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Equity rule - AIG gets 5-year grace (HL)

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AMERICAN International Group Inc (AIG) has been given a five-year grace period to comply with the 51-per cent ceiling on foreign ownership with regard to its wholly-owned American International Assurance Co Ltd (AIA).

"We have decided that we will give them five years (to divest part of its equity in AIA)... until such time as we are ready," Prime Minister Datuk Seri Dr Mahathir Mohamad told newsmen in Kuala Lumpur yesterday after the signing ceremony for a joint venture agreement between AIG and Software International Corp Sdn Bhd.

The signing was witnessed by Dr Mahathir and US Ambassador to Malaysia John Mallott.

The Prime Minister was asked if the Government would grant AIG a waiver in relation to the Government's move to put a 51-per cent cap on foreign equity holding in Malaysian insurers.

On whether the policy deferment would also be granted to other foreign-owned insurance companies, Dr Mahathir said: "It must involve everybody but I think AIG is a very special case. The others will also have five years but we considered AIG's case first."

"Of course, we cannot distinguish... but the case put up by AIG is very strong and we have to respond to that," he added.

At last year's World Trade Organisation round of negotiations to liberalise the global financial services industry, Kuala Lumpur had made known that it wanted insurance companies which are wholly-owned by foreigners to divest part of their holdings to Malaysians.

Washington had subsequently urged Malaysia to grant an exemption to New York-based AIG, which has operated in the country for 50 years and employs 4,000 workers, two of them Americans.

According to the Insurance Annual Report 1997, as at last December 31 seven branches of foreign insurers have yet to be incorporated locally.

However, the report noted that five of these companies had submitted restructuring plans which include local incorporation.

Dr Mahathir welcomed AIG's continued support, saying: "The company has a lot of money... they are not only investing in Malaysia, but also have a reputation for keeping their earnings in this country." AIG signed the agreement with Software International Corp to form a joint-venture company which will engage in information technology businesses, particularly those related to the development of the Multimedia Super Corridor (MSC). Among other things, it would involve investment in MSC's smart card applications.

This makes AIG the first international financial institution to join the MSC. Its partner, Software International Corp, already enjoys MSC status.

The project's initial capital outlay is expected to be US\$10 million (US\$1 = RM3.68).

Dr Mahathir expressed the hope that the commitment shown by AIG will spur a greater flow of foreign direct investments from the US.

"I hope this project will be followed by others involving foreign financial companies in Malaysia, in particular in the MSC which we are promoting, and which promises good investment opportunities," he said.

Investments by foreign companies will help Malaysia to speed up the process of economic recovery from the effects of the financial turbulence which swept through the East Asian region last year, the Prime Minister said.

Asked for comment on the grace period granted, AIG chairman Maurice R. Greenberg would only say it was "a great change".

AIG is one of the biggest underwriters of commercial and industrial insurance in the US. It operates in 130 countries and jurisdictions.

Greenberg also expressed confidence in Malaysia's growth prospects and that of the region.

"We have been reinvesting all our reserves in the country and as a good corporate citizen we will continue to do that."

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