Executive Summary: **Market-Based Approach for Moneylending in Malaysian**

Moneylending is an important form of informal financing that helps to a)stimulate private sector growth and b)provide financial access to the poor and those without necessary credit histories. In Malaysia, moneylenders are often confused with loan sharks, which creates negative perceptions on the sector. This coupled with heavy regulation of the sector unfairly chokes the operations of licensed moneylenders and prevents the full realisation of the sector's potential in the market.

SEANET Perspective Issue № 9 has author Adelene Teo analysing the Moneylenders Act 1951, the main law that governs money lending activities in Malaysia and the negative impacts of the law, they are:

1. a **fixed interest rate for secured and unsecured loans**, which results in unfair risks being absorbed by the moneylender. Although the standard rate imposed by the government is aimed at protecting borrowers, it negatively impacts the industry as a whole especially since moneylenders and banks do not operate on the same business model.
2. **tighter licensing regimes** - such as the need for moneylenders to have a high amount of paid-up capital (at least RM1 million) and a profit of RM500,000 over 3 years to renew licenses as well as an increase in licensing fees
3. **stronger police enforcement** - thereby burdening moneylenders with heavy compliance costs besides operational risks of having the police possibly halting business operations and seizing documents and property without a warrant. Often these difficulties are translated to adverse selection of loan provisions and, in extreme cases, business closure.

The restrictions in Malaysia creates an unfair and unconducive environment for local moneylenders to ply their trade. In order to safeguard the interest of both borrowers and lenders the author highlights examples from Singapore, the United Kingdom and Australia and provides 3 key recommendations that use a market based approach:

1. fix the loan amount and interest rates only for the most vulnerable of borrowers, and use a floating interest rate for all others instead. The interest rate should be determined by free market forces and competition.
2. for the Malaysian Central Bank to make available data on the credit history ratings of borrowers upon request.
3. conduct detailed research to understand the profiles of borrowers and their loan application patterns, so that regulators can impose specific targeted rates for maximum positive impact for both moneylenders and borrowers alike.

About the Author

This paper is written by Adelene Teo, a research officer at a diplomatic mission in Kuala Lumpur. Prior to this role, she worked with the Central Bank of Malaysia and commercial financial institutions in various policy research, development and implementation as well as financial planning and sales capacities. She is an alumna of the Crawford School of Public Policy at the Australian National University and enjoys exploring the subject of financial inclusion and empowerment during her free time.