Zamani Abdul Ghani: Riding out of the global financial crisis – banking reforms and revival

Closing remarks by Mr Zamani Abdul Ghani, Deputy Governor of the Central Bank of Malaysia, at the 13th Malaysian Banking Summit 2009 "Riding Out of the Global Financial Crisis – Banking Reforms & Revival", Kuala Lumpur, 12 May 2009.

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On behalf of Bank Negara Malaysia , I would like to thank ASLI for the opportunity to make the closing address for the 13 th Malaysian Banking Summit. Indeed the theme chosen is highly appropriate and timely as we are currently facing a period that is most challenging.

The current global economic slowdown, as many are aware, has been compared to the Great Depression of the late 1920s. It began with the stock market crash in October 1929, otherwise known as “Black Tuesday”. As to whether the current global slowdown reach such proportions, it remains anyone's guess. But as events unfold and with lessons of hindsight gaining clarity, we have seen how institutions failed to fully understand or underestimated the complexity of products, and were unable to adequately measure tail risks as well, the pro-cyclical impact of fair value accounting. While these may have merits in sharing the blame, others like the high levels of risk concentration and gearing together with the failure to manage maturity mismatches, are also equally apparent, if not fundamental, in contributing to the financial crisis. Comforting, however, is that none of our Malaysian institutions undertook complex derivative transactions. This underscored how important it is for Boards of Directors to understand products and carefully weigh the risk-versus-return paradigm.

Here in Malaysia, parallels have also been drawn with the 1997 Asian Financial Crisis, but interestingly the similarities are arguably few in nature. Correspondingly, the regulatory and policy response at the time was also suitably crafted towards addressing relevant issues and to achieve specific objectives. Today, the consolidation of the banking sector and the significant advances in risk management infrastructure and practices are also firmly in place and institutionalized. Payoffs from these efforts are evident as Malaysian financial institutions are now on a stronger foundation to venture into new businesses and countries, undertake more complex risks and withstand shocks. Their enhanced capabilities are now backed by stronger balance sheets, with the risk-weighted capital ratio of the banking sector at 13.4% and net non-performing loans ratio of 2.2% as at 31 March 2009. Our financial institutions have also continued their lending activities despite the global slowdown. Total aggregate outstanding loans have grown by 12.0% to RM727.0 billion during 2008 and by 11% yoy as at end-March 2009.

Dealing with financial risks – from regulatory perspective

On the regulatory front, Bank Negara Malaysia has and is now in the process of conducting another series of stress tests to gauge, from a capital standpoint, the collective soundness of the banking sector in absorbing potential losses. Complementing this is the liquidity stress tests conducted to assess specifically the capability to withstand market wide liquidity shocks. This reflects the heightened state of vigilance in Bank Negara Malaysia as we continue to direct significant effort and resources towards strengthening our surveillance. In addition to macro surveillance, the supervision framework is also more forward looking including increased engagements and dialogue with senior management of financial institution, industry leaders, trade bodies and various chambers of commerce for the early detection of emerging issues and developments.

Facilitating access to credit and easing monetary policy

Another area of importance is the continuing availability of credit from the banking sector. We have earlier highlighted the rate of growth in outstanding loans. In addition, the government has introduced specific guarantee schemes while Bank Negara Malaysia also, on its part, maintained a monetary policy easing stance that is conducive to achieve the same goal of facilitating access to credit at reasonable cost.

At the same time, to assist the household sector, the Agensi Kaunselling dan Pengurusan kredit (AKPK) is also an avenue for individual borrowers and potential borrowers to seek advice and assistance in managing their finances and debts. Clients of the banking industry may also contact Bank Negara Malaysia hotlines and its LINK and TeleLINK for assistance for info. LINK refers to Laman Informasi Nasihat dan Khidmat. Association of Banks in Malaysia (ABM) has also introduced toll free lines for the benefit of its stakeholders. These combined efforts seek to lower borrowing costs and ease cash flows while at the same time promote financial discipline. More importantly, it is to avert a sharp slowdown in economic activities.

Financial liberalisation

Bank Negara Malaysia has also remained committed to the objectives of the Financial Sector Master Plan (FSMP) issued in 2001. The recently announced liberalization measures, for example, forms part of the concluding phase of the FSMP which is to liberalise the banking sector by allowing for the increase in operational flexibilities, product offering and, the issuance of new licenses by 2011. But, as capacity and institutional building efforts continue to be pursued, it must be complemented by enhancements in regulatory, supervisory and surveillance framework to preserve the integrity and resilience of the financial system. Clearly this is the distinction which must be made with de-regularisation per se.

Islamic banking

Islamic banking also remains as one of the key agendas under the FSMP. Also in the recently announced liberalisation measures, we will issue up to two new licenses given the growing demand and the need to give further boost to the MIFC initiative. As we have more than two decades of experience in this area, Bank Negara Malaysia will continue to build on this competitive advantage to ensure Malaysia remains at the forefront of global Islamic banking. It is therefore encouraging to note that Islamic finance has continued to demonstrate its evolution and strong growth as assets have expanded by 22% to RM192 billion in 2008 alone and now accounts for 15.0% of the total assets in the industry. This reflects the growing relevance of Islamic banking and is testimony to its acceptance as the embodiment of ethical banking and finance.

Other threats to the financial system

Financial institutions also face increasing challenges from other non-financial risks associated with the extensive use of technology and the potential outbreak of epidemics. Therefore it is vital then that the state of preparedness of BCP/BCM contingency measures is constantly ready to address any possibilities and not be blind sided by financial risks alone.

Closing

It is neither by accident nor coincidence that the Malaysian financial system is currently at a position of considerable strength, depth and resilience. Rather it is through the combined efforts of both industry players and the regulator as well as the support of all our stakeholders. I believe that this spirit of cooperation and mutual respect is entrenched and will serve us once again as we look forward to safely ride out the impact of the current global financial crisis.