The Bank's Policy Considerations

HIGHLIGHTS

- **The MPC reduced the Overnight Policy Rate by 25 basis points to 2.75% at the January 2020 MPC meeting. The adjustment was a pre-emptive measure to sustain growth amid price stability.**

The OPR remained accommodative

The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.00% at the November 2019 meeting. More recently, at the January 2020 MPC meeting, the MPC reduced the OPR by 25 basis points to 2.75%. The ceiling and floor rates of the corridor for the OPR were correspondingly reduced to 3.00% and 2.50%, respectively. The adjustment to the OPR was a pre-emptive measure to sustain growth amid price stability.

In the MPC's assessment, the global economy was expected to continue expanding at a moderate pace. Latest indicators and the recent dissipation of trade tensions pointed to improving global trade activity. Monetary easing across major economies in the second half of 2019 helped ease financial conditions, and was expected to continue to support economic activity. However, downside risks remained due to geopolitical tensions and policy uncertainties in a number of countries. This could cause a resurgence of financial market volatility and weigh on the global growth outlook.

Growth of the Malaysian economy in 2020 was expected by the MPC to continue to be supported by private sector spending. However, downside risks to growth remained. These included uncertainty from various trade negotiations, geopolitical risks, weaker-than-expected growth of major trade partners, heightened volatility in financial markets, and domestic factors that included weakness in the commodities sector and delays in the implementation of projects.

The MPC assessed that headline inflation in 2020 was expected to average higher but remain modest. The trajectory of headline inflation would be dependent on global oil and commodity price developments and the timing of the lifting of the domestic retail fuel price ceilings. Underlying inflation was expected to remain broadly stable, reflecting the continued expansion in economic activity and the absence of strong demand pressures.

The impact of the coronavirus outbreak on economic performance would depend on its severity and duration and is an evolving development that requires continuous monitoring.

Other policy highlights in the fourth quarter of 2019

Policy highlights	Salient requirements
Electronic Know-Your-Customer (e-KYC) – Exposure Draft (ED)	• The ED was issued on 16 December 2019, setting out the proposed requirements in implementing e-KYC for onboarding of customers. • The proposed requirements aim to promote- o Safe and secure on-boarding of customers digitally; o Lower on-boarding costs for both users and providers; and o Greater innovation and complete end-to-end offering of digital financial services for consumers. • The final policy document is expected to be issued in 2020.
Fair Treatment of Financial Consumers – Policy Document (PD)	• The PD was issued on 6 November 2019 to promote fair dealing and professional conduct amongst financial service providers (FSPs). • The PD stipulates expectations on financial institutions to treat their customers fairly by ensuring, amongst others, that they- o are not subject to unfair contract terms; o are provided with clear, relevant and timely information, and suitable advice to facilitate decision-making; and o have their complaints and claims handled in a prompt, fair and effective manner. • The PD will come into force on 6 May 2020, except for the requirements on fair contract terms, which will take effect from 6 November 2020.
Licensing Framework for Digital Banks – Exposure Draft (ED)	• The ED was issued on 27 December 2019 for public consultation until end-February 2020. • The ED aims to enable admission of digital banks that are able to contribute to economic development by addressing market gaps in unserved and underserved segments. • Digital banks will be required to operate in a managed environment in their first three to five years of operations, functioning as a "foundational phase" for them to demonstrate sound and viable operations, and for the Bank to observe performance and attendant risks. During this phase, digital banks will be subject to- o a minimum capital funds requirement of RM100 million unimpaired by losses; o an asset threshold of RM2 billion; and o simplified capital, liquidity, stress test and public disclosure requirements.
Responsibility Mapping – Exposure Draft (ED)	• The ED was issued on 27 December 2019, setting out the Bank's proposals to clarify the roles, responsibilities and accountability of individuals holding leadership positions in financial institutions. • The ED aims to– o ensure responsibilities for key functions of a financial institution are allocated to individuals at an appropriate senior level within the financial institution; o clarify and strengthen the accountability of individuals to whom key responsibilities are allocated; and o encourage a financial institution to carefully consider whether the allocation of responsibilities to individuals within senior management is compatible with effective risk management practices, taking into account the size, scale and complexity of the financial institution's operations.
Valuation of Insurance and Takaful Liabilities – Exposure Draft (ED)	• The ED was issued for public consultation on 24 December 2019, setting out proposed enhancements to the requirements on valuation of insurance and takaful liabilities. • The ED, which is one of the building blocks of the solvency framework, aims to ensure that the measurement of insurance and takaful liabilities accurately reflects the underlying cash flow obligations of the insurance and takaful contracts, and is consistent and comparable across different types of products and licensed persons.