Financial Services Liberalisation Measures Since 2000

Year	
	Banking Sector
2000	• The maximum total credit facilities that could be obtained by non-resident controlled companies (NRCCs) from foreign-owned banking institutions in Malaysia was increased from 40% to 50% in December 2000. • Licensed Offshore Banks in the Labuan International Offshore Financial Centre (Labuan Offshore Banks) would be allowed to invest in ringgit assets/instruments in Malaysia for their own accounts, though not on behalf of their clients. • Licensed commercial banks, including the foreign-owned banks, and Bank Islam Malaysia Berhad in Malaysia (licensed banks) were allowed to extend in aggregate an intra-day overdraft facility of not exceeding RM200 million and an overnight facility of not exceeding RM10 million to non-resident stockbroking companies and non-resident global custodian banks to finance funding gaps due to inadvertent delay in relation to settlement for trade on the KLSE. In addition, they can also enter into short-term currency swap and/or outright forward contracts to cover for purchase of shares on the KLSE.
	Non-banking financial sector (excluding insurance)
	• The maximum foreign equity limits in a stockbroking company and a financial leasing company were increased to 49% from 30% effective 1 July 2000.
	Banking Sector
2001	• Foreign-owned banking institutions were allowed to set up communicative websites from 1 January 2001. • Banking institutions (including the foreign-owned banks) in Malaysia were allowed to extend credit facilities in ringgit to finance the purchase and/or construction of one immovable property for non-residents who participate in the Silver Hair Programme implemented by the Immigration Department of Malaysia. • Financial institutions (including the foreign-owned banks) were allowed to extend up to three credit facilities in ringgit to non-residents to finance the purchase or construction of any property in Malaysia (excluding for the purchase of land), subject to their own internal credit assessment guidelines. • Banking institutions (including the foreign-owned banks) in Malaysia were allowed to effect transfers involving External Accounts and another External Account and/or Resident Account of different account holders by way of: (a) Automated Teller Machine transfer up to RM5,000 per person/company, per day, per bank for any purpose; (b) Internet-bank transfers up to RM5,000 per person/company, per day, per bank for any purpose; and/or (c) Cheques up to RM5,000 per cheque for any purpose.
	Insurance sector
	• All insurers with the requisite minimum risk management and security systems in place were allowed to offer the full range of life and general insurance products through the internet with effect from April 2001.
	Banking Sector
2002	• Foreign-owned banking institutions were allowed to offer transactional internet banking from 1 January 2002.

	• Internal credit lines used solely to facilitate drawing against uncleared cheques, granted by licensed banks (including the foreign-owned banks) to NRCCs, were excluded from the computation of the NRCC's total domestic credit facilities. Licensed banks were also permitted to allow NRCCs to overdraw their current accounts for amounts of up to RM500,000 per account for a period not exceeding 2 working days. • Banking institutions (including the foreign-owned banks) in Malaysia were allowed to extend additional ringgit credit facilities to any non-resident up to an aggregate of RM5 million per non-resident to finance projects undertaken in Malaysia. Prior to this, credit facilities in ringgit to a non-resident, for purposes other than purchases of three immovable properties or a vehicle, were limited to RM200,000. **Insurance sector** • The areas in which insurers may employ expatriates were expanded to include, in addition to the fields of specialised underwriting, actuarial and information technology previously provided for, other areas involving product research and development, risk management and investment.
2003	**Banking Sector** • Licensed banks (including the foreign-owned banks) in Malaysia were allowed to extend overdraft facilities in ringgit not exceeding RM500,000 in aggregate to a non-resident customer, provided such overdraft facilities are covered by fixed deposits placed by the non-resident customer with the licensed banks in Malaysia. These overdraft facilities were in addition to all ringgit credit facilities allowed to be extended freely by banking institutions since 21 November 2002. • The 50% limit on the maximum total credit facilities that could be obtained by NRCCs from foreign-owned banking institutions in Malaysia was removed on 1 April 2003. • The overnight limit for foreign currency account (FCA) to retain receipts arising from export of goods (export receipts) for Approved Operational Headquarters (OHQ) was increased to US$70 million from US$10 million. The maximum overnight limit on export FCA of other resident exporters was also raised to US$70 million. • Residents may invest in investment products that are linked to foreign currency denominated derivatives that are offered by licensed banks (including the foreign-owned banks) in Malaysia. The foreign currency funds used for the investment that are utilised from the residents' FCA will be earmarked and computed as part of the aggregate overnight balances of the FCA of the residents. • Allow up to three new Islamic banking licences to qualified foreign players. **Insurance sector** • Effective 17 April 2003, foreign-owned insurers with foreign shareholding not exceeding 51% were allowed to open not more than two branch offices in one year.
2004	**Banking Sector** • To enhance cash flow management for supporting value chain expansion in Malaysia, licensed banks (including foreign-owned banks) can retain higher amount of foreign currency funds for residents in FCA: - Up to a maximum of US$100 million (previously US$70 million) of export receipts. - Any amount of non-export receipts for residents with domestic borrowing (previously need approval). - Up to US$150,000 for education/employment purpose (previously US$100,000). • Labuan Offshore Banks are allowed to maintain FCA for residents: - Up to US$0.5 million of non-export receipts for residents without domestic borrowing (previously need approval).

- Up to US$150,000 for education/employment purpose (previously US$100,000).
- Any amount overseas foreign currency funds for resident individuals.

- To enhance access to ringgit funds for business requirements in Malaysia, the various limits for banking institutions lending to non-residents in ringgit have been consolidated to one single aggregate limit of RM10 million for use in Malaysia for any purpose (excluding stockbroking company, custodian bank and correspondent bank).
- The extension of property loans in ringgit by residents, including licensed banks, to non-residents now includes the purchase of land (previously not allowed).
- Licensed banks are allowed to extend an aggregate overnight overdraft facility of RM200 million (increased from RM10 million) to a non-resident stockbroking company or a non-resident custodian bank to facilitate settlement for purchase of shares listed on the KLSE.
- Resident individuals employed or staying abroad with foreign currency funds sourced from abroad are allowed to invest in any foreign currency assets, including those offered by licensed banks, approved licensed merchant banks and Labuan Offshore Banks.
- Multilateral Development Bank and foreign multinational corporation issuers of ringgit-denominated bonds in Malaysia may enter into forward foreign exchange contracts with onshore licensed banks to hedge their currency risks arising from the issuance of the ringgit denominated bonds. Non-resident investors subscribing to these issues can also hedge their foreign exchange risks.

SUPERVISION OF THE BANKING SYSTEM

The supervisory activities throughout 2004 continued to be directed at the promotion of a sound and robust financial system as part of the preservation of financial stability. These objectives were achieved through allocation of on-site supervisory resources to areas of high risk, continuous monitoring of the banking institutions, adoption of pre-emptive measures and enforcement of prudential regulatory standards. The responsibilities of Bank supervisors have also expanded in recent years to include several development financial institutions and payment system operators which have been placed under the supervision of Bank Negara Malaysia. The Bank is also involved in providing technical assistance to other domestic supervisory agencies as well as international bodies.

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The supervisory activities, which include on-site examinations and off-site supervision, are based on a rigorous risk based supervisory framework and emphasise vigilant monitoring of the financial condition and operating soundness of banking institutions. The risk-based supervisory framework provides a structured and forward-looking approach to assess a banking institution's risk profile and risk management systems. With this forward-looking methodology, supervisors are able to allocate resources optimally in supervising the institutions, focusing on the risk areas.

The financial and operating conditions of the banking institutions are assessed using the CAMELS rating framework. The respective banking institutions are assigned a composite rating, ranging from strong (best rated) to very unsatisfactory (poorly rated), and supported by a rating for each of the six components of the CAMELS rating framework, namely capital adequacy, asset quality, management capability, earnings performance, liquidity position and sensitivity to market risk. The rating covers both quantitative and qualitative aspects of the financial and operating condition of the banking institution. Implicit in the rating is the adequacy of a banking institution's risk management systems and practices vis-à-vis its risk profile. During 2004, it was observed that the financial performance and risk management capabilities of most banking institutions had improved as evidenced by the improvement in their ratings.