

# [Beginning of malaysias financial sector finance essay](https://assignbuster.com/beginning-of-malaysias-financial-sector-finance-essay/)

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INTRODUCTIONFinancial system is the process and method used by an organization's management to implement financial control and accountability. Financial system measures include, verification, recording, and timely reporting of transactions that affect expenditures, revenues, liabilities and assets. Besides, financial system also considers a structure that enable the relocate of money between borrowers and savers which has also mention as investors and institutions. A financial system can operate on a regional, global or firm specific level. In the beginning of Malaysia’s financial sector after independence, the monetary authority in the federation of Malaya was the Board of Commissioners of currency, with Malaya, British and Borneo. On January 24, 1959, central Bank of Malaysia was formally launched; the primary goal of the Bank is to uphold monetary stability and financial stability favorable to the sustainable development of the Malaysian economy. Besides, its primary function of the central bank of Malaysia Act 2009 is to issue currency in Malaysia, formulate and conduct monetary policy in Malaysia to prevent misunderstanding causes. Furthermore, central bank of Malaysia also regulates and supervises financial intermediaries which are subject to the laws enforced by the Bank. This helps the bank to prevent misconduct and future misunderstanding. Central bank also provides oversight over money and foreign exchange markets and manages the foreign reserves of Malaysia. Tun Ismail Mohamed Ali served as the second governor of Bank Negara from July 1962 to July 1980. He promotes and strengthens domestic banks to match the branches of the foreign banks in Malaysia. During 1960s, our financial segment through Bank Negara was paying attention on growing up the financial infrastructure. It observes the expansion of strong local commercial banks and widespread branching of banking services. On the other hand, it is also set up during the period the Kuala Lumpur Stock Exchange (KLSE), Pilgrims Management, discount houses and Pernas (the national investment and trading corporation), Fund Board (LUTH), Capital Issues Committee, agriculture bank, and Malaysian Industrial Development Finance. Furthermore, foreign exchange market was set up to serve the nation’s international trade and also to promoter Kuala Lumpur as an international centre for the trading of primary commodities. On March 1, 1993 Securities Commission (SC) was set up. It becomes the main consumer protection for the securities, financial futures and options industries as well capital market instruments. SC absorbed the functions of the Capital Issues Committee and Panel on Takeovers and Mergers. Future Industry Act 1992 came into force on 1 March 1993. This act provides the underlying regulatory framework of the financial system. International Offshore Financial Center (IOFC) was established in October 1990. It enhances the contribution of the broad financial sector to economic growth. Financial system in Malaysia includes two types, financial institution and non-financial institution. In the 1980s, financial authorities adopted a position of nurturing greater financial discipline in the middle of the financial intermediaries, while promising that sufficient bank credit was made available to private investors at reasonable cost. Financial institution consist of where the main liability, generally is money for example, Bank Negara Malaysia, which is the only authority that issued currency notes and coins country. Financial institution also includes Commercial banks and Islamic banks operate authorized current account. In non financial intermediaries include institutions, where the liabilities are usually connected to finance. It is strongly related with financial institutions. Since it is a deposit taking institution, it is subject to the regulation and control continues to Bank Negara Malaysia. Non-financial institution were restored and strengthened to uphold the development of small-scale industries. Those involved were Bank Industry, CGC and Malaysia Export Credit Insurance Bhd. A non-Bank financial institution is generally divided into five groups. The Development of Financial Institutions, Saving Institutions, Saving and Pension Funds, Insurance companies, including offshore insurance and other intermediaries such as building societies, trusts properties, leasing companies, investment agencies specific and specialized financial institutions such as Cagamas and Credit Guarantee Corporation. Islamic banking was introduced in 1983. It was one of the distinctive features of the Malaysian financial system which presence and promotion of Islamic banking, and has turn out to be an increasingly significant element of the financial structure. Malaysia is the pioneer of the dual banking system, where Islamic banking operates in corresponding with commercial banking. Malaysia is also the single nation that has as Islamic interbank money market. In addition, the development of financial markets helps to conduct environment for greater financial inclusion. And it also helps to create a various series of financial service providers that thrives and competes. The development of financial market enhances the distribution channels to guarantee widespread entry to financial services. And also make sure a minimum level of banking instruments and services are provided at rational costs. When a country financial market has developed it starts to improve the country financial literacy, advisory, awareness and also consumer education. It strengthens the supporting financial infrastructure and enabling environment. 2. 1 FINANCIAL SYSTEM2. 1. 1 ROLES OF FINANCIAL SYSTEMThe roles of financial system in economy development are savings, investment, loan, business growth, and government expenditure. Financial system allows people to save the money or deposited the money in their preference bank. They will conduct a saving account and save it. By saving money in the saving account of bank, the banks will paid the interest based on the amount of savings. However, the money that is saved in the bank will become the loans for the people or business such as car loan, education loans, mortgages or other else. Besides that, financial system also facilitates the money into the business that is invested by the investors. When the businesses need a sum of money for the project, they will issue the stock to the public or borrow from bank. The businesses will distribute the stock to the investors once they increase their capital. Therefore, they can use the money to expand their operations. The investors become the stockholder by investing their money in the business. Some of the stockholder may have the voting right in the company selection since they are holding the stock. From the viewpoint of businesses, they issue the bond to increase their financial situation to expand their operations. Financial system is an instrument of selling and buying the bonds. Lastly, government also will issue the bond to raise the money for their projects. The investors get the interest from the government by buying the government debt. 2. 1. 2 FUNCTIONS OF FINANCIAL SYSTEMFinancial system is an effective medium for finest distribution of financial resources. The collection of markets, institutions, laws, regulations, and techniques helps in establish a link between savers and the investors. Financial systems create wealth function essential for economic growth. First, it improves allocation of capital. It transfers capital from savers (individuals) to user (usually major corporations). Financial system mobilize saving by agglomerate fund from disparate channel, create small denomination instruments. For example, a person allocate pension saving to purchase company’s new issues stock. The financial instruments sold in the money and capital markets provide an excellent way to store wealth and liquidity. Furthermore, financial system helps price discovery. The prices of financial assets and securities are determined by demand and supply force in the capital market. In term of liquidity function, financial market transforms long-term capital (illiquid assets) into financial instrument (liquid asset). In liquid financial market, saver can hold assets like stock, bonds and debentured, which can be easily converted into cash whenever they need fund. Beside, financial system is also accelerates the liquidity of financial claims. Financial market provide arms length debt or equity finance to borrowers, at a lower cost. Payment functions on other hand, financial system ensure the efficient functioning of payment mechanisms in an economy. Financial system offer a mechanisms for making payment of goods and services including currency, checking account, credit card, bank note and bank deposited. All are accepted on fiduciary basic, it allow smooth transaction between buyers and sellers. It bring convenient method of payment that one can make payment or take cash whenever and wherever, the cost and time of transactions are also drastically reduced. Next would be saving function. Financial systems channel the saving of individuals. Public saving is an instrumental from the global system of financial markets and institutions. The factor market allocates factors of production and distributes income to the owner of productive resources. Financial claims are issued in the money and capital markets promising future income. Consumers use income to purchase goods and services. This mean that the financial market channel saving to those individuals and institutions need more funds for spending than are provided by their current incomes. It enables the exchange of current so that production, employment and income can growth and thus living standards can improve. Secondly, financial system improved allocation of risk. Risk function is the risk when individuals are protected against various risks by permitting into a financial system between individuals and institutions to engage in both risk-sharing and risk reduction. Such risk are health, property and income risk. It provide ways of managing risk in various investment. For examples: Life insurance option reduces risk arising from accidents, illness and health related. Firm uses future contract to hedge foreign currency risk. Financial system enables risk transformation by portfolio diversification. Lastly is policy function. The financial market is a channel through which government intervenes and carries out its policy. Purpose is to stabilize the economy and avoid inflation. For example, governments use monetary policy to control money supply. If inflation is high, the government would increase rate of interest (Fed control) high rates discourage borrowing money. It can affect the borrowing and spending plans of the public, impact to the growth of job, production and price level. In a fiscal policy, tax cuts tend to stimulate consumer spending. Furthermore, government cut down expenditure on budget plan and to buy sell securities in the open market to control the money supply2. 2 FINANCIAL MARKETThere are 5 basic financial systems which are money, financial institution, financial market, financial instrument, and central bank. Financial market is the heart of financial system because it refers to the markets that are trading by the financial instruments. In the financial market, there are 4 main types which are Money and Capital Market, Debt and Equity Market and Primary and Secondary Market, Exchange and Over-counter Market. The money market and foreign exchange market are important in providing the funds to the banking system and channeling the funds for the monetary policy. Capital Market is long term financial investments. Debt and Equity market is normally dealing in corporate stocks and shares and bond market is dealing in public and private debt securities. In derivatives market Malaysia consists of three types’s future market including Commodity Futures KLSE CI Futures and KLIBOR futures. However, money market and capital market are two main important markets in financial markets. 2. 2. 1 MONEY MARKET AND CAPITAL MARKETMoney market is a market system that processes selling or buying the money. The money transaction can performed by telephone, fax without face to face with different people. It is a short term funds transactions which loan less than one year. The function of money market is to provide the capital or loan to the business or government. There are few money markets risk including the credit risks, liquidity risk, interest rate risk, operational risk and capital related risks. Credit risks were divided into 2 types which are counter Party Risks and Country Risks. However, Interest rate risk also distributed into investment risks and income risks. In contrast, Capital market is different with Money Market. Capital Market provides long term finance or long term investment in the business which is more than one year. It is also involving the long term debt. 2. 2. 2 DEBT AND EQUITY MARKETDebt market is a market where debt instruments are traded. Debt instruments are assets that are paid with a consistency payment like interest to the holder. Bonds and mortgage are the example of debt instruments. Equity market or Stock market is trading equity instruments market. Stocks are the securities that can get the return and assets of a company. Common Stock or shares is an example of an equity instrument like trading the stock on the New York Stock Exchange. There are some differences between equity and debt. Equity financing allows a company to obtain the funds without incurring debt. Besides that, bond issued had increased the debt burden of the bond issuer because contractual interest payments must be paid, unlike dividends, they cannot be reduced or suspended. Those who purchase stock will gain ownership of the business by holding the shares. They also have the right to vote in the selection. Moreover, stockholders have got the return of the firm. In contrast, bondholders do not have the ownership or right of voting in the business. So that, he can’t get any return from the firms in the future. The borrower just has pay back the amount of loan and its interest. 2. 2. 3 PRIMARY AND SECONDARY MARKETThere are some comparison between the primary market and secondary Market. Primary Market is the market that issued the new securities where the price is fixed by underwriter. The company issues the stocks and bonds to allocate the new funds from primary markets. Secondary Markets deal with the existing stock and bond and the securities markets such as New York Stock Exchange and NASDAQ Market. Secondary Market also known as dealer market or auction market. In primary market, the investor directly buys the stock or bond that is issued by the companies with the " par value". However, the trading of existing bond or stocks may happen in Secondary Market. The investors who are buying the stock or bond in primary market and want to sell off after few years, they may sell in secondary market. Besides that, some investors may invest the mutual funds in the primary market. 2. 2. 4 EXCHANGE AND OVER-COUNTED MARKETStock exchange and OTC market connect the borrowers of funds and lenders of funds. Stock exchange can be defined as " a centre where parts of the share of organizations are bought and sold, or organization of people whose duty is to do this purchasing and selling" based on Cambridge dictionary. However, OTC markets is defined by Business dictionary as " OTC securities trading system in which dealers or brokers bargain over computerized networks or telephone instead of through a stock exchange. Trading rules for this market are established and enforced by the National Association of Securities dealers. In dollar terms, it is the largest securities market in US. It is also called outside market or third market. E. g. NASDAQ." 2. 3 FINANCIAL INSTRUMENT2. 3. 1 MONEY MARKET INSTRUMENTThe principal money market instruments are Treasury Bills (T-Bills are short term debt instrument with maturities of 13, 26, 53 weeks. T-bills are default- free securities. It makes no regular interest payments, but sells at a discount. Commercial papers are short-term debt issues by corporations. It is a promissory note issued by large, well established firm with creditworthiness to generate short-term funds. Banker’s acceptances are short term debt instrument issues by firm and guaranteed by large commercial banks. Bank draft issued by firm is guaranteed payable at some future date. Repurchase agreements are very short term loan (overnight). It is a sale of government securities with the agreement that the securities will be repurchased back the next morning. It normally used by government in fiscal policy. Negotiable certificates of deposit (CDs) are issues by bank. It is a fixed maturity debt of instruments to receive interest payment. It is with huge denomination $100, 000 or more. Federal funds (Fed fund) are overnight loans between banks of deposit at the Federal Reserve. Federal fund rate is the interest rate for these loans. Fed fund provide relative tightness or looseness of monetary policy. Eurodollars are U. S dollars deposited at foreign bank. The dollars are held as assets by foreign banks without converted into foreign currency. 2. 3. 2 CAPITAL MARKET INSTRUMENTThe principal capital market instruments are Mortgage loans are long term loans to house and business use to purchase building, land and other structure. The value of the land and structure serves as collateral. The mortgage market is the largest debt market in U. S. For U. S. government securities, treasury notes issued with maturities of 2, 5 and 10 years. While Treasury bond issued with maturity of 30 years. It is the largest and most active bond market offering fewest problems in illiquidity and infrequence trading. Tax-exempt (municipal) bond are long term bond issued by state and local governments. Interest payment is exempted from paying federal income taxed. Commercial Bank Loans are loans to business and individual’s bank and finance companies. These are the least liquid of all debt instruments. US Government Agency Bonds are bonds issued by U. S. government sponsored agency. The agencies are solely private entities, do not guaranteed by government. The agency securities are exempted from state and local taxed, but not exempted to federal tax. However, there are six different between capital market and money market which are maturity, risk, instrument, institutions, finance and relation with central bank. 2. 4 FINANCIAL INTERMEDIARIESFinancial intermediaries are any institutions that involved in the transaction of fund movement between saver and borrower. It pools together the funds from many different lender and saver, and invests it by lending out the funds to different borrowers. Profit can be gained through borrowing fund at a lower interest rates and lending out at a higher interest rate. This process spread the financial risk of investor among various investments. Financial intermediaries can be classified into three type, depository institutions or bank, contractual savings institutions and investment intermediaries. 2. 4. 1 TYPE OF FINANCIAL INTERMEDIARIES2. 4. 1. 1 DEPOSITORY INSTITUTIONA depository institution or bank is a financial institution in Malaysia that is legally allowed to accept monetary deposits from customers which then become their liability or to make loan which then become their assets. Depository institution or bank comprises of Bank Negara Malaysia (BNM), commercial bank, saving and loan associations, mutual saving banks and credit union and Islamic Banking. Bank Negara Malaysia is the Central Bank of Malaysia. It was establish on 26 January 1959 coming out with the few objectives to improve the economic growth with price stability, and to maintain the monetary and financial stability. Bank Negara Malaysia works as a banker or financial advisor to the government in controlling the money market. It protects or safeguards the value of currency by issuing currency notes or to keep reserve deposits. It aimed to promote monetary stability and reform a sound structure. Thus adjusts the credit situation to advantage our country Malaysia. Commercial Bank is the largest and most significant fund provider in the banking system, which has the most diversified asset portfolio. It is the only financial institution that allowed operating authorized current account. It given the authority to deal in foreign exchange and works as a source of fund by raising funds primarily through issuing check deposit, saving deposit and time deposit to made consumer, commercial and mortgage loans. There are currently 24 outstanding commercial banks and 13 locally incorporate foreign bank. A commercial bank provides wide range of services such as retail banking services, trade financing facilities, treasury services, cross border payment services and custody services likes safe deposit and share custody. Acceptance of cash and granting of loan and services can be made in its retail banking services, and banker acceptances, letter of credit and etc can be made in its trade financing facilities regardless to consumer need. Saving & Loan Association, mutual saving bank and credit union are depository institutions that raise fund through issue of saving deposit, time deposit and checkable deposit. These are often used to make loan such as mortgage loan, consumer loan and commercial loans. Both Saving & Loan Association and mutual saving bank issue deposit and make loan, but mutual saving bank is structured as mutual. Credit Union issues deposits as common shares or bonds, which is usually owned by member deposits or a particular group such as company’s worker and avoid outside borrowing. Islamic Banking is banking or banking activity that is consistent with the principles of shariah and its practical application through the development of Islamic economics. Today, the Islamic financial system is more developed when compared to a political blueprint of the previous Islamic countries. Islamic finance is more suitable for the operation of the contemporary financial system gradually developed to become the way of the contemporary Islamic world, a new bank capital operation and financing. In fact, there is no any kind of financial system can be completely exempt from capital expenditure costs and profit requirements. The operation of the Islamic finance is just differentiating the payment and the receivable of interest from other non-Islamic Bank by the concept of risk-sharing. It can be mentioned as the operation of certain types of investment funds. The core values ​​of the Islamic financial system is to prohibit the collection and payment of interest, it is advocated by the risk-sharing by the other principles of Islam, the sanctity of individual rights and responsibilities, property rights and contract support. Islamic financial system is not limited to banking, but covers capital formation, capital markets and financial intermediaries of all types of economic and earnings, unlike the conventional financial system focuses primarily on transactions, the Islamic financial system emphasis on ethical, moral, social equal and religious rules. The requirements Islamic funds invest in Asia is Islamic Fund invests has its own system. The basic framework of the Islamic financial system is a set of rules and laws, management of the Islamic community economic, social, political and cultural affairs, collectively known as the Shariah. The Shariah affected different aspects of life, the decisions that affect the Muslim's moral and economic. The participation of certain industries is considered guilty, such as the gambling industry and the liquor, such as exclusion from outside the financial sector. Prohibited the balance of payments of interest, prohibited to charge or pay interest on the Muslims. Islamic funds is not the insurance industry, banks also depends on the specific business how before deciding whether to invest, isolated from interest business, they do not vote in the interest part of the business. Cast Hotel, hotel, bar, bars, investment and income must be separated and hotels. In addition, Islamic financial institutions are also providing in many kinds of financial services that are similar with the conventional finance such as fund mobilization, asset allocation, payment and exchange settlement services, risk transformation and mitigation. However, all this transaction must using financial instruments that are compliant with Shariah principles. 2. 4. 1. 2 CONTRACTUAL SAVING INSTITUTIONSContractual saving institution is a saving institution that obtains funds through long term contractual agreement and invests it on the capital market. It is usually in the liquidity form as steady inflow of funds is available from its contractual arrangement with clients. Future payout requirements are predictable, thereby enable to make long term investment in securities such as bonds and common stock. Contractual saving institutions comprises of pension fund and government retirement fund and insurance companies. Pension Fund and Government retirement fund are financial schemes hosted by state and local governments and corporation to secure society in the form of retirement, medical assist, disability, and death benefits. The main pension and government retirement funds in Malaysia are Employees Provident Fund (EPF) and Social Security Organisation (SOCSO). The sources of funds are commonly acquired through the collection of payroll contributions from employee and employer during their working year. By investing in corporate securities such as purchase of corporate stock and bond, it gains a profit and returns back the funds as retirement income to the employee in the form of regular or annuity basic. Insurance company pools funds through the issue of policy premium. Life Insurance Company is stronger than fire and casualty insurance company from financial and structural viewpoints. For life insurance Company, the company does not need to invest in liquidity corporate securities and mortgage, as the actual benefits can be predicted by actuarial analysis. However for fire and casualty insurance company required to invest n liquidity government and corporate securities as loss event can’t be predict easily. Takaful is a Islamic insurance. It is an agreement to assist one another by applying share and donation concept, which also defined as ‘ Mudharabah’ and ‘ Tabarru’ in Islamic term. Mutual consent among all parties must be applied in commerce activity to prohibit any unlawful taking of other’s property and business regardless to Syariah Laws. 2. 4. 1. 3 INVESTMENT INTERMEDIARIESAn investment intermediary works as an intermediary for two parties or a surplus and deficit agent in a financial transaction. It benefits to average consumers including, more secure, liquidity and economic of scale. Investment Intermediaries in Malaysia includes finance company and mutual fund. Finance company is one of the common deposit-taking institutions in Malaysia governed by Bank Negara Malaysia. Finance company is an institution that offers financial services for clients. It collects fund from clients and invest in variety of investment vehicles too advance both parties. Finance company also works as a small loan company that issues loans to consumer and cooperation. It typically acquire fund mainly via deposit and saving account or by issuing commercial paper, stock and bond to make consumer or business loan. For examples, Proton Company issues commercial paper and bonds to provide loan for purchaser of proton’s Car. Mutual fund is an investment vehicle that pools fund received from investors for the purpose of investing in other securities such as stock and bonds. It acquires funds by issuing shares to individual investors and uses the proceeds to purchase large, diversified portfolio of stock and bonds. This allows the individual investors to professionally manage and pool their resources and perform better and more diversified portfolio of assets. For example lower transaction costs are incurred when purchasing large volume of stock and bond. The shares issued to investors can be redeemed at any time, however the value of these securities are measured by the value of mutual fund’s holding securities. 3. 1 RECOMMENDATION3. 1. 1 MEETING THE NEEDS OF THE MALAYSIAN ECONOMYThe sources and uses of money in the financial segment should develop to meet up the rising and varying needs of the Malaysian economy. Offerings of a wider series of financial instruments and services to meet the more higher and differentiated needs of Malaysian businesses and households. Expand the operational breadth and scope of institutional investors with the introduction of infrastructure funds, private pension funds and funds of funds, as well as the rejuvenation of the venture capital and private equity industries. In expressions of the sources of funds, the conventionally strong bank deposit base will increasingly be complemented by higher direct participation of savers and investors in the financial markets through the growing suite of investment-related savings accounts and products, such as provident and pension funds, insurance and takaful, as well as retail bonds. The stronger funding base will allow better matching between financial assets and liabilities, and hence enable financial institutions to further expand their span beyond debt financing and offer more diverse financing instrument and services that will better meet the new and differentiated financing needs of the economy. These developments will in turn to release the new potential for the financial system and accelerate the evolution towards a system which is characterized by superior equity participation and more diversified local markets that are also regional in terms of participants and offer wider types of instruments, as well as a broader range of maturities. As a result, this decade will witness a change towards more market-based financing. Expand the access to the traditional financial system that allows all members of the public to take part in and gain from economic progress, underpinned by a high degree of economic literacy. Insurers and takaful operators having an superior role in issuing complete protection and investment plans for the whole lifecycle of clients, as well as offering better avenues for risk management to cut the expenditure of doing business in Malaysia. Stronger and more well-known specialized financial institutions such as development financial intermediaries and cooperatives having a primary position in providing financial services and fostering the expansion of targeted sectors of financial system in Malaysia, as well as developing financial stability in the economy. Expand the growth of the local debt securities market and Malaysia should position as a hub for debt securities origination and fund-raising activities. Liquidate and broaden the range of financial instrument offerings in the local foreign exchange and money markets. 3. 1. 2 GREATER ASIAN FINANCIAL INTEGRATIONGreater Asian financial integration should be implemented in Malaysia’s financial system as it is envisioned that Malaysia will be an important part of the Asian regional financial integration both in terms of the increased presence of Malaysia’s intermediaries in the region and Malaysia’s participation in regional financial markets. Likewise, greater liberalization would bring in larger foreign presence and involvement in Malaysia’s financial system. The financial system has to be developed into partner for the ASEAN and Asian region by mobilizing funds from regional and global investors, and allocating capital to key centers of economic activity in Asia. Hence, Malaysia would become the hub for investment in Asia and as a centre for reducing information asymmetries and quantifying risks for Asian bound investments. Furthermore, with the increased existence of Asian banks and the larger regional presence of Malaysian banks have been catalyzing the intraregional trade and reinforce Malaysia’s linkages within Asia. Apart from that, domestic financial sector which is enhanced by qualified international financial institutions contribute towards Malaysia’s economic growth and transformation while financial stability will also reinforce the financial system of Malaysia. 3. 1. 3 EVOLVING MALAYSIA AS AN INTERNATIONAL CENTRE FOR ISLAMIC FINANCEMalaysia should evolve into an international centre for Islamic finance is one of the recommendations for the financial system. Malaysia’s trade and investment linkages with other emerging economies, especially the Middle East, Asia and Africa has been enhanced through internationalization of the Malaysian Islamic financial system, and it also contribute to ample savings and investments within these regions, as well as from all around the world. With the aid of liberalization, it has intensified the internationalization process and a highly developed and comprehensive Islamic financial system is developed. More developed Islamic financial markets and financial infrastructure has reinforced the process as well. Apart from that, Islamic financial activity with better emphasis on the supervision of Islamic funds in Malaysia through the introduction of fund managers, wealth advisory service providers and Islamic investment banks with global reach and standing will foster the internationalization process. 3. 1. 4 BANKING INDUSTRYAs a primary source of financial intermediaries in Malaysia which is banking sector is playing a vital role in financing in the domestic economy. The future of Malaysia banking industry is expected to be change and evolving significantly. Expand industry broad benchmarking in the area of financial and operating statistics; client needs analysis and pleasure surveys and risk management processes, to drive performance development in local banking institutions. Develop alertness of best practices and carry out intensive preparation in credit risk management, procurement of operational support system, electronic commerce and banking, consumer marketing. This is to improve the ability of the workforce in the segment. Set up Board Committee to further develop corporate governance. Merger permitted between merchant banks, brokers and discount house to produce fully fledged investment banks. Foreign banks allowed entering the Malaysian market after 2007. Core local banks have to become the financial system’s backbone. Corporations’ stakes in banks capped at 20% and individuals’ stake to have 10% ceiling. Encourage the maximization of economies of scale in cost, profits and customer relationship through validation and strategic alliances between financial and nonfinancial institutions. 3. 1. 5 ISLAMIC BANKING AND TAKAFULThe Islamic banking and Takaful industry has made stable and constant progress since the establishment of the first Islamic bank in 1983 and the formulation of the first Islamic insurance company (takaful) in 1984. Although the performance of the Islamic banking and Takaful industry has been encouraging, it is still comparatively irrelevant compared with conservative banking and insurance. Some of the main recommendations of the Islamic banking and Takaful industry are used to initiate a benchmarking program and enhance the knowledge and expertise in the industry. Furthermore, Islamic banking and Takaful industry are also contributed in granting incentives to structure Islamic private debt securities (PDS) and increase the number of Takaful operators. At the same time of the Islamic banking and Takaful industry also able to strengthen the regulatory framework for Islamic banking and deepen the Islamic financial market. Last but not least, creating a favorable tax regime is also one of the main recommendations of Islamic banking and Takaful industry. 3. 1. 6 INSURANCE INDUSTRYThe insurance industry in Malaysia is comparatively small by international standard. Hence, major changes must be made to raise performance standards in the Malaysian insurance industry which will tally with the global advances in order to narrow the gap between the standards performance of Malaysian insurers with the established international best practices and performance standard. Hence there are few recommendations for insurance industry. The re-insurance market can be opened to foreign competition since domestic market is limited and can have a better risk management. Bancassurance should be promoted as this allows the banks to own insurers and allocate insurance and pension products, as well as the ability of banks and insurers to share customer information. Lastly, the pricing of fire and motor insurance products have to be deregulated as well. 3. 1. 7 VENTURE CAPITAL INDUSTRYMalaysia’s venture capital (VC) industry is still under development. In future, in order to be able to meet the new financing needs of the economy effectively and efficiently, the Malaysian VC industry needs to be further develop the skills and expertise in evaluating start-up ventures, increase their risk appetite and build up their global networks. Hence there are several remedies that can be done by government to build up more venture capitalist. The Government can set up a " one stop center" for VC and establish a RM500 million VC fund for development. Apart from that, further tax incentives can be introduced for the VC industry and Islamic VC fund are establish to increase diversification. MESDAQ listing requirements are suggested to be liberalized and increase the source of financing to the VC industry. 4. 1 CONCLUSIONFinancial system is the process and method used by an organization's management to implement financial control and accountability. It helps to verification, recording, and timely reporting of transactions that affect expenditures, revenues, liabilities and assets. Besides, financial system also considers a system that enables the relocate of money between borrowers and savers which has also known as investors and institutions. Central Bank of Malaysia was officially opened on January 24, 1959. The primary goal of the Bank is to uphold financial stability and monetary stability favorable to the sustainable development of the Malaysian economy. Financial system is an effective medium for finest distribution of financial resources. It creates wealth function essential for economic growth. It helps to transfers capital from savers (individuals) to user (usually major corporations). Moreover, financial system also improved allocation of risk, for example life insurance option reduce risk arising from accidents, illness and health related. The financial market is a channel through which government intervenes and carries out its policy. The purpose of setting these policies is to stabilize the economy and avoid inflation. Inflation can affect the borrowing and spending plans of the public, impact to the growth of job, production and price level. Financial system in Malaysia includes two types, financial institution and non-financial institution. Financial intermediaries are any institutions that involved in the transaction of fund movement between saver and borrower. Financial institution includes Commercial banks and Islamic banks operate authorized current account, depository institution, Contractual Saving Institutions, Investment Intermediaries and so on. On the other hand, non financial intermediaries include institutions, where the liabilities are normally connected to finance. It is directly connected with financial intermediaries. It is subject to the regulation and monitor continues to Bank Negara Malaysia. Non-financial institution were restored and strengthened to promote the growth of small-scale it is subject to the supervision and control continues to Bank Negara Malaysia. In 1983, Islamic banking was introduced. It was one of the distinctive features of the Malaysian financial system which presence and promotion of Islamic banking, and has turn out to be an increasingly vital element of the financial structure. To strengthen the financial system in Malaysia we need to meet the needs of our country economy. By offerings of a wider range of financial products and services to meet the more advanced and differentiated needs of Malaysian businesses and households. For example, in terms of the sources of funds, such as pension funds, insurance and takaful, as well as retail bonds. The broader funding base will allow better matching between financial assets and liabilities, and hence enable financial institutions to further expand their scope beyond debt financing and offer more diverse financing products and services. Besides, to improve financial system in Malaysia, we should have Greater Asian Financial Integration in financial system. The greater liberalization would result in greater foreign presence and participation in Malaysia’s financial system. In addition to serving the needs of the Malaysian economy, the financial system will be a long-term growth partner for the ASEAN and Asian region by mobilizing funds from regional and global savers and investors. Furthermore, evolving Malaysia as an International Centre for Islamic Finance is one of the recommendations for the financial system. This will be reinforced by the more developed Islamic financial markets and financial infrastructure. Besides, expanded dimension of Islamic financial activity with greater emphasis on the management of Islamic funds in Malaysia through the advance of Islamic investment banks and fund managers will foster the internationalization process.