

Pakatan: Leave funding of mega Islamic bank to market forces
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By Shazwan Mustafa Kamal

KUALA LUMPUR, June 25 — Pakatan Rakyat (PR) MPs are demanding Bank Negara Malaysia (BNM) explain why it is proposing that Petronas and pension funds be used to set up a mega Islamic bank, saying that foreign institutions should instead be used to underwrite some of the US\$1 billion (RM3.2 billion) in start-up capital.

Opposition lawmakers are also questioning BNM's role in the matter, pointing out that the central bank has no business to get involved in the setting of a new bank.

"When BNM announced in 2010 that it would issue two licenses to create two mega banks with a paid-up capital of at least US\$ 1 billion, the market expectation was that it would be foreign institutions given the sheer size of the exercise.

"Why should we ask Petronas and KWAP (Kumpulan Amanah Wang Pencen) for funds to create a mega Islamic bank? After all, we have been given the impression that there has been a lot of interest, especially foreign, in the mega Islamic bank," Nurul Izzah Anwar (picture) told The Malaysian Insider.

The PKR vice-president stressed that Petronas and KWAP should have no business in running a bank and that extra profits of Petronas should be reinvested in its core activities, not in a project in which it has no expertise in.

She said the best way would be to entice a group of committed financial institutions, preferably foreign, to form a consortium to create the mega Islamic bank.

"In light of past misuse and bailouts of public funds, and (Datuk Seri) Najib (Razak)'s economic transformation pledge, I remain against the use of public funds for such a private initiative. The establishment of this mega Islamic bank should be left to market forces.

"The question is have we been successful in convincing foreign financial institutions of the true potential of Islamic finance and how the creation of a mega bank will help further develop the global Islamic financial services industry?" asked the Lembah Pantai MP.

The DAP's Tony Pua told The Malaysian Insider that BNM's proposal would only result in a conflict of interest as well as unfair competition with existing banks.

"BNM's role is to regulate the financial services industry, not to get involved in setting up of a new bank.

"BNM should instead focus on getting existing Islamic banks to promote and expand their services to make Malaysia the global centre for Islamic finance... Their attempt to use state-related funds for the purpose makes it worse," said the DAP national publicity secretary.

The Malaysian Insider reported yesterday the central bank's plan to set up a mega Islamic bank was causing disquiet in government circles and could set off opposition criticism over the use of public funds to underwrite part of the US\$1 billion capital.

The Malaysian Insider learnt that Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz surprised national oil firm Petronas and government pension fund KWAP by making a personal pitch to them to invest US\$100 million each in the venture.

It is understood that the KWAP board declined to invest because it was not prepared to make such a commitment without due diligence.

While it is not Petronas' mandate to fund banks, the national oil company was previously directed by the Mahathir administration to bail out then Bank Bumiputra in 1985 with an injection of RM2.5 billion and also in 1991 with another RM1 billion.

When questioned about the matter on Friday, BNM declined to comment.

"With regards to your email, as a matter of policy the Central Bank does not comment on speculation," a spokesman replied by email to questions from The Malaysian Insider.

Government officials said when the idea of the Islamic mega bank was first mooted in 2010, it was understood that foreign entities would fund the US\$1 billion entity.

BNM had been due to issue two mega bank licences to spur Islamic banking but to date, neither has been materialised.

"It is strange that Malaysian institutions are being asked to bankroll this new bank. It was always meant to get funds from abroad," a source said.

BNM had previously said in 2010 "the announcement of the licences will be made on completion of the assessment."

Bankers say the bid to create a well-capitalised Islamic bank, which dates back to at least 2006, has been fraught with difficulties such as a struggle to raise sufficient capital and disagreement as to where the lender should be located.

One of the project's main backers is Saudi Arabia's Sheikh Saleh Kamel, founder and chairman of Bahrain-based Islamic bank Al Baraka, according to a Reuters reports.

BNM has never disclosed the applicants for the licences but there was market speculation that the Islamic Development Bank and Al Baraka could be keen.

Earlier this year, Beirut-based Union of Arab Banks' (UAB) magazine reported that a mega Islamic bank with a capital of US\$1 billion and headquartered in Bahrain might be launched this year.

It quoted UAB chairman Adnan Youssef as saying that some US\$600 million of the capital will be sourced from Islamic banks in the Middle East while the remaining capital will be subscribed to by local sovereign wealth funds and other financial institutions and investors.

Former Prime Minister Tun Dr Mahathir Mohamad has voiced his support for BNM's proposal and insisted last night there would be nothing wrong should the government decide to go ahead and use an injection from Petronas as "Petronas money is government money."

"The idea is good but we need to see if others agree or not. Our country still does not have a mega Islamic financial institution.

"There is nothing wrong using Petronas funds. Petronas money is government money as well," said Dr Mahathir, who was PM for 22 years during which he weathered at least two financial crises.

The Petronas adviser said that should the company agree to fund the project, which The Malaysian Insider reported could be to the tune of US\$100 million, this would mean the government could afford to back the plan.

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