

**Government frees up the financial sector**  
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The government today announced measures to liberalise its banking sector, allowing nine new banking and insurance licences and easing foreign ownership limits for non-commercial banks.

Prime Minister Najib Abdul Razak said that the move, which comes shortly after he liberalised parts of the services sector, was aimed at making Malaysia more competitive amid the global downturn.

"The liberalisation measures announced today aim to enhance Malaysia's linkages with international economies and promote greater economic regional integration," he told a news conference.

The nine new banking and insurance licences to be issued between 2009 and 2011 include five for commercial banks, two for Islamic banks and two for operators of "takaful," or Islamic insurance.

The foreign equity limit for investment banks, Islamic banks and takaful operators will be raised from 49 to 70 percent.

"The foreign equity limit for domestic commercial banks will remain at the current 30 percent," Najib said.

Malaysia currently has 13 locally incorporated foreign banks, including HSBC and Citibank, and three foreign Islamic banking operators. No new foreign commercial banks have won approval to operate here for more than a decade.

Bank Negara governor Zeti Akhtar Aziz dismissed suggestions that there could be limited demand for the licences due to the dire state of the finance sector globally.

"Our liberalisation is sequenced and managed. It is a gradual process. We have had many who came to see us. There have been significant inquiries," the Bank Negara governor said, adding that she expected a recovery in 2011.

"The rationale for the liberalisation is to enhance our international linkages with other parts of the world so investments will take place. This is important in view of the slowing down of the global economy," she told the news conference, reported AFP.

**A significant milestone**

Najib said that the banking and insurance industry represented 11 percent of Malaysia's GDP in 2008, compared with 9.2 percent in 2000, and employed 140,000 people.

He added that the liberalisation plan will also reinforce Malaysia's position as an international Islamic financial hub, said a Bernama report.

Najib said the measures were a significant milestone towards achieving the long-term vision to have a financial sector that was efficient, resilient and dynamic.

Najib, also the finance minister, said two new Islamic banking licenses and two new commercial banking licenses will be offered this year to foreign players that will bring in specialised expertise.

Apart from this, up to three new commercial banking licences will be offered in 2011 to world-class banks that can offer significant value propositions to Malaysia, he told a press conference in Putrajaya.

He also said that locally-incorporated foreign commercial banks in Malaysia will be allowed to establish up to four new branches in 2010 while they can set up 10 microfinance branches immediately.

He added that this liberalisation will also contribute towards the transformation process of the Malaysian economy to its next phase of development.

"Over the past three years, the finance and insurance sector has expanded by 8.8 percent per annum, outpacing the growth in real gross domestic product by about 6 percent.

"The liberalisation measures announced today will also provide greater access to consumers to a wider range of world-class financial products and services and further strengthen our position in Islamic finance to become an international Islamic financial hub," he said.

### **New takaful licences**

On insurance front, Najib announced that two new family takaful licences would be granted this year.

The licences will be offered to those who 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.

And on the related matter, the two new Islamic banking licences will be offered this year to foreign players to establish new Islamic banks with paid-up capital of at least US\$1 billion to enhance global interlinkages, leverage on global developments in Islamic finance and reinforce Malaysia's position as an international Islamic financial hub.

He also said that with immediate effect, existing domestic Islamic banks that wish to scale up their operations and expand into global markets were given greater flexibility to enter into strategic partnerships with foreign players through an increased foreign equity limit of up to 70 percent.

These banks will be required to maintain a paid-up capital of at least US\$1 billion, he said.

He also added that with immediate effect, investment banks would be given the flexibility to enter into foreign strategic partnerships to enhance international linkages and business opportunities.

And it was with this in mind, he said, the foreign equity participation in investment banks have been increased to a limit of up to 70 percent.

Under the new liberalisation package, insurance companies and takaful operators are also

given greater flexibility to tie-up with foreign partners in efforts to further strengthen the resilience and competitiveness of the insurance and takaful industry.

Accordingly, the foreign equity participation in insurance companies and takaful operators will be increased to a limit of up to 70 percent.

### **Offshore banking institutions**

Najib said that a higher foreign equity limit beyond 70 percent for insurance companies will be considered on a case-by-case basis for players who can facilitate consolidation and rationalisation of the insurance industry.

Najib further said that locally-incorporated foreign insurance companies and takaful operators were allowed to establish branches nationwide without restriction with immediate effect in efforts to improve insurance and takaful penetration in the country.

To provide a more flexible operating business environment, Najib said 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.

And 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, he said.

The announcement by Najib today was followed a similar liberalisation package made by him last week in freeing up the 30 percent bumi ruling for 27 service sectors.

Last Wednesday Najib said the government has lifted the 30 percent bumiputera equity rule for 27 service sectors involving health and social services, tourism, transport, business, computer and related services.

"The liberalisation of the services sector is pursued with the view of creating a conducive business environment to attract investments, technologies and higher value employment opportunities," he said then.