CHAPTER 3 – OVERVIEW OF THE BANKING SYSTEM OF THE COUNTRIES

3.1 Malaysia

The development of a sound and strong banking system is a necessary pre-condition for a steady and balanced economic and social development in Malaysia. In this regard, Bank Negara Malaysia (BNM) was officially opened on January 24, 1959 through the establishment of the Central Bank of Malaya Ordinance, 1958 with the prime objectives to maintain a strong ringgit, promote financial stability and foster growth of a sound financial structure.

The Malaysian banking system has evolved and changed enormously since the past decades. During the 1960s[8], Malaysia witnessed the development of strong domestic commercial banks and the widespread branching of banking services, especially to rural areas. In the 1970s[9], despite the breakdown of the fixed exchange rate system of Bretton Woods, Malaysia's financial sector continues to grow with emphasis put on inculcating integrity and professionalism in bank management. In the 1980s, BNM's effort were focused on further strengthening the regulatory and supervisory framework for the banking system. The latter part of the 1980s was a period of prudential re-regulation and significant structural changes in the banking system

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[8] During the same period, finance companies were brought under the jurisdiction of the central bank and the legal framework was accordingly strengthened through a series of amendments to the original Central Bank and Banking Laws (BNM, 1984)

[9] the Banking Ordinance 1958 was amended and replaced by the Banking Act 1973, which provided BNM with powers to more effectively regulate and supervise the commercial banks and subsequently the merchant banks in 1979.

resulting from global recession of the early 1980s. The 1990s was characterized by rapid changes shaped by the forces of liberalization and globalization, aided by technology which broke new frontiers in the functioning of financial markets and in the development of financial products.[10]

Figure 2 below outlines the structure of the Malaysian banking system in brief.

Figure 2 : Structure of the Malaysian Banking System (As at 30 September 2002)

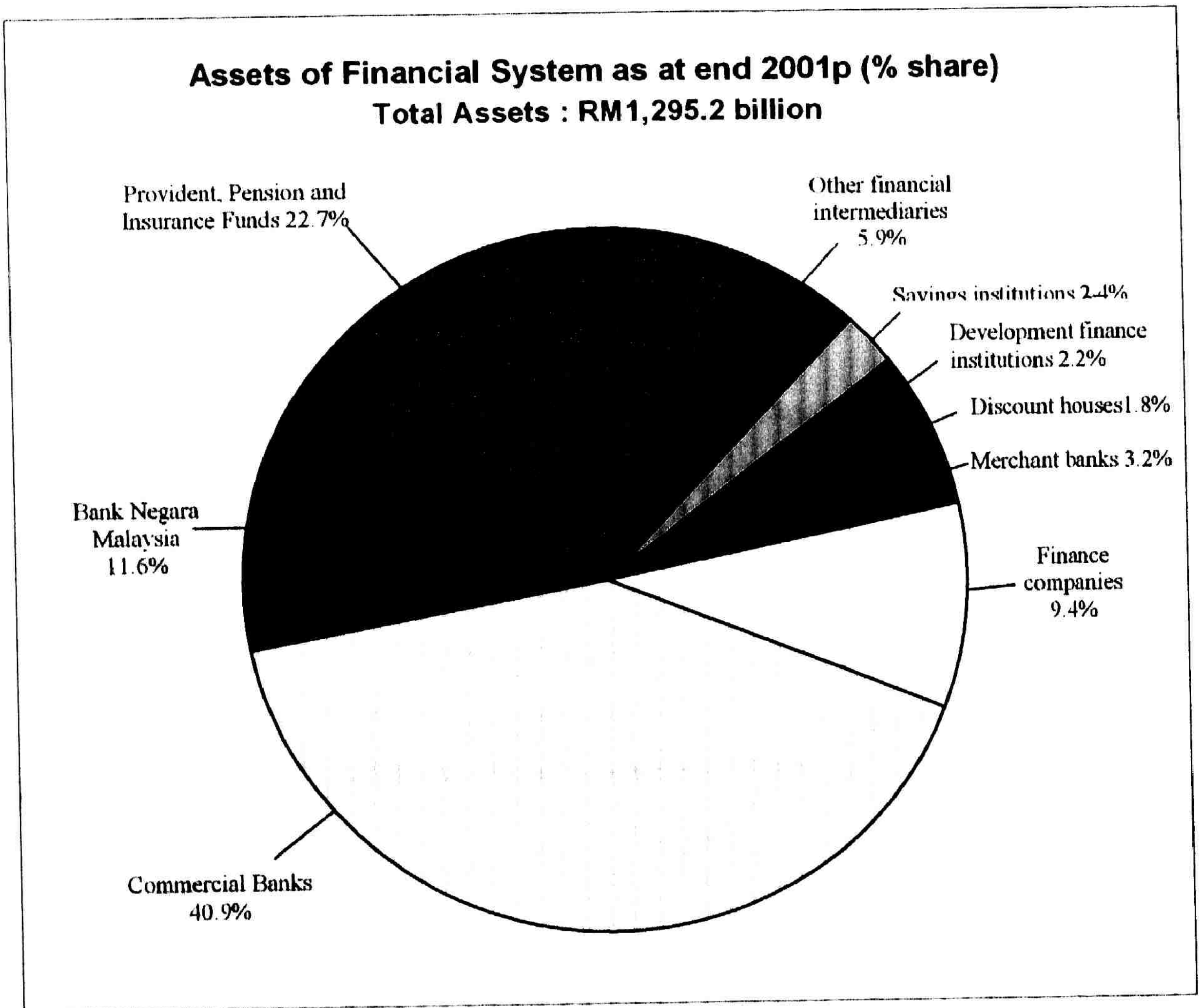
Central Bank of Malaysia
- 26 Commercial Banks (14 fully foreign-owned)
- 11 Finance Companies
- 10 Merchant Banks
- 7 Discount Houses
- Islamic Banks
- 32 Foreign banks representative offices
- 64 Offshore banks in Labuan IOFC

Source : www.bnm.gov.my

The banking system is the largest component of Malaysian financial system, accounting for more than 80% of the total assets of the financial system (end-2000) (Chart 1).

[10] Bank Negara Malaysia, "The Central Bank and The Financial System in Malaysia – A Decade of Change 1989-1999

Chart 1 : Assets of the Malaysian Financial System



1 Includes Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad (since 1999).
2 Includes Malaysian Industrial Development Finance Berhad (MIDF), Bank Pertanian Malaysia, Borneo Development Corporation, Sabah Development Bank Berhad, Sabah Credit Corporation, Expor-Import Bank Malaysia Berhad, Bank Pembangunan dan Infrastruktur Malaysia Berhad and Bank Industri dan Teknologi Malaysia Berhad.
3 Includes National Savings Bank, Bank Kerjasama Rakyat and co-operative societies.
4 Includes unit trust (ASN, ASB, ASW2020, ASN2, ASM (Malaysia) and ASM Mara), building societies, Credit Guarantee Corporation, Cagamas Berhad, leasing companies, factoring companies and venture capital companies.
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(Source : BNM Annual Report 2001)

3.2 Singapore

Singapore has a relatively sophisticated and more liberal financial system as compared to Malaysia, Indonesia and Thailand even during its colonial days. Singapore banks have long benefited from a consolidated financial system that is well regulated and profitable. Currently the "Big Three" domestic banks – Development Bank of Singapore (DBS), Overseas-Chinese Banking Corporation (OCBC) and United Overseas Bank (UOB) dominate the domestic banking sector in Singapore.

As at April 2002, there were 33 wholesale banks in Singapore, all of which were branches of foreign banks; 59 offshore, all of which too were branches of foreign banks. There were 7 finance companies and 55 merchant banks operating in Singapore as of April 2002.

Figure 3 : Number of Financial Institutions in Singapore (As of April, 2002)

	Number
Commercial banks	120
Local banks	6
Foreign banks	114
Foreign full banks	22
Wholesale banks	33
Offshore banks	59
Merchant banks	55
Representative offices of banks	56
Finance companies	7
Institutions with ACUs	168

Source : Monetary Authority of Singapore website, www.mas.gov.sg

3.3 Thailand

In Thailand, the banking sector comprises of commercial banks, restricted-licensed banks, International Banking Facilities (IBFs). Thailand now has a total of 34 commercial banks, of which 13 are locally incorporated and 21 are branches of foreign banks. Other banking institutions operating in the Thai market include the Government Savings Bank, the Bank of Agriculture and Agricultural Cooperative, The Government Housing Bank, the Export and Import Bank and the Industrial Finance Corporation of Thailand. The top four or five Thai banks dominated the banking sector while the presence of foreign banks was quite limited, with a mere 8 percent share in total bank assets (BOT Annual Report 2001) .

Amid the growing wave of globalism, the monetary authorities of Thailand had begun progressive deregulation of its banking sector by imposing fewer constraints on commercial banks' portfolio management through modifying the obligated credits to the agriculture sector in order to cover a wider scope of activities; relaxing the bond requirement for opening Commercial bank branches; replacing the traditional reserve requirement ratio with liquidity ratio which provided Commercial banks greater options in investment and asset management. The Central bank of Thailand had also encouraged a wider scope of operations for Commercial banks and Finance companies (BOT Annual Report 2001).

3.4 Indonesia

Indonesia's banking system is perhaps the weakest and most rigid as compared to Malaysia, Thailand and obviously Singapore, with a high participation of state in local banking industry. There are too many political favours, too much liberalization and too few regulations. There are many different types of banks operating as commercial banks in Indonesia. Basically, commercial banks are divided into State-owned banks, Regional Development banks, Private National Forex banks, Private National non-forex banks, Joint venture banks and Foreign banks.

Since the outbreak of the Asian financial crisis, Indonesian economy has been the hardest hit, compared to those of other Asian countries such as Singapore, South Korea, Thailand and Malaysia. Such has caused the banking sector to be badly affected and most banks suffered from large amounts of non-performing loans as a result of the economic collapse. Many banks were placed under the supervision of the Indonesian Bank Restructuring Agency (IBRA) to oversee the rehabilitation of the financial sector. It is authorised to take over and control troubled banks and to dispose of assets and collateral (BI Annual Report 2001). Efforts were directed towards restructuring the banking sector and on advice from IMF, banking sector reforms were focused on re-capitalization, improvement of prudential regulation, reform of the bankruptcy law, merger, suspense and take-over of unsound banks. Table 1 below shows that the number of banks in Indonesia had reduced significantly as a result of closures and mergers following the Asian financial crisis.

Table 1 : Number of banks and branches in Indonesia

Bank Group	October 1997	Changes of Nov 1997 – Nov 2000			December 2000
		Liquidation, Frozen Operations, Frozen Business	Merger	New Banks	
State-owned Banks	7	-	4	2 *	5
Foreign Exchange Private National Banks :	115	34	14	-	67
- Category A	-	-	-	-	28
- Recapitalized Banks	-	-	-	-	6
- Taken Over Banks	-	-	-	-	4
- Others (ex. Joint Venture Banks)	-	-	-	-	29
Non Foreign Exchange Private National Banks :	79	35	1	-	43
- Category A	-	-	-	-	42
- Recapitalized Banks	-	-	-	-	1
Regional Development Banks	27	1	-	-	26
- Recapitalized	-	-	-	-	12
- Non Recapitalized	-	-	-	-	14
Foreign Banks	10	-	-	-	10
Total Commercial Banks	**238**	**70**	**19**	**2**	**151**
Total Bank Offices	**7,781**				**6,509**

** Bank Mandiri and Bank Ekspor Indonesia*
(Source : Bank Indonesia Quarterly Banking Report, Quarter IV 2000)

3.5 Comparison of the Structure of Banking System

During the 1960s and 1970s, state intervention in the banking system of Malaysia, Indonesia and Thailand was seen as an important tool of direct credit to certain strategic sectors of the economy. As a result of which, governments of these 3 countries either owned banks or intervened to steer the lending decisions of private banks. Meanwhile, the authorities subsidized loans from the banking sector to industry through heavy controls on interest rates on loans and bank deposits. Given this key policy role of the banking sector, the authorities in these 3 countries have also implemented measures to protect domestic banks from foreign competition by restricting and controlling the number of operating licenses issued to foreign banks. As such, the only means of entry into the banking market of these 3 countries other than through a representative office is likely to be through the purchase of an existing institution, even then, there are also limits on the foreign shareholding equity.

Conversely, though implementing a limit on the number of new foreign bank branches, Singapore has generally been more liberal and open in allowing greater foreign participation in the banking market, especially in the offshore market. Such liberalization which encouraged greater competition has also helped Singaporean banks to be more competitive and ranking among the top in Asia.

Due to the increasing globalised and liberalized banking environment and especially after the 1997 financial crisis, the structure and characteristics of the banking system of the 4 countries particularly Malaysia, Indonesia and Thailand had undergone drastic changes wherein government ownership of banks was reduced, notably in Thailand and Malaysia. Efforts were directed at reforming and strengthening the banking system through mergers and consolidations, while developing better supervision and monitoring system as well as promoting financial innovations and improved quality of services. In this regard, Table 2 provides a summary comparison of the banking system in Malaysia, Thailand, Indonesia and Singapore respectively.

Table 2 : Comparison of the Structure of Banking System

	Malaysia	Singapore	Thailand	Indonesia
Structure of Banking System	**1.** Malaysian banks are predominantly owned by companies. **2.** BNM, as the central bank, is responsible for the regulation and supervision of the banking system, with the exception of the offshore banks operating in the Labuan IOFC which comes under the purview of the Labuan Offshore Financial Services Authority (LOFSA). **3.** The Malaysian banking system comprises of monetary and non-monetary institutions. The monetary institutions are BNM and the commercial banks (including Bank Islam). The non-monetary institutions are finance companies, merchant banks, discount houses,	1. MAS as the central bank of Singapore performs all the functions of a central bank except that of issuing currency which is carried out by the Board of Commissioners of Currency. 2. Compared to the other three countries, Singapore has advanced further to becoming a renowned international banking center in Asia, alongside Hong Kong and Tokyo. 3. Commercial banks undertake universal banking. They offer a wide range of financial services in both traditional banking and investment banking. There are two groups of commercial banks i.e. local and foreign.	1.Thai domestic banks are predominantly owned by families. 2.All commercial banking businesses undertaken by local and foreign banks in Thailand are supervised and regulated by the Bank of Thailand (BOT) and operate under the Commercial Banking Act B.E. 2505 (1962) amended in 1979, 1992, 1997 and 1998. 3. Commercial banks are major component of the Thai financial markets while finance companies are the second largest type of financial institution in Thailand. 4.Commercial banks may engage in a large class of	1.Indonesian commercial banks are predominantly owned by the state. 2.Banking system is shaped by two laws : PAKTO 1988 and the Banking Act of 1992. 3. An interesting characteristic in Indonesia is the larger number of banks (there were 144 private domestic commercial banks just before the financial crisis, compared with 23 in Malaysia and 15 in Thailand) and the greater role of state-controlled banks in comparison with Thailand, Malaysia and Singapore. 4. The banking sector consists of Bank Indonesia as the Central Bank, State-owned

[11] Wholesale banks may not : 1) accept Singapore dollar fixed deposits of less than S$250,000 each from non-bank customers 2) pay interest on Singapore dollar current accounts operated by resident individuals 3) May not open more than one main branch.

	foreign banks representative offices and the offshore banks in the International Offshore Financial Centre in Labuan (Labuan IOFC). **4.** Commercial banks have to be licensed and no new license has been issued since the 1970s. Commercial banks enjoy the widest scope of permissible activities but are prohibited from engaging in wholesale and retail trade and some restrictions on investments in immovable property and shares. 5. Finance companies in Malaysia, unlike those in some Southeast Asian countries are given much liberty to expand and develop. Finance companies form the second largest group of deposit-taking institutions in Malaysia. Finance companies specialize in	The 3 categories of foreign commercial banks are : 1) full banks which are allowed to carry out the whole range of banking business approved under the Banking Act. 2) Wholesale banks may engage in the same business as full banks subject to certain restrictions[11]. 3) Offshore banks generally concentrate on regional banking and thus mostly cater to non-resident companies or non-resident individuals in Singapore s 4. Unlike the banking sector of the other three countries, banking in Singapore is essentially split into an offshore market known as Asian Currency Units (ACUs) for foreign currency	normal banking businesses but were not allowed to undertake securities or trust services. 5. Restricted-licensed bank is permitted to engage in all commercial banking activities with the exception that it may not offer checking deposits. It may after period of operation, apply for a full-licensed bank status under conditions set by MOF. At present, there is only one application to set up a restricted-licensed bank. 6. IBFs (International Banking Facilities) are offshore units of banks which provide credits to both overseas and local businesses. Their sources of funds must be from overseas, generally from the head offices, in case of foreign banks. IBFs may be set up in Bangkok	commercial banks, private commercial banks, foreign branches and joint-venture banks, development banks and a countless number of Bank Perkreditan Rakyat (Village banks) 5. Indonesia has 5 state-owned commercial banks which act as agents of development. The state-owned banks have historically played an important role in the allocation of subsidized credit[12] (at preferential interest rates), known as "liquidity credit", to priority social and economic sectors assigned by Bank Indonesia (BI), the Central Bank. State banks traditionally focused on corporate lending and treasury business and their funding comes largely from retail depositors through extensive branch networks. During 1999, these 4 state-

[12] The credit allocation system, often subject to political abuse, curtailed the State bank's ability to compete with private banks.
[13] Catherine Chou, "Indonesian Banks : Survival of the Fittest", Asian Development Bank

	consumption credit, comprising mainly hire-purchase finance and leasing finance. They are also allowed to accept savings and fixed deposits from the public but are prohibited from providing current account facilities. Numerous finance companies are subsidiaries of commercial banks **6.** Merchant banks are incorporated as public limited companies under the Companies Act 1965. Merchant banks concentrate on investment banking, corporate advisory, securities underwriting, portfolio management and capital raising activities. Merchant Banks provide financial services to companies rather than to individuals. All merchant banks in Malaysia are owned by commercial banks except Amanah Merchant Bank. 7. Discount houses are all locally-owned and they	and a domestic market known as Domestic Banking Units (DBUs) for transactions in Singapore dollars. This is a way to liberalise its financial sector while ensuring that DBUs are not overcrowded by foreign participation. 5. ACU is an administratively separate department of a bank that was permitted to engage in foreign currency transactions. ACU maintains its own separate accounting. An ACU, unlike a DBU, can deal in any currency except the Singapore dollar. 6. Banking activities in Singapore are 75% offshore participation and 25% domestic-based. 7 Finance companies are licensed under the Finance Companies Act and they too form the second largest group of deposit-taking financial institutions in the country. Similar to Malaysia, the lending operations of finance	(BIBFs) or in the provinces (FIBFs). In general, IBF transactions must not be denominated in Thai currency with the exception of out-out Baht transactions. 7. Other banking institutions operating in the Thai banking system include the Government Savings Bank, the Bank of Agriculture and Agricultural Cooperative, The Government Housing Bank, the Export and Import Bank and the Industrial Finance Corporation of Thailand. These banks are mostly dedicated to offering particular types of credit for specific purposes. 8. Unlike Malaysia, there are no merchant banks and discount houses in Thailand. But rather, some of the businesses of Merchant banks are carried out by commercial banks such as underwriting, operating as securities registrar, financial consulting etc.	owned banks were merged to become Bank Mandiri, Indonesia's single largest bank. 6.Private banks' rampant growth was achieved at the expense of sector soundness. Following the substantial losses that many of these private banks incurred on their corporate loan books, there is a shift in their strategy to focus on medium to small business and retail customers. 7. Foreign and joint-venture banks in Indonesia though restricted in number are authorized to transact all types of banking business, particularly corporate banking, foreign exchange and trade finance. Joint-venture banks require a reputable foreign bank (usually the majority) and a private Indonesian bank (the minority) as their shareholders.

	specialize in short-term money market operations and mobilize deposits from the financial institutions and corporations in the form of money at call, overnight money and short-term deposits. However, since discount houses are not really offering value-added services to the financial system, they might eventually be absorbed by the core banking institutions. 8. The Offshore banking market aims to complement the activities of the domestic financial market in Kuala Lumpur. Due to the flexible and favourable tax treatment and low cost of setting up and operating in the International Offshore Financial Centre in Labuan, there are now 60 world leading banks, 78 insurance companies and 20 trust companies operating in the IOFC. 9. Banking Institutions in Malaysia are closely	companies in Singapore are oriented towards consumer lending such as hire purchase and leasing. Although finance companies operate under one uniform type of licence granted by the MAS, they may be classified into two groups, one affiliated to commercial banks, while the other comprises independent institutions. 8. Unlike Malaysia, Merchant banks in Singapore do not need licences to operate and the majority of these banks are incorporated under the Companies Act with approval from the MAS to undertake merchant banking services. One distinguishing characteristic of Singapore merchant banks is the maintenance of an ACU. Similar to Malaysia, their principal activities are underwriting, securities management, provision of corporate and management advice, investment portfolio management etc. They do not	9. Unlike Malaysia, finance companies in Thailand are not categorized under the banking sector, but rather they are grouped under the non-banking financial sector together with securities companies, credit foncier companies and asset management companies. These institutions' scope of business is similar to that of banks. The main differences between these institutions and commercial banks are that these companies obtain their funding by issuing promissory notes, their credit facilities must not be related to trade financing and they are not allowed to provide forex. 10. Like the other countries, many finance companies in Thailand are affiliates of commercial banks while a few are independent. Similarly, finance companies in Thailand are generally more focused on personal consumption loans,	8. Indonesia also has several regional development banks which are engaged in medium to long term financing in the regional areas of Indonesia. 9. Similar to Thailand, finance companies in Indonesia are not allowed to draw funds directly from the public; they cannot take deposits nor issue promissory notes nor engage in the securities business. Due to their limited scope of sourcing, they have been subjected to less rigorous regulations and supervision than commercial banks. Due to the restriction placed on their funding sources, finance companies rely heavily on both domestic and offshore loans. Like the other 3 countries, a great number of finance companies are affiliates of commercial banks. 10. The absence of a developed domestic capital market was the reason behind the Government's offshore

	connected through subsidiaries or parent company relationships. Several banks are subsidiaries of corporate conglomerates. In addition, some financial groups have securities trading subsidiaries and branches in offshore Labuan. Government and other public sector involvement in the banking sector is high – the Government owns Bank Bumiputra, the second largest commercial bank and through an investment trust holds a controlling stake in Maybank, the largest commercial bank in the country.	need to maintain statutory reserve and liquid asset requirements. 10.Another type of bank in Singapore is the representative office, which are not allowed to engage in any of the normal activities of a bank but only to act as liaison offices between potential future Singapore customers and their head office. 11. As a consequence of the revamp of Singapore Government Securities market, the 4 discount houses in Singapore have ceased operations in May 1987. 12. Unlike Malaysia, Indonesia and Thailand, Singapore is a free enterprise economy which relies more on market forces and less on government participation in the banking system with respect to the government's stake in the state-owned commercial banks : Development Bank of	including hire purchase. 11. In fact, Thailand's financial system can be described as "Thai-style capitalism" because the practice of relationship lending is very common in Thailand and had surprisingly been able to produce favourable outcome. Such banking relationship had served to close the gap stemming from information asymmetry but also posted problem of possible moral hazard. The specific role in this environment of Thailand's family centered banks – which are part of business syndicates is outlined by Phongpaichit and Baker (1998, p.20) : "[The major banks] acted as much more than just banks. They worked like investment houses, informal chambers of commerce and business consultancies." "For [their] associates, the banks not only provided finance but facilitated deals, found overseas contacts through	funding. Around 95% of rupiah deposits (over 70% of total deposits) in commercial banks are considered short-term, compared with over a quarter of rupiah loans lent as investment credits (loans over one year), hence it is not surprising that banks have relied on overseas funding to bridge the maturity mismatch. 11.Liquidity credits and access to BI rediscounting facilities were extended to sugar estates and refineries, rubber and palm oil plantations and construction contractors by 1980. The conglomerates obtained loans at sharply reduced interest rates. Such practice, particularly the famous example of the Bapindo loan scandal, had dragged the entire State banking sector into the red in 1994. 12.On the surface, most of the commercial banks and financial institutions

		Singapore (DBS) and Post Office Savings Bank (POSB), credit control and foreign exchange control.	their networks and managed their political relations."	complied with Bank Indonesia's prudential requirement, nevertheless, despite years of liberalization, banks in Indonesia remain extremely inefficient as reflected by the cost/income ratio. Both State and private banks have ratios above 90%[13].
Assets	1. The banking system is the largest component of Malaysian financial system, accounting for more than 80% of the total assets of the financial system (end-2000).	1. Singapore banking system is comprised of 3 local banking groups and many other foreign banks. The banking system is also the largest component of Singapore's financial system.	1. The Thai system is significantly bank-oriented, with more than 70 percent of financial assets in banks, and with limited financial intermediation through mutual funds and other types institutional investors.	1. The state bank group has the largest share of banks' total assets with 48.5% .
Capital Adequacy	1. In line with the Basle Capital Accord of July 1988, local and foreign banks are required to maintain a risk-weighted capital ratio (RWCR) of 8 and 10 percent respectively.[14]	1. Tier 1 Capital Adequacy Ratio (CAR) to be maintained at 8% while keeping total CAR at 12%, the most stringent among the other 3 countries. It is risk-weighted in line with Basle guidelines.	1. BOT adopts the Bank for International Settlements CAR where the overall CAR was to remain at 8.5 percent for banks and at 8 percent for finance companies. Both tier-1 and tier-2 capital	1. BI maintains a minimum 8% CAR as recommended by the Basle Capital Accord of July 1988. 2. Joint-venture and foreign banks face a paid-in cash

[14] Soo-Nam Oh , "Towards a Sustainable Banking Sector – Malaysia, Asian Development Bank

[15] Soo-Nam Oh , "Towards a Sustainable Banking Sector – Malaysia, Asian Development Bank

	2. To reflect the higher risk profile of finance company business, BNM require that finance companies maintain a minimum RWCR of 10 percent. [15]	3. The MAS had made it mandatory for local banks to have minimum capital funds of S$800 million while foreign banks had to have at least S$200 million to operate in Singapore.	requirements for banks be maintained at 4.25 percent in line with Basle standards.	requirement twice as high as that of domestic banks, making foreign banks' CAR the highest in Indonesia. The higher capital requirement acts as an effective entry barrier to protect domestic banks.
Statutory Reserve Requirements	1. Each bank holds a minimum amount of liquid assets expressed as a percentage of savings, time and other deposits and such other liabilities as may be determined by BNM, and such percentage may be altered. 2. Banks may be required to hold a minimum amount of assets specified to be held as a percentage of which such assets bear to sight, savings and other deposits and such other liabilities as may be determined by BNM. 3. Statutory reserve requirement (SRR) as a percentage of the eligible liabilities base was 4	1. Banks to hold a minimum amount of liquid assets expressed as a percentage of their deposit and other liabilities and such percentage may be varied by MAS. 2. Banks may be required to hold cash balance or cash reserve ratio with the MAS, as fixed by MAS from time to time. 3. Banks may be required to hold a minimum amount of assets in Singapore to be expressed as a percentage of liabilities, jointly or separately. 4. Finance companies are also	1. A commercial bank shall maintain a cash reserve in proportion to its deposits and/or borrowings specified as follows : a) total deposits b) demand deposits c) time deposits d) total borrowings e) each type of borrowings at not less than the ratio prescribed by the BOT with the approval of the MOF. 2. MOF has the power to prescribe that commercial banks maintain a special cash reserve at BOT at not less than the ratio prescribed by the Minister, in addition to the maintenance of a cash reserve.	1. Each bank shall maintain a ratio according to general regulations determined by BI to maintain adequate liquidity and solvency. Banks not complying are subject to sanctions by BI. 2. Every bank is required to maintain a minimum cash reserve of 15% against rupiah current liabilities of which 1/3 must be kept with BI. 3. Every bank is required to maintain a cash reserve of 15% against all foreign exchange liabilities of which 15% of liabilities to non-residents and 5% to residents must be kept

	percent in 1998.	required to maintain a minimum capital adequacy ratio of 12%.		with BI.
Supervisory Framework	1. In contrast to the approach that places extensive reliance on market discipline through public disclosure by banking institutions, BNM adopts a more traditional approach. 2. BNM adopts a supervisory process that involved primarily verification of prudent practices and assessment of the financial condition through on-site examination, coupled with off-site surveillance. 3. Risk-based supervision that emphasizes on an off-site surveillance for early detection of problems and an effective planning to customize on-site examinations to suit the size, activities and risk profiles of the banking institutions. 4. BNM applies the CAMEL framework to evaluate the	1. The implementation of risk-focused approach to bank supervision. 2. The approach focuses on the institution's management quality and processes, it risk management and internal control systems instead of detailed transaction testing. 3. Similar to Malaysia, on-site examination will be supplemented by off-site review.	1. BOT adopts a new examination approach that focuses on risk management, complementing the CAMELS assessment process on its supervision and examination of financial institutions. 2. On-site examination on each financial institution will be carried out at least once a year. 3. "Fit and proper" criteria is developed for executives who are engaged in supervisory work.	1. BI implements risk-based banking supervision using the standards developed by the Bank for International Settlements (BIS) in addition to the 25 Basle Core Principles for Effective Banking Supervision that are applied internationally. 2. On-site examinations are conducted on an ad-hoc basis and the frequency of such examination is limited. 3. BI adopts an efficiency measurement model (a simple cost/income ratio) in assessing management performance. 4. Indonesia also uses CAMEL rating system in assessing the performance of its banking system.

	overall financial and general condition of a banking institution.			However, the CAMEL rating compiled by BI is not publicly available due to the restriction posed by the Bank Secrecy Code.
Foreign Participation	1. The number of foreign banks in Malaysia is small because of the introduction of the Banking and Financial Institutions Act 1989 and restrictions on bank licenses and the limit on the opening of off-premise new branches. This is a move by the Malaysian government in protecting the domestic banking institutions while controlling the expansion of foreign banks in the country. 2. BNM ceased issuing new banking licenses for foreign bank operators in 1973, new foreign banks are only allowed to acquire up to 30% of local Malaysian companies. Some foreign banks had chosen to transfer 49% of their ownership to a Malaysian corporation which entitled them to the same	1. Singapore's laws generally do not distinguish between foreign and domestic companies in the banking industry. The only legal and accounting distinction that exists is between the offshore (ACUs) and domestic units and in the type of license held. Differences in national treatment are confined to domestic retail activities for full license banks. 2. MAS considers Singapore over-banked in the retail sector and hence maintains its ban on full banking licenses to both local and foreign participants. 3. Foreign participation in the offshore market is actively encouraged. Among the 121 commercial banks in	1. Thailand used to have a set of strict rules on the operation of foreign banks in the country. However, the entry of foreign banks was relaxed a little from 1993 when the Bank of Thailand authorised the establishment of the Bangkok International Banking Facilities (BIBFs) which allowed greater diversification of service providers through new international entrants. 2. Foreign banks focused their businesses on wholesale customers. However, the role of foreign banks in Thailand will change significantly now with the increased pressure for liberalization and globalization. Before the financial crisis of 1997, all locally-incorporated banks were majority owned by	1. Since 1969, no licenses have been issued to foreign banks to establish branches in Indonesia. The 11 foreign banks operating at that time were allowed to remain but their activities were restricted to Jakarta. 2. Later in 1988, foreign banks were later allowed to open one sub-branch in 6 additional nominated Indonesian cities : Surabaya, Semarang, Bandung, Medan, Ujung Pandang and Denpasar. However, this was merelt to support to promotion of exports other than oil and gas. 3. In promoting liberalization, foreign banks'

	treatment as domestic banks. 3. Foreign banks in Malaysia are also prohibited from opening new branches and are not allowed to join the local ATM networks. However, there is no limit on the issuance of credit cards, which is the most liberal financial product. 4. Like Singapore, foreign banks in Malaysia are permitted to offer computer and telephone banking services to their individual and corporate clients. 5. Despite the restrictions imposed, foreign banks' presence in Malaysia is still very significant in terms of total assets, total loans, total deposits and profitability.	Singapore, 115 are foreign-owned (generally branches of their overseas parents). To a certain extend, foreign banks do enjoy some advantages in treatment compared to locally incorporated domestic banks. For example, foreign banks have the freedom to include inter-bank borrowings from their head offices, branches and other banks as capital funds, which gives foreign banks the flexibility to borrow from the inter-bank market to increase loan or investment portfolio. In addition, capital requirements imposed on domestic banks are higher and more stringently defined than those imposed on foreign banks by their home regulatory authorities. 5. Similar to Malaysia, there is also a limit on the number of new foreign bank branches and the operation of ATMs. 6. The permissible level of foreign ownership in local	Thai citizens. The effects of the crisis left most banks in need of large amounts of new capital which could not be raised from local investors who were also affected by the crisis. Therefore, strategic partners of many locally-incorporated banks are foreigners. 3. Restrictions on foreign ownership of commercial banks are further relaxed by allowing 100% shareholding for foreign investors who step in to resolve or rehabilitate financial institutions. 4. Foreign investors are also permitted to acquire a majority ownership interest in locally-incorporated financial institutions for a period of 10 years, following which additional shares may not be acquired until the ownership interest are maintained at 49% of total shares outstanding or less.	participation were encouraged through joint-venture banks wherein more representative offices of foreign banks were located in Indonesia. 4. Generally, foreign participation in the Indonesian banking sector is still relatively limited compared to Singapore, Malaysia and Thailand.

		banks is slightly higher than Malaysia at 40 percent.	5. There are currently 2 banks and 1 finance company which are majority owned by foreigners : Bank of Asia, DBS Thai Danu Bank and Asia Credit Finance.	

(Source : BNM Annual Reports, MAS Annual Reports, BOT Annual Reports, BI Annual Reports and various Periodic Bulletins)

3.6 Summary of Comparison

Summarizing table 2 above, it can be construed that the banking sector of the 4 countries share some general similarities and differences which are very much due to the differences in ownership structure whereby Malaysian and Singaporean banks are predominantly owned by companies and enterprises; Thai banks are predominantly owned by families while Indonesian banks are predominantly owned by the state.

In terms of structure, the banking sector of the 4 countries are each governed and supervised by a regulatory authority or the Central Bank. Commercial banks are the major component of the banking sector of all the 4 countries and are allowed to undertake the widest range of banking activities compared to the other financial institutions. Finance companies form the second largest financial institutions in all the countries under study except Thailand where finance companies are not grouped under the banking sector. Finance companies of these countries are generally affiliates of commercial banks and the scope of their activities are almost similar. However, unlike Malaysia, there are no merchant banks and discount houses in Thailand. Likewise, there are no discount houses in Singapore and Indonesia.

In monitoring capital adequacy, the banks of all the 4 countries are guided by Basle Capital Accord of July 1988 with a minimum CAR maintained at 8%. Similarly, banks of all these countries are also required to comply to the minimum statutory reserve requirement which are to be determined by the respective regulatory authority based on the prevailing economic condition.

Banks of all the 4 countries under study currently implement risk-based approach in supervising their banks wherein on-site examination as well as off-site review were employed in managing the banks. All the 4 countries too applied the CAMEL framework in assessing the performance of their respective banking sector though Singapore may have developed more assessment and benchmark tools in the evaluation of banks' performance.

Generally, Singapore banking sector allows for greater foreign participation wherein banking is split into Asia Currency Units (ACUs) for foreign currency and Domestic Banking Units (DBUs) for transactions in Singapore dollars. Clearly, the approach towards foreign participation in the banking sector is different with Singapore being the most liberal. Banking activities in Singapore are 75% offshore and 25% domestic-based while banking activities in the other 3 countries are more domestic-based. Singapore also has the largest number of foreign banks among the countries under study. Nevertheless, the other 3 countries are gradually relaxing the restrictions on foreign participation in the banking sector as a move towards preparing themselves for globalization.

From Table 2, it can also be deduced that Government participation in banking sector is the least in Singapore, limited to only Development Bank of Singapore (DBS) and Post Office Savings Bank (POSB), while state ownership in banking sector is the highest in Indonesia, hence signifying the strong reliance of Indonesian banks on government support and low independence and freedom of these banks to further excel as they are usually restricted by the more rigid rules of the state.

In summary, the structure of Singapore banking sector is clearly in the direction towards international banking while Indonesian banking sector's activities are still very much concentrated domestically. Meanwhile, Malaysia and Thailand are seen to gradually reshaping the structure of their banking sector in order to stay competitive and strong in the global market.