

THE ANNUAL DINNER OF FINANCIAL INSTITUTIONS

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Saya mengucapkan berbanyak terima kasih kepada jawatankuasa penganjur Majlis Makan Malam Institusi- Institusi Kewangan Malaysia kerana menjemput saya dan isteri saya ke majlis yang dihadiri oleh ahli-ahli kewangan. Saya berasa gembira dapat sekali lagi bersama-sama tuan-tuan dan puan-puan pada malam ini dan saya ingin berkongsi pendapat mengenai beberapa perkara yang bersangkutan dengan industri kewangan dengan tuan-tuan dan puan-puan.

2. This year represents the sixth consecutive year of steady and strong growth for the Malaysian economy. The current phase of economic expansion began in 1987 after a prolonged period of difficulties in the early 1980s and the deep recession of 1985-86. Over this phase of buoyant economic performance, our economy has experienced rapid increase in output; substantial rise in per capita income; high degree of industrialisation; and numerous opportunities for new jobs and profits. All these speak well of our efforts in the past to modernise and develop the economy, and augur well for the achievement of our stated vision of a fully developed country by the year 2020.

3. Naturally, in the run-up to our present status, the economy has begun to show some signs of strains. This is only to be expected. Rapid growth brings with it certain problems, for growth implies change and change needs adjustments. Consequently, consumption spending has been rising persistently, and national savings have been on the decline. The labour market has tightened progressively and wages have been trending upwards. Imports have been accelerating while the external payments position has remained subdued. The bullish demand sentiments and increasing supply constraints have had discernible effects on prices and inflationary pressures.

4. Many, including international observers and analysts, have considered the current challenges facing Malaysia as being the "happy problems" brought about by economic success. While we take solace in the fact that the "unhappy problems" would be much more daunting, the current problems must be managed well nonetheless. Determination and resolve are equally needed as if the problems arise from failures.

5. If there is any lesson at all to be learnt from the present sluggishness in the economic performance of most major industrial countries, it is the fact that excesses which accompany economic expansion are not sustainable, and sooner or later must be reversed. Subsequently, as individuals and companies are compelled to reduce their levels of indebtedness and institutions to rebuild their balance sheets, these industrial countries were plunged into a pervasive and prolonged period of economic weakness.

6. It is precisely for this reason, i.e. to prevent the excesses of economic behaviour in Malaysia, that we have instituted tight money management in order to moderate spending, particularly for conspicuous consumption. We want to encourage greater savings, and if needs be, to induce forced savings, in

order to narrow the existing resource gap and ensure long-term stability, as well as to provide a steady flow of non-inflationary funding for the growing investment requirements under the Sixth Malaysia Plan. To prevent excesses in the financial system, we need to ensure that the strengthening of prudent supervision as a complement to market discipline does not lag behind the radical changes in financial structures. It is imperative that a proper balance be struck in providing a tight safety net which ensures public confidence in the financial system, while at the same time moving further ahead towards deregulation. Regulation are abhorred until, of course, someone gets hurt. Then the Government will be questioned as to why it failed to regulate.

7. At the working level, workers and producers alike must take cognisance of the increasing supply constraints in the economy and to improve productivity and upgrade their competitiveness in the overseas markets. Workers, for instance, should not indulge in the old-fashioned wasteful confrontational labour practices which would lead to a wage-price spiral, which does not really benefit anyone except our external competitors. Producers too must not exploit the imperfections in the market regime to generate "fat" profits at the expense of consumers. Our ability to keep inflation low depends on the willingness of everyone to protect the integrity of an efficient price discovery mechanism.

8. The tendency to profit from reduced cost while responding to increased cost by immediately increasing prices should be resisted. Reduced cost of imports due to appreciation of the ringgit, for example, should be passed on to the consumers as much as increased cost are passed on. By passing on reduced cost, inflation can be better controlled. Low inflation reduce pressures for higher wages, among other things and this will benefit both the importers of raw materials as well as the producers of manufactured goods. The net result is that we will remain competitive in the domestic as well as the export market. Profiteering under whatever circumstances will result in a backlash that will hurt everyone. Even if costs go up, it is better to counter through improved efficiency rather than increased prices. The reason the Japanese are unbeatable is because when oil prices went up and when the Yen was revalued upwards, they did not follow this with corresponding upward revision of prices.

9. Maybe this is expecting too much of the Malaysian business community. But if good economic sense cannot be made to prevail, Government may have to step in. This is not a good solution as the implementation of regulations is seldom free from abuse. When this happens, the community and the nation will suffer.

10. Low inflation is something Malaysians take for granted. Malaysians also consider that inflation must be dealt with by the Government through laws, regulations and fiscal measures. But there is a limit to what the Government can do. In the final analysis it is the people who must play the principal role. For this, they need to know the causes of inflation and the role they themselves must play. Perhaps the financial community can promote a better understanding of the role everyone must play through systematic programmes in the media, particularly through television. No one wants to spend a hundred ringgit to buy a

bar of chocolate which presently sell for only one ringgit. Yet this is the story of many currencies not only in the developing countries but even in the developed ones. We will go the same way if we are not careful.

11. With increasing competition and rapid changes in the economic environment globally, adjustments have to be made where necessary in order to stay ahead of others. In this regard, our producers and exporters should not be discouraged at the recent developments in the exchange rate of the ringgit. Currency movements should not be regarded as the principal determinant of export competitiveness. In any case it should be remembered that the present exchange rate is the same as the rate about five years ago. At that time we were still competitive. We should be as competitive now.

12. In a wide open economy like Malaysia, the appreciation of the ringgit should result in substantially lower import prices. The servicing of external debt will also be cheaper. This should in turn benefit both producers who rely on imported raw materials and other inputs in the production process, as well as consumers who consume in large measure imported goods. Equally, imported plant and machinery will be cheaper. As I have said, importers and traders must pass on the benefits of lower import prices down the line, and should not take advantage of the strong ringgit and regard it as windfall profits. The Government views seriously the need to strictly enforce the competitive pricing behaviour among traders, to bring down costs in the economy for the benefit of producers and consumers alike. In this regard, any remaining barriers and rigidities preventing the free flow of goods and services in the country will need to be liberalised or deregulated. At the same time, the pricing behaviour and the efficiency of the price discovery mechanism will have to be closely monitored and improved upon.

13. Furthermore, producers must take advantage of the present economic situation to shift into more capital intensive and high technology production processes. It is heartening that a shift in this direction is gradually taking place in recent months, based on the profile of the flow of new investments. Indeed, investments are on average bigger in size, and this represents a welcome change which ought to result in higher productivity, as well as ease the growing tightness in the labour market.

14. It appears that there is an increasing tendency for top management of banking institutions to preoccupy themselves with what they consider to be the major banking issues, namely asset/liability management, information technology and profitability, at the expense of such run-of-the-mill banking activities as service to customers, inculcating the savings habit, the security aspects of their operations and their most basic function of lending. Bankers must not forget that they are intermediaries. Their main function is intermediation. Without the confidence of depositors and borrowers, they have nothing to intermediate. Utmost care and attention must therefore be given to the basic areas of banking for these very fundamental reasons.

15. Banking deals in a highly desirable and liquid commodity -- money -- and money business calls for security and trust. It is of paramount importance that all

aspects of banking operations are accorded security surveillance with equal stringency. Bank customers need to be assured that bankers act in their best interest; not their own self-interest. Secondly, banking is predicated on the maintenance of depositor confidence and this will evaporate where the assets of a banking institution, which in the main are concentrated in loans, threaten the ability of the bank to meet its obligations to depositors. The tenets of sound banking lie in security, sensitivity and surveillance. Bankers are expected to deliver them all.

16. The vulnerability of banking institutions to incursions into its security and control system by persons bent on acquiring wealth through dishonest means is best illustrated by several recent events. The "MIDF cheque scam" highlighted the fact that routine banking transactions which are normally carried out safely as a matter of course may not be safe enough when assailed by determined persons acting in concert to defraud the bank. Quite obviously, nothing should be taken for granted and bank staff have to be vigilant at all times in supervising everyone including their own colleagues. It is reassuring to note that many banking institutions have instituted additional screening checks on the identity of persons they deal with. The public will have to put up with the inconvenience of more stringent checks as it is in their own best interest. Customers cannot enjoy safety of their deposits if they are unwilling to put up with stringent procedures in their daily transactions at banking institutions. But, a sensible balance needs to be maintained. Cumbersome procedures and delays can be counter-productive. Banking involves the management of risks -- all risks, not just credit risk. It is time bankers do the jobs for which they are well paid.

17. Technology has been a boon to modernising and enhancing our productivity and quality of life. In banking, it has shortened considerably the processing time involved in many routine banking transactions and improved tremendously the capacity of banks to cope with the volume, scope and the increasing complexity of their transactions. However, automation, computerisation and the electronic transfer of funds have also given rise to new avenues for defrauding banking institutions.

18. Banking institutions have to be alert to the potential of such frauds. Last year, banking institutions reported 193 cases of frauds involving approximately \$600 million ringgit, compared to 778 cases involving less than \$30 million ringgit reported in 1990. And this does not include credit card fraud which, in 1991 alone, registered 14,006 cases involving \$17 million ringgit. Fortunately, the banking industry was able to detect many cases of fraud and recovered much of the losses. Consequently, actual losses totalled about \$25 million ringgit or less than 5 per cent of the total amount of \$600 million ringgit in frauds committed in 1991.

19. There is no room for complacency as any laxity would only entice the criminally inclined to test the controls of an institution. Furthermore, public confidence could be affected if they begin to question whether all their transactions through the banking system can be conducted safely. The banking industry cannot afford such doubt to creep in as it will eventually undermine the

nation's payments system.

20. There have been calls to impose harsher penalties on white collar criminals and these are currently being studied by the Government. However, the law by itself cannot be the sole means of countering society's ills. In these days of the educated criminal, a really determined crook can defraud banks, institutions or individuals. The only real and effective protection against crime is the moral and ethical value system of the society. A society which cares little for honesty and integrity will always be assailed with a lot of crimes, including those by the casual criminals.

21. Given that insider fraud is increasingly rampant, the control should start at the point of entry to an institution: that is at the recruitment level. To weed out potentially unsuitable characters, particular emphasis should be paid to character, temperament, attitude and disposition. Management must also be alert to external pressures affecting staff performance and behaviour. A caring corporate culture should be instilled. Similarly, genuine grievances of employees should not be ignored. Management must also keep a vigilant watch for vices among the staff, such as drug addiction, gambling or a penchant for luxuries beyond their means.

22. As custodians of public funds, the financial sector necessarily has to display very high standards of financial discipline and integrity. Management must be seen to deal firmly and uncompromisingly with any infringement of these standards, however small they may be. Dishonesty by a bank employee undermines the very foundation of banking. In the final analysis, the scale of fraud in an organisation is a reflection of the ability of its managers to manage. Dealing with fraud calls for a tough, yet fair and unambiguous policy by top management. They must make it patently clear that dishonesty will not be tolerated.

23. Financial institutions have the onerous responsibility of safeguarding public confidence in the financial system and are expected to play their rightful role in the battle against white collar crime. Granted banks cannot control the desire to steal, but banks can surely control and limit the opportunities to steal. These controls and limits need not always be considered in terms of cost, but should be weighed against the potential benefits.

24. Malaysia is in a critical phase of economic development. To attain our cherished vision of a developed nation by the year 2020, bankers should be more supportive of innovators and entrepreneurs who have the vision and the dynamism to create, but little or no collateral. Malaysian bankers of this era must also venture far beyond the traditional collateral-based financing into the more adventurous domain of project and venture capital financing. It is not suggested that bankers should be reckless. Of course, they must be guided by the underlying time-tested principles of good lending. What I am saying is that bankers should take calculated risks in the less well-trodden paths, and not rely on the comfort of following in the footsteps of others. Calculated risks must be taken or your business is not banking.

25. Inilah pendapat saya mengenai beberapa perkara berkaitan dengan industri Kewangan. Saya mengucapkan terima kasih di atas perhatian tuan-tuan dan puan-puan. Sekali lagi saya mengucapkan terima kasih kerana menjemput saya ke Majlis ini.