Chapter 15

Finance

15 FINANCE

I. INTRODUCTION

15.01 During the Sixth Plan period, the finance, banking and insurance sector grew at a double-digit rate and contributed significantly to greater output and employment. To finance economic development, the financial sector mobilized funds not only from traditional sources but also through the creation of innovative and customized financial products. In this regard, measures were taken to modernize and strengthen the sector to enhance the financial institutions' efficiency and competitiveness in the allocation of resources and risk management.

15.02 With increasing globalization, the finance, banking and insurance sector will play a more prominent role in contributing to the growth of the economy during the Seventh Plan period. The financial sector is expected to become more effective in mobilizing domestic savings and efficiently allocate them for productive uses, thereby contributing to efforts in transforming Malaysia into a potential regional financial centre. Towards this end, measures will focus on adding depth and breadth to the sector, maintaining financial stability and further increasing efficiency and competitiveness.

II. PROGRESS, 1991-95

15.03 During the Sixth Plan period, the finance, banking and insurance sector played an important role in mobilizing and allocating funds to support the rapid growth of the economy. The sector grew significantly at 10.7 per cent per annum and accounted for 12.5 per cent of the growth in gross domestic product (GDP). In terms of contribution to GDP, its share increased from 9.8 per cent in 1990 to 10.7 per cent by 1995. The sector also generated 120,500 new jobs during the Plan period.

Banking System

Development of the Banking System

15.04 As part of the continuing efforts in creating an efficient, competitive, innovative and sound banking system, the Government continued with its twin policy of prudent re-regulation and structural deregulation. Measures were introduced to further modernize and strengthen the financial system, as well as promote greater competition in the banking system in order to enhance the financial institutions' efficiency and competitiveness in the allocation of resources and risk management.

15.05 A significant deregulation measure was the liberalization of the base lending rate (BLR) in 1991 whereby the BLRs were allowed to be determined on the basis of each banking institution's own cost of funds. This framework was further liberalized in 1995. With effect from November 1995, each banking institution was free to quote their own BLR at any level subject to an industry ceiling rate which was determined in relation to the three-month interbank weighted average rate of each month. The new framework permitted greater flexibility for banking institutions to respond more quickly to changes in market liquidity situations, and also encouraged greater competition and efficiency within the banking industry by setting an industry benchmark on cost of funding.

15.06 Another measure implemented was the requirement for the foreign banks to incorporate locally so that they would be supported by permanent paid-up capital in Malaysia. With the completion of this exercise by October 1994, all commercial banks had permanent paid-up capital in the country. Consequently, all commercial banks were placed on an equal footing in the application of capital-based regulatory requirements, namely, the capital adequacy ratio, single customer credit limit and issuing limit for negotiable instruments of deposits (NIDs). The uniform supervisory framework facilitated fair and healthy competition in the banking industry.

15.07 Various institutional barriers governing the business activities of the commercial banks, finance companies and merchant banks were also liberalized in order to create a more competitive environment. In this regard, regulations governing the deposit-taking activities of finance companies and merchant banks were relaxed to promote greater private sector savings. Finance companies were also allowed to conduct selected fee-based activities, including the provision of financial guarantees, and invest in the shares of companies listed on the Main Board of the Kuala Lumpur Stock Exchange (KLSE).

15.08 As part of the measures to liberalize the regulatory environment, a two-tier regulatory system for commercial banks was introduced in 1994. The two-tier system allowed for well-managed banking institutions with strong financial standing to conduct certain aspects of their operations under a more liberal regulatory environment. During the same year, the Government liberalized exchange control requirements by reducing formalities for business and providing investors with greater access to credit facilities. The liberalization was aimed at reducing the cost of compliance and increasing the efficiency of cross-border transactions of residents.

15.09 Following liberalization, interest rates became more variable, customers more sophisticated and competition among banking institutions more intense. This led to new delivery systems and product innovations such as asset management and trade in financial assets. In these operations, the financial institutions began to use financial derivatives in managing risks on behalf of customers and in controlling their own risk exposures. To ensure that derivatives activities were conducted in a prudent manner and to preserve the stability of the financial system, a set of guidelines governing the conduct of derivatives activities of commercial banks was issued in 1995. The guidelines specified the minimum prudent requirements before a commercial bank was allowed to engage in derivatives activities.

15.10 To further enhance market discipline, measures were taken to ensure adequate disclosure of the financial conditions of banking institutions. The format for published financial statements of banking institutions was revised to provide a more comprehensive breakdown of key activities, particularly with regard to loan operations, deposit operations, investments and fee-generating activities. The banking institutions were also encouraged to be rated by the Rating Agency Malaysia Berhad (RAM) in order to promote greater transparency in the operations of the banking sector, thereby enhancing market competition and efficiency. In addition, there is an increasing need for bank rating as banks are often guarantors for the issue of debt instruments and corporate bonds.

15.11 Recognizing the need for an effective board of directors to oversee the overall management of each banking institution, the duties and responsibilities of directors and chief executive officers of banking institutions were outlined under a revised set of guidelines. In addition, the role and position of the internal auditors were upgraded to ensure that the internal audit function was conducted in a more effective and independent manner.

15.12 Training in the banking sector continued to be emphasized in order to upgrade professionalism and improve productivity. In this regard, the minimum level for staff training expenditure was increased in 1992. The commercial banks and finance companies increased their expenditure on staff training from 1.5 per cent to 2.5 per cent of the preceding year's total gross salaries, while the merchant banks increased their expenditure from 2.0 per cent to 3.0 per cent. In addition, policies on the employment of expatriates and staff mobility in the banking sector were reviewed to help create a more conducive environment for nurturing a more progressive and productive workforce.

15.13 In recognition of the need to coordinate the overall development of a comprehensive and efficient national payments system, the National Payments System Council (NPSC) was established in 1994. The NPSC comprises representatives from *Bank Negara Malaysia*, Association of Banks in Malaysia, Association of Finance Companies of Malaysia, Association of Merchant Banks in Malaysia and the relevant Government agencies. The objective of the Council is to provide leadership and direction in developing an efficient payments system. One of the major tasks undertaken, during the Plan period, was the integration of the various automatic teller machine (ATM) networks into a single shared national ATM network to facilitate the implementation of the GIRO payments system.

15.14 The wider acceptability and integrity of the various modes of payments continued to receive the attention of the Government. In this regard, guidelines relating to the *Biro Maklumat Cek* were reviewed in 1994, to further promote the acceptability of cheques as a mode of payment. Towards this end, the revised guidelines focussed on measures to reduce the number of incidence of bad cheques.

15.15 As part of the efforts to ensure fair and equitable treatment for the banking public in their dealings and transactions with the banking institutions, guidelines were introduced to safeguard the interests of guarantors. The guidelines detailed the procedures that a banking institution had to comply with before taking action against guarantors of credit facilities given to individuals.

15.16 Branch expansion was promoted to ensure effective mobilization of domestic funds and to support the strong growth of the economy. Consequently, the number of branches increased from about 1,000 in 1990 to 2,440 in 1995.

Islamic Banking

15.17 In order to complement the conventional banking services, commercial banks, finance companies and merchant banks were allowed to introduce Interest-free Banking Schemes (IFBS) based on *Syariah* principles. Since its introduction in 1993, a total of 23 commercial banks,18 finance companies and three merchant banks provided IFBS facilities. With the increasing number of financial institutions, the Islamic banking system, comprising *Bank Islam Malaysia Berhad* and IFBS financial institutions, expanded rapidly. Total assets rose by 245.8 per cent from RM2.4 billion in 1993 to RM8.3 billion in 1995, while deposits increased by 118 per cent to RM4.9 billion. The increase in deposits was largely due to placements by individuals, which rose from RM1.1 billion in 1993 to RM2.4 billion in 1995. Total financing extended by the Islamic banking system also increased significantly from RM1.1 billion in 1993 to RM3.5 billion in 1995. However, this constituted only 1.3 per cent of the total loans extended by the banking system.

15.18 As an extension to IFBS, the Islamic interbank money market was introduced in 1994 to link the institutions and financial instruments. In this regard, the Islamic interbank money market provided facilities for interbank trading in Islamic financial instruments, interbank investments and interbank cheque clearing, thereby enhancing the development of a full-fledged Islamic banking system.

Performance of the Banking System

15.19 In line with the buoyant economic conditions over the past five years, the banking system continued to improve its performance and strengthened its financial position. Pre-tax profits of the banking system increased by an average rate of 28.3 per cent per annum from RM2 billion in 1990 to RM6.9 billion in 1995, as shown in *Table 15-1*. At the same time, the pre-tax return on equity (ROE) improved to 27.6 per cent in 1995 from 21.5 per cent in 1990.

15.20 In order to broaden its income base, the focus of the banking sector gradually shifted to fee-based activities. This was reflected in the share of non-interest income to net interest income, which increased progressively from 33 per cent in 1990 to 41 per cent in 1995. The quality of loans also improved significantly with non-performing loans declining from 20.3 per cent of total loans in 1990 to 5.4 per cent in 1995. In addition, the strong profit performance enabled banks to set aside a higher general provision on loans. As at end of 1995, the general provision amounted to 1.5 per cent of total loans, which was in excess of the required minimum of 1.0 per cent.

TABLE 15-1

PERFORMANCE OF THE MALAYSIAN BANKING SYSTEM, 1990-95
(RM million)

Financial year ending	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*[1]	*Average Annual Growth Rate, 1991-95* %
Net Interest Income	4,115	4,832	5,658	6,973	8,868	9,957	*19.3*
Pre-tax Profit	1,985	2,271	2,657	3,788	5,205	6,906	*28.3*
Average Shareholders' Funds & Net Working Funds	9,250	12,872	15,853	18,736	21,532	25,005	22.0
Return on Assets (%)	*1.4*	*1.3*	*1.3*	*1.5*	*1.7*	*1.9*	
Return on Equity (%)	*21.5*	*17.6*	*16.8*	*20.2*	*24.2*	*27.6*	
Specific Provision/Total Loans (%)	*5.3*	*3.6*	*3.4*	*3.2*	*2.2*	*1.4*	
General Provision/Total Loans (%)	*0.7*	*0.9*	*1.1*	*1.3*	*1.6*	*1.5*	
Non-performing Loans/Total Loans (%)	*20.3*	*15.6*	*14.9*	*12.6*	*8.1*	*5.4*	

Note: [1] Preliminary

15.21 The capital strength of the banking industry was substantially improved during the Plan period. This was largely due to regulatory policies that provided for a strong capital base for the industry. The capital base grew from RM9.0 billion in 1990 to RM32 billion in 1995. In terms of the Basle Accord capital ratio, the average for Malaysian banks was an impressive 11.2 per cent in 1995.

Assets and Deposits

15.22 In 1995, the banking sector's total assets of RM411.2 billion accounted for 56 per cent of total assets mobilized by the financial system. Total assets of the banking system increased at an annual rate of 18 per cent from RM179.8 billion in 1990 to RM411.2 billion in 1995, as shown in *Table 15-2*. In terms of total assets and deposits, the commercial banks continued to hold the largest share at 71.1 per cent and 69.6 per cent, respectively. The increase in the share of merchant banks in total assets was mainly due to the structural deregulation measures introduced to promote competition in the banking sector. These measures included relaxation of the regulations on deposit-taking activities.

TABLE 15-2

TOTAL ASSETS, DEPOSITS AND LOANS OF THE BANKING SYSTEM, 1990 AND 1995
(RM million)

Institution	*Total Assets*					*Total Deposits*					*Total Outstanding Loans*[1]				
	1990	*%*	*1995*	*%*	*Average Annual Growth Rate, 1991-95 %*	*1990*	*%*	*1995*	*%*	*Average Annual Growth Rate, 1991-95 %*	*1990*	*%*	*1995*	*%*	*Average Annual Growth Rate, 1991-95 %*
Commercial Banks	129,285	*71.9*	292,214	*71.1*	*17.7*	82,413	*68.2*	196,851	*69.6*	*19.0*	82,224	*70.9*	182,079	*69.8*	*17.2*
Finance Companies	39,448	*21.9*	91,885	*22.3*	*18.4*	31,274	*25.9*	69,951	*24.7*	*17.5*	27,446	*23.7*	64,629	*24.8*	*18.7*
Merchant Banks	11,063	*6.2*	27,059	*6.6*	*19.6*	7,106	*5.9*	16,093	*5.7*	*17.8*	6,283	*5.4*	14,144	*5.4*	*17.6*
Total	**179,796**	***100.0***	**411,158**	***100.0***	***18.0***	**120,793**	***100.0***	**282,895**	***100.0***	***18.6***	**115,953**	***100.0***	**260,852**	***100.0***	***17.6***

Note: [1] Include housing loans sold to *Cagamas Berhad*

Loans

15.23 During the Sixth Plan period, the rapid growth of the economy created strong demand for credit. Total outstanding loans increased at 17.6 per cent per annum from RM116 billion in 1990 to RM260.9 billion in 1995. The manufacturing sector, which led economic growth, absorbed the largest share of the loans, as shown in *Table 15-3*. Significant amounts of the loans were also extended to real estate and construction, housing, finance, insurance and business services sectors, as well as consumption credit.

15.24 Lending guidelines were also issued to the banking system to ensure that identified priority sectors get access to credit at reasonable costs. The guidelines covered lending to the Bumiputera community, the low- and medium-income groups for housing and small- and medium-scale enterprises under the New Principal Guarantee Scheme (NPGS) of the Credit Guarantee Corporation (CGC).

Special Funds

15.25 During the Sixth Plan period, the Government set up several new special funds and provided additional allocations to existing funds to promote investments in priority sectors. These funds complemented the credit facilities provided by the banking system and ensured adequate access to credit at reasonable costs.

15.26 The RM500 million Industrial Adjustment Fund (IAF) was launched in 1991 to facilitate the rationalization and restructuring of selected industries, namely, machinery and engineering, textiles and wood-based industries. A total of RM66 million was approved for 18 projects by 1995. As part of the efforts to develop the tourism industry, a Special Fund for Tourism amounting to RM120 million was set up in 1990. This was subsequently increased to RM200 million and converted into a revolving fund in 1993. By 1995, the Fund was fully utilized with a total of RM206 million approved, involving 182 projects. The Fund for Food scheme was established in 1993, with an allocation of RM300 million and subsequently increased to RM600 million, to promote investments in the primary food industries. With the liberalization of the scheme in January 1995, a total of 758 projects amounting to RM260 million was approved.

TABLE 15-3

LOANS TO MAJOR SECTORS BY THE BANKING SYSTEM, 1990 AND 1995
(RM million)

Sector	*1990*	*%*	*1995*	*%*	*Average Annual Growth Rate, 1991-95 %*
Agriculture	5,649	*4.9*	5,245	*2.0*	*-1.5*
Mining & Quarrying	1,069	*0.9*	1,184	*0.5*	*2.1*
Manufacturing	21,540	*18.6*	48,752	*18.7*	*17.7*
Electricity	238	*0.2*	3,750	*1.4*	*73.5*
General Commerce	13,552	*11.7*	21,400	*8.2*	*9.6*
Real Estate & Construction	21,066	*18.2*	40,201	*15.4*	*13.8*
Housing	14,897	*12.8*	33,092	*12.7*	*17.3*
Transport & Storage	2,440	*2.1*	5,096	*2.0*	*15.9*
Finance, Insurance & Business Services	12,057	*10.4*	31,815	*12.2*	*21.4*
Other Services	1,826	*1.6*	6,853	*2.6*	*30.3*
Purchase of Stocks & Shares	3,021	*2.6*	13,350	*5.1*	*34.6*
Consumption Credit	11,695	*10.1*	30,198	*11.6*	*20.9*
Others	6,903	*6.0*	19,916	*7.6*	*23.6*
Total	**115,953**	***100.0***	**260,852**	***100.0***	***17.6***

15.27 The Shipping Fund of RM800 million was launched in 1993 to provide long-term financial assistance to enhance the shipping industry in Malaysia. The Fund comprised the Shipping Venture Facility (SVF) of RM500 million to mobilize institutional funds to raise private shipping capacity in Malaysia, and a Ship Financing Facility (SFF) of RM300 million to provide long-term financing for the acquisition of ships to ply domestic and international routes. Global Maritime Ventures Berhad (GMVB) was established to manage the SVF. To promote participation of both public and private institutions in GMVB, RM200 million was allocated as the initial paid-up capital through *Bank Industri Malaysia Berhad* (BIMB), while the balance was to be subscribed by the private sector. During the Plan period, a total of five subsidiary companies was incorporated, with each acquiring a shipping vessel. In 1994, the SFF was provided with an additional allocation of RM300 million, thus increasing its total allocation to RM600 million and its scope extended to cover financing of shipyards with the aim of promoting the shipbuilding and ship repair industry.

A total of 26 applications involving RM390 million was approved under the SFF by 1995. Of this amount, RM220 million was for the purchase of international shipping vessels and RM150 million for domestic shipping vessels, while the balance of RM20 million was for financing of shipyards.

15.28 As part of the efforts to create the Bumiputera Commercial and Industrial Community (BCIC), the allocation for the New Entrepreneurs Fund was increased by more than three-fold to RM750 million in 1995. The Fund facilitated Bumiputera entrepreneurs to venture into various fields of business, particularly in manufacturing, agriculture, tourism and export-oriented industries. By 1995, a total of 1,839 applications was approved under the Fund, involving RM831.4 million. In addition, the Bumiputera Industrial Fund amounting to RM100 million was established in 1993 to promote the growth of small- and medium-scale Bumiputera entrepreneurs in the industrial sector. By 1995, a total of 20 applications involving RM20.8 million was approved.

15.29 To increase the supply of low-cost houses, the Fund to Accelerate the Construction of Low-cost Houses was increased from RM300 million to RM500 million. By 1995, 36 applications amounting to RM241 million were approved for the construction of 13,985 units of low-cost houses throughout the country. In 1994, the Low-cost Housing Revolving Development Fund, with an allocation of RM1 billion, was set up to complement the existing funds for housing to meet the needs of the low- and middle-income earners. By 1995, a total of RM258 million was spent on the acquisition of 720.6 hectares of land in Johor, Pulau Pinang, Sabah and Selangor for the construction of 56,768 units of houses of various types, of which 25,792 units or 45.4 per cent were low-cost houses.

Development Finance Institutions

15.30 During the Sixth Plan period, the development finance institutions continued to complement the banking system in providing medium- and long-term loans and extending financial, technical and managerial advisory services. A new development finance institution, the Export-Import Bank of Malaysia Berhad (EXIM Bank), was established in 1995, with the objective to finance and promote the country's international trade by facilitating the export of goods and services from Malaysia through export credit, financing of capital investment and providing business information and services. The other development finance institutions are *Bank Pembangunan Malaysia Berhad* (BPMB), Malaysian Industrial Development Finance Berhad (MIDF), BIMB, Sabah Development

Bank, Borneo Development Corporation (Sabah) Sdn. Bhd. and Borneo Development Corporation (Sarawak) Sdn. Bhd. In line with the robust growth of the economy, the total assets of these institutions increased by 13 per cent per annum from RM3.9 billion in 1990 to RM7.2 billion at the end of 1995. Total loans provided by the development financial institutions grew at 12.1 per cent per annum to RM3.9 billion by the end of 1995 compared with RM2.2 billion in 1990. MIDF maintained its position as the leading provider of industrial development funds, extending a total of RM685.8 million in 1995 or 31.8 per cent of total loans provided by development finance institutions in 1995 to the industrial sector.

15.31 In terms of funding, total borrowings by the development finance institutions from both domestic and international sources increased by 12.6 per cent per annum from RM2.6 billion in 1990 to RM4.7 billion in 1995. Of the increase, RM907.5 million was due to borrowings made by BIMB. Total deposits placed by the institutions as a group with the banking institutions grew by 12.4 per cent per annum to RM1.5 billion in 1995, compared with RM837 million in 1990. BPMB was the largest depositor, accounting for RM719.9 million or 48 per cent of the total deposits placed by the development finance institutions in 1995.

Other Financial Institutions

15.32 As with other financial institutions which benefitted from the strong growth enjoyed by the country, throughout the Sixth Plan period, *Bank Simpanan Nasional* experienced rapid growth in terms of its assets and loan portfolio. With the increase in the number of depositors from 8.4 million in 1990 to 10.3 million in 1995, total assets rose by 13.8 per cent per annum from RM3.2 billion in 1990 to RM6.1 billion in 1995. Total outstanding loans increased by 10.9 per cent per annum from RM656 million in 1990 to RM1.1 billion in 1995.

15.33 The Employees Provident Fund (EPF) continued to be the largest provident and pension fund in the country with assets constituting about 90 per cent of all such funds. Total assets increased from RM46.7 billion held in trust for the benefit of 5.9 million members in 1990 to RM98.1 billion for 7.6 million members by 1995. During the Sixth Plan period, EPF played an active role in the country's development by providing resources for the financial requirements of the private sector. This was made possible by deregulatory measures introduced to increase EPF participation in the economy. Under the new Employees Provident Fund Act, 1991, the statutory requirement for EPF to invest in Malaysian Government Securities was reduced from 70 per cent to 50 per cent of its annual investible funds, and its scope of investments widened to include participation in joint ventures and privatization projects. Consequently, EPF undertook equity financing in infrastructure projects such as the Kuala Lumpur Light Rail Transit System and the KL International Airport (KLIA), Sepang as well as power generation by independent power producers (IPPs). EPF investment holdings in corporate securities rose substantially from RM0.9 billion in 1990 to RM15.3 billion by 1995.

Capital Market

Growth and Development

15.34 The capital market, comprising debt securities as well as quoted corporate stocks, provided a substantial share of the financing requirements, especially for the private sector. For the period 1991-95, net funds raised in the capital market amounted to RM68 billion or 33 per cent of the total domestic funds. In 1995, funds raised through the capital market reached an unprecedented level of RM18 billion.

15.35 The private sector was the main mobilizer of funds in the capital market, accounting for 89 per cent of the net funds raised. The borrowing requirements of the public sector was reduced substantially with the strengthening of the financial position of the Government and the accelerated implementation of the privatization programme. The higher funds raised by the private sector was evident in both the equity and bond markets, reflecting the preference for direct financing through the capital market as a cost-effective alternative to bank credit.

15.36 There was also a further broadening of the capital market, with financial derivatives emerging as an important instrument. During the Sixth Plan period, there was a growing number of bond issues which were equity-linked to attract potential investors. In 1995, a total of 47 equity-linked bonds was issued compared with 16 in 1993. These financial derivatives included bonds with warrants, convertible bonds and irredeemable convertible unsecured loan stocks.

15.37 During the Sixth Plan period, there was an increase in the issues of debt instruments based on Islamic principles which led to a more rapid development of the Islamic capital market to function on a parallel basis with the conventional system. New Government Investments Issues dominated total issues by the public sector, reflecting the large demand for such papers by financial institutions which had introduced interest-free banking schemes. In addition, *Cagamas Berhad* introduced bonds that were based on Islamic principles during the same period.

15.38 Recognizing the growing importance of the capital market as a source of fund mobilization, the Government introduced a number of measures to enhance its development. The Securities Commission (SC) was established in 1993 as a single regulatory body to ensure the orderly development of the capital market, safeguard the interests of the investing public and minority shareholders as well as maintain market efficiency and integrity. Towards this end, the SC reviewed the legal and regulatory framework of the securities industry in the country, aimed at creating a framework that will facilitate the process of fund mobilization for capital formation in a systematic manner.

15.39 Efforts were continued to further develop the KLSE into a sophisticated international bourse. A significant development was the introduction of the Central Depository System (CDS) for scripless trading to create a more efficient and transparent clearing and settlement system. All Second Board counters were placed under CDS during the Plan period and it is targeted that all Main Board counters will be absorbed into CDS by the end of 1996. This will enable the KLSE to handle a significantly larger volume of trading as turnover reached unprecedented levels in recent years. Trading was at a record level in 1993, with 107.7 billion units valued at RM387.3 billion, as shown in *Table 15-4*.

TABLE 15-4

KUALA LUMPUR STOCK EXCHANGE: KEY INDICATORS, 1990-95

Indicator	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*
Price Indices						
Composite	506	556	644	1,275	971	995
Emas	131	141	162	384	284	279
Second Board	–	–	140	352	261	299
Industrial	1,016	1,062	1,088	2,030	1,715	1,823
Finance	2,127	2,187	2,703	8,760	6,806	7,562
Property	1,158	1,238	1,140	3,370	2,560	2,104
Plantation	1,073	1,061	1,118	3,573	2,758	2,447
Mining	176	204	179	858	556	386
Price Earning Ratio	25.5	24.2	22.8	48.2	28.5	24.5
Market Capitalization (RM billion)	131.7	161.4	245.8	619.6	508.9	565.6
Number of Listed Companies	285	324	369	413	478	529
Turnover						
Volume (billion units)	13.1	12.3	19.3	107.7	60.1	34.0
Value (RM billion)	29.5	30.1	51.5	387.3	328.1	178.9

Note: Figures shown are as at end of period.

15.40 The KLSE registered significant growth in the mobilization of funds, market capitalization and turnover during the Sixth Plan period. This was due to, *inter alia*, strong corporate and economic fundamentals, price and political stability as well as keen foreign interest to invest in the Malaysian market. In addition, the growth in the KLSE was further enhanced by the implementation of the privatization policy of the Government. During the Plan period, 12 privatized companies were listed on the KLSE, bringing the total of listed privatized companies to 24, accounting for a fifth of total market capitalization as at end of 1995.

15.41 Efforts were also taken to create a conducive regulatory and administrative framework for the development of private debt securities (PDS) market. To boost acceptance of credit rating and public confidence of the PDS market, rating of all corporate bonds by RAM was made compulsory. By 1995, RAM rated 270 securities with a total issue value of RM38 billion, as shown in *Table 15-5*. Consequently, corporations with good credit standing were able to have greater access to funds at more competitive rates in the debt market, thus contributing to overall efficiency of the financial sector.

TABLE 15-5

RATING OF PRIVATE DEBT SECURITIES BY SECTOR AS AT END OF 1995

Sector	*Number of PDS Rated*	*Value (RM billion)*
Diversified Holding Companies	33	7.9
Financial Services	79	7.4
Mining & Petroleum	6	1.5
Plantation & Agriculture	6	0.5
Consumer Products	9	1.1
Industrial Products	32	1.8
Construction & Engineering	19	1.3
Property & Real Estate	40	5.5
Transportation	3	0.7
Trading & Services	25	2.4
Infrastructure & Utilities	18	7.9
Total	**270**	**38.0**

Source: Rating Agency Malaysia Berhad

Unit Trust Funds

15.42 The unit trust scheme is an important source of fund mobilization, especially for small investors to participate in the stock market. The number of approved unit trust funds increased from 32 in 1990 to 67 in 1995, as shown in *Table 15-6*. By the end of 1995, there was a total of 6.8 million unit holder accounts with investments valued at RM44.1 billion in the unit trust funds.

15.43 The unit trust scheme was brought under the supervision of the SC in 1993 as part of the Government's efforts to develop it into an important capital market investment instrument. The Guidelines on Unit Trust Funds were amended to allow greater flexibility to fund managers in managing their portfolios so as to obtain higher yield for unit holders. Among the amendments were the increase in the maximum size of a unit trust fund from 100 million units to 500 million units, a widening of the investment portfolio to include investments in securities listed on foreign stock exchanges, as well as the relaxation of investment limits on unit trust funds. In addition, to ensure that management companies were well capitalized, the minimum shareholders' fund of each company was doubled from RM250,000 to RM500,000 for companies with an aggregate fund of less than 100 million units, and from RM500,000 to RM1.0 million for those with more than 100 million units.

TABLE 15-6

INDICATORS OF UNIT TRUST FUNDS, 1990-95

Indicator	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*
Units in Circulation (billion)	n.a.	n.a.	14.4	17.0	25.1	31.9
Number of Management Companies	11	12	13	16	20	25
Number of Approved Funds	32	35	39	44	52	67[1]
Total Approved Fund Size (RM billion)	n.a.	n.a.	15.8	18.7	28.8	37.4
Number of Unit Holders (million)	n.a.	n.a.	4.9	5.3	6.2	6.8
Net Asset Value (NAV) of Funds (RM billion)	n.a.	n.a.	15.7	28.1	35.7	44.1
Percentage of NAV to KLSE's Market Capitalization	n.a.	n.a.	*6.4*	*4.5*	*7.0*	*7.8*

Source: Securities Commission

Note:

[1] Includes three funds not launched as yet

n.a. Not available.

15.44 *Amanah Saham Nasional* (ASN) and *Amanah Saham Bumiputera* (ASB) continued to be important vehicles for mobilizing savings of Bumiputera individuals and increasing Bumiputera participation in the corporate sector. By the end of 1995, the number of unit holder accounts of ASB and ASN was 5.5 million, as shown in *Table 15-7*. Together they accounted for 80.8 per cent of the total unit holder accounts. Seven state governments also set up unit trust funds to mobilize Bumiputera savings with a total approved fund size of RM3.4 billion. Another development was the promotion of unit trust funds based on Islamic principles to provide an additional avenue for investors to participate in the capital market. As at end of 1995, there were six Islamic-based funds namely, *Amanah Saham Bank Islam, Amanah Saham Darul Iman, Amanah Saham Kedah, Tabung Ittikal, Tabung Amanah Bakti* and *Dana Putra*.

Venture Capital Financing

15.45 Venture capital financing gained increasing recognition as an alternative source of funds for investment. In 1990, there were three venture capital companies (VCCs) operating with a total fund size of RM47.8 million. By the end of 1995, the total fund size increased to RM781 million with 20 companies in operation. In terms of investment, the VCCs as a group invested an amount of RM191 million in 91 investee companies by the end of 1995. In consonance with the country's industrial development, most of the venture capital investment was in the manufacturing sector, notably in the electrical and electronics, plastics and ceramics industries.

TABLE 15-7

UNIT TRUST FUNDS LAUNCHED AS AT END OF 1995

Category	*Number of Management Companies*	*Number of Funds*	*Number of Unit Holder Accounts ('000)*	*Units in Circulation (billion)*	*Net Asset Value (RM billion)*
Private	15	38	648	6.2	5.6
Government-sponsored	9	24	664	3.7	3.7
Permodalan Nasional Berhad	1	2	5,537	22.0	34.8
Total	**25**	**64**	**6,849**	**31.9**	**44.1**

Source: Securities Commission

15.46 Recognizing the importance of venture capital financing, several measures were introduced to promote its development. These included the establishment of the Malaysian Technology Development Corporation (MTDC) in 1992, granting of special tax incentives and relaxation of the qualifying criteria for the tax incentives. To qualify for the tax incentives, the requirement for VCCs to invest 100 per cent of its funds in high-risk and new technology projects was relaxed to at least 70 per cent. In addition, the qualifying criteria that VCCs should not invest more than 10 per cent of their funds in venture companies and not more than 25 per cent in any one industry were abolished. The MTDC provided financing facility in the form of venture capital or risk financing, for companies at the start-up stage to commercialize and market new products. By the end of 1995, MTDC invested about RM54.6 million in 28 companies, covering activities such as consumer electronics, computer peripherals and software, and advanced manufacturing.

Insurance

15.47 During the Sixth Plan period, the insurance industry remained an important source of funds for both the public and private sectors. Total assets of the insurance industry grew at 21.2 per cent per annum from RM9.5 billion in 1990 to RM24.8 billion in 1995, as shown in *Table 15-8*, with investments in Government and corporate securities increasing from RM3.6 billion to RM11.7 billion during the same period.

TABLE 15-8

ASSETS OF THE INSURANCE INDUSTRY, 1990-95
(RM million)

Type	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*[1]	*Average Annual Growth Rate, 1991-95 %*
Fixed Assets	526.8	571.3	676.2	851.1	1,052.4	1,174.0	*17.4*
Loans	1,557.5	1,961.2	2,059.8	2,133.6	2,911.1	3,825.2	*19.7*
Government Securities	1,983.8	2,755.1	3,795.5	5,100.6	5,651.1	6,221.6	*25.7*
Government Guaranteed Loans	756.8	653.2	578.5	537.6	480.9	408.5	*-11.6*
Corporate Securities	1,590.0	1,762.3	1,974.7	2,634.8	3,999.8	5,487.9	*28.1*
Cash & Deposits	2,451.9	2,905.9	3,730.2	4,763.1	5,528.1	6,336.5	*20.9*
Other Assets	631.3	716.1	843.2	1,004.5	1,281.7	1,377.7	*16.9*
Total	**9,498.1**	**11,325.1**	**13,658.1**	**17,025.3**	**20,905.1**	**24,831.4**	***21.2***

Note: [1] Preliminary data

15.48 The insurance industry registered rapid expansion as a result of increased efficiency and improved business conditions. Total premium income of life and general insurance grew by an average of 19.5 per cent per annum from RM3.2 billion in 1990 to RM7.8 billion in 1995. A number of initiatives were introduced to further strengthen the insurance industry. Measures were undertaken to instil greater public accountability and financial discipline as well as raise the level of professionalism in the provision of services to the public. In this regard, guidelines were provided to ensure fair and speedier claims settlement practices, as well as ensuring a proper system of checks and balances through an effective internal audit and defining the scope and intensity of external audits. These measures were complemented by the efforts of the life and general insurers and insurance associations to upgrade professionalism of the industry. As a measure to encourage insurers to commit more resources to human resource development, the minimum level of training expenditure was increased from 1.0 per cent of gross salary in 1990 to 1.5 per cent in 1992, and subsequently to 4.5 per cent with effect from 1994.

15.49 Total assets of the *general insurance* funds increased rapidly at an average annual rate of 25.6 per cent from RM2.4 billion in 1990 to RM7.5 billion in 1995. Total premium income of the general insurance industry recorded an average annual growth of 17.1 per cent and increased from RM1.5 billion to RM3.3 billion in 1995. Consequently, the ratio of premium income of the general insurance industry to nominal gross national product (GNP) increased from 1.4 per cent in 1990 to 1.6 per cent in 1995.

15.50 Premium outflows to foreign reinsurance companies were identified as one of the factors affecting the services account deficit in the balance of payments. Gross reinsurance premiums ceded overseas increased from RM452.1 million in 1990 to RM1.2 billion in 1995, resulting in the net retention ratio declining from 77.2 per cent to 73 per cent during the same period.

15.51 In the effort to reduce outflows of premium, a number of measures were introduced to optimize national retention. In 1994, the Scheme for Insurance of Large and Specialized Risks was implemented to upgrade the level of expertise among Malaysian general insurance practitioners, and to encourage the optimization of the national retention capacity. In addition, to effect transfer of technology and expertise to Malaysians, foreign professional reinsurers were allowed to operate in Malaysia. By the end of 1995, three foreign professional reinsurance companies were registered to carry out general reinsurance business, and another two companies were given approval in principle to operate in Malaysia.

15.52 Total assets of *life insurance* funds recorded an increase of 145.1 per cent, or an average annual growth of 19.6 per cent from RM7.1 billion in 1990 to RM17.4 billion in 1995. During the same period, the total premium income of the life insurance industry increased by 181.3 per cent to reach RM4.5 billion in 1995 from RM1.6 billion in 1990, indicating an average annual growth in premium income of 23 per cent. With premium income growing faster than the rate of growth in nominal GNP, the ratio of premium income to nominal GNP increased accordingly from 1.5 per cent in 1990 to 2.2 per cent in 1995. The total sums insured in force increased by 183.4 per cent to RM245.7 billion in 1995 from RM86.7 billion in 1990, indicating an average annual growth of 23.2 per cent. With this rate of growth in sums insured in force, the ratio of sums insured in force to GNP increased to 121.4 per cent in 1995 from 78.3 per cent in 1990.

15.53 In the life insurance industry, measures were adopted to ensure insurers were more conscious of the need to rationalize the cost of providing insurance services, reduce the incidence of policies lapsing, and to provide for manpower development and upgrading professional knowledge. Emphasis was also placed on skills and experience requirements for various senior management positions. In addition, diversification of the delivery system through banks and postal institutions was promoted to ensure wider access and coverage. To inculcate greater financial discipline and accountability among life insurers, the Appointed Actuary concept was adopted wherein the Appointed Actuary of an insurer was entrusted with a major role in the management of the company. This included monitoring of all developments which have an impact on the financial condition of the insurers and ensuring that the life insurance business was operated on a sound basis.

15.54 During the Sixth Plan period, the *takaful* industry comprising *Syarikat Takaful Malaysia Sdn. Bhd.* and *MNI Takaful Sdn. Bhd.*, experienced rapid growth. Its assets increased significantly by 36.8 per cent per annum from RM38.2 million in 1990 to RM182.7 million by 1995. This growth in business was largely due to the introduction of new *takaful* plans and better promotional efforts. The performance of the two *takaful* operators is being monitored to ensure that they develop in a planned and systematic manner as well as in accordance with *Syariah* principles.

Labuan as an International Offshore Financial Centre (IOFC)

15.55 The primary objectives of the Government in launching the Labuan IOFC in October 1990, were to extend the domestic financial system, enhance Malaysia as an investment centre and accelerate the economic development of the Labuan island. By the end of 1995, a total of 47 offshore banking licences was issued. Among the licensees, which included seven Malaysian banks, were the world's largest and established banks from Japan, Hong Kong, Singapore, France, Germany, Netherlands, Switzerland, United Kingdom and the USA. While in the initial stage of development the offshore banks focussed on residents by tapping opportunities in the immediate hinterland, the emphasis in the long term will be for the conduct of non-resident business.

15.56 In the area of offshore insurance, as at the end of 1995, six offshore insurance and insurance-related licences were issued to Malaysian, Hong Kong and American companies. The growth of offshore insurance was slower than offshore banking, due partly to the smaller size and the relatively less advanced stage of development of the insurance business in the country.

15.57 Efforts were also taken to attract offshore insurance activities to the Labuan IOFC. Offshore life insurers, which were prohibited from underwriting direct insurance of Malaysian risks, may now sell life insurance policies denominated in foreign currency to high net worth Malaysian individuals subject to certain criteria. To encourage Malaysian insurers to cede their premiums to Labuan offshore insurers, reinsurance premiums of Malaysian risks ceded to Labuan are wholly deductible from the assessable income of ceding insurers.

15.58 To ensure that the legal and administrative environment in Labuan remained facilitative yet prudent, the Offshore Companies Act, 1990 and the Labuan Offshore Business Activity Tax Act, 1990 were amended in 1992 to remove unintended legal restrictions to offshore operations and to streamline administrative procedures. The exchange control requirements were liberalized to reduce the costs of conducting business, and to increase the efficiency of cross-border transactions. To develop the trust and fund management activities, guidelines were liberalized to allow Malaysian fund management companies to form joint ventures with foreign fund management companies in Labuan. Exemptions were given to management companies of unit trust funds in Labuan to invest in Malaysia securities. In order to rationalize and streamline the administrative machinery, the Labuan Offshore Financial Services Authority Bill was tabled in Parliament in late 1995, with the aim of establishing a single regulatory authority for offshore activities.

Table 15-9

TYPES OF COMPANIES ESTABLISHED IN LABUAN IOFC AS AT DECEMBER, 1995

Type	*Offshore Companies*	*Foreign Offshore Companies*	*Domestic Companies*	*Total*
Banks	9	34	–	43
Insurance	4	–	–	4
Reinsurance	1	–	–	1
Fund Management	3	–	–	3
Trading & Non-Trading	535	8	–	543
Trust Companies	–	–	13	13
Audit Firms	–	–	11	11
Liquidator Firms	–	–	4	4
Total	**552**	**42**	**28**	**622**

15.59 As shown in *Table 15-9*, since its inception as an IOFC, 594 offshore companies from more than 30 countries were incorporated. To provide support services, 28 non-offshore companies were set up. Thirteen of these were Labuan trust companies, which provide secretarial services to the offshore companies as well as conduct custodial and trust-related business.

15.60 In 1992, the Labuan Development Authority was established to be responsible for all aspects of the planning and development of Labuan. Basic infrastructure facilities such as telecommunications, airport, roads, water and electricity supply, and sewerage were improved and expanded. In June 1995, a new Government hospital with enhanced medical facilities was commissioned.

15.61 The private sector also participated actively in the infrastructure development of Labuan, particularly in the construction of commercial and residential buildings as well as recreational facilities and international class hotels. In February 1992, a group of domestic commercial banks and insurance companies set up a company to develop the Financial Park complex to provide office premises, accommodation, as well as conference, shopping and recreational facilities designed to specially cater to the offshore community. In addition, the private sector developed the nearby waterfront project which comprises a hotel and marina.

III. PROSPECTS, 1996-2000

15.62 For the Seventh Plan, private investment is estimated at RM385 billion compared with RM207 billion during the Sixth Plan period, an increase of 86 per cent. This poses a challenge to the financial sector to mobilize and allocate adequate funds to support the requirements of private investment, especially for large infrastructure projects. In this regard, the financial sector will be further strengthened and modernized to provide new instruments of funding and promote savings. Towards this end, major strategies for the Seventh Plan include:-

- *maintaining financial stability and enhancing competitiveness of the banking system through increases in the capital base and upgrading of management capabilities;*
- *increasing efficiency of the banking system through the use of IT and development of a reliable payments system;*
- *ensuring prudent management of derivatives activities by banking institutions to avoid financial instability;*
- *instilling market discipline in the banking system through market forces;*
- *developing Islamic banking into an effective avenue for the mobilization and allocation of funds;*
- *fostering the development of the bond market to encourage and absorb greater voluntary private savings;*
- *increasing the depth and breadth of the capital market in order to facilitate risk-management;*
- *promoting the domestic fund management industry with a view to developing Malaysia into a regional fund management centre;*
- *further strengthening the insurance industry to be able to meet the insurance needs of the economy; and*
- *further developing Labuan IOFC into a leading and reputable international offshore financial centre.*

Banking System

15.63 Efforts will continue to be taken to maintain financial stability and enhance competitiveness of the banking system. With increasing globalization, the future operating environment for the banking industry will be more dynamic and competitive. As a result, banking institutions will have to augment their competitiveness by enhancing efficiency in their operations and be more innovative in developing a wider range of competitively-priced financial products. This is also necessary to serve the increasingly diverse and sophisticated needs of consumers and the business community. The activities of the banking institutions will be expanded to new areas such as securitization of assets and derivatives trading as well as utilization of capital market instruments.

15.64 In the light of this, banking institutions will need to increase their capital, upgrade management capabilities and improve efficiency. In this regard, the two-tier regulatory system will be extended to merchant banks and finance companies.

Information Technology

15.65 Banking institutions will be encouraged to place greater reliance on information technology (IT) as a new channel for product delivery, through telephone and home banking, and to extend their market reach. Advancements in IT are expected to serve as a means towards operational efficiency in banking institutions by improving back-room transactions processing and providing management decision-making supports with customer-oriented information.

Payments System

15.66 In developing an efficient banking system, it is necessary to foster an efficient and reliable payments system. Emphasis will, therefore, be placed on developing delivery channels which are more efficient than cash-based systems. Towards this end, efforts are directed towards developing a payments and data interchange infrastructure.

15.67 The payments system for high value payments will be improved to minimize risk in financial transactions, particularly those relating to payments and settlements. As public confidence in the reliability and integrity of the electronic-based payments mechanisms is vital to ensure that it is widely accepted, steps will be taken to develop a legal framework to govern the electronic payments transactions. The framework will define the rights and responsibilities of users and operators of the electronic funds transfers in order to provide clear legal protection for the users.

Debt Markets

15.68 As the capital market grows in popularity as a source of large-scale financing, the intermediary role of the banking institutions is expected to become more significant in the areas of arranging debt syndication and private debt securities, as well as providing risk-enhancing mechanisms, such as bank guarantees on the securities issued. In this regard, banking institutions are expected to play an important role in the development of the capital market by providing liquidity and be involved in market making in the secondary debt market. The development of a domestic asset management industry will facilitate in creating a base of domestic investors who are able to professionally assess and manage investments in debt securities.

Risk Management

15.69 The Government will be playing an active role to ensure a systematic development of the derivatives markets. To avoid financial instability, efforts will be directed towards the prudent management of derivatives activities by banking institutions. Minimum standards in risk management practices will be specified to ensure that all activities are conducted with full knowledge and control of the management and board of directors of the respective banking institutions. A minimum standard for accounting and disclosure requirements for financial derivatives will also be set to enhance the understanding of the significance of on-balance sheet and off-balance sheet derivatives instruments to an enterprise's financial position and performance. In addition, continuing efforts will be taken to review the capital adequacy measurement of the banking institutions so as to ensure the risk-weighted Capital Adequacy Requirement (CAR) framework will reflect the prevailing market conditions. In this regard, the incorporation of the market risk element into the risk-weighted CAR framework will be introduced during the Plan period.

Market Discipline

15.70 As structural deregulation opens up the scope for greater competition among banking institutions, reliance will be increasingly placed on market forces to regulate the financial markets. In this regard, the disclosure requirements for the banking institutions will be continually reviewed to improve transparency of bank activities in financial statements and provide sufficient and timely information for assessment by the market.

Islamic Banking

15.71 Several measures will be taken to promote the development of Islamic banking in Malaysia. The Islamic interbank money market will be developed to function effectively as an intermediary to mobilize short-term Islamic funds. Steps will also be taken to form a central *Syariah* advisory council at *Bank Negara Malaysia* to issue rulings on Islamic banking and *takaful* in order to streamline *Syariah* opinions on various banking and *takaful* issues. In addition, efforts will be taken to standardize Islamic banking documents so as to avoid unnecessary legal disputes as well as provide familiarity and better understanding of Islamic banking products.

15.72 Steps will also be undertaken to further develop and enhance the knowledge and skills of those employed in the Islamic banking sector. Greater emphasis will be given to promote research and development to develop Islamic banking products to meet the needs of customers.

Venture Capital Financing

15.73 During the Seventh Plan period, efforts will be geared up to further enhance venture capital financing to encourage investments in new growth areas, especially for the start-up of high technology-based industries. Towards this end, the Government will provide a more conducive environment to increase venture capital funding, largely through new and improved incentives. In addition, the Government will consider the establishment of a third securities board as an additional avenue for high technology companies to raise capital for their start-up operations and expansion programmes.

Capital Market

15.74 The capital market will be further strengthened and developed into a dependable and efficient source of financing for private sector activities. In this regard, more investment instruments will be developed and promoted to encourage and absorb greater voluntary private savings. Efforts will be focussed on promoting an active and vibrant PDS and derivatives market to complement the more matured market in equities and Government securities. The fund management industry will be promoted to generate new activities and ensure adequate supply of long-term funds.

15.75 To foster the growth and development of the bond market, the regulatory structure and administrative framework will be reviewed and streamlined in order to expedite the approval process of bond issuance by the various authorities. In line with the promotion of savings in the country, the bond market would be developed to make it more accessible to individuals. The tendering of money market instruments and commercial papers will be enhanced through automated tendering and the setting up of a centralized depository for these instruments. Parallel to all these developments, information on bonds and other related information will be made available to market participants. In addition, the second rating agency which was set up in 1995, will commence operations to meet the growing demand for the rating of PDS.

15.76 The Malaysian Monetary Exchange (MME) and the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) are expected to provide trading in a wide range of financial futures and options which will add depth and breadth to the capital market, thus facilitating risk-management. Measures will be taken to ensure that investors understand the applicability of these instruments and the risks involved through education programmes. In addition, the capital adequacy framework for all derivatives market participants including commercial banks will be reviewed to reflect market risks arising from derivatives activities.

15.77 To further develop the capital market for the financing of large infrastructure projects, infrastructure project companies (IPCs) that do not have the required track record, will be allowed to be listed in the KLSE. IPCs that qualify include Malaysian incorporated companies operating projects both in and outside the country and Malaysian joint ventures operating overseas. In addition, IPCs must have projects costing not less than RM500 million with a balance in the concessionary period of not less than 18 years.

15.78 Measures will be taken to develop the domestic capacity of the fund management industry. In this regard, the ceiling on the number of listed stock broking firms will be lifted and suitably qualified stock broking firms will be allowed to operate unit trust funds. Efforts will also be focussed on developing Malaysia into a regional fund management centre. The Government will allow the setting up of wholly foreign-owned fund management companies to conduct foreign fund activities in the country. As an added incentive, income derived from such activities will benefit from a reduced tax rate. However, foreign fund management companies that source funds locally will have to form joint ventures with at least 30 per cent local participation.

15.79 Measures will also be taken to encourage wider local participation in the fund management industry. In this regard, the EPF will be allowed to invest up to 15 per cent of its funds in the stock market while the other trust fund agencies, such as *Permodalan Nasional Berhad* and *Lembaga Tabung Haji* will be encouraged to increase their investment portfolio in shares. Contributors to the EPF with more than RM50,000 in their savings account will be allowed to withdraw up to 20 per cent of the balance to invest in funds managed by approved institutions. In order to provide more avenues for mobilization of savings, major companies will be allowed to manage their own provident funds. In addition, a major unit trust fund for all Malaysians, the Vision 2020 Fund, will be launched during the Seventh Plan period.

Insurance

15.80 In order to meet the growing domestic needs and the challenges arising from the globalization of the insurance industry, the major thrust for the insurance industry during the Seventh Plan period will be to upgrade its financial strength, efficiency, skills and productivity. In line with this, policy measures will be focussed on key areas such as capital requirements, cost-effective management, excellent delivery of services and technical competence.

15.81 Efforts to maximize retention capacity will be continued. In this regard, the capacity and capability of the local insurance industry will be enhanced through increases in the minimum capital and solvency margin requirements. The Malaysian-Re International Insurance (L) Limited (MIIL) which was transformed into a well-capitalized professional reinsurer with a paid-up capital of RM500 million and equity participation from major local corporations and financial institutions, will commence operations in early 1996. MIIL is expected to underwrite some of the large risks which were previously ceded overseas.

15.82 The insurance industry will be encouraged to develop its local cargo insurance sector. Local insurers will be continuously urged to take actions to upgrade their services, especially with respect to improving underwriting skills in cargo insurance, ensuring system's efficiency to enable fast issuance of policies, forming strategic alliances with foreign insurers or claims-settling agencies to provide fast claims settlement to clients and formulating competitive pricing. All these approaches are focussed towards making insurance services provided by Malaysian insurers comparable to those provided by international insurers. The industry will also be encouraged to continue developing awareness among exporters and importers on the availability of local cargo insurance and the benefits of placing cargo insurance with local insurance companies. In addition, the Scheme for Insurance of Large and Specialized Risks will be further expanded through increased market cooperation among insurers to underwrite such risks, thereby improving net retention. More dialogues will be initiated with trade chambers and associations to encourage local placements of marine insurance.

15.83 To further develop the insurance industry into a strong, dynamic and competitive sector, the capital base of insurers will be strengthened while the actuarial valuation basis for life insurance liabilities will be reviewed to a more contemporary basis. The concept of admitted assets will be introduced to enable greater flexibility for insurers to manage their investments. Emphasis will also be given to promoting more cost efficient delivery system for products, including direct sales, strategic linkages and packaging of products.

15.84 The Insurance Act, 1963 will be amended to provide a comprehensive framework to enhance the development of the industry. The amendments, among others, will help to ensure better accountability of insurers, strengthen the financial standards of insurers, accord greater protection to policy holders and members of the public, ensure that the operations of insurers are conducted according to sound insurance principles, and enable the insurance industry to grow in tandem with other financial institutions.

15.85 The upgrading of professionalism is an important prerequisite for increasing the capability of the insurance industry. With the growing domestic demand for insurance, there will be a need for actuaries, loss adjusters, accountants, marketing and financial managers. A skilled and professional workforce will be able to meet the needs of the insuring public by offering innovative products and sound technical advice. In this regard, the organization and training programmes of the Malaysian Insurance Institute will be strengthened and institutions of higher learning encouraged to provide insurance-related courses. This will be complemented by the efforts of the industry associations in monitoring and planning insurance manpower requirements.

15.86 The insurance industry will be encouraged to further utilize IT to increase its competitive edge as well as provide better database for effective monitoring and meaningful tariff reviews. Continuous efforts will also be undertaken to improve the quality and availability of insurance services to the public at reasonable costs. In this respect, the focus will continue to be on efficient processing and payment of claims as well as better management of the agency force and delivery systems. An early warning system based on the standardized insurance statistics will be put in place to provide better surveillance and greater transparency.

Labuan as an International Offshore Financial Centre (IOFC)

15.87 The Government will continue to pursue a proactive and pragmatic approach to develop Labuan as an IOFC. In this regard, the Labuan Offshore Financial Services Authority will be set up as a single one-stop regulatory agency to promote and facilitate the expansion of offshore and related activities. The proposed Offshore Trust Bill and Offshore Securities Industry Bill, expected to be tabled in 1996, will provide for the extension of scope of offshore activities from banking and insurance into trust and fund management businesses. Money broking and financial activities based on Islamic principles will also be promoted. Tax incentives will continue to be reviewed and revised to facilitate more efficient tax planning and management, while the legislative framework will be finetuned to keep up with changing needs.

15.88 In order to ensure a more conducive working and living environment, the Government will continuously upgrade and expand the necessary infrastructure and facilities on the island. Increasing efforts will be taken to enhance the social environment through the provision of amenities and facilities required by the financial and commercial community and their families. Towards this end, the private sector will be encouraged to provide educational, health and medical services, as well as accomodation, recreational and entertainment facilities. Greater emphasis will be placed on the development of recreational facilities such as leisure parks, sports facilities as well as specialty food and cultural centres.

IV. ALLOCATION

15.89 During the Seventh Plan period, development allocation for the financial sector is as shown in *Table 15-10.* In line with the Government's efforts to promote production of intermediate and capital goods for the domestic and export markets as well as exports of selected services, an allocation of RM300 million will be provided for the establishment of the EXIM Bank. In addition, an allocation of RM250 million will be made available for the development of small- and medium-scale enterprises through the provision of credit and financial services.

TABLE 15-10

DEVELOPMENT ALLOCATION FOR FINANCE, 1991-2000

(RM million)

Programme	*6MP*		*7MP*
	Allocation	*Expenditure*	*Allocation*
Export Credit	43.7	37.5	–
Venture Capital	35.1	35.1	40.0
Industrial Promotion	114.0	114.0	100.0
Small & Medium Enterprise Loans	340.0	154.8	250.0
Other Financial Services	90.2	84.8	100.6
Government Equity	245.1	245.1	300.1
Total	**868.1**	**671.3**	**790.7**

V. CONCLUSION

15.90 Efforts were taken to strengthen the financial sector in order to contribute more effectively to the growth of the economy during the Sixth Plan period. These efforts will be expanded and intensified during the Seventh Plan period. In this regard, emphasis will be given to ensure continuous improvements in financial prudence and discipline as well as professionalism of the sector. Accordingly, the development in the financial sector will be geared towards the creation of a sound and dynamic regional financial centre.