Muhammad bin Ibrahim: Issues surrounding intellectual property

Welcoming remarks by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Intellectual Property Financing Conference 2014, Kuala Lumpur, 23 September 2014.

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It gives me great pleasure to welcome you today to the 2014 Intellectual Property (IP) Financing Conference – themed “IP Potentials in Financial Landscape Evolution”. I would like to thank the Malaysian Intellectual Property Corporation and the Asian Institute of Chartered Bankers for co-organising this event with Bank Negara Malaysia. We are also grateful to Secretary General Dato’ Sri Alias bin Haji Ahmad for joining us today to deliver the keynote address and officiate the conference.

In the age of the information economy, the importance of intellectual property as a key enabler of productivity and economic growth has become significantly more pronounced as intangibles make up an increasing proportion of business investments. This conference was carefully designed to raise issues surrounding IP. Many issues and questions require resolutions and insights.

How do we achieve strong and effective IP protection that will encourage companies to bring new innovations to the market? How do we unlock the value of IP within businesses and encourage the financial system to make better use of this value in financing decisions? How do we start to develop a more transparent market for IP assets? These are some of the issues and questions that the Conference should explore to optimise the full potential of IP in Malaysia.

The world’s economy continues to transform into one that prioritises knowledge-based production and services. 53% or more than half of global market capitalisation is now derived from intangible assets. For example the S&P 500 companies encompass over 80% of market value. IP, a major component of intangible assets, is now truly becomes the primary contributor to business value and wealth creation. The significance of IP is also not confined to the developed economies alone.

Since 2010, East Asia has overtaken North America and Western Europe in the number of international patent filings. With deeper economic integration within Asia, this shifts has an important implications on the economic growth potential for businesses in the region. In Malaysia, IP has been growing steadily. The number of patent applications in 2013 has more than doubled than that in 1993. For trademarks, it has more than tripled.

Despite these clear trends, we have yet to fully leverage the value and significance of intangibles, including IP in particular, as an important asset to create growth opportunities for businesses. This is especially true for innovative small and medium scaled enterprises whose value tends to be more closely linked to intangible assets. To a large extent, this is because IP issues are still not well understood. The financial industry has not devoted enough resources to this increasingly critical sector for future growth. Frameworks within financial institutions for lending against IP are consequently not well-developed.

This is quite surprising when one considers that way back in the 1880s, IP was first used as collateral to secure funding by Thomas Edison with the incandescent electric light bulb. It was ground-breaking. It was a feat ahead of its time. IP is an ownership over an innovation. Innovation reflects an investment in a knowledge assets with an opportunity to make profits. Thus, understanding IP makes good business sense and offer fund providers a good opportunity for business growth and opportunities.

Greater recognition of IP as a relevant factor in financing decisions is therefore a proven concept. Different financial players harness the potential of IP in different ways. The varying business models and risk appetites within the financing ecosystem will determine how IP fits into financing considerations. For example, banks have to prioritise depositors' interests and would not be expected to finance ventures with high risks. However, this is not true in all cases. SMEs with proven track records should be within banks' sights, in such cases the value-add of IP should be more effectively leveraged.

Indeed, in other emerging economies, progress has been evident. The Thai SME Bank, Chinese Bank of Communications and the Federal Development Bank of Brazil already take IP into consideration for financing. Malaysia's financial services industry should also take this opportunity created by this new growth industry.

Therefore, it is an opportune time that the boards and senior management of the financial service fraternity in Malaysia to begin to actively explore pragmatic approaches to assimilate IP into existing financing considerations. An important starting point is building a stronger knowledge base of IP issues within financial institutions. This includes identifying staff within your institutions to learn about these issues and providing them with local and international opportunities for training or exposure in IP.

The industry, working together with relevant authorities, agencies and trade associations, should also come together to agree on specific initiatives to overcome barriers to the more effective use of IP assets in financing considerations. This includes developing practical guidance for both businesses and financial institutions in identifying, managing and valuing IP assets, and a way to include such assets within an institution's existing credit assessment procedures.

Such initiatives should also address the need for a clear and unambiguous legal documentation for a legal charge over IP. This promotes a cost effective and consistent approach in perfecting legal rights across the industry. In addition, processes to facilitate the continuous assessment and reporting of IP assets of borrower firms will also promote transparency on the performance of the assets and provide early signals of potential distress. Through such efforts, IP can be further developed as an individual asset class that supports lending decisions.

For this to become a reality, it will require a change in mindset and vision, coordination and investments by the industry today, to position itself for the future for a much bigger role in financing intangibles.

The real economy is undergoing significant transformation and the financial sector has to keep pace. To remain relevant, just as financing looked to physical assets in the industrial age, it must look to intellectual assets in the information age. A first step needs to be taken. It needs to be taken expeditiously.