



**TEKS UCAPAN
MENTERI KEWANGAN II**

ASLI BANKING SUMMIT 2010

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Your Excellencies and Members of the Diplomatic Corp

Distinguished Speakers and Moderators, Members of the Media, Ladies & Gentlemen

BROAD COMMENTARY OF ECONOMIC AND FINANCIAL INDUSTRY SITUATION

I am very pleased to be here with all of you today. As we enter into the second half of this year, we have a lot to be thankful for. It is safe to say that as far as Malaysia's economic situation is concerned, the worse is over. The first quarter gave us a broad-based recovery across all sectors. We see our trade patterns moving comfortably with increasing sales to North and South East Asia, buffering the fall in exports to our traditional markets in the United

States and Europe. We are also seeing our domestic consumption to be supporting our local economy. Within this context, we are maintaining an accommodative monetary policy to sustain further growth while maintaining a vigilant eye on any inflationary movements.

Indeed, the Malaysian capital market and banking industry have done very well. Bank Negara, the Securities Commission and Bursa Malaysia have wisely put in place regulatory frameworks that have not only encouraged sustainable growth but also introduced a level of dynamism that is appropriate for one of the most developed financial markets in ASEAN. Our financial intermediaries have also positioned themselves well and I am justly proud of their achievements to date.

COMMENTARY ON THE CAUSE OF GLOBAL FINANCIAL CRISIS

Ladies and gentlemen

A financial system primary role is to act as an intermediary between the providers of capital

and the investors in the real economy. The production of economic activities is the primary reason why we need a financial system.

The upheaval that we witnessed in the global capital markets in the last eighteen months was caused by a disproportionate size of their financial industries. A disproportionate amount of financial resources were not channeled into socially-beneficial sectors of the economy. This in turn resulted in an unsustainable level of risks being built up in the financial system.

While a prudent level of pure financial transactions, such as hedging, are necessary for the purpose of risk diversification, such transactions must not overwhelmingly take precedent and become a cause unto itself. There ought to be an underlying economic activity. The ultimate beneficiary of a financial and banking system must be the real economy. This we must keep in mind as we develop our market further.

We are looking forward to implement our New Economic Model. In our quest to obtain an economy that is dominated by the services

sector, it is only too obvious that the financial sector, which is now contributing more than 11.0% of our GDP¹, is a critical sector for us to achieve an average GDP growth of 6.5% for the next ten years.

As we move forward to achieve an economy of creativity and innovation, we think it is necessary to “shake things up a bit”. In tandem with the New Economic Model, Bank Negara and the Securities Commission will each introduce a new ten-year industry Master Plan later this year.

Today, our financial system has never been in a better state of readiness to compete in a more liberalised and challenging environment. The introduction of foreign financial institutions into our market is timely. The selection of new entrants is primarily based on those financial institutions that are able to add-value into our market, introducing premium products and services that are presently unavailable here. We want institutions that have the capability to

¹ Bank Negara Malaysia.

strengthen and further our position as the leading regional financial market, especially in Islamic finance.

Following the Big Bang twenty-five years ago, London has developed itself as the leader in the Euro-bond and the European mergers and acquisitions markets. There is no reason why we cannot position ourselves as the region's leader in non-Ringgit sukuk and M&A advisory services.

Our regulators have put in place policies, established institutions and provided incentives to encourage the development of such a market. We would like to see local financial institutions positioning themselves to be leaders in this market space.

The NEM will identify sub-sectors in our economy to which priority attention will be given. These include healthcare, education, biotechnology, tourism and green industries. In many of these areas, the traditional methods of financing may not be applicable. There has to be direct linkages, such as private equity and venture capital between these emerging industries and the pool of capital. While the Government has set-up a

number of private equity initiatives, there has been little on the ground from the private sector. What is required from the financial industry here is a new paradigm where risks need to be assessed away from the traditional asset-based lending.

The development of private equity in Malaysia is critical to channel capital into the services and innovation economy whereby intellectual inputs, and not tangible assets, drive revenue flow.

Wall Street bankers now dominate in all the markets that they operate in. Nevertheless, the local financial institutions here have the local knowledge and network that are critical in these businesses. Our financial institutions need to develop far-sighted strategic road-maps. I urge the local intermediaries to begin development programmes so as able to compete effectively with any new financial institution that enters our market.

Ladies and gentlemen

**DEVELOPMENT OF ASSET MANAGEMENT
INDUSTRY (ISLAMIC)**

Our Islamic banking and capital markets are one of our key competitive strengths. However, we must be mindful that other Islamic markets are expanding rapidly. We must therefore accelerate the execution of our developmental plans to establish our strengths into other parts of the financial services value chain. We have strong core competencies in terms of our regulatory framework, shariah standards, education and range of products. However, we need to work harder to transform these advantages in exporting intermediation and advisory services abroad.

One of the complimentary components of private equity and venture capital is the asset management industry. Southeast Asia's economy is one of the most dynamic in the world. The combined wealth of Asia Pacific's High Net Worth Individuals (HNWIs) is estimated to grow at an annual rate of 8.8% until 2018, faster than the global average of 7.1%². Asset management is one of the

² Cap Gemini/Merrill Lynch, The 5th Annual Wealth Management Report, 2009.

fastest growing businesses in the financial services sector and I believe Islamic wealth management can be positioned as one of our strongest emerging capabilities.

While the asset management business ranges from the risk adverse capital preservation model to the high risk-high return end of the spectrum, the priority industries that I cited earlier are ideal candidates for Islamic private equity investors.

Malaysia has the technical expertise in syariah-compliant investments. What we do not have is the branding which is crucial in the asset management business. Again, I urge our local institutions to explore the possibility of establishing partnerships and joint-ventures with globally-renowned asset management brands to develop this exciting business.

Ladies and gentlemen

The transformation of the Malaysian economy cannot be fully achieved without the contribution of all of you here. Your expertise, your energy and your commitment are

required by the Nation to fully share the challenges that lay ahead.

There will be ample opportunities for all of us to participate in this historic journey. The prosperity and well-being of all Malaysians, our children, is dependent on all sectors of our society. The financial services industry, in particular, has a critical role in making this ambition a reality. I know you will not disappoint me.

I thank ASLI for having the kindness to invite me today. I thank all of you for your generous attention. Thank you.