

Key Highlights on Financial Stability and Payment Systems in 2018

Domestic financial stability was preserved

 Risks to financial stability were largely contained

-  Orderly financial market conditions
-  Sustained debt servicing capacity of households and businesses
-  Firm demand for affordable housing to support continuing adjustment towards a more sustainable housing market
-  Manageable risks from external exposures of banks and corporates

 Financial institutions remained resilient with strong buffers

Banking Sector		Insurance and Takaful Sector	
CET 1 capital ratio	13.1%	Capital adequacy ratio	245%
Net impaired loans ratio	0.9%		
Loan loss coverage ratio	97.9%		

- Sufficient banking system liquidity including under stress scenarios
- Continued improvements in asset quality

Financial intermediation remained supportive of economic activities

 Sustained access to financing for households and businesses



 Growth in insurance and takaful accompanied by broader coverage and more competitive market



Enabling innovative and inclusive financial services:

-  **Specialised Regulatory Sandbox** for testing of high impact innovations
-  **Digital Innovation Hub** promotes inclusive finance for low-income segment
-  **imSME aggregator** matches SMEs' financing needs with suitable financial solutions
-  **Open API** supports improved access and quality in financial services through seamless access to data

Major progress made in 2018:

-  29,500 policies sold under *Perlindungan Tenang* for protection of underserved Malaysians
-  Introduction of a national B40 protection scheme
-  Greater innovation and differentiation in pricing for fire & motor protection

Further migration to e-payments

Continuous efforts to displace cash and cheques gained significant momentum



Greater use of debit cards through increased POS terminals nationwide



Substantial increase in mobile payments for low value transactions



Credit transfer services gained traction

Continued focus on promoting financial integrity

Malaysia upgraded by the Financial Action Task Force on its technical compliance rating of the AML/CFT framework

Further advances made to strengthen safeguards against money laundering & terrorism financing risks

 Reduced cash transaction reporting from RM50,000 to RM25,000 effective 1 Jan 2019	 Conducting study on the introduction of economy-wide cash transaction limits	 Reviewing the MSB Act 2011 to strengthen enforcement against illegal MSB activities	 Increased use of data analytics for supervision and surveillance	 Publication of enforcement actions
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Key Highlights on Box Articles

Understanding Financing through the Lens of Small and Medium Enterprises (SMEs)



Key survey findings...

- 1) Difficulty in accessing financing not a key constraint to SME growth

SMEs continued to have access to financing

22%

of respondents applied for financing

94%

financing applications approved

87%

financing disbursed within a month

- 2) Common financing barriers among pockets of SMEs



Insufficient documentation



Insufficient cash flow for repayments



Non-viable business plans



Low awareness



Holistic efforts to enhance the financing ecosystem

Existing policy priorities remain relevant to support SME growth

Encourage greater innovation by FIs

Enhance efficiency in financing processes

Strengthen SMEs' financial capabilities

Increase credit enhancement products

Areas for further development to address emerging needs of SMEs for financing:



Establish a secured transaction framework to expand the range of assets that can be used as collateral



Formalise unregistered firms through streamlined business registration processes, appropriate incentives and market access opportunities



Promote alternative finance with risk-return characteristics that complement bank financing

Expanding Insurance and Takaful Protection for the B40 Population



Bridging the protection gap of the B40 income group

mySalam
Perindungan B40

(Effective 1 January 2019)

- Immediate benefits covered for critical illness and hospitalisation
- Simple and easy to understand
- Convenient process for claim submission
- Dedicated channel for all enquiries and claims
- Compliments *Perindungan Tenang*
- Operate at cost, non-profitable



Achieving long-term objective to transition the B40 to a sustainable private insurance and takaful market

- 1 Encourage take up of insurance and takaful products among the B40

- Awareness of insurance and takaful
- Empowerment through education
- Positive experience through quality services

- 2 Encourage supply of affordable private insurance and takaful solutions

- Understanding B40 profile
- Direct servicing experience
- Pilot test innovation including digital solutions

Strengthening Shariah Compliance Risk Culture

Effective compliance with Shariah principles critical in preserving confidence and stability in Islamic Finance

Two-tiered governance structure



Industry level

Shariah Advisory Council

Provide certainty & uniformity of Shariah interpretations



Institution level

Shariah Committee

Advise the board & management on Shariah matters

Shariah risk management, review & audit functions

Provide independent assurance of Shariah compliance effectiveness

Shariah organisational practices in IFIs:

Setting the tone from the top

Stronger focus on organisational culture and behavioral norms that promote Shariah compliance

Strengthened first line of defence

Greater empowerment and accountability to business units for the management of Shariah risks

Aligning incentive frameworks

Reward systems that relate performance measures to Shariah expectations

Building strong foundation in Shariah knowledge and applications

Strengthened recruitment practices and investments in training and developments

Shariah Governance Framework will be further strengthened to promote Shariah compliance