

## **ANNUAL DINNER OF FINANCIAL INSTITUTIONS**

SHANGRI-LA HOTEL, KUALA LUMPUR (K.L), 28 AUGUST 1991

Once again, I would like to thank the organising committee of this Annual Dinner of Financial Institutions for inviting my wife and I tonight.

2. This year, marks a special occasion the birth of a new period in the Merdeka era. With the ending of the New Economic Policy (NEP), we are poised to chart the new path for the future of our country. Tonight, I would like to focus, if I may, on the perception of the role of the financial community in the nation's plan to build a prosperous and fully developed nation by the year 2020.

3. A couple of months ago, I had outlined the National Development Policy (NDP) for the decade of the 90's. The NDP forms part of a longer term vision wherein by the year 2020 Malaysia should be a fully developed nation. The term developed nation is likely to create in the minds of people the western model of an industrialised nation with a high per capita income. What we would like to attain is not just income but a society which balances material gains with intellectual and moral values.

4. We must aim for a quality of life in which the pursuit of wealth will be tempered by concerns for the environment, for good human relations, and for a wholesome life that is not devoted to the pursuit of pleasure alone. Far too often a community achieves a high degree of development only to disintegrate because of excesses brought about by material wealth.

5. Perhaps this sounds too idealistic and therefore unachievable. But if we do not strive for the ideal, we are likely to founder much sooner if not fail altogether.

6. We have seen many great civilisations develop only to wither and degenerate because of an obsession with wealth, power and pleasure. We cannot guarantee that if we should attain our target this will not happen to us. But at least while we are still unaffected by success, we should try to instill the values which will help keep our feet firmly on the ground.

7. We see today among the advanced developed nations a laxity and a dirth of moral values which spawn permissive cultures, breed politicians who misuse power and position and businessmen and financiers who cheat on a massive scale, cause the breakdown of the family and the institution of marriage, create mindless impersonal welfare states where people expect to get something for nothing and horrendous crimes which include mass murders and even cannibalism. If this is what we are heading for we may well ask ourselves whether it is worth the effort. Indeed, there are already people who are opposed to progress and will strive to stop us because of their fears of a materialistic, hedonistic and Godless society.

8. All these may seem heavy fare at a dinner for bankers and financiers. Lest you think I am preaching too much, let me remind you of the current BCCI affair, the insider tradings of Ivan Boesky and others, the scandal which now racks

Salomon Brothers, NOMURA Securities; the bankruptcies of some of the biggest and most respected banks, and closer to home the BMF affair. Clearly in the financial world, economic development often leads to deterioration of morals.

9. We will not be able to avoid all these but with early reminders and the inculcation of good ethical values continuously, we hope to avoid the worst of this disease.

10. I would like to warn those who are inclined towards crime that the penalty would be very severe when they are caught. The Government would not be deterred by collapsing share markets or runs on the banks. It is noted that the recent investigations regarding insider trading had adversely affected the share market. Fortunately we have found no evidence of such activities. If the share market has not recovered it is due to the rumour-mongers, those ubiquitous parasites which plague the Malaysian political and economic life.

11. Now having said all these essentials, let me return to the role of banks and financial institutions in the progress towards a developed Malaysian nation. Clearly their role will be crucial and the demands on them will be heavy. If I may I would like to outline the qualities which the nation has a right to expect of them.

12. First and at odds with the Shylock image of the industry, banks must be caring and service-oriented. Despite the introduction of sophisticated banking products and technology, a banking institution is basically a middleman between the savers and the borrowers. What has actually changed in all these years is not the underlying function of banking, but merely the method and instruments used in achieving this function. As the banking system enters the 21st century, real advancement in banking will continue to be measured by how far bankers are able to bring their intermediary function closer to the needs of society in the most efficient manner.

13. Whichever way you look at it, the well-being of the banking industry hinges on how the banks interact with the depositors who entrust their hard-earned savings to them on the one hand and on the other hand, the entrepreneurs who depend on the banks for funds to turn an "idea" into a profitable venture. Banks simply cannot operate without the support of savers and borrowers and one sure way to ensure continuous support is to provide a better and better standard of service. Primarily, it is the quality of service, not products per se, that all levels of bank staff, from chief executives to the tellers, should strive to provide at all times. Unquestionably, much more can be done to improve the quality of basic banking services in Malaysia -shorter customer queues, speedier loan processing, fair and balanced terms and conditions, sympathy and understanding and a smile even when saying "No". Banking should always be guided by prudence and not whether someone up high is said to have approved.

14. Speculative activities are a part of the modern financial scene. But banks should be judicious in lending money for speculative deals and purchase of overpriced shares. Banks must know from their 1985 experience that such loans can turn sour at short notice. At such times banks tend to withdraw their

umbrella, become impatient, impose penalties, seize collaterals and bankrupt their clients. While these actions may be legitimate and will save the banks, it is worthwhile to remember always that bankrupts are not only a burden to themselves but to the nation as well. As a developing nation we cannot afford this.

15. Today, we still hear about the rural population being cheated by illegal deposit-takers to the tune of millions of ringgit. This is very disturbing indeed, particularly in the light of our present concern to enlarge the pool of domestic savings available to fund the country's expanding investment needs. Despite having branches in rural areas, the banking industry has yet to fully reach out to these people to offer their services. While some of these depositors may be just plain greedy, the fact is that most of them are simple trusting people who are attracted by the apparent evidence of others getting rich quick through these get-rich-quick schemes. It is difficult for them to appreciate that the game will not last forever especially when a continuous stream of depositors make it possible for the scam to work for considerable length of time.

16. The Government can and will take legal action, unpopular though this may be. The final answer, however, lies in proper education and understanding of the workings of the scam by the ordinary folk. But sympathetic and publicspirited bankers can play a role by a more friendly approach towards potential depositors and indeed by helping with the process of education. Clearly there is a lot of money which is not being wisely invested. The efforts of the banks will result in this money being made available to them for prudent lending. So the banks' efforts will actually pay dividends. And the community and nation will be much healthier financially when the Government and the bankers work in concert to eliminate these unscrupulous criminals.

17. The second characteristic which the banking system should possess is the commitment to support productive activities in the country. A banker must realise that his volume of business and success hinge on the health of the economy. Thus, the banking industry must ensure that, at all times, sufficient credit at reasonable cost is directed to finance productive activity, that is, activity which generates real wealth, value-added goods and services, and gainful productive employment.

18. Under the Sixth Malaysia Plan, the manufacturing sector is poised to play a prominent role in order to diversify our economic base and to reduce our dependence on commoditybased export revenue. High value-added manufacturing exports are expected to form a greater proportion of our export revenue in the coming years. The banking system must be prepared to fund large-scale industrial investments by the private sector. Under the Sixth Malaysia Plan, over M\$200 billion ringgit of private investment will be required. It is the responsibility of the banking industry to ensure that the scarce savings of the nation are not diverted to finance non-productive speculative investment and conspicuous consumption, but are channelled effectively and efficiently to genuine entrepreneurs who have the capability to undertake industrial projects. The banking industry must enhance its financial capabilities and technical know-

how to evaluate and arrange innovative financing packages for increasingly more complex, hi-tech and large-scale industrial projects. Banking institutions would have to co-operate, if necessary, to arrange large loan syndications and be more innovative in utilising the capital market to complement the demand for funding. Without the whole-hearted commitment of the banking system in this regard, it would be difficult for Malaysia to achieve a developed nation status by the year 2020.

19. Of equal importance, however, is the commitment of the banking system to finance the smaller feeder industries. Malaysia is undoubtedly rich in natural resources and the small-scale industries are capable of transforming basic raw materials into simple components for eventual use by the larger industries. The stage has also been reached where these small industries should import raw materials for processing. Although low-key, these industries are crucial and provide the necessary ground support for the production of competitive Malaysian-made products. The drive towards an industrialised economy would necessarily require the formation of more small and medium scale industries (or SMIs) and to upgrade existing ones.

20. However, being small and often without a proven track record, the capital market is beyond the reach of the SMIs. We need the sincere and unrelenting assistance and commitment of the banking industry to help free the SMIs, particularly those which are hi-tech and innovative, from the funding constraints which are presently retarding their growth.

21. I am certain the banking industry will respond positively to the challenge and reinforce their commitment to support the nation' s productive ventures. I would urge the banking sector to step up their efforts and increase lending to the manufacturing sector, particularly as the manufacturing sector' s contribution to GDP is expected to increase to as high as 32% by the end of the Sixth Malaysia Plan period. Clearly, the mobilisation of private funds, both in the form of risk capital as well as bank credit, for investment in manufacturing projects needs to be enhanced considerably. Otherwise, it could slow down the process of industrial development.

22. Moving on to the third element, we need a modern Malaysian banking sector that is sophisticated, competitive and efficient. Essentially, the benefits of a more competitive and efficient banking sector would be derived from a narrower spread between the lending and deposit rates. A more attractive lending rate would stimulate greater loan demand for investment and, hence, contribute to greater economic activity. A more attractive deposit rate, on the other hand, would encourage greater domestic savings through the banking system, and allow more funds to be mobilised for industrial and other economic development. To put it in another way, banking inefficiency and dependence on large margins will retard economic growth and obstruct our progress towards a developed nation. As such, it is a matter of national importance for each and every banking institution in the country to strive to improve its own productivity and efficiency in all aspects of its operations.

23. The Government, through the Central Bank, has over many years systematically and purposefully dismantled the various structural barriers and levelled the playing field to enhance competition in the system.

24. All in all, the operating boundaries have widened considerably. While new business opportunities are available, deregulation has also allowed more market players into each activity. Not only will competition come from players within the system, non-bank financial institutions, like the development financial institutions, the National Savings Bank and the building societies, would also attempt to encroach further into the turf of the pure banking sector. All these factors point towards escalating competition in the financial sector in the years ahead. My hope is that the competitive forces will be healthy and generate improvements in bank efficiency for the good of the nation.

25. As I have mentioned earlier, the banking system would have to respond to the increasingly sophisticated needs of the Malaysian corporate sector and consumers. Therefore, the fourth characteristic which should be a feature of a modern Malaysian banking system is innovativeness. We have now reached a stage where market forces would be the best stimulant for the development of our banking system. Innovations which are able to satisfy the market needs best must be encouraged, and banks which are able to provide and deliver these products efficiently will enjoy greater success. Financial innovations which provide value-added enhancement to the function of intermediation will have the support of the authorities and the market. Banking institutions must provide the main thrust and impetus towards bringing about innovations, creativity and dynamism in developing all facets of the financial markets so as to help reduce the private sector's overall cost of doing business in the country. However, I must caution that innovations which ignore basic banking practices are non-progressive and, in the long run, could be counter-productive as the stability and soundness of the banking system could be shaken. Banking institutions must, therefore, be more discerning and focus their attention on "value-added" financial innovation rather than "rule-avoidance" acrobatics.

26. Financial innovations, including securitisation and financial futures, which have demonstrated their economic usefulness in the developed financial centres are likely to feature more prominently in the Malaysian banking scene in the coming years. The phenomenon of increasing securitisation, particularly the development of a viable secondary corporate bond market, and the emergence of a viable financial futures market are all essential for the Malaysian financial system to evolve into a strongly market-oriented centre, where both the surplus and deficit units are able to manage the deployment of funds as well as the distribution of risks effectively and efficiently. With a strongly market-oriented financial system, the riskbearing capacity of the economy would be greater and this would help increase capital formation, savings and stable economic growth.

27. Technology in banking will undoubtedly become more pervasive in the years ahead. However, it would be a grave mistake, if developments are to be blindly led by technology and not by clear banking objectives. Banks need a coherent

business strategy to, firstly, identify the markets that they are trying to serve; secondly, define the services that they wish to provide to each part of the market; and thirdly; choose the best mechanism for the delivery of the service.

Technology determines only the delivery mechanisms. The banking industry must distinguish between the banks' service, on the one hand, and the technical mechanisms for the delivery of those services, on the other. The introduction of new technology in banking should not be out of line with the banking services required by the society. Otherwise, technological innovation would only lead to unnecessary complexity and adversely affect the quality of service provided by the banks.

28. Over and above all the four quality elements which I have just mentioned, the fifth and perhaps the most important characteristic is the ability to withstand shocks, that is, to be stable and resilient. Without a stable banking system to keep the national savings intact and continuously provide the flow of credit to industry and trade, the nation cannot progress and prosper.

29. Following the severe recession of 1985-86, the Government had deployed considerable human and financial resources to re-build and strengthen all the weak links in the banking system. The ailing banking institutions had been rehabilitated or absorbed by stronger banking institutions. Further, smaller and weaker banking institutions are also encouraged to consolidate and merge into larger and stronger banking entities to enable them to play a more meaningful role in the challenging years ahead. There is a global trend for the smaller financial institutions to merge. Indeed, even the giants are merging. The trend is clear and appears to be irreversible. Many Japanese banks have taken this route and the pressure to merge has also affected banks in the United States.

30. For the Malaysian banking system, we should expect the consolidation process to be more vigorous in the years ahead.

31. On the part of the authorities, the supervisory framework will be continually developed and strengthened to preserve a safe and stable operating environment. The stability of the Malaysian banking system, like any other banking system, ultimately hinges on public confidence in the safety of their deposits. The banking industry must conduct its business with the highest degree of integrity and financial prudence would continue to be the cornerstones of banking stability no matter how modern and sophisticated the system has become. The staff of a banking institution are its greatest asset. The standard of their skills, professionalism, commitment to serve, and above all honesty and integrity would decide whether a bank will be a great, a mediocre or a "has been" bank. Therefore, as we proceed towards the year 2020, banks must never lose sight of the importance of quality staff. Banking institutions should continuously train and upgrade the skills of their staff and nurture a corporate culture where honesty, professionalism and integrity are second nature to the staff.

32. The Malaysian vision of a modern banking system one which is caring and service-oriented, committed to supporting productive activities; competitive and

efficient; innovative and sophisticated; and, last but not least, stable and resilient is not over-idealistic. These qualities of a dynamic banking system are, God willing, achievable. If Malaysia is to make the progress towards developed nation status, short-term gains must be subordinated to the longer term vision. And anything long-term must involve sacrifices and prudence qualities which the whole nation must have and the banking sector in even larger measure, if we fully subscribe to the Malaysian vision.

33. With these almost indigestible food for thoughts, I thank you for your kind attention and wish you a pleasant evening.