

Liberalisation of the financial sector

Kuala Lumpur, Malaysia 27 April 2009 (www.biznewsselect.com) The liberalisation measures announced today aims to strengthen Malaysia 's economic interlinkages with other economies and enhancing the role of the financial sector as a key enabler and catalyst of economic growth. These liberalisation measures are consistent with the objectives committed under the Financial Sector Master Plan (FSMP) issued in 2001 to develop a resilient, diversified and efficient financial sector. More than 90% of the FSMP initiatives have been completed or are being implemented on an ongoing basis.

The financial reforms and capacity building efforts taken over the years have yielded positive results. Notable improvements have been achieved by the domestic financial institutions. Domestic banks today are well capitalised with risk-weighted capital ratio (RWCR) of 12.5% and an average asset size of MYR91.6 billion. Domestic banks are also more resilient with strengthened corporate governance, efficient internal structures, robust risk management practices and diversified sources of income. The strengthened capacity has enabled domestic banks to venture abroad and reap benefits from new business opportunities. Despite the increasingly challenging environment, domestic banks have managed to maintain market share of above 70%.

The financial institutions are in a greater state of readiness to compete in a more liberalised and challenging environment. The financial services sector has progressed beyond its role as a facilitator of growth, to become a growth sector in its own right, generating value-added business, attracting investments and creating employment. Over the years, the financial sector contribution to gross domestic product (GDP) has increased from 9.2% in 2000 to 11% in 2008. In this recent three years, the finance and insurance sector has expanded by 8.8% per annum, outpacing the growth in real GDP. The growth of the Islamic banking and takaful sector has also averaged about 20% in the recent five years. While significant progress has been achieved by the financial sector, the domestic and global financial landscape continues to evolve, presenting new challenges and opportunities for our financial system.

In bringing the country to the next phase of development, the liberalisation plan aims to pursue opportunities that would bring net benefits and contribute to the development of the Malaysian financial sector and the economy as a whole, while ensuring that overall financial stability and soundness is preserved.

Malaysia 's approach towards liberalisation will be selective and sequenced to ensure maximum benefits to the country . T he liberalisation plan will be supplemented with sufficient safeguards to ensure that the overall financial intermediation function of the financial system remains intact, effective and sound. Capacity and institutional building efforts will continue to be pursued, complemented by enhancements to the regulatory, supervisory and surveillance framework to preserve the resilience of the financial system.

The existing institutional arrangements that have been put in place to ensure a continuous supply of talent into the financial system will be enhanced further. In the area of Islamic finance, the liberalisation plan will reinforce Malaysia 's position as an international Islamic financial hub.

The liberalisation package encompasses measures on the conventional and Islamic finance sector as follows:

A. Issuance of New Licences

1. Up to two new Islamic banking licences will be offered in 2009 to foreign players to establish

new Islamic banks with paid-up capital of at least USD1 billion to enhance global interlinkages, leverage on global developments in Islamic finance and reinforce Malaysia's position as an international Islamic financial hub;

2. Up to two new commercial banking licences will be offered in 2009 to foreign players that will bring in specialised expertise to address gaps in the financial sector and spur the development of targeted economic sectors;

3. Up to three new commercial banking licences will be offered in 2011 to world-class banks that can offer significant value propositions to Malaysia ;

4. Up to two new family takaful licences will be granted in 2009 to players that can offer significant value proposition to Malaysia to spur the development of the takaful industry and reinforce Malaysia 's position as an international Islamic financial hub.

Details on the criteria and the submission requirements for the application of new licences are issued in a separate press release.

B. Increase in Foreign Equity Limits

1. With immediate effect, existing domestic Islamic banks that wish to scale up their operations and expand into global markets are given greater flexibility to enter into strategic partnerships with foreign players through an increased foreign equity limit of up to 70%. These banks will be required to maintain a paid-up capital of at least USD1 billion;

2. With immediate effect, investment banks are given flexibility to enter into foreign strategic partnerships to enhance international linkages and business opportunities. In this regard, the foreign equity participation in investment banks will be increased to a limit of up to 70%;

3. With immediate effect, to further strengthen the resilience and competitiveness of the insurance and takaful industry, insurance companies and takaful operators are given greater flexibility to tie-up with foreign partners. Accordingly, the foreign equity participation in insurance companies and takaful operators will be increased to a limit of up to 70%;

4. A higher foreign equity limit beyond 70% for insurance companies will be considered on a case-by-case basis for players who can facilitate consolidation and rationalisation of the insurance industry. Existing foreign insurers that participate in the process will be accorded flexibility in meeting the divestment requirement.

C. Operational Flexibilities

1. To enhance the opportunity for locally-incorporated foreign commercial banks to increase their potential to provide financial services to the underserved sectors of the economy, with immediate effect, locally-incorporated foreign commercial banks can establish up to ten microfinance branches. Further branches will be considered based on the effectiveness of these branches in serving microenterprises;

2. To promote greater financial inclusion and enhance the ability of the locally-incorporated

foreign commercial banks to have a more effective intermediation role in the domestic economy, locally-incorporated foreign commercial banks in Malaysia will be allowed to establish up to four new branches in 2010 based on a distribution ratio of 1(market centre): 2(semi-urban): 1(non-urban);

3. With immediate effect, to improve insurance and takaful penetration in the country, locally-incorporated foreign insurance companies and takaful operators are allowed to establish branches nationwide without restriction;

4. With immediate effect, to enhance insurance and takaful penetration in the country, the restriction for locally-incorporated foreign insurance companies and takaful operators to enter into bancassurance / bancatakaful arrangements with banking institutions is now uplifted;

5. With immediate effect, banking institutions, insurance companies and takaful operators will be accorded greater flexibility to employ specialist expatriates that have expertise to contribute to the development of the financial system in Malaysia; and

6. To provide a more flexible operating business environment, offshore banking institutions licensed by the Labuan Offshore Financial Services Authority that meet the predetermined criteria will be accorded flexibility to have a physical presence onshore from 2010. Similarly, offshore insurance companies licensed by the Labuan Offshore Financial Services Authority that meet the predetermined criteria will be accorded flexibility to have a physical presence onshore from 2011. This flexibility will be complemented by a strengthened regulatory and supervisory framework that will govern these players.

The liberalisation is a significant milestone towards achieving the long-term vision to have a financial sector that is efficient, resilient and dynamic. This liberalisation will also contribute towards the transformation process of the Malaysian economy to its next phase of development.