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MAHATHIR-BANKS

MAHATHIR ON HOW LOCAL BANKS CAN SURVIVE IN AN OPEN MARKET

KUALA LUMPUR, Oct 12 (Bernama) -- Learn to survive without depending on government protection and benchmark against foreign banks from now on, Prime Minister Datuk Seri Dr Mahathir Mohamad told local banks here tonight.

These endeavours would be the key to their survival in an open market, Dr Mahathir, who is also the finance minister, said at the 22nd annual dinner of the Association of Merchant Banks in Malaysia.

"The challenge for us, the challenge for the Malaysian banking system, is how to survive and prosper as relatively small banks," he said.

Local banks, he said, have to develop skills, particularly in the field of personal service.

By being friendly to clients, giving good financial advice, warning them against ventures which were not feasible and even helping them with feasibility studies would nurture loyal customers, he said.

"When they grow big they will not desert you and transfer their business to big foreign banks," said Dr Mahathir.

But the prime minister was quick to warn Malaysian banks that where money was concerned, customer loyalty and patriotism were not going to count much.

"But with skill and sympathetic service, the locals can still hope to survive. By benchmarking yourself against the foreign banks from now on, you may be able to maintain your institutions and hold out," he stressed.

From 2004 onwards, all domestic institutions, now numbering ten following a merger programme of 54, are expected to face greater competition from foreign institutions already operating in Malaysia.

Competition would be made more intense by the year 2007 when foreign institutions not yet operating in the country would join in the fray.

"The attempt to put off this eventuality may not succeed. So it is better to be prepared," Dr Mahathir cautioned.

In the world of banking and finance, a level playing field was not enough as the giants would prevail over the small and the weak, given the former's vast financial resources, technological sophistication, worldwide networks, innovative products and experience, he said.

In asking local banks to look for competitive advantage, Dr Mahathir said Islamic banking was an area which they had developed certain expertise.

"Islamic banking is not likely to replace conventional interest-based banking but there are signs that Islamic banking is beginning to be generally accepted even by non-Muslims," he said.

Islamic bankers, he said, must develop new and innovative products.

The prime minister also said the government strongly backed Islamic banking and aimed to become the permanent base for the proposed Islamic Financial Services Organisation (IFSO), whose primary purpose was to develop and disseminate uniform prudential, disclosure and regulatory standards on governing risks in Islamic financial products.

"In essence, Islamic banking is being developed to be in tandem and operate on par with conventional banking," said Dr Mahathir.--BERNAMA

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