

Services trade in Nepal,
Bangladesh and Malaysia: A
comparative case study of Banking
and Insurance sectors

Malaysian Component

Services sector in Malaysia

year	Services/gdp	Financial services/gdp	Financial services/total services
1987	45.3	7.7	16.9
1990	46.8	8.2	17.5
2000	55.6	12.5	22.5
2005	58.1	15.1	26.0

Balance of Payments(RM million)

	1985	1990	1996	1999	2004
services Trade				-10701	-8780
Services Income				-20886	-24549
Total services account	-10231 (13.4)	-9723 (8.1)	-18371 (7.2)	-31587 (10.5)	-33329 (6.8)

Background Information

- Prior to 1985, there were different regulations for different institutions. Regulations were specific to commercial banks, finance companies, merchant banks, development institutions and so on
- Economic downturn in 1985
- BAFIA(Banking and Financial Institutions Act 1989) was enacted to streamline the functions of the financial institutions in the country.
- 1993- Malaysia's commitment under GATS
- Financial crisis 1997/98
- Introduction of Financial Master Plan and Capital Market Plan

Banking industry (prior to crisis 97/98)

- Under BAFIA- new licenses
- Foreign banks are required to be locally incorporated- with 100% equity
- Capital adequacy same for domestic and foreign
- Streamline other requirements-SRR, BLR
- Active secondary market for Malaysian Government securities
- Market forces to determine interest rates

Banking industry (prior to crisis)

- 1993-GATS- commitments
- Two-tier regulatory system was introduced to enable banks to consolidate
- Financial crisis 1997/98

Financial restructuring

- The crisis created problems for the banking industry
- Manage NPLs – Danaharta, Danamodal and CDRC
- Merger programme for the Banking sector
- 36% of NPLs were taken out of the banking sector
- 73 financial institutions have now become 10 banking groups.

Insurance industry

- Direct insurers - 58
- Professional reinsurers -10
- Insurance brokers -37
- Adjusters- 42
- Insurance Act of 1996 streamlined the activities of life and general insurers.
- Under WTO further expansion of insurance industry
- Foreigners hold 45.8% of total equity of insurance companies and control 74.3% of life insurance premiums.

Methods of study

- Review the structure of domestic regulatory framework prior to 1985, and during 1985 till 1997.
- Critical assessment of the liberalization policies pursued in the banking and insurance sectors of the Malaysian financial system during these two periods and after the crisis.
- Examine the strengths and weaknesses- in terms of efficiency and competitiveness
- Examine the commitments made under GATS and ASEAN fora for the liberalization of services in terms of improvement in overall trade in services.

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- Assessment of the role of joint venture, private and government owned banks
- Malaysia has private banks (domestic and foreign) only and therefore assessment is made between both categories in terms of efficiency and competitiveness.
- Assess their role in promoting trade in goods and services- availability of credit to small businesses.

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- Explore the possibility of enhancing internal as well as external trade in banking and insurance services
- Regional preferential trade agreements- ASEAN- to what extent these agreements have improved trade banking and insurance services.

Methodology

- An analytical approach
- Quantitative assessment of the impact of liberalization on output and employment
- ---country specific assessment
- --- cross-country assessment
- Use of Primary and secondary data

Research outcomes and policy implementation

- The analysis of the liberalization policies prior to the financial crisis should provide evidence regarding sequencing of liberalization policies-
- Analysis of policies implemented after the crisis- in terms of improvement in efficiency and competitiveness particularly in banking and insurance
- Foreign equity participation and impact on employment
- Policy issues regarding trade and capital account sequencing of liberalization policies
- Empirical estimates of impact of liberalization of growth and employment