.

Taking the banking system as a whole, total outstanding loans, as shown in Table 13-2, increased from \$26,303 million at the end of 1980 to \$65,990 million at the end of 1985. Loans extended during the Fourth Plan period were channelled mainly to the property sector, comprising construction, real estate development, and housing for individuals. Outstanding loans to this sector, therefore, increased from \$6,942 million or 26.4 per cent in 1980 to \$22,984 million or 34.8 per cent as at the end of 1985.

Loans extended to other sectors increased moderately. Outstanding loans to the agriculture sector increased from \$2,142 million at the end of 1980 to \$3,793 million at the end of 1985, while outstanding loans to the manufacturing sector rose from \$5,443 million to \$10,050 million during the same period. The share of total outstanding loans extended to both these sectors, however, decreased during this period. In the case of the agriculture sector, its share in total outstanding loans dropped from 8.1 per cent at the end of 1980 to 5.8 per cent at the end of 1985 and for the manufacturing sector, its share declined from 20.7 per cent to 15.2 per cent during the same period.

The four priority sectors, as defined under the lending guidelines imposed on the commercial banks and finance companies, namely, agricultural food production, housing loans for individuals, small-scale enterprises and the Bumiputera community, continued to have adequate access to bank credit at preferential rates. Other than loans to small-scale enterprises under the Special Loan Scheme, generally, the commercial banks and the finance companies achieved the targets for the other three sectors. In all the cases, total loans extended to these four sectors of the economy increased substantially, particularly the Bumiputera community. Loans extended to this priority sector increased from \$4,612 million at the end of 1980 to \$17,266 million at the end of 1985.

*Technological improvements.* Significant technological advancements took place in the banking industry during the Fourth Plan period. A wider choice of services and facilities were made available as commercial banks computerized

TABLE 13-2

MALAYSIA: DIRECTION OF CREDIT TO MAJOR SECTORS BY  
THE BANKING SYSTEM, (1980-85)

(As at end of year)

Sectors	1980		1981		1982		1983		1984		1985 <sup>1</sup>	
	\$million	%	\$million	%	\$million	%	\$million	%	\$million	%	\$million	%
Agriculture	2,142	8.1	2,454	7.6	2,778	7.3	3,215	6.7	3,560	6.2	3,793	5.8
Mining	288	1.1	378	1.2	621	1.6	793	1.7	673	1.2	671	1.0
Manufacturing	5,443	20.7	6,990	21.5	7,290	19.1	8,822	18.4	9,276	16.0	10,050	15.2
Construction	1,808	6.9	2,155	6.6	2,440	6.4	3,158	6.6	4,016	6.9	4,524	6.9
Real estate	2,282	8.7	3,624	11.2	4,809	12.6	6,402	13.4	8,708	15.0	10,325	15.6
Housing	2,852	10.8	3,645	11.2	4,570	12.0	5,440	11.3	6,672	11.5	8,136	12.3
General commerce	5,217	19.8	6,320	19.5	6,916	18.1	8,195	17.1	9,347	16.2	10,134	15.4
Business services	819	3.1	764	2.3	838	2.2	1,201	2.5	1,735	3.0	1,962	3.0
Transport	654	2.5	965	3.0	1,118	2.9	1,147	2.4	1,239	2.1	1,255	1.9
Consumption credit	961	3.7	1,219	3.7	1,506	4.0	1,959	4.1	2,624	4.5	2,992	4.5
Other	3,837	14.6	3,976	12.2	5,253	13.8	7,579	15.8	10,067	17.4	12,149	18.4
Total Loans	26,303	100.0	32,490	100.0	38,139	100.0	47,911	100.0	57,917	100.0	65,990	100.0

Source: Central Bank of Malaysia.

Note: <sup>1</sup>As at November, 1985.

their banking transactions. By the end of 1985, 15 or 39.5 per cent of the 38 commercial banks had installed 278 automated teller machines (ATMs) at their headquarters, branch, and off-branch premises. With the automation of the clearing system of the Kuala Lumpur Automated Clearing House (KLACH) since January, 1984, a more prompt cheque clearing process was made possible for Kuala Lumpur, Petaling Jaya, and other towns in the Klang Valley.

*Islamic banking.* The Bank Islam Malaysia Berhad, since its incorporation in 1983, recorded strong growth with deposits increasing from \$91 million at the end of 1983 to \$479 million at the end of 1985. Loans extended grew by more than eight times from \$41 million to \$355 million during the same period. The assets of the Bank trebled from \$171 million at the end of 1983 to \$584 million at the end of 1985.

#### **Other financial intermediaries**

*The National Savings Bank.* Savings at the National Savings Bank increased marginally from \$1,235 million at the end of 1980 to \$1,404 million by the end of 1985. This partly reflected the increasing competition from the other financial institutions, which offered generally higher interest rates and better services. In November, 1984 the Bank launched a fixed deposit scheme to encourage savings. In order to encourage savers to utilize the scheme, income tax exemption was given for interests earned from fixed deposits of 12-month maturity period placed with the National Savings Bank. Interests earned on fixed deposits of 6-month maturity period were also exempted for individual accounts, although this was restricted to a ceiling of \$100,000.

*Industrial finance institutions.* The industrial finance institutions, comprising the Sabah Development Bank Berhad (SDB), the Malaysian Industrial Development Finance Berhad (MIDF), the Industrial Development Bank of Malaysia (BKPMB), the Development Bank of Malaysia (BPMB), and the Borneo Development Corporation, complemented the role of the banking system. Total outstanding loans extended by the industrial finance institutions to the industrial sector increased from \$662 million at the end of 1980 to \$803 million at the end of 1984. The industrial finance institutions accounted for 8.0 per cent of total outstanding loans extended for industrial activities in 1984, while the banking system accounted for 92.0 per cent.

Total loans extended by MIDF during the period 1981-85 amounted to \$656 million. These loans were directed to manufacturing activities, particularly for the production of food, beverages, and tobacco, metal and engineering, and wood and wood products. While the loans extended by MIDF were for manufacturing activities, BKPMB concentrated on the promotion of the growth and development of the local shipyard and shipping industry. Credit for financing shipyard and shipbuilding activities increased markedly as reflected in the increase in total outstanding loans extended by BKPMB from \$12 million at the end of 1980 to \$86 million at the end of 1985.

*Agricultural credit institutions.* The rural credit institutions continued to provide financial assistance to the agriculture sector. Total outstanding loans extended for agriculture by the rural credit institutions as a group, comprising the Agriculture Bank of Malaysia (BPM), the Peoples Co-operative Bank of Malaysia, the Farmers Organization Authority (FOA), and farmers co-operatives and other agro-based co-operative societies, increased from \$276 million at the end of 1980 to \$695 million at the end of 1984. The rural credit institutions accounted for 9.1 per cent of total outstanding loans extended for agriculture as at the end of 1984. The bulk of the credit to agriculture was from the banking system, which accounted for 46.5 per cent of total outstanding agricultural loans, and the development agencies, namely, the Federal Land Development Authority (FELDA) and SDB, 44.3 per cent at the end of 1984.

BPM is the largest of the rural credit institutions with resources totalling \$1,400 million or 56.0 per cent of the total assets of these institutions in 1984. Total outstanding loans from BPM, which increased from \$224 million at the end of 1980 to \$612 million at the end of 1984, accounted for 88.0 per cent of total outstanding loans extended by the rural credit institutions. These loans were mainly for agricultural activities, particularly for the cultivation of oil palm, cocoa, and *padi*, development of livestock and fisheries, and the purchase and development of agricultural land.

The co-operative societies were particularly active in their promotional and publicity campaigns to enlist new members during the Fourth Plan period. Consequently, total membership of the co-operative societies expanded from 1,369,700 in 1980 to 2,750,000 in 1985 and the total number of co-operative societies increased from 1,980 to 2,720 during the same period. Consequently, the total share capital of the co-operative societies increased from \$600 million to \$1,124 million. Loans extended by the co-operative societies to members were mainly for purposes of consumption, hire purchase, housing, and business activities, while the soft loans received by *Koperasi Industri Kampong* (KIK) were for the expansion of handicraft industries, marketing network and sales services.

*Housing credit institutions.* Financing for the residential housing sector showed significant progress as reflected in the increase in total outstanding housing loans from \$5,312 million at the end of 1980 to \$13,635 million at the end of 1984. This increase was mainly directed towards low-cost housing, both in the private and public sectors. The building societies and other housing credit institutions as a group, comprising Malaysia Building Society Berhad (MBSB), Borneo Housing Mortgage Finance Berhad (BHMF), Sabah Credit Corporation, and the Peoples Co-operative Bank of Malaysia, accounted for 14.1 per cent of total outstanding housing loans at the end of 1984. MBSB continued to be the principal housing credit institution with a share of 70.0 per cent of the total outstanding loans issued by the housing credit institutions as at



the end of 1984. The banking system accounted for 48.9 per cent of the total outstanding loans extended to the housing sector, while the Government accounted for 37.0 per cent.

*Provident and pension funds.* The total resources mobilized by the provident and pension funds, which consist of the Employees Provident Fund (EPF), the Social Security Organization (SOCSO), the Teachers Provident Fund (TPF), the Armed Forces Fund (AFF), and other approved statutory and private provident and pension funds, increased from \$11,129 million at the end of 1980 to \$23,947 million at the end of 1984, in line with the increase in total membership from 5,631,200 to 7,310,000. With \$16,736 million or 88.4 per cent of their investment portfolio placed in Government securities at the end of 1984, the provident and pension funds continued to provide the largest source of long-term finance for development purposes. In addition, the provident and pension funds were also a source of funds for the private sector with 2.6 per cent of its investment portfolio in corporate securities. EPF, with 60.9 per cent of the total membership for the provident and pension funds group, accounted for 86.2 per cent of total resources as at the end of 1984. During the period 1981-84, \$809 million from EPF funds were withdrawn by members to finance the purchase of 183,500 units of houses.

#### **Capital market**

*Growth and trends.* During the Fourth Plan period, total funds mobilized in the Malaysian capital market, which consisted of Government securities and corporate stocks and shares, through the issue of Government and quoted corporate securities amounted to \$25,945 million. The dominance of the public sector in the capital market increased in the early 1980s as a result of increased borrowing by the Government to finance its projects aimed at counteracting the slowdown in private sector activities. Towards the latter part of the period, however, the overall restraint in public sector spending and, therefore, public sector financing through the sale of Government securities resulted in a decline in the share of the public sector in total net funds raised in the capital market from 93.6 per cent in 1980 to 87.5 per cent in 1985. Simultaneously, the relatively tight credit situation in the financial system, particularly in 1984, resulted in the greater use of equity financing by companies. New share issues, therefore, increased markedly, with total net funds raised by the private sector through share issues amounting to \$5,841 million during the period.

There were 34 newly listed companies registered with the Kuala Lumpur Stock Exchange (KLSE) during the Fourth Plan period, bringing the total figure to 284 in 1985. The rapid expansion in the number of newly listed companies occurred especially in 1983 and 1984, which together accounted for 61.8 per cent of the total increase. The Government imposed a freeze on new listings in February, 1985 as a measure to consolidate the domestic stock market. In October, 1985, in order to enable companies to raise funds to finance their projects, selective listings replaced the moratorium on new

listings. In consonance with the increase in the number of listed companies, the total nominal listed value for the shares rose from \$7,861 million in 1980 to \$22,638 million in 1985, and market capitalization expanded from \$43,095 million to \$58,296 million.

*Bumiputera participation in the capital market.* The National Unit Trust Scheme (ASN) continued to provide an avenue for the Bumiputera community to invest in the shares of companies. The number of unit holders increased from 841,200 in 1981 to 2,053,600 in 1985, and the accumulated investment of unit holders reached \$1,922 million in 1985. By the end of 1985, the investment portfolio of ASN comprised the shares of 111 companies totalling \$2,496 million.

### **Insurance**

*Growth trends.* Total insurance funds, consisting of life and general insurance funds, grew at an average of 20.3 per cent per annum, from \$2,476 million at the end of 1980 to an estimated \$6,251 million at the end of 1985. Life insurance funds, which constituted approximately 69 per cent of total insurance funds, registered a faster annual growth rate of 21.0 per cent during the period 1981-85 compared with the growth rate of 19.0 per cent for general insurance funds.

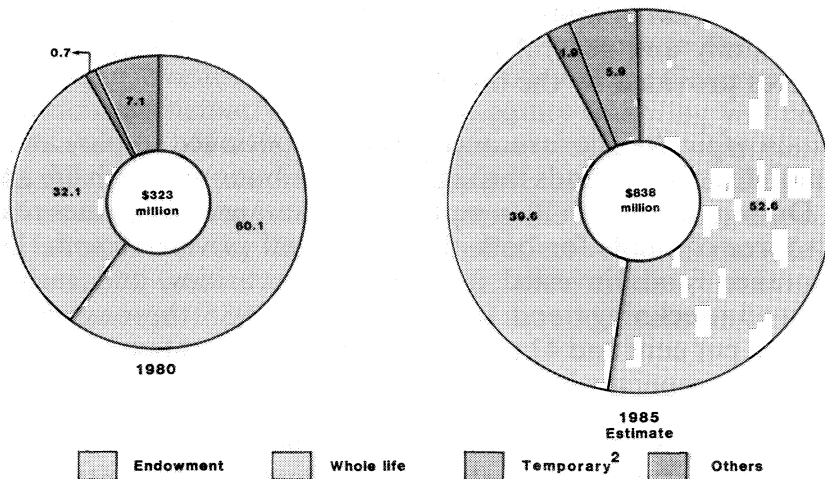
During the period 1981-85, life business expanded faster than general business. Total annual premium for life business recorded an estimated annual growth rate of about 21 per cent compared with 8.5 per cent for gross premium for general business. The expansion of life business was attributed mainly to the increased premiums for temporary and whole life policies, which grew at an estimated 47.8 per cent and 26.2 per cent per annum, respectively. Endowment and other life policies recorded slower growth rates of 17.8 per cent and 16.8 per cent per annum, respectively. Consequently, the combined shares of temporary and whole life policies, as shown in chart 13-1, increased from 32.8 per cent in 1980 to 41.5 per cent in 1985.

The performance of the general business subsector was mainly supported by the growth of the miscellaneous and motor 'others' policies which grew at an estimated 11.4 per cent and 8.7 per cent per annum, respectively. The growth of the fire, marine, aviation and transit (MAT), and motor 'act' policies were slower and recorded growth rates of 7.2 per cent, 6.6 per cent, and 4.7 per cent per annum, respectively. Consequently, the combined shares of the miscellaneous and motor 'others' policies increased from 52.8 per cent in 1980 to 56.8 per cent in 1985, as shown in Chart 13-2.

During the Fourth Plan period, the number of domestic-owned insurance companies had increased from 60.0 per cent in 1980 to 84.1 per cent in 1985. Consequently, the market share for the domestic companies of the new insurance business expanded, particularly for life companies, whose market share for annual premiums increased from 34.7 per cent in 1980 to 41.1 per cent in 1985.

CHART 13 - 1

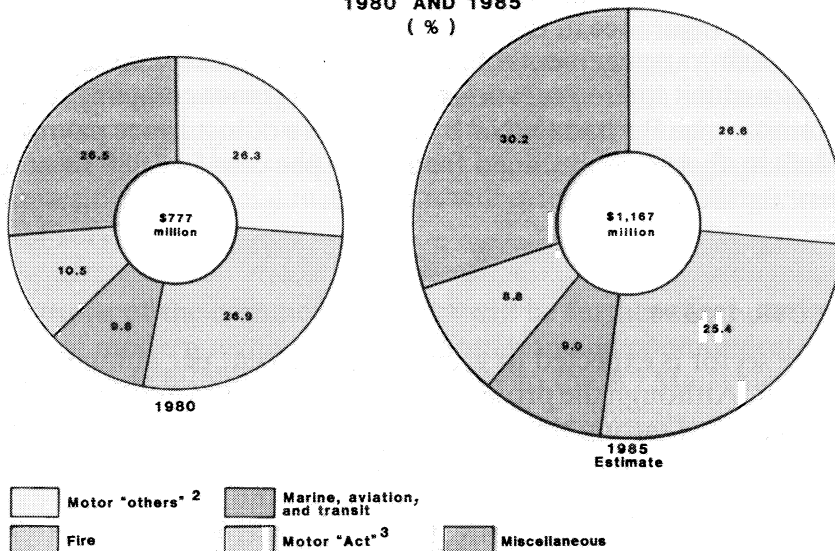
**MALAYSIA: PREMIUM<sup>1</sup> DISTRIBUTION FOR LIFE BUSINESS, 1980 AND 1985**  
( % )



Notes:  
<sup>1</sup> Annual premium for life business in force.  
<sup>2</sup> Temporary or term insurance covers a fixed period and the sum insured is payable only upon the death of the policy holder within that period.

CHART 13 - 2

**MALAYSIA: PREMIUM<sup>1</sup> DISTRIBUTION FOR GENERAL BUSINESS, 1980 AND 1985**  
( % )



Notes:  
<sup>1</sup> Gross premium less reinsurance in Malaysia.  
<sup>2</sup> Comprehensive motor insurance cover excluding the "Act" portion.  
<sup>3</sup> Third party motor insurance cover as required under the Road Traffic Ordinance, 1958.

*Islamic insurance.* The insurance industry was further strengthened with the incorporation of an Islamic insurance company called *Syarikat Takaful Sendirian Berhad*, which began its operations in August, 1985. Founded on the rules and practices of the *Syariah* of mutual responsibility, co-operation, and assistance, it offered both family and general insurance services, hence complementing the existing services provided by the insurance industry.

*Mobilization of funds.* The insurance industry continued to play an important role in the mobilization of funds through the contribution of both life and general premiums. During the Fourth Plan period, the insurance companies remained an important source of funds for both the public and private sectors. During the period, insurance funds invested in corporate securities, and cash and cash deposits showed a declining trend. In spite of this, in 1985, these assets constituted an estimated 38 per cent and 41 per cent of the investment portfolios of life and general business, respectively.

*Reinsurances overseas.* In spite of the progress made by the insurance industry, a large volume of reinsurance was still made overseas. This outflow of foreign exchange contributed to the deficit in the balance of payments account. In 1985, \$275.1 million or 23.6 per cent of written premium was reinsured overseas compared with \$190.1 million or 24.5 per cent in 1980. The MAT component of the general business subsector continued to be the major contributor to total reinsurance overseas, increasing its share from 45.2 per cent in 1980 to an estimated 46.3 per cent in 1985.

Various measures were undertaken by the Government to reduce the deficit in the net receipts of insurance in the balance of payments account. These measures included the pooling arrangements of insurance companies for taking on specialized risks, and the cessions and retrocessions to the reinsurance company, the Malaysian National Reinsurance Berhad (MNRB). The share of insurance payments<sup>1</sup> to the invisibles deficit, therefore, declined from 30.6 per cent in 1980 to an estimated 16.3 per cent in 1985.

### III. PROSPECTS, 1986-90

The finance sector is expected to grow at 6.8 per cent per annum and generate 18,300 new jobs. Although the projected growth rate is lower than the 7.2 per cent growth rate achieved during the Fourth Plan period, its contribution to GDP is envisaged to increase from 8.8 per cent in 1985 to 9.6 per cent in 1990. Opportunities for financial institutions to grow and expand are expected to come from manufacturing, agriculture, tourism, construction, and external trade. These sectors will account for the bulk of the demand for credit in the financial system.

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<sup>1</sup> Includes freight

The savings-investment gap is expected to persist during the Fifth Plan period. Measures will be undertaken to develop a more efficient and effective financial system for mobilizing and allocating financial resources. Together with a sound banking policy, complementary monetary policies will continue to be geared towards the creation of a conducive investment climate to foster and enhance confidence among investors. In line with the policy of the Government to reduce the debt burden, particularly external debt, equity financing will become more important as a source of funds for new projects as well as the expansion of existing projects. In this regard, encouraging foreign investment, especially in the form of equity, will assume greater prominence during the Fifth Plan period. Measures will also be taken to increase the efficiency and effectiveness of the KLSE to better serve the needs of investors as well as to foster the confidence of investors. With respect to insurance, efforts will be intensified to reduce reinsurance abroad and, hence, the outflow of foreign exchange.

#### **Financial system**

*Modernization of banking system.* The financial system will need to be further broadened and deepened to effectively meet the challenges confronted during the Fifth Plan period. With the financial system moving into the next stage of maturity and sophistication, it is envisaged that the financial system will be progressively deregulated to promote greater competition among the financial institutions, and to generate new financial markets and instruments as well as a more market-oriented interest rate regime.

There is potential for the development of a new range of financial services. Financial institutions are expected to venture into new fields such as equity finance, venture capital, commodity futures management, and corporate advisory services, in addition to the traditional banking services. It is expected that with keener competition, financial institutions will offer an increasingly comprehensive range of services.

The operations of the commercial banks will be further computerized with an extensive use of modern technology in information and communications. Recent improvements made by the computer industry to the ATMs, which offer a wide range of banking services at times and places most convenient to customers, will speed up the operation of banking transactions. The new range of services offered by modern technology is expected to include the arranging of loans and insurance, buying and selling of stocks and shares, electronic funds transfers as well as advice on different savings and investment schemes. While it is expected that the use of computers will generally benefit their customers, the financial institutions, as service industries, are envisaged to continue to accord emphasis on personalized banking to meet the special needs of their individual customers.

The keen competition that is expected to emerge as a result of the deregulation of the financial system is also envisaged to increase professionalism in the industry, enhance efficiency, and improve productivity of the financial institutions. The financial institutions will need to intensify efforts to trim administration and overhead costs in order to become more cost-effective, thereby lowering the cost of intermediation for the benefit of their borrowers and depositors. Special attention will have to be focussed on upgrading professionalism, particularly the development of the necessary skills to manage more complex banking and financial operations, and instilling a sense of public responsibility as custodians of national savings.

*Lending portfolio of financial institutions.* With the emphasis given to the development of manufacturing, agricultural, and tourism activities, a large share of credit will need to be directed to these sectors. The financial institutions are, therefore, expected to direct more of their lending activities towards these sectors and less towards the property sector. The \$1 billion New Investment Fund (NIF) set up recently by the Government will enable the manufacturing, agriculture, and tourism sectors to have greater access to funds at favourable interest rates. The NIF is envisaged to reduce the over-concentration of credit to the property sector over time.

While the broad property sector in general will be given less emphasis, the provision of credit to the low cost-housing industry will be given special attention. In this respect, the Government will continue to monitor the lending activities of the financial institutions *vis-a-vis* the housing loans to individuals under the lending guidelines. In addition to the provision of funds, measures, including the extension of the repayment period as well as the improvement in the procedures for housing loan application, will also be carried out to ensure that the target for the special low-cost housing scheme will be achieved. The Government will also take steps to create a secondary mortgage market, not only to allow greater flexibility for banks to adjust their loan portfolios according to the financial environment, but also to permit house buyers to benefit from lower interest rates.

In line with the expected trend in credit allocation, the industrial finance institutions and the rural credit institutions will need to intensify their efforts towards supporting the growth of manufacturing and agricultural projects and activities. Towards this end, BKPMB, BPMB, and MIDF have been given increased allocations in preparation for the expected expansion of their activities *vis-a-vis* the rise in demand for credit from the manufacturing and agriculture sectors.

Small-scale enterprises will continue to be promoted. The financial institutions are expected to extend support and assistance in terms of credit, technological skills, and management advice and consultancy to the small-scale enterprises engaged in general business, manufacturing, and agricultural activities. With

specific reference to credit, financial institutions are expected to review their criteria for dispensing credit based on collaterals rather than project viability. The provision of loans on softer terms will encourage the accelerated growth of small-scale enterprises.

*Supervision, monitoring, and control.* The Government will continue to monitor closely the activities of the financial institutions in order to ensure that sound financial standards and prudent banking practices are maintained. A comprehensive reporting and monitoring system is necessary in an environment of greater freedom in banking operations arising from deregulation. Towards this end, it can be expected that the Government will tighten further the regulations to protect the interests of the public.

#### **Capital market**

*Corporatization.* In view of the tight liquidity position in the financial system, the capital market will become increasingly important in the search for alternative sources of funds. Efforts to increase the effectiveness of KLSE, the intermediary for mobilizing private capital funds, will, therefore, have to be intensified. Measures will be focussed on the development of KLSE into a sophisticated international stock exchange, in line with the other major bourses in the world. In addition, stockbroking firms will be corporatized with greater participation of commercial banks, merchant banks, and foreign stockbroking firms.

The existing capital base of the stockbroking firms will be expanded for KLSE to sustain a larger turnover volume and attract large institutional investors into the capital market. Towards this end, the corporatization of the stockbroking firms, particularly through the participation of foreign stockbrokers and domestic financial institutions, will not only expand the capital base, but also increase efficiency and upgrade professionalism in the stock market. In addition, the involvement of foreign stockbroking firms is expected to increase foreign investment in local companies through their participation in the securities market.

*Increasing efficiency and investor confidence.* Measures will be taken to align the current practices and procedures of KLSE with international practices and standards. Efforts are underway to improve the dissemination of information through real-time price reporting, which is expected to reduce the time lag and enhance accuracy in information. In addition to expanding the capital base of the stockbroking firms, a standby credit facility will be arranged for the stockbroking industry by KLSE with a consortium of banks. This facility, which acts as a contingency fund for the industry, is expected to provide financial support to local stockbroking firms and, hence, instil confidence in investors.

## **Insurance**

*Upgrading the capacity of the insurance industry.* During the Fifth Plan period, it will be necessary to improve the domestic insurance industry not only to take advantage of the opportunities presented by the various sectors of the economy, but also to reduce the foreign exchange outflow of reinsurance payments. Emphasis will be given to increasing the capacity and capability of the insurance industry to better retain premiums locally. Efforts will be intensified to progressively expand the capital base of insurance companies, while individual insurance companies will form a consortium and work closely with MNRB in order to better retain premiums locally.

The Government will continue to assist the industry through the provision of tax and fiscal incentives, while the insurance industry will intensify joint efforts with the shipping industry to effect a greater utilization of domestic insurance and shipping services by exporters and importers. In order to expand sales, the insurance industry will need to adopt an aggressive marketing strategy.

*Increasing skills and professionalism.* The upgrading of professionalism is an important prerequisite for increasing the capability of the insurance industry. The industry will pay particular attention to manpower development and training. This is aimed at increasing the number of graduates in actuarial science. Emphasis will be given to on-the-job training through courses, seminars, and practical attachments with international agencies, particularly in aviation and marine insurance.

## **IV. ALLOCATION**

The development allocation and estimated expenditure during the period 1981-85 and the allocation for the period 1986-90 for finance are as shown in Table 13-3.

## **V. CONCLUSION**

During the Fifth Plan period, potentials for growth exist for the finance sector, which is envisaged to increase its contribution to GDP, employment, and foreign exchange savings. Deregulation of the sector is expected to open up new activities and facilitate the expansion of existing ones. Together, and as a complement to a sound banking policy, the Government will continue to provide the necessary support for the creation of a conducive investment climate for nurturing private enterprise and initiative. The challenges ahead are envisaged to spur the finance sector toward greater maturity, efficiency, and effectiveness, particularly in resource mobilization and allocation.



**TABLE 13-3**  
**MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR FINANCE,**  
**1981-90**  
**(\$ million)**

Agency	Fourth Plan allocation, 1981-85	Estimated expenditure, 1981-85	Fifth Plan allocation, 1986-90
PNB	2,922.97	2,922.97	—
Bank Simpanan Nasional	22.27	20.27	37.42
KKMB	25.00	25.00	—
BKPMB	25.28	25.28	190.00
BPMB	406.45	354.10	400.68
PERNAS	118.61	118.61	—
MIDF	10.00	10.00	20.00
Bank Islam Malaysia Berhad	30.00	30.00	—
Syarikat Takaful Sendirian Berhad	1.00	1.00	—
Total	3,561.58	3,507.23	648.10

