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Be project-minded, local financial institutions told

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TWO chapters of the Indian Chambers of Commerce and Industry have fired the latest salvo on banks, saying financial institutions should change mindsets when considering loans.

Saying businessmen face "a ridiculous situation" when they apply for loans, president of the Kuala Lumpur and Selangor Indian Chamber of Commerce Datuk V.K.K Teagarajan wants financial institutions to be more "projects-minded" than "collateral-minded".

"Every time you go to a bank to get a loan, the officer will say: 'We can give you the loan but bring us the security,'" Teagarajan said.

He said that banks should change their attitude and be more adventurous when giving out loans. "Unless you take a whip, (the banks) are not going to change their attitude," he told reporters after launching the "Business loans, grants and Government incentives for small businesses directory" in Kuala Lumpur on Saturday.

When asked if the banks are behaving this way because they just want to be "safe" when they lend out money, his deputy Ramesh Kodammal replied: "Do you want to be a money lender or a banker?"

"A money lender needs security and a banker needs viability," he told Business Times.

Ramesh said that banks are borrowing money from the general public at an interest rate of only 3 per cent through the fixed deposit scheme, but (banks) are lending out the money at an interest rate of 6.5 per cent.

"The margins that they make here are huge...it's more than 100 per cent. Businesses don't make that huge a margin," he added.

Last month, Prime Minister Datuk Seri Dr Mahathir Mohamad criticised banks for not lending enough to companies and individuals, and for preferring to invest in "safe" instruments.

He also hinted that the statutory reserve requirement (SRR) may be raised if banks do not increase their loan growth.

The SRR is the proportion of liquid assets financial institutions must keep with Bank Negara. The reserves carry no interest and are based on financial institutions' liabilities, mostly deposits from customers.

Bank Negara last cut the SRR by a third to 4 per cent in September 1999 to pump up liquidity in the banking system, as the economy grappled with the effects of the 1997-1998 Asian financial crisis. The SRR is currently 4 per cent.