

BANKING SYSTEM UNDER VISION 2020

# PM spells out role of banks

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PRIME Minister Datuk Seri Dr Mahathir Mohamad yesterday outlined five qualities expected of financial institutions in a modern banking system as envisaged in Vision 2020.

The qualities — being caring and service-oriented, committed to supporting productive activities, competitive and efficient, innovative and sophisticated, and stable and resilient — are achievable and not over-idealistic, he said.

Addressing top executives of financial institutions at their annual dinner in Kuala Lumpur, he said banks must be caring and service-oriented as it is service, and not products per se, that they must improve.

Banks' function as a financial intermediary has remained unchanged but what has changed are the banking methods and instruments. As such, real advancement in banking will continue to be measured by how far bankers are able to perform their intermediary function to meet the needs of society in the most efficient manner, he said.

Datuk Seri Dr Mahathir said the banking industry's well-being hinges on how they interact with depositors and entrepreneurs who depend on bank funding to turn ideas into profitable ventures.

Unquestionably, much more can be

THE authorities have found no evidence of insider trading in its recent investigations into such activities. Prime Minister Datuk Seri Dr Mahathir Mohamad noted, however, the investigations had adversely affected the share market.

He said if the share market has not recovered, it is due to the rumour mongers, whom he described as "the ubiquitous parasites that plague the Malaysian political and economic life".

He warned that severe penalties will be imposed on those who commit crimes, adding that the Government will not be deterred by collapsing share markets or runs on banks.

done to improve the basic banking services in Malaysia, including speedier loan processing and fair and balanced terms and conditions.

"Banking should always be guided by prudence and not by whether someone high up is said to have given his approval," he added.

Recognising that speculative activities are part of the modern financial scene, the Prime Minister cautioned banks to be judicious in lending money for speculative deals and purchase of overpriced shares.

He reminded the bankers of their bad loans experience in 1985 and said that at such times banks tend to withdraw their umbrellas, become impatient, impose penalties, seize collaterals and bankrupt their clients.

"While these actions may be legitimate and will save the banks, it is worthwhile to remember always that bankrupts are not only a burden to themselves but to the nation as well."

He also highlighted the need for financial institutions to expand their reach to the rural population, some of whom have been collectively cheated of millions of ringgit by illegal deposit-takers.

He described such incidents as very disturbing, especially in view of the country's current drive to enlarge the pool of domestic savings to fund its growing investment needs.

The second quality Datuk Seri Dr Mahathir spoke of was the need for the banking system to be committed to supporting productive activities including manufacturing which is expected to play a prominent role in the economy.

He said banks must ensure that sufficient credit at reasonable cost is readily available and that scarce funds are not

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diverted to non-productive speculative investment and conspicuous consumption.

This requires higher financial capabilities and technical knowhow among bankers to arrange innovative financing packages for increasingly more complex, high-tech and large-scale industrial projects.

To achieve the third element of a sophisticated, competitive and efficient banking system, the Prime Minister said the Government through Bank Negara has "dismantled the structural barriers and levelled the playing field to enhance competition".

He said a more efficient and competitive banking sector will narrow the spread between the lending and deposit rates which will stimulate greater savings and spur economic activity.

"Banking inefficiency and dependence on large margins will retard economic growth and obstruct our progress towards a developed nation," he said.

Innovativeness is the fourth characteristic Datuk Seri Dr Mahathir wants to see in the banking system, which he said, should provide the thrust in developing the financial markets to help reduce the private sector's overall cost of doing business.

However, he cautioned that only

value-added financial innovation is desirable. Those which ignore basic banking practices and which are non-progressive are not acceptable.

The fifth and perhaps most important quality, the Prime Minister said, is the ability to withstand shocks, that is, resilience and stability. "Without a stable banking system to keep the national savings intact and to continuously provide the flow of credit to industry and trade, the nation cannot progress and prosper."

Datuk Seri Dr Mahathir said these qualities will enhance the role of the financial institutions in aiding the growth of the country as it strives towards achieving the vision of turning Malaysia into a developed nation by the year 2020.

"What we would like to attain is not just income but a society which balances material gains with intellectual and moral values.

"We must aim for a quality of life in which the pursuit of wealth will be tempered by concerns for the environment, for good human relations, and for a wholesome life that is not devoted to the pursuit of pleasure alone. Far too often a community achieves a high degree of development only to disintegrate because of excesses brought about by material wealth," he stressed