



05 JUN, 2021

Why use a sledgehammer to crack a nut?

The Star, Malaysia

By TENGKU DATUK SERI ZAFRUL AZIZ

WE are currently in MCO 3.0 lockdown mode, and there have been calls by various parties for an automatic blanket moratorium, like what we had during MCO 1.0.

First, a quick flashback. When we first instituted MCO 1.0, we understood so little of the virus, and with vaccines still a pipe dream, no one in the world knew how to contain it. Among the various measures through the Prihatin package, Bank Negara and the banking sector agreed to provide a six-month automatic blanket moratorium for all borrowers. Everyone enjoyed it, from the B40, M40 and T20, to businesses, big and small. Whether they needed it or not, the rich, the elite, big corporates and even companies recording massive profits, benefitted.

After the moratorium ended in September 2020, approximately 85% of borrowers resumed repayments, a strong indication that most Malaysians were able to continue paying their borrowings.

Since then, the banking sector has strategically focused on the 15% of borrowers who are struggling, by offering the option between a three-month moratorium or a six-month 50% reduction in repayment in Budget 2021, which were extended through subsequent aid packages like Permai, Pemerkasa and Pemerkasa Plus.

A good number of borrowers have also been granted other repayment options specific to their financial circumstances.

Fast forward a year, we are faced with MCO 3.0, another major economic-public health quagmire. The big difference is that this time, we know a lot more about the virus, and many companies managed to switch to work from home (WFH) mode quickly, while numerous businesses with e-commerce capabilities dialled up on their online offerings.

Although infection numbers are higher than 2020, our national vaccination plan has also been accelerated to achieve 150,000 doses per day by end-June, setting us firmly on our path towards achieving herd immunity by end-2021.

At the same time, thus far, we have channelled over RM200bil in assistance,

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Staying strategic: Under the Central Bank of Malaysia Act 2009 and the Financial Services Act 2013, the Minister of Finance does not have the authority to instruct the banks to give an automatic moratorium.

benefitting 20 million Malaysians and 2.4 million businesses. The gross domestic product (GDP) for March 2021 was +6%, signalling good economic recovery.

Further, in addition to the Budget 2021 initiatives worth RM322.5bil and the recently announced RM40bil Pemerkasa Plus aid package, more than RM100bil worth of ongoing measures are still available from previous packages to support the people, businesses and the economy.

For borrowers, the banking sector's Loan Repayment Assistance (LRA) is still available for jobless individuals (B40, M40

or T20); B40 recipients of Bantuan Prihatin Rakyat; Micro SMEs with facilities up to RM150,000; as well as SMEs and micro enterprises that are part of MCO 3.0 locked-down sectors.

They can choose a three-month moratorium or a 50% reduction in monthly loan installment for six months.

The LRA is also available to impacted M40 and T20 borrowers experiencing an income reduction. In all cases, borrowers just need to choose what relief they need and automatic approval will be given upon application.

The banks have agreed that any distressed borrower will never be turned away during these tough times.

Knowing that those who need temporary relief have options, and those who can afford it have resumed repayments, is a blanket moratorium the smart thing to reinstate, particularly when we know we must optimise our resources?

Most of us agree that fighting this Covid-19 war is more of a marathon than a

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Managing the current public health, economic crisis as a team

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sprint. Hence, why are we using a sledgehammer to crack a nut? Why are we deploying more resources than necessary if we know the journey ahead could potentially be both long and challenging?

Just because we can, doesn't mean we should

I was recently quoted in the media that the government cannot compel banks to give a blanket moratorium, and this was subsequently taken out of context by opportunistic quarters promoting their populist agenda.

Under the Central Bank of Malaysia Act 2009 (CBA) and the Financial Services Act 2013 (FSA), the Minister of Finance does not have the authority to instruct the banks to give an automatic moratorium.

Further, under the current Emergency (Essential Powers) Ordinance 2021, any new legislation has to be approved by Cabinet and then presented to the Yang Diptuan Agong for His Royal Highness' assent.

Section 4 of the Emergency Ordinance confers powers to the government to acquire and mobilise any resources necessary for public good, but Section 5 clearly stipulates that any compulsory measure by the government must be matched by a compensation to the party that has yielded its resources.

In short, this cannot be done at zero cost to the government. But just because we can, does that mean we should?

Repeating the blanket moratorium also means that the government may need to significantly compensate banks for a measure that was not even neces-

sary in the first place.

How does this make financial sense, particularly in a resource-tight situation for a potentially lengthy war against an enemy that can mutate without warning?

I would rather direct those resources in the form of aid or subsidies to the rakyat and business segment that need them the most.

Further, let's assume the government decided to play the populist card, and forced such measures down the throats of our business community. How would that affect investors' confidence in our policies for the long-term?

The rule of law is necessary to build foundations and develop a stable market to enable entities to build wealth and prosper.

By invoking emergency powers indiscriminately, we may be forcing parties to break or amend contracts. Dishonouring the sanctity of a contract between two parties will have serious ramifications on future business and investments.

This may also have far-reaching implications which may lead to a run on our capital markets, and cause an outflow of funds which could, in turn, affect the ringgit's value and increase the cost of doing business, collectively causing grave, long-term repercussions to our economy.

We already have a public health and economic crisis to manage; why throw a potential financial and banking crisis into the mix?

Is it neither fair nor responsible for the government to take all these risks just for the sake of enabling a blanket moratorium for everyone, particularly when we know that at least 80% of borrowers do not need it, and banks are already giving or offering targeted assistance to borrowers that really require this relief.

Who really owns the banks? Let's not (unknowingly) cut off our nose to spite our face

The government, through Bank Negara, regulates and supervises banks in Malaysia under the CBA and FSA, both of which were enacted to promote stability in the financial sector, the lifeblood of any economy.

The claim that Bank Negara or the government can instruct a bank to approve or reject a loan application, or restructure borrowings, runs counter to the very spirit and rationale of CBA and FSA's existence.

There is also a fact not commonly known: Who really owns the banks? Investors, yes. But who exactly are they? The largest shareholders of banks in Malaysia are institutions like EPF, PNB, KWAP, Socso, Lembaga Tabung Haji, insurance companies and fund management companies.

Let's look at who these institutions represent. EPF manages your, my and its members' retirement funds: members are the rakyat in employment, mandated by law to contribute to EPF for their retirement. PNB is the issuer for unit trust funds like ASB, ASM, ASW etc, which is also subscribed by the rakyat like you and me. KWAP is the civil servants' pension fund. Socso manages a social security fund for its members, a large part of the Malaysian workforce. Tabung Haji manages savings belonging to the rakyat with hajj aspirations. Insurance companies and fund managers collect premiums or subscriptions from the rakyat and businesses.

In 2020, in terms of dividends, EPF received around RM298mil from the RHB group, while PNB, around RM1.3bil (after reinvestments) from the Maybank group.

Lower earnings from these banking groups would correspondingly result in lower dividend payments for EPF members and PNB subscribers. In short, it is the gener-

al rakyat who "own" the banks, albeit by proxy via entities like EPF and PNB.

Ultimately, it is the rakyat who will get lower dividends from EPF, ASB or Tabung Haji etc, if banks suffered losses through, say, a blanket moratorium.

This unnecessary self-destructive, over-specified solution to the issue at hand is like cutting off our nose to spite our face.

Further, in simple terms, banking is about using depositors' funds to lend to borrowers.

Who are these depositors? They are still the rakyat and businesses who keep their savings and extra funds with banks. A blanket moratorium will mean that banks will not receive loan repayments to lend to others, but must still pay the interest/profit to depositors.

Bank profits are also used to build capital buffers so that they can continue lending to support the economy despite loan losses. Without these buffers, lending will be severely constrained.

This disrupts the virtuous cycle and halts the ensuing economic benefit that could be created from the efficient movement of capital.

By ensuring that the banking sector helps all those in need, the government and Bank Negara are not only protecting depositors, shareholders and borrowers, but also ensuring that capital in the financial market ecosystem is efficiently utilised for economic growth. This is the best win-win situation.

In conclusion, the powers under the FSA and CBA must be exercised sparingly, judiciously and in a manner that is consistent with the spirit and objectives stipulated by the law, which includes protecting stakeholders, as well as safeguarding the integrity and stability of our financial system. Part of my responsibility as a is to avoid decision-making based on narrow short-term interests meant to serve a populist agenda, and do what is right for the rakyat, our market stability and the country's long-term benefit.



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SUMMARIES

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