

CHAPTER V

AN APPRAISAL OF FINANCE COMPANIES IN MALAYA

In this concluding Chapter an attempt is made to appraise the policies and practices of the finance companies in Malaya.

a) Hire Purchase Finance Companies

One of the main criticisms levied against hire purchase finance companies is the relatively high rate of hiring charge. The normal rate of a flat "13% less 3%" has been considered as 'excessive' by many consumers. This rate can be explained by several factors:

The absence of long-term sources of funds available to finance companies. This has given rise to a process whereby the actual source of finance is divorced from the actual point of acquisition of the goods. Therefore, credit has to revolve fast, and turnover must be rapid to free the urgently required cash for the next transaction. This is particularly true to most of the smaller-sized finance companies. Because of the urgent need of cash, it has necessitated the existence of a number of 'intermediaries' between finance company and customer.

It is argued that, if longer and cheaper term loans are available, the credit line would be 'shortened' and hiring-charge rates would decrease correspondingly.

A finance company in financing the purchase of consumer durables is performing an exclusive service, which is not rendered by any traditional means. Financing consumer durables, require shrewd personal judgement, foresight and a willingness to undertake to finance the purchase of a car with the car as the security. Finance companies do, and hence they exist.

Most finance companies adhere to the principle of 'charging 4% over and above the average borrowing rate from the public'. Since, most finance companies pay their depositors 6% per annum for fixed deposits, they charge 10% for their advances to customers. Therefore, finance companies in effect receives 4% which has to cover its operation expenses (3% goes to agents as commission).

Thus, before one can criticise the hiring charges as excessively high, all these factors have to be considered first. These factors involved in financing-procedure are subjective issues, and are difficult to pass any judgement upon them. To base any judgement in relation to practices elsewhere, would be unfair. This involves comparison where the economic environment and the level of sophistication are different. The issue at hand is basically a question of the nature of a finance company's function. It is a specialist in its own field, that probably justifies its existence in Malaya.

The future of hire purchase finance companies looks promising. With private consumption expenditure and per capita income rising, it is safe to assume that consumption of durable goods will increase correspondingly. As real incomes rise and a greater sense of job-security especially amongst the young working-age group, there is a corresponding desire to own and enjoy the benefits of durable goods. There is an increasing willingness to pledge 'tomorrow's income for today's comforts'.

Improvements. There should be an intensive and comprehensive survey to be undertaken by possibly a public authority on the policies and practices of finance companies in Malaya. This would bring to light any desirable changes which would both improve the economic welfare of the people as well as 'streamlining' the finance companies' operations.

Publication of figures pertaining to hire purchase financing would go a long way in assisting the finance companies in their operations.

The consumer-public should be educated on the principles of hire purchase (for that matter on all forms of instalment buying). If they learn the 'dos' and 'don'ts' of hire purchase, they will make less mistakes and possibly reduce the rate of default cases.

With the future enforcement of the proposed Bill for hire purchase, there will probably be greater protection for the uninformed customers, while creating more uniformity in practices of finance companies in Malaya.

b) Industrial Finance Companies

There is a lack of industrial financing in Malaya. Apart from M.I.D.F.L., only certain big finance companies provide long-term finance for acquisition of industrial assets. This kind of finance is avoided by banks, because of the long-term nature of such loans.

With the present economic trend towards industrialisation in Malaya, the role of industrial finance companies cannot be overemphasized.

Malayan industries which began in the field of light-industries are moving towards heavy industries like cement, iron and steel. In many cases, the plants are smaller than those in more advanced countries. But with the prospects of a wider market both domestic and overseas, there has been a tendency to increase the size of operating-units. This is where industrial finance companies can play their part of promoting industrialization in Malaya. By increasing the rate of industrial finance with easier terms of repayment, there will be greater inducement to mechanise production resulting in greater economies from a large scale of production.

Suggestions. More industrial finance companies should be set up in the various states of Malaya. This would help the smaller industries to obtain funds for their industrialization programmes. A foreseeable problem would be the source of funds to initiate such finance companies (the investing public is less likely to invest in such companies where rate of returns would take a longer time to realise). This is where the Government could assist, by sponsoring or lending to the potential finance companies, to begin operation. (as in the case of M.I.D.F.L.). When the finance companies show signs of being able to stand alone, the Government's interest could be sold to the public.

There should be greater research into product possibilities or industrial opportunities. The findings should be made available to potential entrepreneurs and industrialists, to improve and increase the pace of industrialization in Malaya. Hence, the Federal Industrial Development Authority (F.I.D.A.) a proposed institution, will in future coordinate, advise and direct the growth of industrialization in Malaya. Also, it will undertake to identify industrial opportunities as well as planning for future industrial programmes on a nation-wide scale.

As an alternative to conventional form of hire-purchase financing of industrial assets, a form of industrial assistance - 'industrial leasing', has been used by some finance companies. The principle and perhaps the only argument for the use of leasing is that profits is obtained from the use of assets, and not from ownership. A leading finance company has prepared some figures which show that the new cost of leasing is much less than hire purchase financing or an outright purchase.

¹See Appendix I, "Advantages of Leasing" - with permission of Malaysian Australian Finance Ltd.

e) House Finance Companies

House financing as we have discussed is done through a number of institutions like building societies, property development companies etc.

With present social trend of living together with the immediate family, separate from the parents, there has been a great demand for housing units, in Malaya.

To prevent unscrupulous developers from indulging in malpractices, the Government has passed the Housing Developers (Control and Licensing) Act 1966, to regulate and control their activities. This is a welcome move, as it enables the public to have greater confidence when purchasing their houses. This would lead to greater development of housing activity.

Suggestions. Finance companies should have strict controls and policies in granting a housing loan. Proper inspection of building and land is important to prevent fraud practices of unscrupulous contractors. This is to protect both finance company and the owner.

More commercial and Government bodies should implement the Employees Guarantee Scheme, in assisting their employees to obtain larger loan amounts from agreeable finance companies.

The Housing Developers (Control and Licensing) Act, should be implemented and amended to suit the environment.

Housing-development is an important aspect of the economic development of any country. It brings along with it, widespread benefits in the form of stimulating demand for other products like cement, paint etc., whilst absorbing a substantial amount of semi- and unskilled labour.

All possible suggestions or recommendations should aim towards the creation of a 'house owning' democracy in this country.

A Final Conclusion

To end this exercise, it is to be emphasized that a free society and an expanding economy in Malaya must recognise the people as consumers. It must be realised that it is only from a sustained and increased demand (i.e. effective demand) that production is possible. In other words, production can begin only if there is a market. Classical economists like James Mill had commented that "... of the four sets of operations, Production, Distribution, Exchange, Consumptionthe first

three are means. No man produces for the sake of producing Things are distributed, as also exchanged to some end That end is consumption."²

We may safely say that the rationale of man in a free society is to consume to be able to stay alive. No consumption means no production and implies a complete circle of 'nothingness'. To this end finance companies in their various ways are assisting the public to transform their desires into effective demand. This in turn warrants the large-scale basis of production of today.

Finance companies in Malaya are relatively young financial institutions but they are in a position to influence the future development of the economic welfare of the people as well as the economic development of Malaya. Both these aims can be more quickly and effectively achieved, if legal restraints and business ethics are applied more effectively. Thus, the near future holds a more healthier and promising picture for finance companies in Malaya.

²J. Hill, Elements of Political Economy, quoted by R. Harris, M. Naylor, A. Seldon, op.cit., p. 148.