

# 5% growth seen for SME banking

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**D**ESPITE the shaky global economy, the local small and medium enterprise (SME) banking business is expected to chart positive growth this year, with one banker forecasting a growth of 5%, driven, among others, by the Government's various programmes to spur demand for SME financing.

The Association of Banks in Malaysia (ABM) says it expects SME banking business to grow further this year as SMEs take on an even greater role in propelling Malaysia to a high value-added, high income economy under the Economic Transformation Programme.

"The Government has set a target under the SME Masterplan to raise SME contribution to gross domestic product (GDP) from 32% in 2010 to 41% in 2020. In November last year, the Government underlined six high-impact programmes to spur the SME sector, namely the SME Investment Programme, Catalyst Programme, Inclusive Innovation, Going Export Programme, Technology Commercialisation Platform and Integration of Registration and Licensing of Business establishment.

"These initiatives are expected to boost the growth of SMEs to 8.7% by 2020, thus spurring SMEs to expand, which in turn will improve demand for financing. Banks, on their part, will be enhancing their capability to support the SME business, including coming up with diversified loan packages to meet the needs of innovative enterprises, it says in response

## Govt measures to boost SME growth, thus demand for financing



Vishal says many SMEs are unaware of the support they can get from banks to fuel their expansion.

to a query from StarBizWeek.

ABM adds the call for banks to develop profit sharing and risk sharing investment and financing facilities subject to relevant safeguards under the Financial Sector Blueprint (2011-2020) will provide the impetus for SME banking business to grow further.

Based on Bank Negara's quarterly bulletin for the third quarter of 2011, loan applications by SMEs (including loans to individual businesses) registered an annual growth of 25.2% while loan approvals rose by 27.7% year-on-year in the third quarter.

In 2010, SME loan applications for the fourth quarter grew by 14.9% year-on-year while loan approvals posted an annual growth of 13.5%. Loan approvals for the SMEs account for 19.3% out of total loan approvals for the third quarter of 2011.



Wong says OCBC Bank is optimistic about the growth of SME banking this year.

OCBC Bank (M) Bhd emerging business head Wong Chee Seng says the bank is optimistic about the growth of SME banking as the domestic demand, both business and consumer spending, is expected to continue to hold in 2012.

He says the SME business is diversified and includes resource-based extraction and manufacturing, domestic retail trade and services, and agriculture, each of which is poised to grow.

Financial support for SME businesses is expected to hold strongly given the strong financial health of the banking industry and the ample liquidity, Wong says, adding that this being a likely election year, there may be a host of government measures to boost the economy.

For the first 10 months of 2011, the bank has surpassed more than 60% of the RM3.3bil in SME loans

approved for 2010. It expects to maintain this growth trend into 2012.

Wong says the SME business currently contributes a healthy 15% towards the bank's net profits and expects revenue to grow in the high teens this year, and contribute considerably towards its bottom line.

Affin Bank Bhd director of business banking Amirudin Abdul Halim says he expects SME banking to grow, albeit at a moderate pace this year. "Domestically, Malaysia is in a good position with all its economic pillars well in place and our expectation is that the pace will definitely be modest for the industry's SME banking business. It will be in line with our Malaysian GDP forecast averaging around 5%.

"On the outlook, it is expected to decline as export-related sectors will take a conservative approach, especially those dealing with China, due to the uncertainties in the United States and Europe," he says.

He says the bank's division contributes about 13% to its overall business currently, adding that it will be a challenge for the bank, especially in the first half of the year.

On the whole, however, it expects to do better throughout this year from sectors like construction, services, education, healthcare and pharmaceutical as well as oil and gas.

On the challenges in the SME banking space, HSBC Bank Malaysia Bhd deputy managing director of commercial banking and director of sales Thomas Varughese says that with businesses becoming increas-

ingly borderless, SMEs should be encouraged to embrace business delivery via technological innovation for greater efficiency.

The other major challenge, he adds, is the need for SMEs to keep good financial records. Hence, banks, he says, will need to promote the viability of e-transactions to enhance user confidence, which is in tandem with the recommendations in the Financial Sector Blueprint.

Standard Chartered Bank Malaysia Bhd general manager for SME banking Vishal Shah says reaching out to the SMEs has been one of the key challenges, primarily due to the widespread and highly-dispersed SME population.

He adds that many SMEs are unaware of the various solutions and support they can get from the banks to fuel their expansion. Recognising this challenge, Standard Chartered has been working with various local associations to drive awareness programmes, Vishal says.

He says the bank has also been capitalising on the extensive base of its relationship managers, on top of its branch network which has expanded to 40 to reach out to the SMEs.

Wong of OCBC Bank says the challenge for SMEs will be to manage cost in order to remain profitable. Assets and liabilities management is critical to ensure a healthy cash flow. At the same time, SMEs have to be clear about their market positioning to ensure their businesses stay relevant in order to have sustained growth, he adds.