



## **Submission No 8**

### **Inquiry into Australia's Relationship with Malaysia**

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The Hon. David Jull MP  
Chairman  
Foreign Affairs sub committee of the  
Joint Standing Committee on Foreign Affairs, Defence & Trade  
Parliament House ACT 2600

Dear Mr Jull

### **Inquiry into Australia's relationship with Malaysia**

Thank you for the opportunity for ANZ to make a submission to the Committee's inquiry into Australia's relationship with Malaysia.

This submission outlines ANZ's business operations in Malaysia and our plans for future growth. We thought the Committee may be interested to see an example of an Australian company working to broaden and deepen business relationships with Malaysia.

### **ANZ's business in Malaysia**

ANZ is a global company employing 30,000 people across 29 countries including a significant and long-standing presence in Asia. We support trade and capital flows between Australia and New Zealand with ANZ operating in 13 Asian markets. We also have strategic partnership investments with local bank partners in 5 Asian markets.

In Malaysia, ANZ has a small representative office in Kuala Lumpur with three staff. The office was established in 1971 as a unit of Grindlays Bank plc and was the first foreign bank to seek and obtain representative status in Malaysia. We do not hold a banking licence in Malaysia and so are not currently permitted to undertake the business of banking within Malaysia. The key role of the office is to promote and refer Malaysian companies to ANZ products and services in geographies where ANZ does have a branch presence. The Malaysia office also refers customers outside Malaysia to ANZ's correspondent banks inside Malaysia.

The client focus is financial institutions, primarily in the areas of trade finance, international payments and foreign exchange, as well as business and high net worth customers migrating to Australia or New Zealand and students studying in Australia or New Zealand.

### **ANZ's interest in growth opportunities in Malaysia**

Asia is the logical target for creating international growth options for ANZ given the region's strong growth and geographical proximity. Australia's cultural, political, trade and investment ties with Asia continue to develop strongly.

Our strategy is to target markets with projected economic growth greater than our home markets of Australia and New Zealand and with lower levels of consumer banking penetration.

To participate effectively in personal and small business banking in Asia we partner with local banks that have strong local market advantages including incumbency, preferential regulatory regimes and funding. This requires us to leverage strong capabilities that have delivered success in retail and small business banking in Australia and New Zealand, as well as experience from operating on the ground in Asia for over 30 years.

We already have six local partnerships including Panin Bank in Indonesia, MetroBank Cards Corporation in the Philippines, Tianjin City Commercial Bank in northern China, ANZ Royal in Cambodia, and Sacombank in Vietnam. ANZ's partnerships have experienced strong success to-date and will develop further throughout 2006-'07.

In any consideration of whether to invest or establish operations in another country, ANZ looks for transparent corporate governance based on international standards, the rule of law, clearly defined dispute mechanisms, and a well resourced and independent regulatory structure with established prudential oversight.

### **Restraint on trade in financial services with Malaysia**

The central bank in Malaysia, Bank Negara Malaysia (BNM), has released a ten-year 'Masterplan', which aims to build the capability of domestic banks in credit risk and corporate governance and improve monitoring of price collusion and capital adequacy. The plan has resulted in the consolidation of the local banking industry. The long-term plan includes introducing foreign competition and expanding domestic banks into foreign markets.

Currently, it is still easier for a Malaysian bank to be established and operate in Australia than it is for an Australian bank to establish and operate in Malaysia, particularly because the Malaysian Government is not issuing licences for foreign banks.

The key regulatory issues that currently constrain trade in financial services into Malaysia for foreign banks are:

- 30% cap on foreign ownership of a domestic bank;
- Requirement to seek central bank approval for holdings above 5% and Prime Ministerial approval for equity holdings greater than 20%; and
- the central bank (BNM) has not issued a new banking licence for many years and the process for granting a licence is not transparent.

## **Negotiation of an Australia-Malaysia Free Trade Agreement (FTA)**

ANZ has worked over many years to develop a good relationship with government and business in Malaysia. These relationships have underpinned business opportunities for ANZ related to Malaysia. However, we believe strongly that financial markets work more efficiently without significant barriers to trade and investment. Differing rules within countries and their application add to the challenges facing Australian business.

The success of our ANZ business in Asia and our partnerships rely on an increasingly liberal and level playing field. Governments are increasingly negotiating trade deals and favourable local rules for their companies, both bilaterally and regionally. We acknowledge the Australian Government's ambitious FTA program in the region to ensure Australian companies have an equally favourable trading environment.

ANZ supports the decision of the Australian Government to enter into FTA negotiations with Malaysia and we see there are great potential benefits if the Governments can conclude a comprehensive FTA that includes substantial commitments for financial services trade between the two countries.

ANZ welcomes the continued steady improvement of the regulatory and governance arrangements for financial services in Malaysia that are emerging from the implementation of the MasterPlan. In the banking and finance sector, however, there are a wide range of issues that could usefully be considered in the Australia-Malaysia FTA negotiations.

Ideally, discussions around a FTA should:

- (i) seek to remove barriers to trade in financial services; and
- (ii) set the same rules for local and foreign banks.

Greater liberalisation of the banking sector in Malaysia will bring benefits to the economy and the robustness of its banking sector, as Australia found when it deregulated its financial services sector.

By any objective measure, a deregulated Australian financial services sector has brought about substantial benefits, such as:

- Significant savings for customers (e.g. the margin between official interest rates and the standard housing loan rate has fallen from a 4.25% differential to a 1.80% spread)
- a wider choice of providers, products and services for customers. For example:
  - twenty years ago there were 18,000 places from which to withdraw cash and today there are more than 460,000
  - Banking has gone from a 9am to 3pm Monday to Friday service proposition to 24 hours 7 days a week.
  - Transaction accounts are available from about 24 banks, 14 building societies and 148 credit unions, all competing for customers' transaction business. On the loan side, there are more than 450 lenders competing for customers' mortgage business.

ANZ appreciates that negotiations have been underway this year on the FTA. We would expect that for financial services key areas for attention will include:

- relaxation of limits on external borrowings of local companies and on borrowing of MYR by non-residents;
- liberalisation of restrictions on the number of branches and ATMs a foreign bank can operate;
- removal of restrictions on products a foreign bank can offer (foreign banks are currently prohibited from offering finance company products like car loans);
- increased flexibility with staffing - currently Bank Negara must approve all positions to be occupied by foreign residents; and
- more transparent, equitable and predictable regulatory structure and decision making (especially in relation to the granting of bank licences) and harmonised prudential and regulatory standards for Australian and Malaysian banks.

### **Conclusion**

ANZ is interested in increasing its level of business activity in Malaysia and gains made under an FTA would potentially make this an even more attractive business decision.

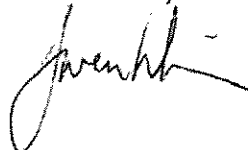
Greater liberalisation of the Malaysian banking sector for foreign banks will bring benefits to the Malaysian economy and the robustness of its banking sector. In particular, Australian banks could bring expertise to the Malaysian market in the areas of technology, corporate governance, risk management processes, and products, marketing and customer responsiveness.

A well-crafted FTA has the potential to positively impact the business and regulatory culture in Malaysia, especially if it covers areas that would allow for the further building of two-way confidence and a more level playing field for foreign banks compared with their domestic competitors.

A key aim of the FTA is to increase investment and trade between the two countries. Enhanced and more transparent regulatory processes would also strengthen the relationship between Malaysian regulators and Australian financial service providers as well as increasing a sense of certainty for investors. Australia should pursue opportunities to harmonise regulatory standards where possible. We would also welcome any additional relationship building between Australian and Malaysian financial services regulators.

ANZ provides this information for the Committee's consideration as it reviews the relationship between Australia and Malaysia. Should the Committee wish to seek further information or clarification on information contained in this submission, please do not hesitate to contact me.

Yours sincerely



Owen Wilson  
**Managing Director, International Partnerships**