

The world in reset: redefining global finance

BY DATUK RANJIT AJIT SINGH

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Half a decade has passed since the fall of Lehman Brothers, a moment that defined the greatest financial crisis of our time. Since then, significant resources have been marshalled into efforts to strengthen the soundness of financial institutions and resilience of markets. Greater acceptance has also emerged for a more proactive role for regulators in maintaining fair and orderly markets, while continuing to facilitate financial innovation.

Nevertheless, even as policymakers press on with reforms, they continue to face significant challenges — challenges relating to the fundamental character of modern finance and how it interplays with the economy and broader society.

At its heart are issues of justice and fairness, sustainability and inclusiveness — considerations once viewed as beyond the realms of economic thought but which are now understood to be essential underpinnings of a resilient financial ecosystem.

Hence, while significant progress has been made on the regulatory front, much more remains to be done. As we move forward, this central question remains: how are we to recast and redefine finance, not just to prevent another crisis, but to ensure that it can fulfil its rightful catalytic and socially beneficial role in the broader economy?

The recalibration of finance

As the stewards of global finance closely re-examine the world's financial system, several themes have struck a chord with the international regulatory community. Three themes in particular, in my view, are the imperatives that the global community must continue to strive for if we are to "change the conversation" of finance.

First, we have to reshape the relationship between finance and the real economy. In 2009, a panel of finance ministers at Securities Commission Malaysia (SC)'s first World Capital Markets Symposium (WCMS) reminded us that the role of finance is to promote economic growth: to help industries obtain financing efficiently and in the best possible way. However, along the way, the world of finance gained a momentum of its own and became detached from the real world of industry, manufacturing, services and agriculture, thus outpacing growth in the real economy.

Finance remains a key human endeavour, but we have to see it in an appropriate context — as an enabler and promoter of real growth, not an end in its own. To make finance work for the real world, we need to accept that the heady days of rapid financial proliferation should be traded off for a more sustainable financial system which generates positive externalities to the broader society in the long run.

Second, we must re-establish the public's faith in finance. His Royal Highness Raja Nazrin Shah has eloquently argued that "Justice, self-discipline, integrity, good morals and responsibility are core attributes of all faiths, and these have good application in the markets and finance as well. While finance has faced turbulence, we truly have an opportunity to work together and shape the future. We need to get back to basics — to break the vicious cycle of mistrust and greed."

To regain trust and confidence, finance must be inclusive and sustainable. These attributes dovetail with the concept of fairness and equity. Opportunities for wealth creation and preservation should be made available to the widest cross section of society possible, and be marketed to investors with their needs and objectives in mind. With the right incentive structure, markets could become one of the most powerful channels for more equitable distribution of wealth.

For this to happen, we need to pursue a third imperative: to redefine how we make use of markets. Raghuram Rajan, governor of the Reserve Bank of India, has warned of the danger that people looking at the global financial crisis will say, "The West got it wrong, let's go back to our old ways, let's go back to our old status and we are going to get it right by going back."

He argued strongly that reverting to an insular system is not the answer and that markets should not be abandoned. Instead, we should find ways to use markets better — ways which could be adapted from our cultures and ethos.

What are these ways? They must be nothing short of transformative. We need to empower people, equip them with educational and financial instruments that enable them to participate fully in a knowledge-based, innovative economy. We need to provide companies and investors with better access to markets as well as equitable opportunities to raise capital and achieve their financial goals. In short, we need to democratise the markets.

This means, for instance, providing facilities to support small and medium-sized businesses that go beyond financing, to enable partnerships, collaboration and capacity building. This means providing a means for people who would otherwise be excluded from the savings process to build up their asset base and gain greater control of their lives.

And in all of this, governments and their agencies must be there to encourage and support participation and innovation — but all stakeholders must also do their

part. For ours is also an ecosystem, whose interactions will determine the fortunes and indeed the future of finance.

Towards greater inclusiveness and sustainability

The recalibration of finance should go beyond changes in rules and designs. Rather, it should involve the development of market segments that complement the existing financial architecture by offering products and services which are inclusive while continuing to fulfil the investment and financing needs of the real economy.

In the Malaysian context, the SC has focused its efforts in at least two continuous endeavours: first, striving for a balanced approach that ensures sensible and effective oversight while encouraging "positive" innovation, and second, galvanising the entire capital market ecosystem to play its role in promoting trust and confidence.

To do so, we have emphasised the need for an enabling environment — one that is systematically designed to ensure accessibility and inclusiveness while ensuring the protection of investors, efficiency in intermediation, fair and orderly markets and mitigation of risks.

As companies and investors advance beyond national borders, we continue to meet both their funding and investment needs. While doing so, we are also developing an ecosystem that provides fundraising opportunities to smaller businesses — the emerging corporate gems.

In line with this, our venture capital industry has seen its fund size increase from RM2.1 billion in 2003 to RM5.7 billion in 2012. Furthermore, the SC recently announced the introduction of MyULM, a framework for a virtual trading platform for unlisted companies. MyULM will enable small businesses to raise funds to finance their growth, thus preparing them for an eventual listing either on the ACE Market or the Main Market of Bursa Malaysia.

From the investors' perspective, an important milestone in our efforts to expand the array of capital market products is the launch of the Private Retirement Scheme (PRS) in 2012. PRS not only provides an additional source of capital to increase the liquidity and vibrancy of the capital market, but also extends access to investment and saving opportunities to a wider section of the population under a well-supervised and regulated framework.

Another example of our effort on inclusive and sustainable growth is the development of our Islamic wealth management segment, which caters for the requirements of individuals who demand Shariah-based capital market services. As at 2012, assets under management of Islamic funds stood at about RM80 billion, up from RM48 billion in 2010. This concept of Islamic wealth management covers all customer segments, focusing not only on the accumulation and preservation of wealth, but also its redistribution, with tax-favoured treatments for long-term investments and platforms for inter-generational wealth transfer.

Conclusion

As we move forward, we must not waver from the path of strengthening, and continue to press on with structural reforms for sound financial markets that form the basis of sustainable growth, development and, ultimately, prosperity.

Where there is volatility and ambiguity, we must aim to provide clarity and certainty. Where there is disillusion, we must now regain trust. And where there is excessive short-termism, we must now engender sustainability and inclusiveness. Only through these reforms can we recalibrate finance into serving the needs of the real economy and more importantly, broader society. Only then can we reap not just monetary dividends, but also the social dividends that come from a more just, equitable and inclusive financial system. ■

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