Launch of SME Credit Bureau
Kuala Lumpur, 16 April 2009

Keynote Address by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

Introduction

It is my pleasure to be here this morning to speak at the launch of the SME Credit Bureau. The development of a strong and dynamic SME sector is a priority on our national agenda to promote a vibrant and active SME sector that will contribute towards generating a sustainable and balanced economic growth. Malaysia has therefore adopted an aggressive SME development programme to strengthen the viability and capacity of the SMEs to increase their contribution to high quality growth of the economy.

Over the recent five years, the SMEs contribution to economic growth has increased. Indeed, the SME contribution to economic growth in the manufacturing sector has increased from 6% of real gross domestic product in 2001 to 8.4% in 2005. The overall SME contribution to the gross domestic product has increased to 32% while 19% of total exports are by SMEs. Experience has shown in several of the developed countries, that SMEs contribute to at least half of the gross domestic product. Benchmarked against this, there is clearly a significant potential for SMEs in Malaysia to increase their contribution to the economy.

Economic Outlook and Policy Response

The year 2009 is likely to be a difficult year for businesses. The global economy is expected to remain weak following the synchronised recession in the advanced economies. While there is significant uncertainty on the prospects for recovery, the stimulus measures being implemented across the globe and the measures to address the financial crisis in the advanced economies are expected to contribute to improving conditions in the second half of this year. However, should there be further delays in addressing the impairment of the financial systems in the crisis affected countries, this would be a risk to the economic recovery process. This would in turn continue to have significant spillover effects on the rest of the world.

Whilst Malaysia has successfully maintained the stability of its financial system during this period of uncertainty, the economy is not insulated from these global developments. Despite the high degree of openness of our economy, Malaysian businesses are however, less leveraged with significantly less foreign financial exposures and therefore better able to cope with the effects of the global economic downturn.

During this recent decade, Malaysia has aggressively implemented measures to promote domestic demand as a driver for growth and thus achieve a more balanced growth. While the export sector is still important, the significance of domestic demand has gradually increased. In this current environment, the Malaysian Government has implemented a significant fiscal stimulus to sustain domestic demand. Following the reduction in interest rates, retail borrowing costs have declined to new historical lows. Thus both the fiscal stimulus and the accommodative monetary environment are expected to improve demand conditions in the second half of the year.

Malaysia also has diverse trading partners which contributes towards mitigating the full impact of the global slowdown on our domestic economy. Businesses in Malaysia have over the years continued to build trade and investment linkages with other emerging countries especially in Asia . Adequate access to financing is therefore vital not only for supporting domestic demand but also to ensure that Malaysian businesses are able to take advantage of the opportunities in the regional and global economy.

The strong domestic banking system, with its ample liquidity, has the potential capacity to provide the access to financing. Some SMEs however are experiencing stress from the current more difficult environment. Several preemptive measures have therefore been introduced to enhance the prospect for access to financing. The SME Assistance Guarantee Scheme that was launched on 3 February 2009 to provide SMEs with an 80% guarantee cover will enhance access to financing in addition to keeping the cost of financing low. As at 5 April 2009, more than 880 applicants have successfully obtained financing through this scheme and more than 790 applicants are still being evaluated. Two additional schemes, the Working Capital Guarantee Scheme and the Industry Restructuring Financing Guarantee Scheme, has been recently launched to enhance access to financing for working capital and to support long-term investments that will increase productivity and that will generate high value-added activities.

The measures to enhance access to financing are also reinforced by the provision of financial advisory services and by developing channels for redress by borrowers. The BNM LINK and TELELINK established by Bank Negara Malaysia and the ABM-Connect that has been set up by the Association of Banks in Malaysia serve as important conduits for greater interface between the banks and the borrowers. These measures are also complemented by the institutional framework to deal with problem loans in the retail and business segments. The Small Debt Resolution Scheme (SDRS), which was created in 2003 to facilitate the restructuring and rescheduling of credit facilities for small businesses has now been expanded to include all viable SMEs facing financial difficulties with financing from multiple financial institutions.

Importance of Information Credit Bureaus

Malaysia has been ranked number one in the world in terms of access to credit by the World Bank in 2008. Despite is favourable assessment, efforts will continue to be intensified to ensure that this access continues, particularly during this more challenging and uncertain time. The establishment of the SME Credit Bureau is one of these measures. The SME Credit Bureau is a vital element in the information credit bureau industry. SMEs are thus encouraged to maintain and compile the required information so as to enhance their potential access to credit.

SMEs are expected to benefit greatly from the services of the SME Credit Bureau. Firstly, the SME Credit Bureau empowers SMEs to build their credit reputation from a wide range of transaction behaviors. These include transactions with suppliers, customers and utility providers. The record of transaction behavior is expected to provide comprehensive information on the SMEs, especially for SMEs that are accessing financing from the banking sector for the first time. Secondly, the SME Credit Bureau uses a credit methodology that discounts aged information thus providing a fairer assessment of the SMEs current credit worthiness.

SMEs should also use the services provided by the SME Credit Bureau to better understand the credit evaluation processes. This will facilitate the efficient processing of the loan applications. This will also allow SMEs to secure more favorable financing terms from financial institutions. This approach is also expected to incentivise SMEs to inculcate a credit culture that enhances their eligibility for financing. A positive assessment from the SME Credit Bureau will be recognised by all financial institutions. The SMEs will therefore have increased options and will be able to compare and obtain the most favorable terms.

Over the years, SMEs have become an increasingly important segment of the loan portfolio of our financial institutions. With higher exposures to this sector, the comprehensive information compiled by the SME Credit Bureau will be a valuable information source that will facilitate better monitoring and management of the SME portfolio. The information from the SME Credit Bureau will also expedite the assessment of developments in new markets and the creation of a liquid secondary market which would in turn increase the availability of funds to SMEs.

Consistent with the importance of the SME segment in the total loan portfolio, financial institutions should also regularly interface with

SME associations so that financial services rendered to the sector can be more customised to the specific requirements of the sector. In this current challenging period of slower growth, financial institutions need to understand and address early the problems being faced by the SMEs. This may involve adopting greater flexibility in structuring SMEs' financing facilities including in the restructuring programmes and to provide the supporting financial advisory services. In addition, early assessments and taking the appropriate remedial actions before the financial conditions deteriorate will avoid other more costly solutions.

In this highly challenging environment, SMEs also need to initiate their own measures to achieve greater cost efficiency and to enhance productivity improvements. This would involve looking at every facet of the business operations and to identify ways to streamline processes, eliminate waste, consolidate activities and adopt new technology and energy-efficient processes. A number of funds have been established to support these enhancements. Other initiatives could include the pooling of resource requirements such as the purchase of common raw materials to benefit from bulk discounts from suppliers and to share transportation costs. The Chambers of Commerce and Industry associations can have an important coordinating role in such undertakings. Experience-sharing sessions can also be organized in which successful members can share experiences in achieving cost efficiency and productivity improvements.

Equally important is increasing the value creation and seeking new areas of business growth. This may involve shifting resources to new areas of business or markets. In striving towards long-term competitiveness. Experience has shown that the aptitude for hard work, prudent practices, the agility to adapt to changing conditions, perseverance and the ability for reinvention are some of the qualities of the successful SMEs in our economy.

The creation of the SME Credit Bureau is another milestone in the development of the enabling supporting infrastructure for strengthening the SME sector. The creation of such an information credit bureau industry is a further step forward in generating a financial intermediation process that is more efficient and effective. I hope that financial institutions and the SME Credit Bureau would work together towards making today's initiative achieve its objective. In enhancing greater access to credit to the SME sector, it would strengthen the potential for SME contribution to the economy.
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UNAG Asia Regional Forum on Policy and Regulation of Financial Inclusion Kuala Lumpur, 6 May 2009

Welcoming Remarks by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

Introduction

It is my pleasure to welcome you to the United Nations Advisers Group Asia Regional Forum on Policy and Regulation of Financial Inclusion. This conference takes place at a time when the world is confronted with addressing many issues that have emerged from the current global financial and economic crisis. Whilst significant attention and efforts are being channelled to resolving the financial crisis and creating an enabling environment for the resumption of growth and job creation, we must not lose sight of the financial inclusion agenda. Financial inclusion is vital for creating balanced sustainable economic growth. It provides the opportunity for all members of society to benefit from economic progress. It allows for a shared prosperity, an aspiration that is encapsulated in the United Nations Millennium Development Goals.

The Central Bank of Malaysia is most honoured to be given the opportunity to host this forum which is being held in Asia for the first time. We are most honoured to have Governor Nout Wellink, President, of the Central Bank of Netherlands . We are also pleased to have present Mr. Jacques Toureille, UNAG Advisor, who will be delivering the keynote address by Her Royal Highness Princess Maxima on her behalf.

This forum brings together some of the best minds from different parts of the world with diverse experiences in the field of financial inclusion. I am certain that this forum will enhance our understanding of the vital issues confronting the financial inclusion agenda, and will contribute towards the formulation of new ideas in addressing the important issue of regulation and policy that will ensure the sustainability of an inclusive financial system.

The financial crisis and its implications on the poor

The year 2009 will likely to be a difficult year for most countries. As we enter the third year of this financial crisis, there is already a synchronised recession in the advanced economies. For most of the emerging economies however, the full effects of the crisis on their domestic economies will be felt this year. It is important to note that the financial systems in most emerging economies continue to remain sound and more importantly continue to function, providing credit and supporting the economy. The collapse of external demand has however, adversely affected the more open emerging economies. The issue of equal concern however, is the more disproportionate impact these developments will have on the poorer economies. Similarly, the disproportionate effect these developments are having on the poorer segments within a particular economy.

This crisis thus brings to the forefront a number of issues concerning financial inclusion. Firstly, while the crisis demands action with great urgency, the policy response to restore the functioning of the financial system and to get growth in the economy again, there also needs to be a continued commitment to the financial inclusion objective. This becomes all the more vital given the more adverse implications of the crisis on the poor segments in the economy.

Secondly, while the policies and regulation of financial inclusion are essential to ensure the soundness and sustainability of an inclusive financial system, of equal importance are the policies, instruments and framework to deal with distress in an inclusive financial system. This is to ensure that the strategies for resolution will provide a total solution that addresses the entire spectrum of the financial

system, from that which is large and highly connected with systemic implications to that which is small and highly vulnerable. This includes measures relating to relief and support and the mechanisms for resolution to ensure the sustainability of an inclusive financial system even during unstable financial and economic conditions.

In recognising the importance of financial inclusion, the United Nations established the United Nations Advisory Group on Financial Inclusion in 2006. The group advises the United Nations and member states on issues relating to the advancement of the financial inclusion agenda on a global scale. Since its establishment, many successes have been achieved. These include increasing the public awareness on the importance of financial inclusion, assisting governments in the design of regulatory systems that facilitate the creation of financial services for the poor, encouraging the of use of holistic measures to gauge the progress of financial inclusion, collecting and disseminating best practices, collaborating with the private sector to leverage on the talent and technology to further advance financial inclusion and to promote research that will galvanise new initiatives.

In Malaysia , financial inclusion is a high priority in our national agenda. Since the establishment of the Central Bank, there has been a conscious policy to have an extensive commercial banking branch network across the country, to ensure the outreach, in particular, to cover the non-urban areas. Malaysia now has 10.2 branches for every 100,000 individuals as opposed to the global median of 8.4 branches for every 100,000 individuals. In Malaysia , more than 80% of the population also have some form of savings account. This has also contributed to the financialisation of savings in the country. Deposits as a percentage of gross domestic product is 180%. This means that savings is mobilised including from small savers into the formal financial system. This allows the savings to be channelled to productive economic activity.

To further drive the provision of basic financial services to the underserved, the National Savings Bank in Malaysia has been mandated to enhance the outreach of deposit services and micro-financing. Their efforts, together with those of commercial banking institutions and government mandated micro-financing agencies, have resulted in a significant expansion of micro-financing. Micro-financing has increased from RM151 million in 2000 to RM1.7 billion in 2008, representing an annual average growth rate of 35%.

Early this year, Bank Negara Malaysia celebrated its 50 th anniversary. The Bank has taken the opportunity to review our existing legislation; the Central Bank Act to take into account the dramatically changed domestic and international economic and financial environment. The work on this proposed new legislation has spanned two years. In articulating with greater clarity the mandate of the Bank, the objective of financial inclusion, not explicitly mentioned in our existing Act, but undertaken in practice is now explicitly articulated in the proposed Act. This is to ensure that going forward, the future generation of central bankers at Bank Negara Malaysia will continue with the unwavering commitment to the building of an inclusive financial system.

Conclusion

Let me conclude my remarks. In this current environment of great uncertainty, financial intermediation has a vital role in supporting an economic recovery. As regulators, the focus is placed on ensuring the soundness and stability of the financial system, and thereby provides the platform on which the role of the banking sector in the economy can be enhanced. It is the continued functioning of the financial system that will be a vital element in the economic growth and development process.

For emerging market economies in particular, the efforts have to be extended beyond this to building the financial infrastructure, raising the level of financial literacy and providing the enabling environment for a more inclusive financial system.

This forum will provide us an opportunity to deliberate on the many issues that are before us, particularly in the context of the unstable times and the manner in which we can strengthen our capacity to enhance the financial inclusion agenda. On that note, I wish you a very productive and successful meeting.

LOFSA's Luncheon Talk with Foreign Embassies in Malaysia Kuala Lumpur, 13 May 2009

Opening Remarks by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

It is my great pleasure to welcome you to this special luncheon. At a time of rapidly changing economic and financial conditions, we appreciate having this opportunity in conjunction with the release of the Labuan Offshore Financial Services Authority (LOFSA) annual report two days ago to share with you on the developments of the Labuan International Business and Financial Centre (IBFC) and on the recent financial liberalization announcements that relate to the Labuan IBFC.

Our annual report for 2008 highlights that the Labuan IBFC maintained positive growth across all key business sectors despite the more challenging global environment.

The more challenging environment has also not interrupted the implementation of further policy initiatives in 2008 to transform the Labuan IBFC from a traditional offshore financial centre to a vibrant International Business and Financial Centre.

The positioning of Labuan IBFC at the higher end of the financial service chain has contributed to the strengthening its competitive position. The implementation of these initiatives reflects the commitment of LOFSA and the Malaysian Government in ensuring that the development of Labuan IBFC continues to be given priority and that it will continue to remain competitive as a highly connected, convenient and cost-efficient business and financial centre in Asia.

The Labuan IBFC now has more than 300 international financial institutions that provide the comprehensive range of conventional and Islamic financial products and services. These financial institutions include among the top international banks and reinsurance companies.

The performance of the banking industry in Labuan IBFC showed continued expansion in 2008 with strong capitalisation and an improvement in the quality of the asset portfolio as reflected by the decline in gross non-performing loans. Similarly, the insurance sector has remained in a healthy position with the aggregate margin of solvency well above the minimum regulatory requirement. The insurance industry has also recorded a significant increase in gross premiums which has now surpassed the USD1 billion mark. There was also an increase in the number of Labuan companies. In addition, the leasing industry continued to be vibrant while the trust companies sustained their steady performance during the year.

In Islamic finance, the Labuan IBFC has continued to record positive performance, particularly in the areas of Islamic private funds and retakaful business. This has further strengthened the supporting role of the Labuan IBFC in positioning Malaysia as an International Islamic Financial Hub.

Thus, while many international financial centres have recorded slower growth in this time of the global financial turmoil, the Labuan IBFC continues to record steady growth in the substantive cross-border, financial and business transactions.

A key success factor to the sustained growth of Labuan IBFC is the well-regulated business environment in the IBFC. This has provided confidence for investors to continue to be drawn to the Labuan IBFC. As the regulatory authority for the Labuan IBFC, LOFSA is entrusted with the regulation and supervision of the activities of the centre and has put in place the necessary financial infrastructure to ensure that the international business sectors

are well governed and regulated. This is to maintain the soundness and stability of the Labuan IBFC and its status as a centre with high integrity.

LOFSA's supervisory approach has evolved over the years to take into account the changing environment. At the very outset, however, LOFSA implemented a stringent entry policy for the establishment of financial institutions and trust companies as well as for capital market activities. Only genuine and legitimate businesses are allowed. Extensive due diligence which is conducted at the entry level is undertaken to ensure that only the "fit and the proper" are allowed to operate in Labuan IBFC. The Labuan IBFC has received a positive assessment in the IMF report and the Asia Pacific Group on Money Laundering has categorised the Labuan IBFC as a low-risk jurisdiction for money laundering.

LOFSA has also subscribed to international best practices and is a member of the fraternity of regulators in various international organisations including the:

1. Offshore Group of Banking Supervisors;
2. Offshore Group of Insurance Supervisors;
3. International Organisation of Securities Commissions; and
4. Asia Pacific Group on Money Laundering.

The recent OECD's unilateral assessment of Malaysia (Labuan) as a "Category 3 jurisdiction", has therefore been unfounded. What is even more disappointing was the recognition given to this list by the G20. The decision taken by the OECD and the G20 to publish the list without consultation and without providing any notice to all the affected nations was not constructive. Several countries that were selectively made aware of this were able to file in their intentions to comply with the required tax standards of the OECD just days before the release of the list and were taken off the list. Malaysia became one of the four countries that remained on the list. Now, after stating the position on this matter to the OECD, none of the countries including Malaysia are in the "Category 3 jurisdiction". The damage however, has taken place.

It is clear that the decision to "blacklist" was made without taking into consideration Malaysia's and Labuan's long precedence of compliance to international standards of banking and exchange of information.

The existing legislation has already allowed for exchange of information and Malaysia has signed 69 Double Tax Agreements all of which follow the Model convention for Double Tax Treaties as developed by the OECD. Although Malaysia is not a member of OECD, it has always cooperated with competent authorities around the world to assist in the pursuit of unlawful tax or financial practices.

Of equal concern is also the absence of some jurisdictions or "tax havens" which are clearly not in full compliance with the OECD standards of exchange of information. It is regrettable that the decision by 20 countries can determine the fate of the other 165 countries in the world. But, in spite of these developments, Malaysia will remain steadfast in its efforts to continue to adopt international standards and best practices to ensure Labuan as a robust and well managed jurisdiction for conducting legitimate international business.

As you may be aware, the Honourable Prime Minister of Malaysia, recently announced a series of liberalisation of the financial services sector in Malaysia. The liberalisation is aimed at enhancing our international economic and financial inter-linkages and to strengthen Malaysia's financial services sector as a catalyst that will take the country to the next level of development.

On the liberalisation measures which are related to Labuan IBFC, with effect from 1 June 2009, Labuan holding companies will be accorded flexibility to have a physical presence in Kuala Lumpur. Similarly, Labuan banking institutions and insurance companies that meet the predetermined criteria will also be allowed to have a physical presence onshore from 2010 and 2011 respectively. This new flexibility will enable Labuan institutions to enhance their operating efficiencies by leveraging on the facilities, infrastructure and resources such as human capital and professional services that are accorded onshore. This flexibility will however, be complemented by a strengthened monitoring and

regulatory and supervisory framework that will govern the operations of the participating entities.

In an effort to maintain Labuan competitiveness as an international business and financial centre, several other strategic initiatives have been implemented including the establishment of a separate marketing company by LOFSA, the reduction in the annual fees payable by Labuan companies, and the widening in the range of potential products and services following the review of the legislative framework. We believe that these initiatives will reinforce Labuan as an international business and financial centre that provides the best opportunities and services to its customers and to potential investors.

There are many challenges in view of the spill over effects of the global financial crisis. However, LOFSA remains committed to its long term goals in maintaining the Labuan IBFC as a preferred international financial centre of high integrity. This is to position LOFSA on a solid platform to serve businesses and investors, and to ensure that the Labuan IBFC is supported by top quality service providers, an efficient delivery system and a conducive legislative framework. It is therefore our hope that we can continue to have your cooperation and support to enhance the awareness of companies and businesses from your respective countries on the opportunities accorded in the Labuan IBFC.