

INTRODUCTION

Causes for the Growth of Finance Companies in Malaya

Finance companies in Malaya are relatively new institutions as compared to traditional financial institutions like the Commercial banks. They are of post-war origin. These finance companies aimed mainly at providing loans for the purchase of consumer durables. Though relatively young in age, they have grown in size and number during the last few years. Several factors have been responsible for this growth. Under the impact of a higher per capita income, consumption level tends to rise. With the basic necessities of life like food and clothing being fulfilled, more consumers purchase more durable items. However, many of them cannot afford to purchase these goods for cash themselves, and the only alternative is to seek loans from finance companies which specialize in the financing of instalment credit.

Moreover the growth of finance companies can be traced to a change in the attitude of the consumers. People are now willing to pledge their future income for present consumption. This willingness to pledge future income for present consumption is partly due to the stability of incomes, resulting from security of jobs, higher incomes and savings.

The "international demonstration effect" is another factor contributing to the increased consumption. People want to enjoy what people in other countries are enjoying. This desire may be largely due to "keeping up with the Joneses". However these people have no readily available financial resources to acquire the goods others have, and have to turn to finance companies for loans to purchase the goods they desire.

Finally, we may note that, banks and other traditional financial institutions do not provide loans for the purchase of the type of goods consumers now desire. Finance companies grew up to meet the demand for loans to purchase the types of goods consumers now desire.

Objectives of this study

The first objective of this study is to make a general survey of the policies and practices regarding the sources of funds, investments of finance companies in Malaya and other related aspects of their operations

¹One of the oldest finance companies in Malaya is the Fu Tong Yen Finance Ltd. Malaya, which was incorporated in 1959 (The Singapore Company was incorporated in 1954).

The second objective is to evaluate their policies and practices within the Malayan economic environment.

Approach of Study

The study is divided into three main parts. The first part deals with general description of the policies and practices of the finance companies in Malaya, leading to a discussion of case examples of two selected finance companies in Malaya, which will form the second part. The last part of the study is an attempt to relate the findings and discussion of the first and second parts, to the economic environment of Malaya.

Scope and Limitations of the Study

The study covers only finance companies in the eleven states of Malaya excluding the Borneo states and the Republic of Singapore.

This study also excludes the financing operations undertaken by the sales departments of firms selling consumer durables. It is felt that such operations are part and parcel of selling and not in the strict sense, constitute a finance company.

In the discussion of hire purchase finance companies, only hire purchase of motor-cars will be considered. This is because the bulk of their businesses is in car financing.

One limitation of this study is that basic materials on the subject of finance companies are very lacking. Moreover, a fair number of companies were uncooperative in supplying information. This has adversely affected the extent and depth of this study.