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

  - 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
  - Financing to:
    - Households: Annual growth 4.7% 2018, 4.6% 2017
    - Businesses:

- Growth in insurance and takaful accompanied by broader coverage and more competitive market
  - Annual growth
    - Premiums and contributions: 4.9%

Enabling innovative and inclusive financial services:

- 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
  - Reduction in volume of cheques (since 2011)
  - Decline in cash-in-circulation to GDP (between 2016-2018) vs (between 2013-2015: +0.4%)

- 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 RM20,000 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

Source: Bank Negara Malaysia
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

- Non-viable business plans
- Insufficient cash flow for repayments
- Insufficient documentation
- Low awareness

Holistic efforts to enhance the financing ecosystem

Existing policy priorities remain relevant to support SME growth

- Encourage greater innovation by FIs
- 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**

*(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 Perlindungan 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