Taklimat
Laporan Tahunan 2016 dan Laporan Kestabilan Kewangan dan Sistem Pembayaran 2016

Gabenor Bank Negara Malaysia

23 Mac 2017

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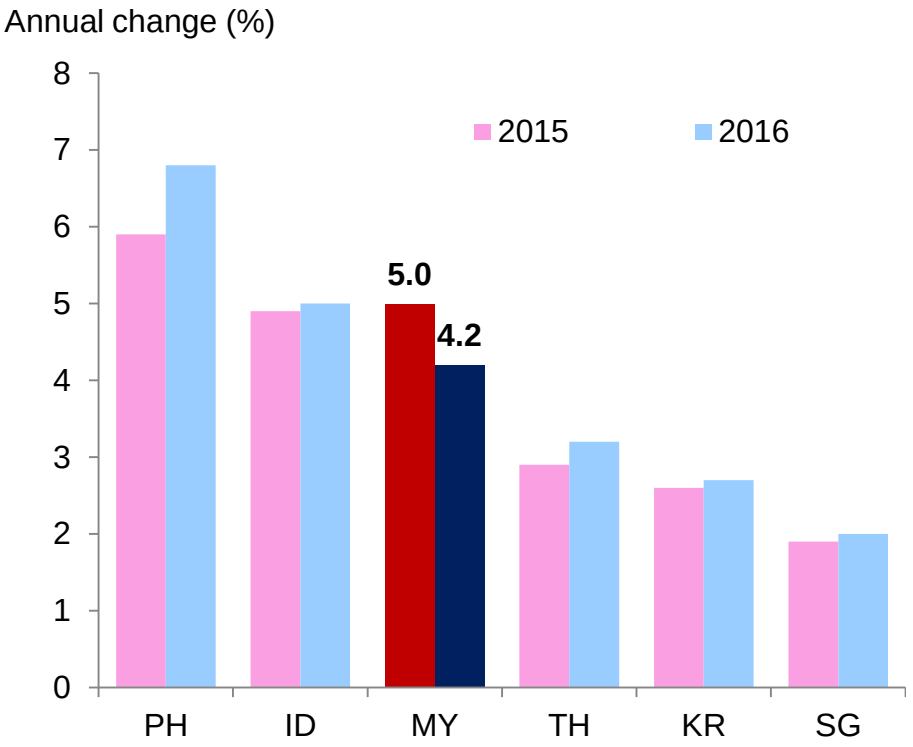
In 2016, the Malaysian economy continued to expand despite multiple external shocks and domestic adjustments

Within the region, Malaysia was among the faster-growing economies…

Real GDP growth of selected countries



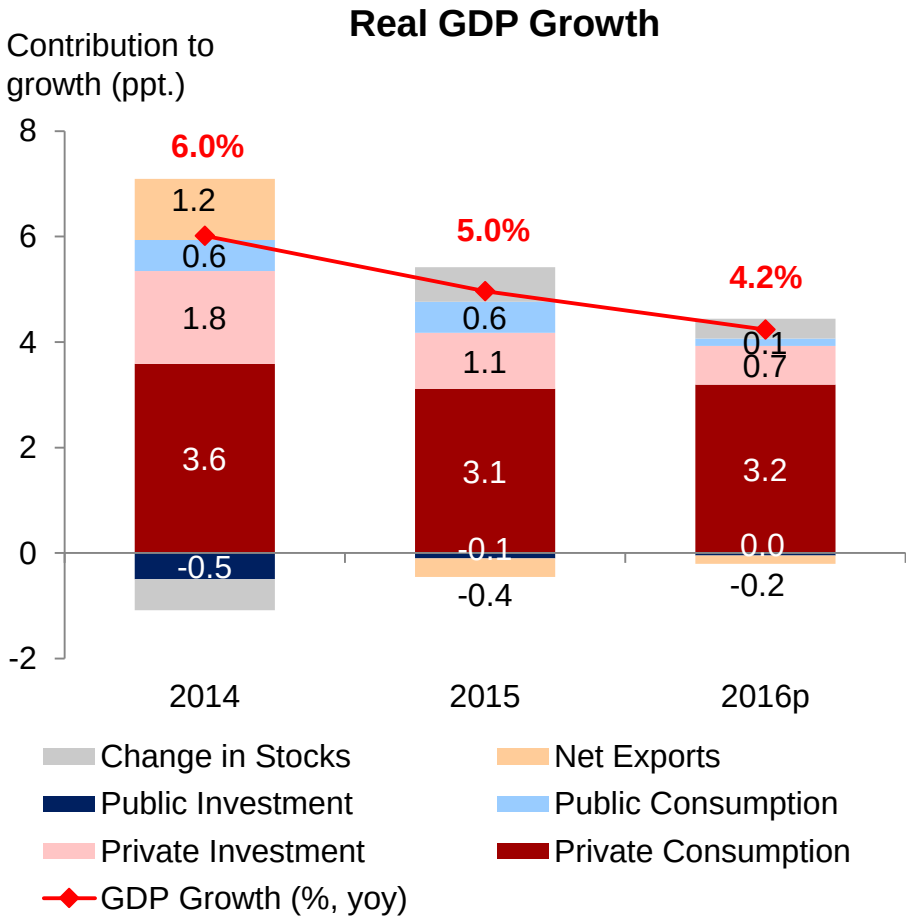
…amid a period of adjustment to various challenges

- **Volatile global commodity prices**
- **Weak global demand**
- **Depreciation of the ringgit**
- **Lingering impact of GST implementation**
- **Domestic price adjustments**

Note: PH= Philippines, ID= Indonesia, MY= Malaysia, TH= Thailand, KR= South Korea, SG= Singapore

Source: National authorities, Department of Statistics, Malaysia

Private domestic demand remained the key growth driver

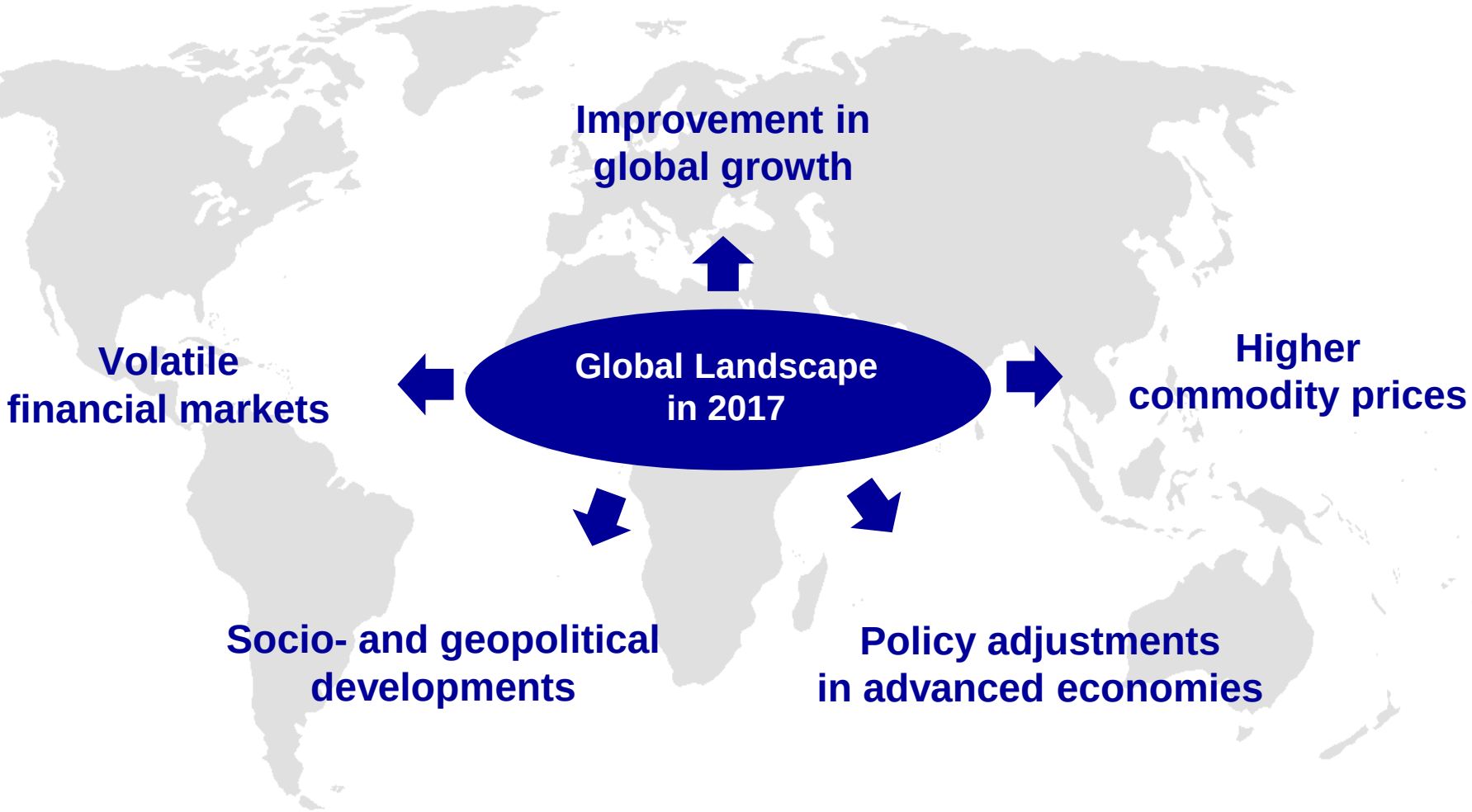


- **Sustained private consumption:**
  - Supported by continued wage and employment growth, with additional impetus from Government measures
- **Private investment continued to expand:**
  - Supported by implementation of new and ongoing projects in the manufacturing and services sectors
- **Smaller negative contribution from net exports:**
  - Import growth moderated at a faster pace than exports

p preliminary

Source: Department of Statistics, Malaysia

2017 will be characterised by several developments



Malaysia is positioned to benefit from positive developments and to withstand negative shocks



Diversified economic and trade structure

Structural transition towards high-value added sectors with varied export products and markets



Well-developed and resilient financial system

Strong capital and liquidity buffers with continued access to financing



Adequate reserves and manageable external debt

Ample international reserves and increased foreign asset holdings act as buffer against external shocks



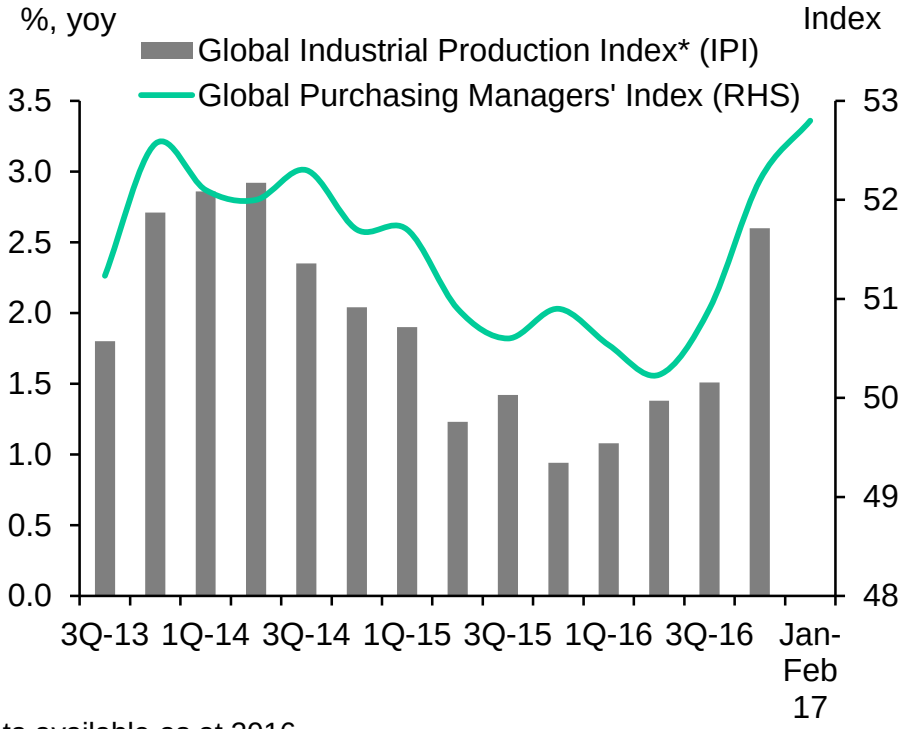
Policy space and flexibility

Flexible exchange rate and monetary policy space

Recent indicators point to an improvement in global growth

Higher global manufacturing and industrial production data signal better global growth prospects

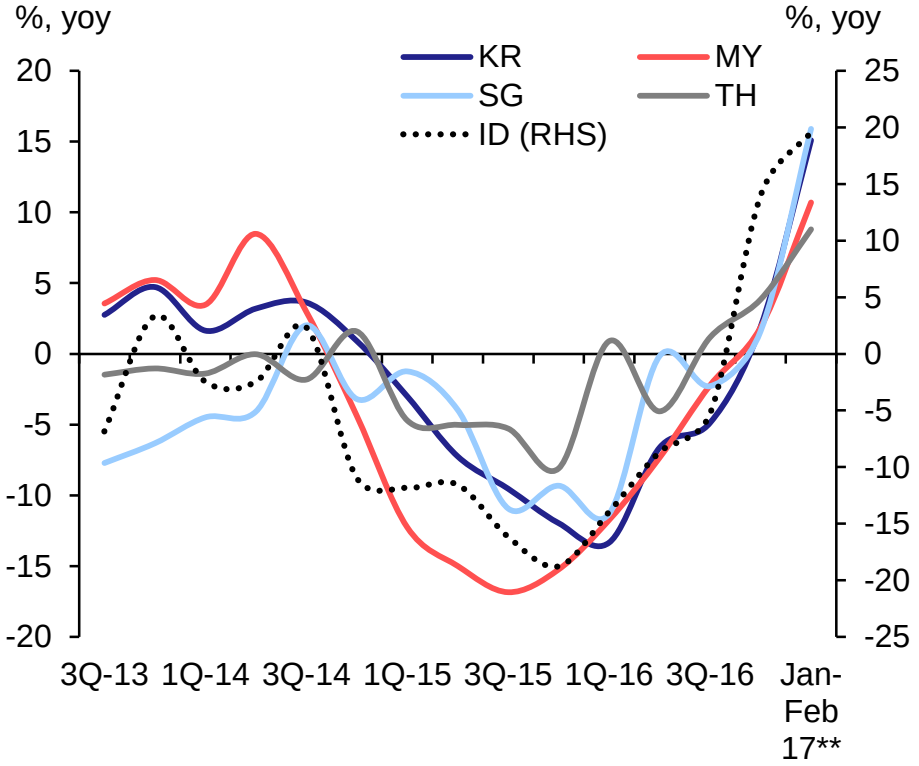
Global Manufacturing Indicators



*Data available as at 2016

Exports in Asia has been recovering

Export Value Growth in Selected Asian Economies



** January 2017 data for Malaysia and Thailand

Source: Bloomberg, Haver, BNM

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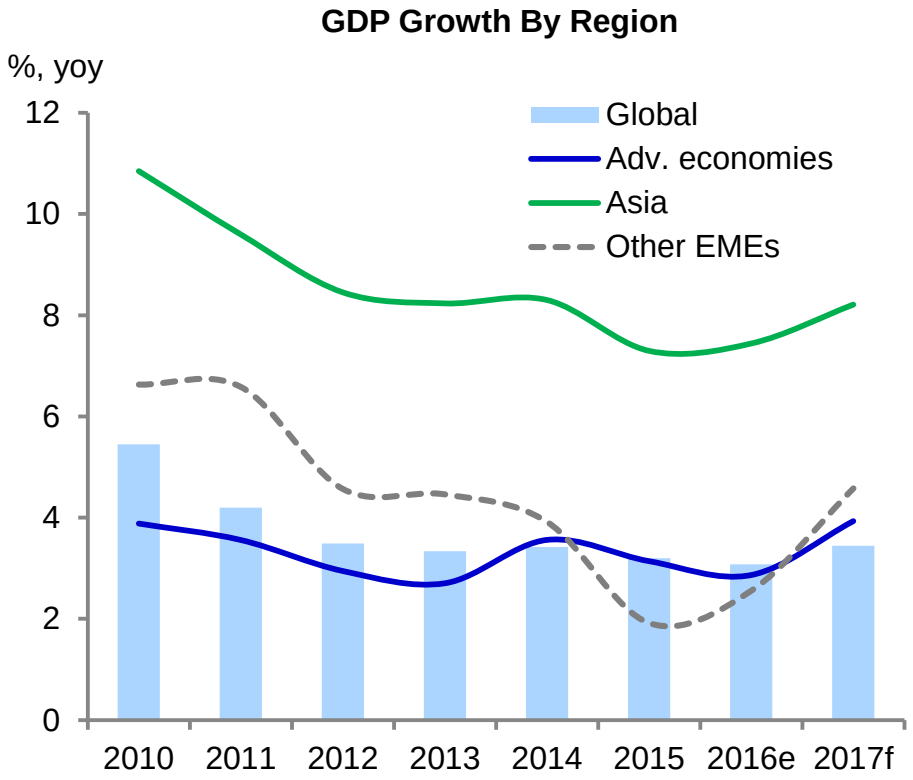
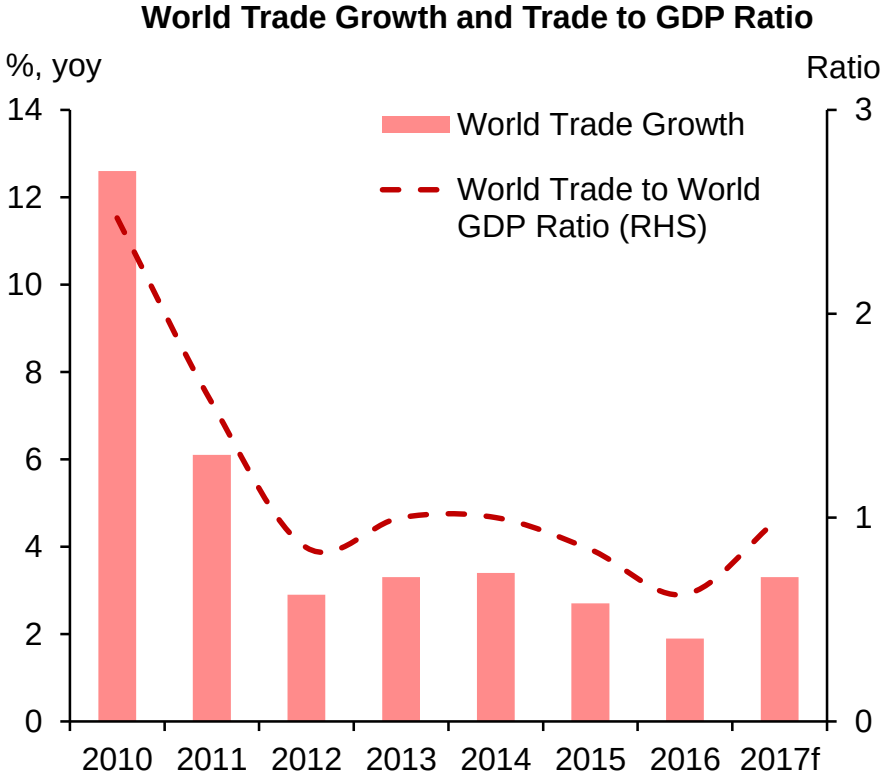
Global growth and trade projected to expand in 2017

Broad-based expansion in growth across regions



World trade to world GDP ratio to improve after reaching the lowest ratio since 2001



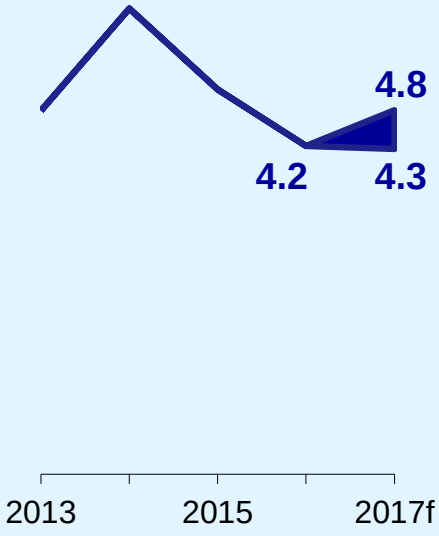
e estimates f forecast

Source: International Monetary Fund (IMF)

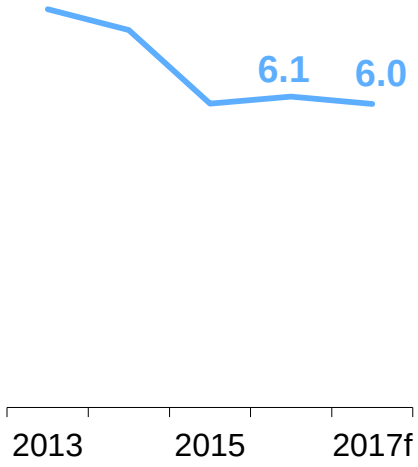
The Malaysian economy to expand by 4.3 – 4.8% in 2017

Growth to remain anchored by private domestic demand, with support from external sector

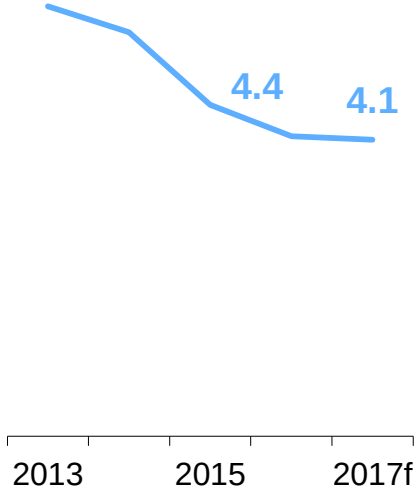
Real GDP Growth
Annual change (%)



Private Consumption
Annual change (%)



Private Investment
Annual change (%)



Net Exports
Annual change (%)



f forecast

Source: Department of Statistics, Malaysia, Bank Negara Malaysia

Domestic demand to remain a key driver, with support from improvement in net exports

Real GDP by Expenditure (Annual change, %)	Share[2] 2016 (%)	2016[p]	2017[f]
Domestic demand[1]	**91.8**	**4.4**	**4.4**
Private expenditure	**70.2**	**5.7**	**5.6**
Consumption	*53.3*	*6.1*	*6.0*
Investment	*16.9*	*4.4*	*4.1*
Public expenditure	**21.6**	**0.4**	**0.5**
Consumption	*13.1*	*1.0*	*-0.2*
Investment	*8.5*	*-0.5*	*1.5*
Net exports	**8.1**	**-1.8**	**5.3**
Exports	*70.0*	*0.1*	*2.2*
Imports	*61.9*	*0.4*	*1.8*
Real GDP	**100.0**	**4.2**	**4.3 – 4.8**

Real GDP by Economic Activity (Annual change, %)	Share[2] 2016 (%)	2016[p]	2017[f]
Services	54.2	5.6	**4.9**
Manufacturing	23.0	4.4	**4.3**
Mining & Quarrying	8.8	2.7	**2.7**
Agriculture	8.1	-5.1	**4.0**
Construction	4.5	7.4	**8.0**
Real GDP	**100.0**	4.2	**4.3 – 4.8**

p preliminary f forecast

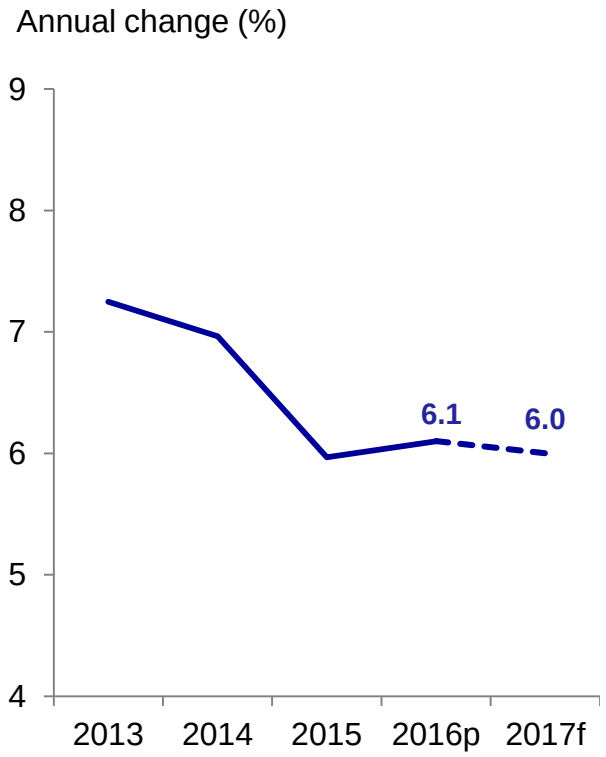
[1] Excluding stocks, [2] Numbers may not add up due to rounding and exclusion of import duties

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Private consumption to remain supported by continued employment and income growth

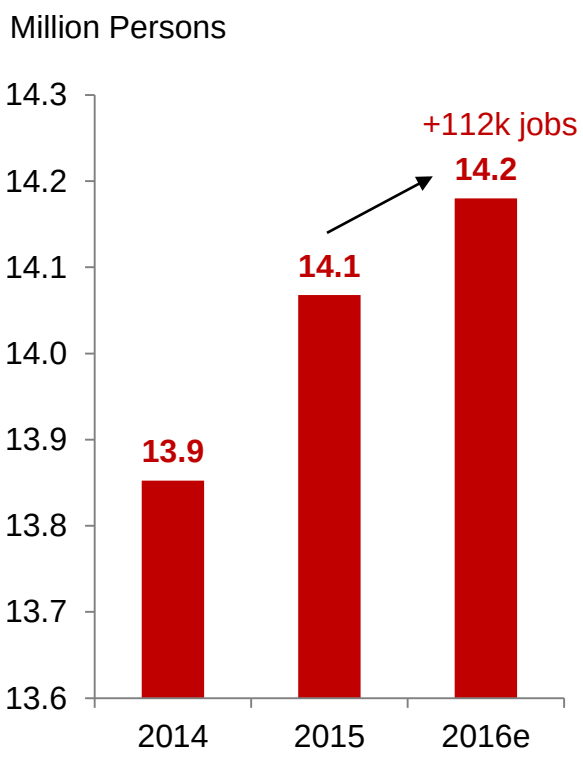
Sustained household spending…

Real private consumption



…supported by continued employment growth…

Employment



… and wage growth

Wage growth in the manufacturing and major services sectors



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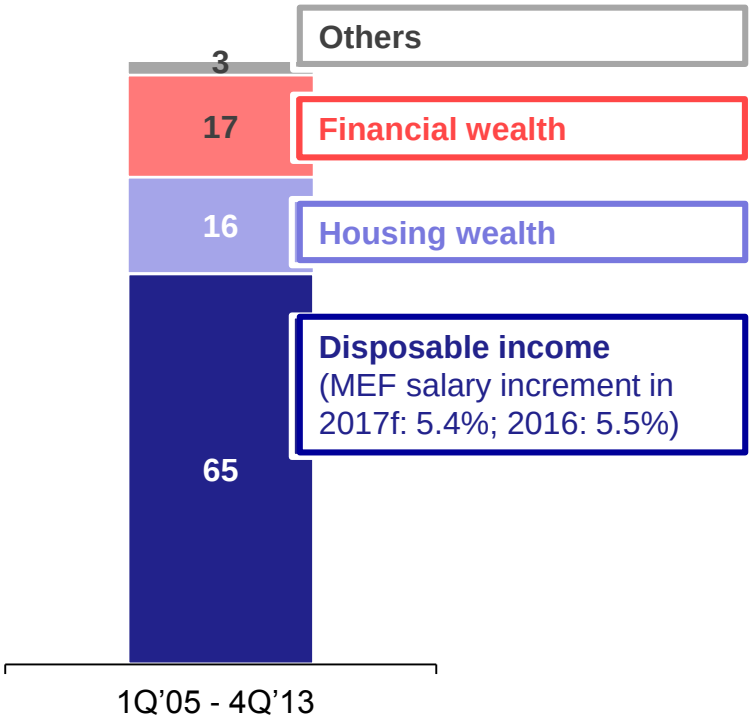
Source: Department of Statistics, Malaysia

Households have the capacity and resilience to support expenditure

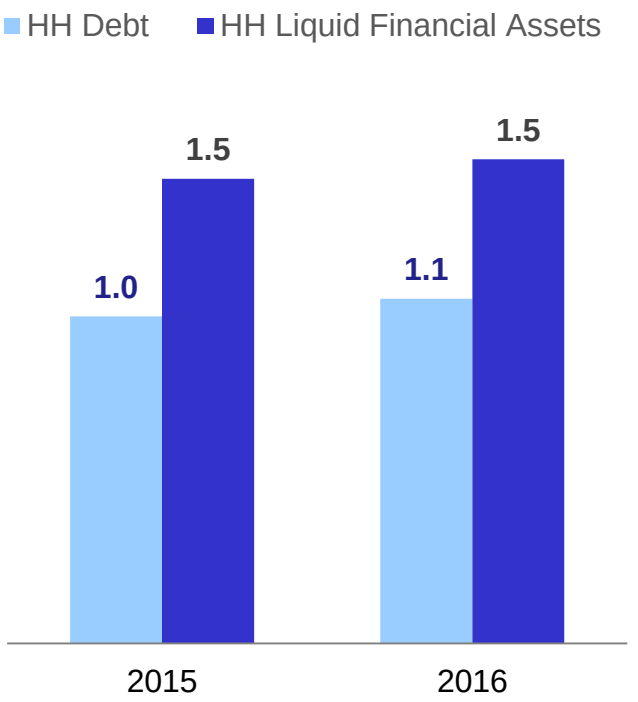
Continued expansion in income, the primary driver of private consumption

Determinants of Private Consumption
(%share)



On aggregate, households have ample liquid financial assets to cover debt

HH Liquid Financial Assets and Debt
(RM trillion)

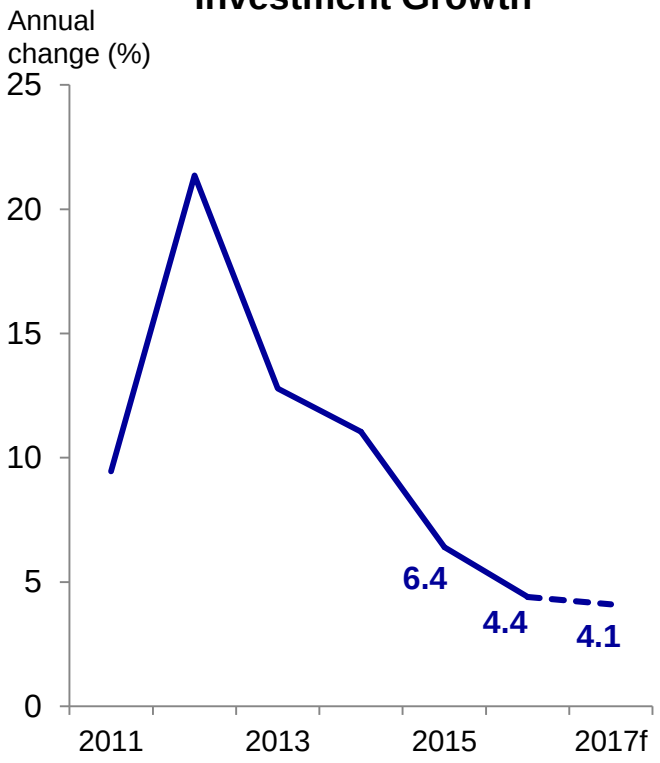


Source: Bank Negara Working Papers (WP7/2015), Department of Statistics, Malaysia, Bank Negara Malaysia, Malaysian Employers Federation

Private investment to register modest growth

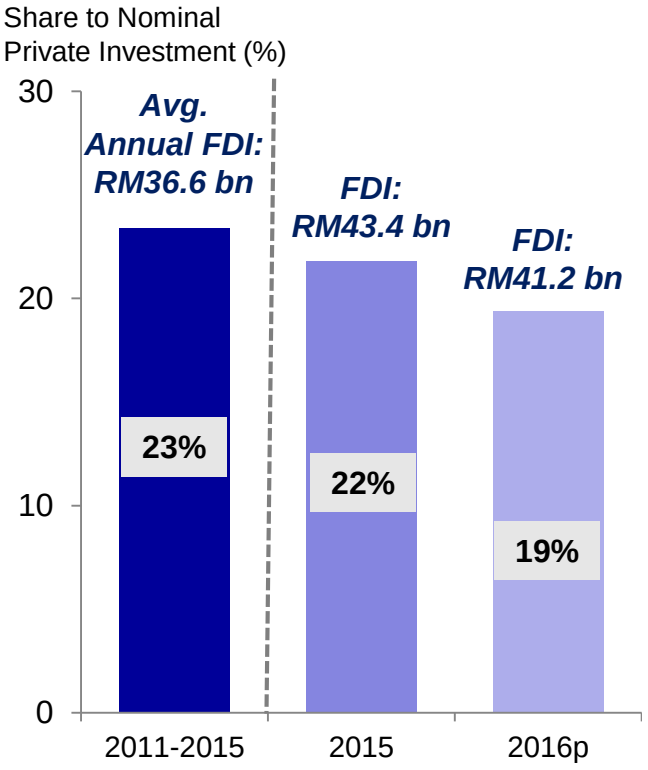
Private investment activity to grow at 4.1%

Real Private Investment Growth



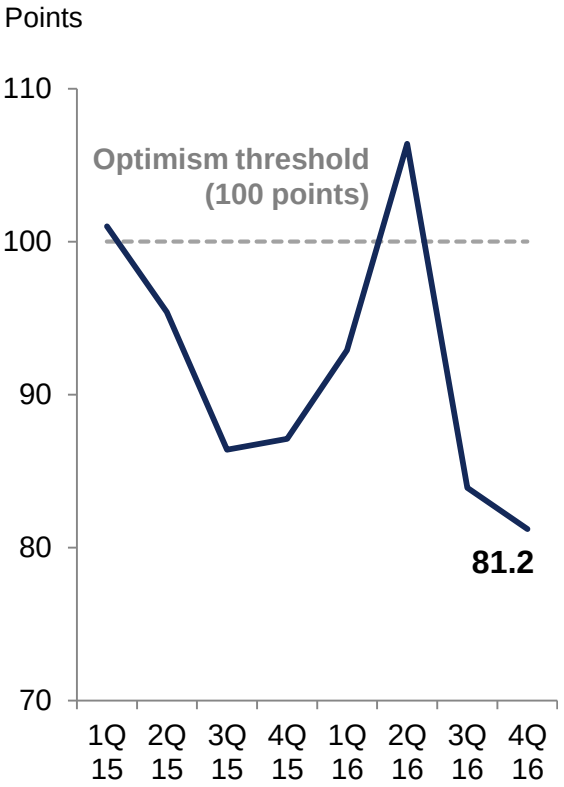
Malaysia continues to attract FDI, but in lower amounts

Foreign Direct Investment



Business sentiments remain soft

Business Condition Index



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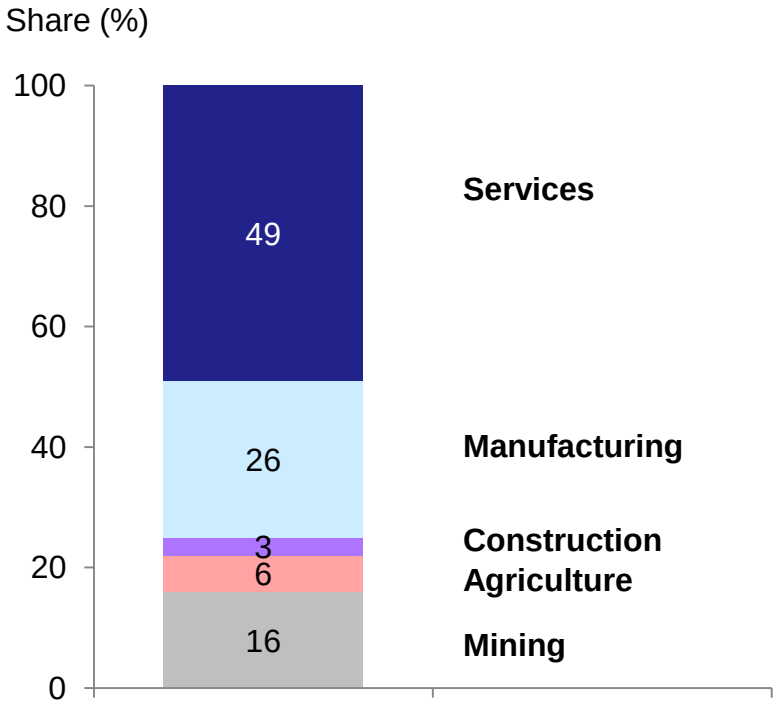
Source: Department of Statistics, Malaysia, Bank Negara Malaysia, MIER

Private investment will be supported by the ongoing projects in the services and manufacturing sectors

Services and manufacturing sectors account for 75% of private investment activity

Private Investment by Sector (2010-2015)



Key quality projects to increase efficiency, productive capacity and employment

Services

- **Transport and storage:**
  Oil and gas storage terminals, seaports and aircrafts
- **Telecommunication:**
  4G/LTE network expansion

Manufacturing

- **Electrical and electronics (E&E)**
- **Resource-based industries**

Source: Department of Statistics, Malaysia, Bank Negara Malaysia

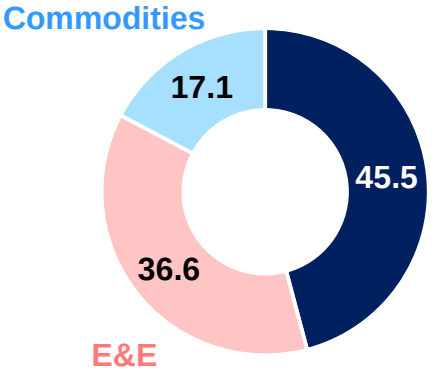
External trade performance to improve

Higher export and import growth, lifted by positive global factors amid sustained domestic demand

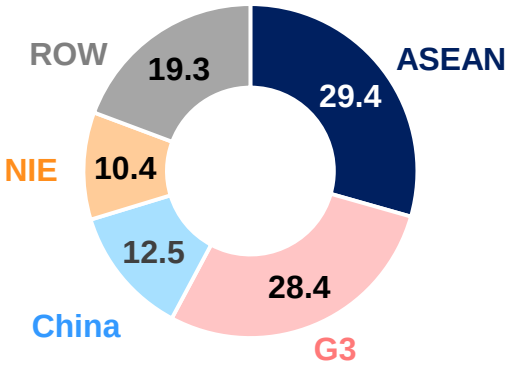
Annual change (%)	% share (2016)	2016p	2017f
Gross exports	**100.0**	**1.1**	**5.5**
Manufactured	**82.2**	**3.2**	**3.7**
E&E	36.6	3.5	4.2
Non-E&E	45.5	3.0	3.3
Commodities	**17.1**	**-8.6**	**14.8**
Gross imports	**100.0**	**1.9**	**6.4**
Intermediate goods	57.1	-0.1	5.4
Capital goods	14.3	4.9	7.9
Consumption goods	9.6	7.3	9.9
Trade balance (RM billion)	**-**	**87.3**	**86.4**

Diversified export structure across products and markets to help mitigate shocks

Exports by Product, 2016
%share of total exports



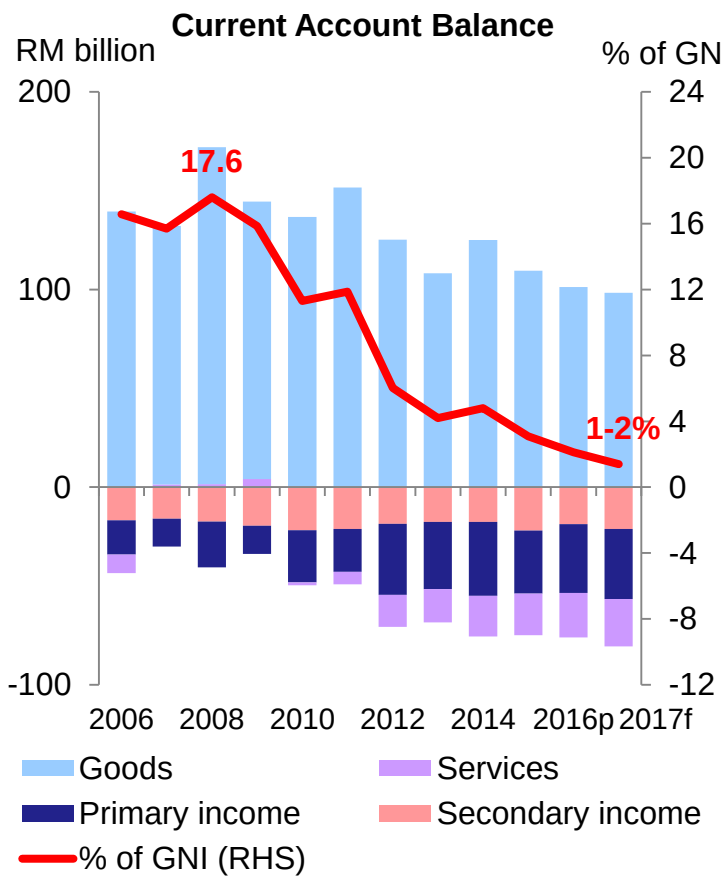
Exports by Market, 2016
%share of total exports



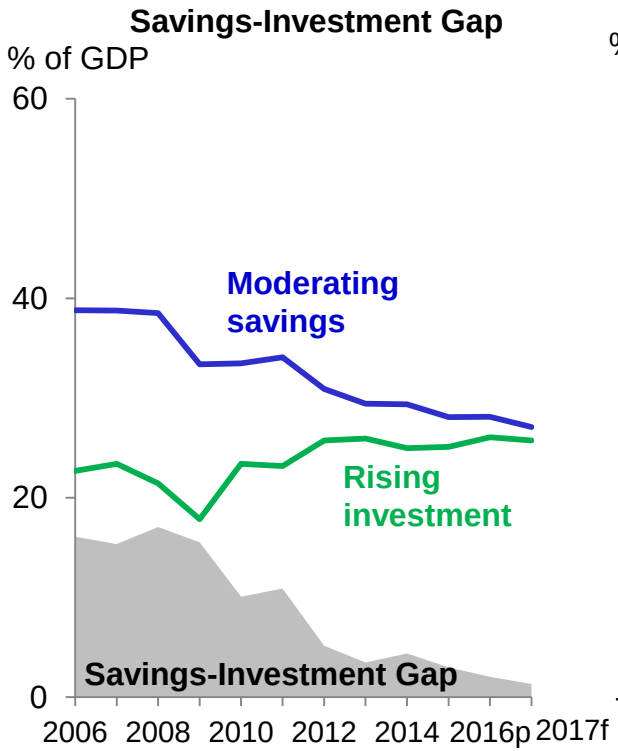
p preliminary, f forecast
Note: G3 refers to the US, EU and Japan, NIEs refers to Hong Kong, Korea and Chinese Taipei, ROW refers to rest of the world
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Current account balance to narrow but remain in surplus

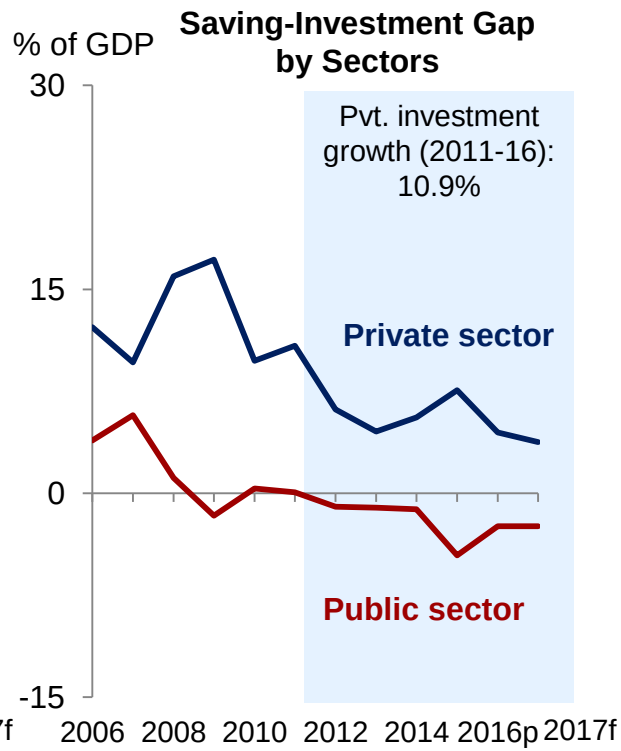
Smaller CA surplus reflect global conditions and domestic structural transformation



Higher domestic investments and moderating savings



Lower private sector surplus, due partly to higher investment

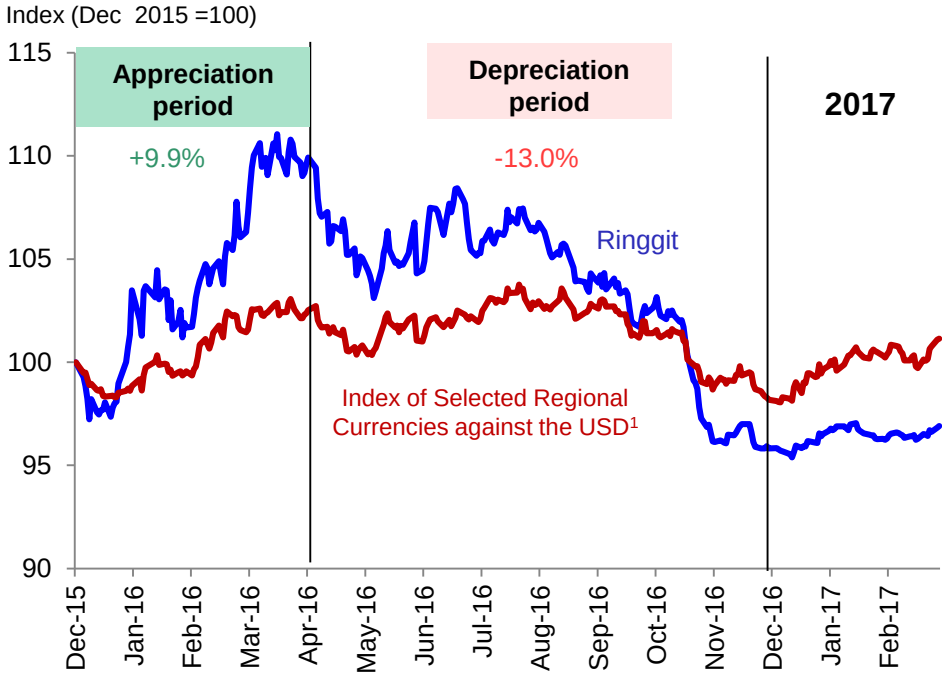


Source: Department of Statistics, Malaysia, Bank Negara Malaysia

The ringgit exchange rate has stabilised in 2017, in line with most major and regional currencies

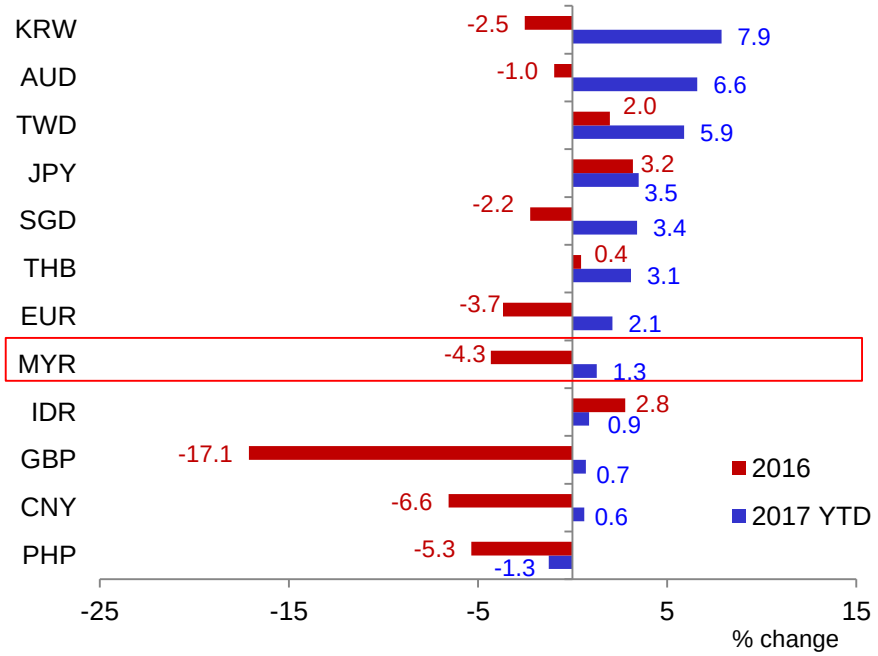
The ringgit followed two distinct phases in 2016, with most of the depreciation occurring after the US election

Exchange Rate of the Malaysian Ringgit (RM) and Selected Regional Currencies against the US Dollar (USD)



The ringgit has, however, recovered slightly in 2017, in line with most major and regional currencies

Performance of Selected Currencies against the US dollar (USD)



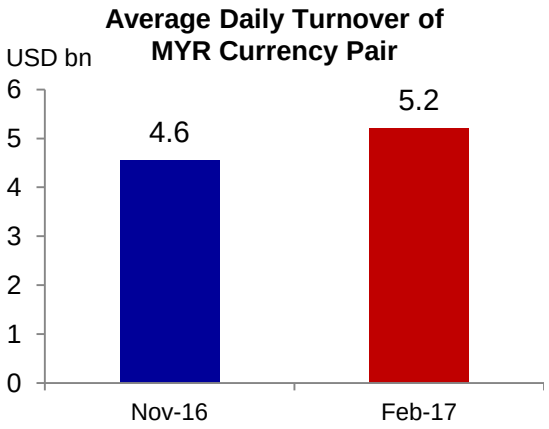
[1] Regional currencies: Chinese renminbi, Indonesian rupiah, Korean won, Philippine peso, Singapore dollar, New Taiwan dollar and Thai baht. Each currency carries equal weight.

YTD year-to-date

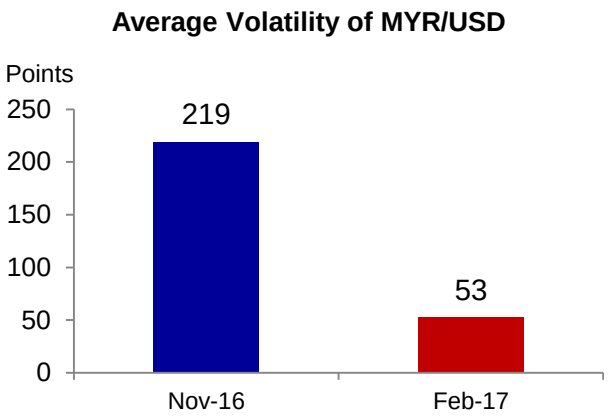
Source: Bank Negara Malaysia

The FMC measures have lent stability to the ringgit and domestic foreign exchange market

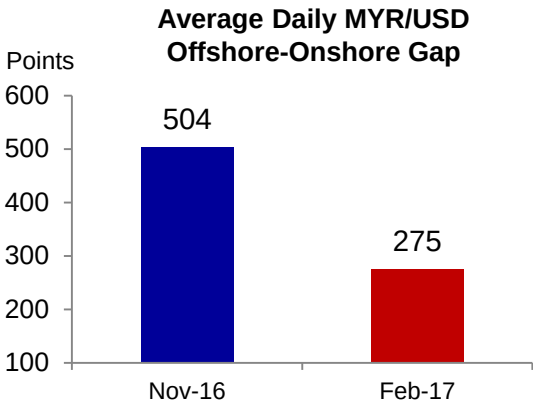
Daily turnover remained stable



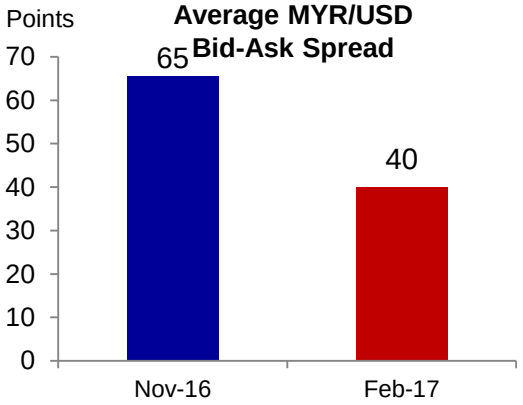
Ringgit volatility declined



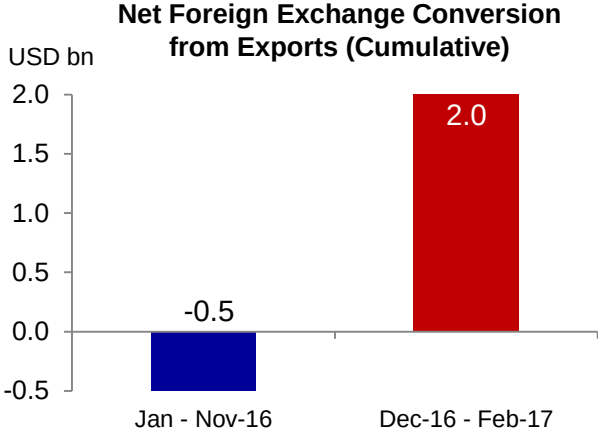
Offshore-onshore gap narrowed



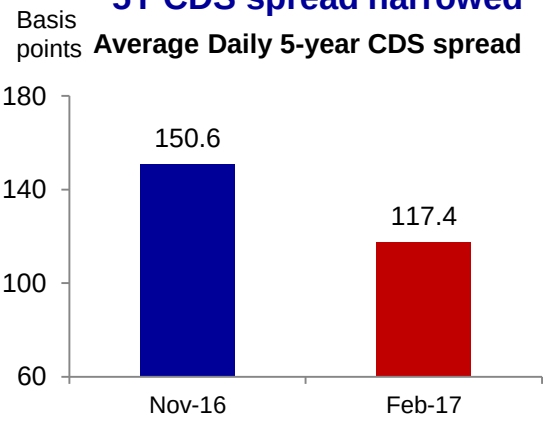
Bid-ask spread narrowed



FX conversion increased post-measures



5Y CDS spread narrowed



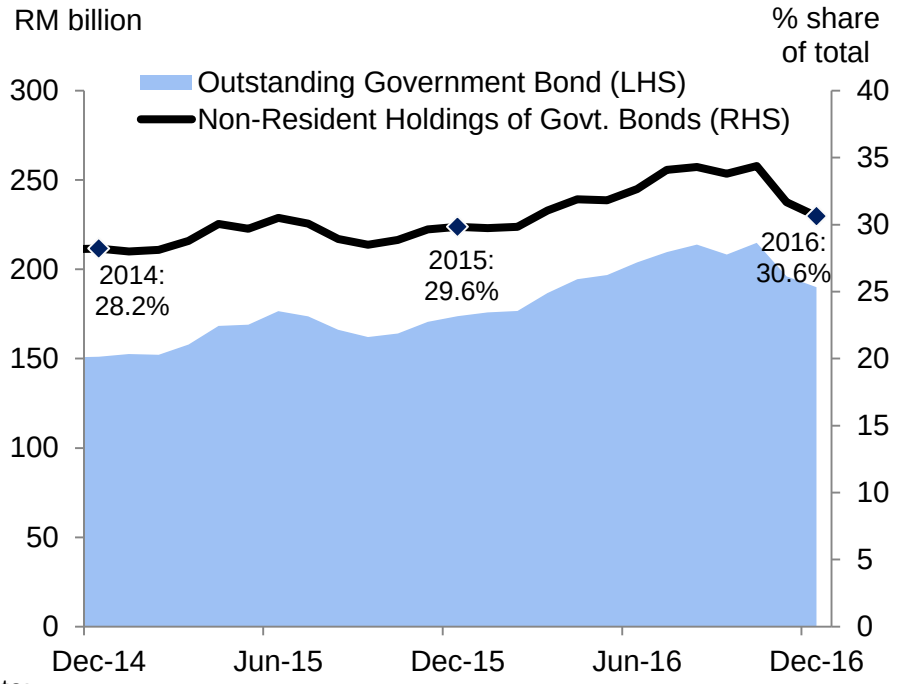
Note: Volatility refers to the difference between MYR/USD interbank intraday highest and lowest rate. Offshore rate refers to the NDF 3-month rate while onshore rate refers to the spot rate.

Source: Bloomberg, Bank Negara Malaysia

Non-resident holdings of Malaysian government bonds remained broadly stable as at end-2016

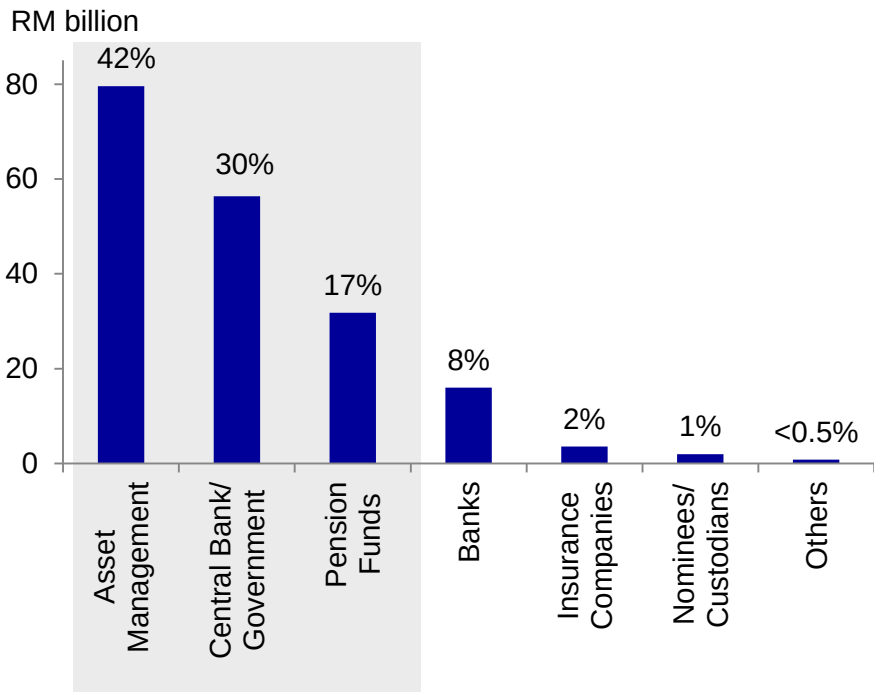
Non-resident holdings of Malaysian Government bonds stabilised towards the end of the year

Non-Resident (NR) Holding of Malaysian Government Bonds



Majority of non-residents holdings are by long-term investors

Distribution of Non-resident Holdings in Government Bonds as at end-Dec'16



Note:

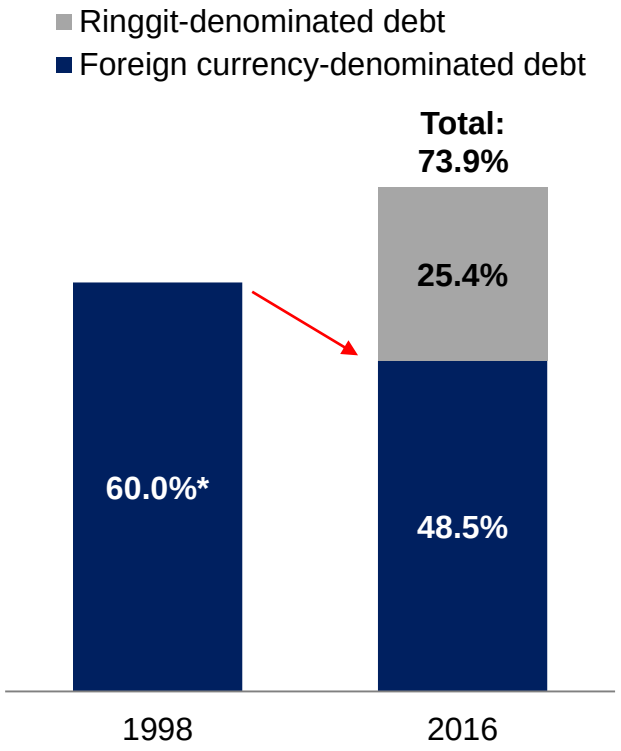
- Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Sukuk Perumahan Kerajaan (SPK).
- 'Others' include individuals, non-financial corporations and unidentified sectors.
- Data may vary pending further classification by reporting entities.

Source: Bank Negara Malaysia

Malaysia's external debt remains manageable given its currency, maturity and balance sheet profiles

Foreign currency-denominated debt remains low relative to Asian Financial Crisis

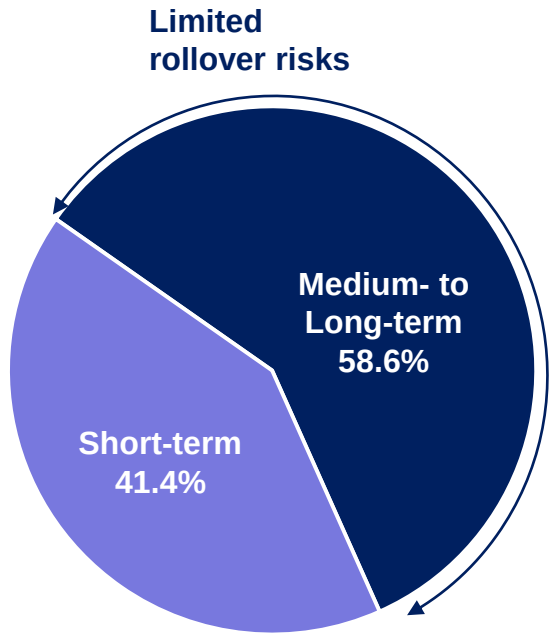
Breakdown by Currency (% of GDP)



*Based on previous definition of external debt

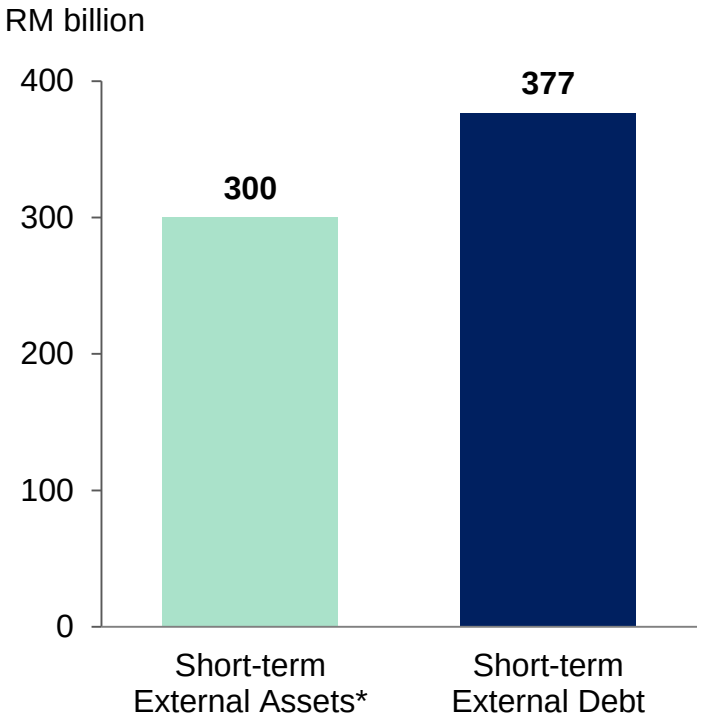
59% of total external debt is in medium- to long-term tenures

Breakdown by Maturity (% of total share)



Short-term external debt partly covered by short-term external assets

Short-term External Position of Banks and Corporations (end-2016)

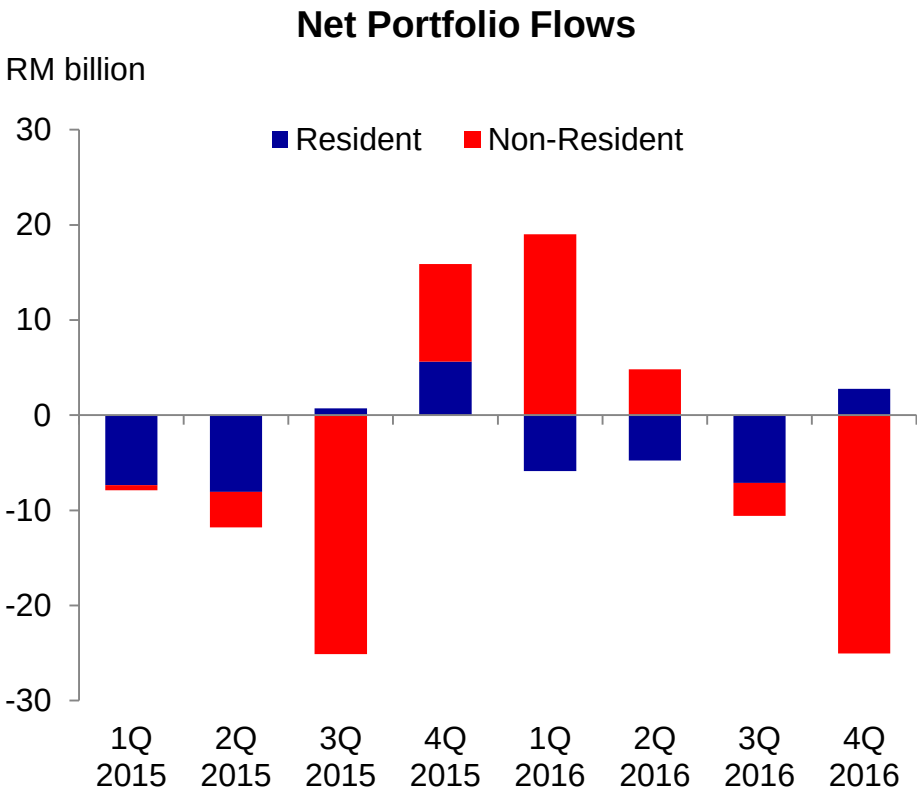


*Debt instruments only

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Going forward, Malaysia is well-positioned to intermediate volatile capital flows

Short-term capital flows were driven by prevailing conditions in the global financial markets

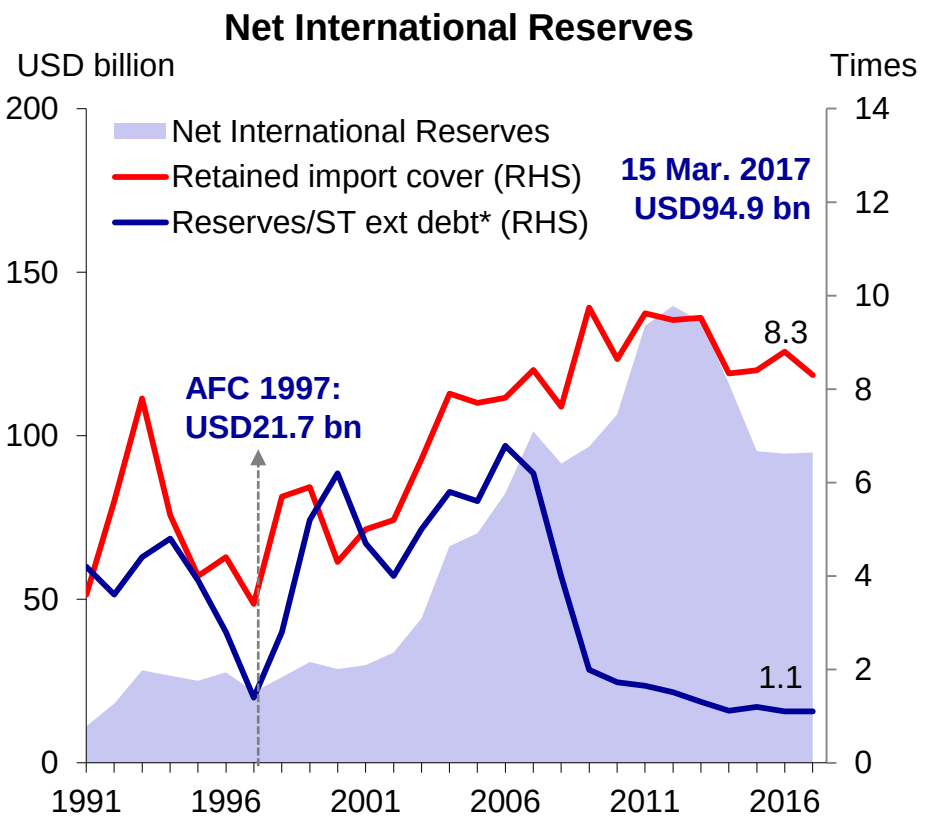


- **Going forward, large and volatile shifts in global liquidity will continue to shape capital flow movements**
- **Malaysia will be able to withstand these external shocks, drawing on its diversified economic structure, financial buffers and prevailing robust policy framework**
- **Well-developed and resilient financial system accord Malaysia the capacity to intermediate large and volatile flows**

Source: Department of Statistics, Malaysia

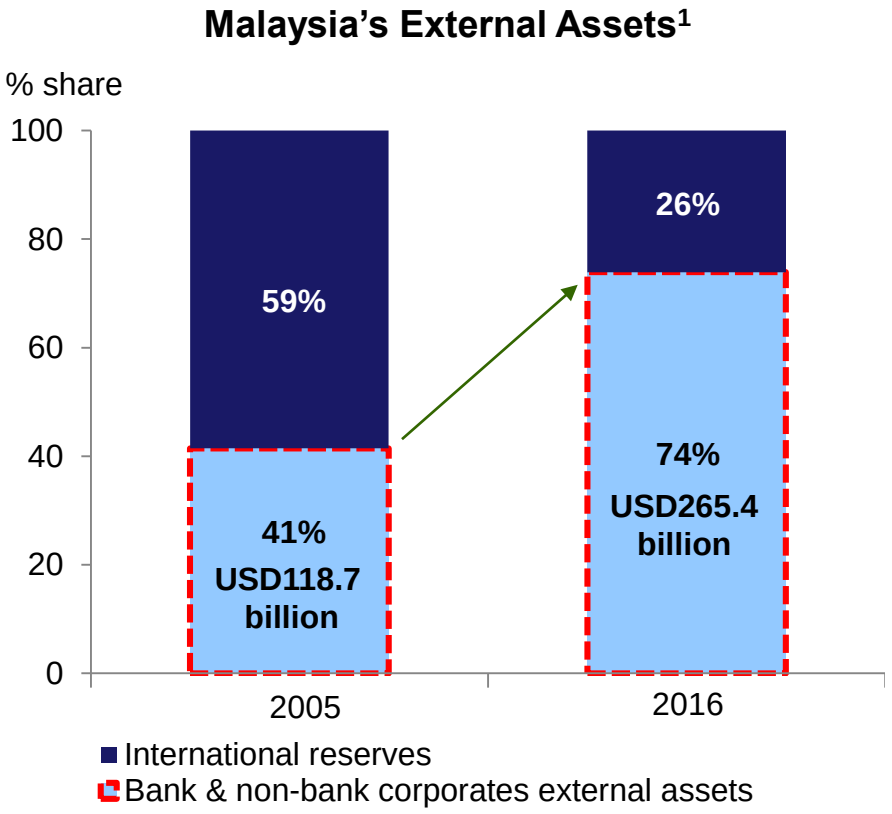
Ample international reserves and increased foreign asset holdings act as buffer against external shocks

Reserves position remains at about four-times the level during the Asian Financial Crisis



*Lower ratio since 2009 following redefinition of external debt

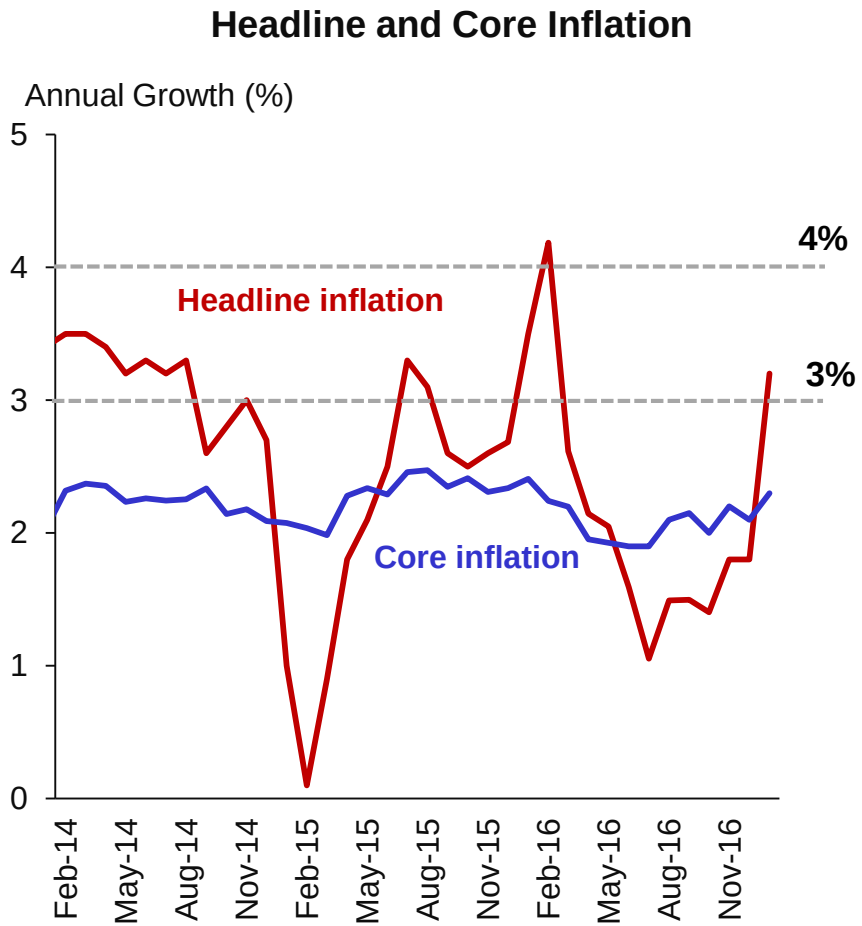
Increased holdings of foreign assets by banks and corporations



[1] Based on the International Investment Position

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

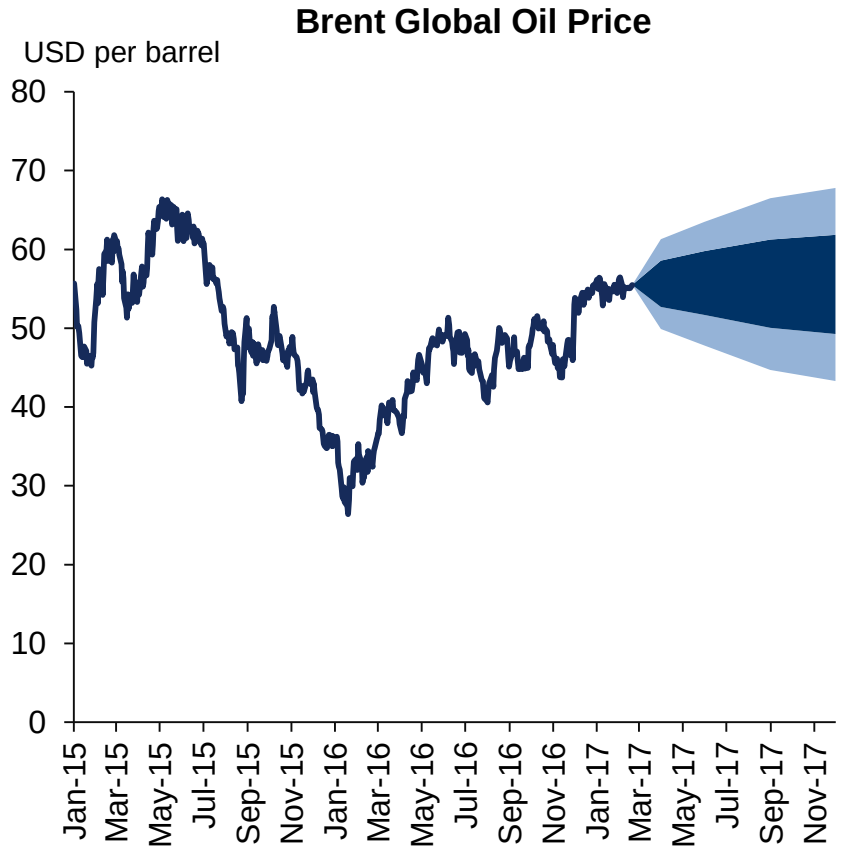
Higher average headline inflation driven by cost factors



- **For 2017, headline inflation to average 3 – 4% reflecting primarily the pass-through impact of the increase in global oil prices on domestic retail fuel prices**
- **Headline inflation would be relatively high in 1H 2017 before moderating thereafter**
- **The cost-driven inflation is not expected to have significant spillovers given the moderate domestic demand conditions**
  - Core inflation to increase only modestly

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Headline inflation outlook is subject to uncertainty in global oil prices



- **Trajectory of domestic headline inflation will be dependent on the future trend in global oil prices which remain highly uncertain**

- **The uncertainties in global oil prices arises mainly from:**
  - Possible extension of OPEC's agreement on the cut in crude oil production
  - Recovery in the global growth
  - Geo-political tensions

Source: Bloomberg and Bank Negara Malaysia

Monetary policy will focus on supporting the sustainable growth of the economy while maintaining price stability

- **OPR of 3.00% is currently consistent with steady growth and stable inflation**
- **The MPC will continue to assess balance of risks on outlook of domestic growth and inflation**

GDP growth
4.3 – 4.8%

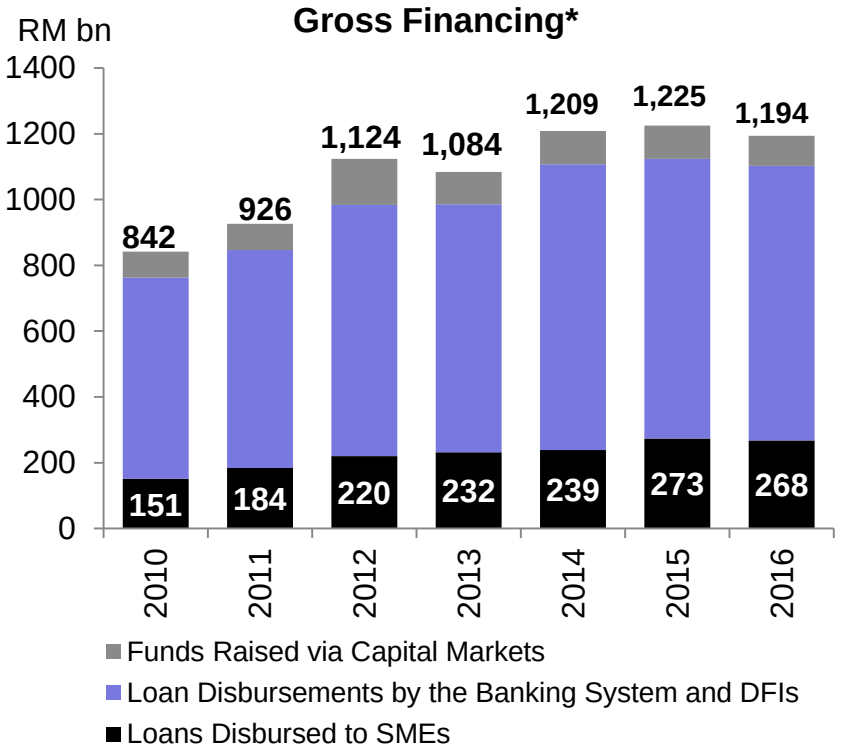
- **Baseline:** Sustained domestic demand supported by more positive contribution from external sector
- **Risk factors:** Threats of protectionism, geopolitical developments, cautious sentiments, financial disruptions

Inflation
3 - 4%

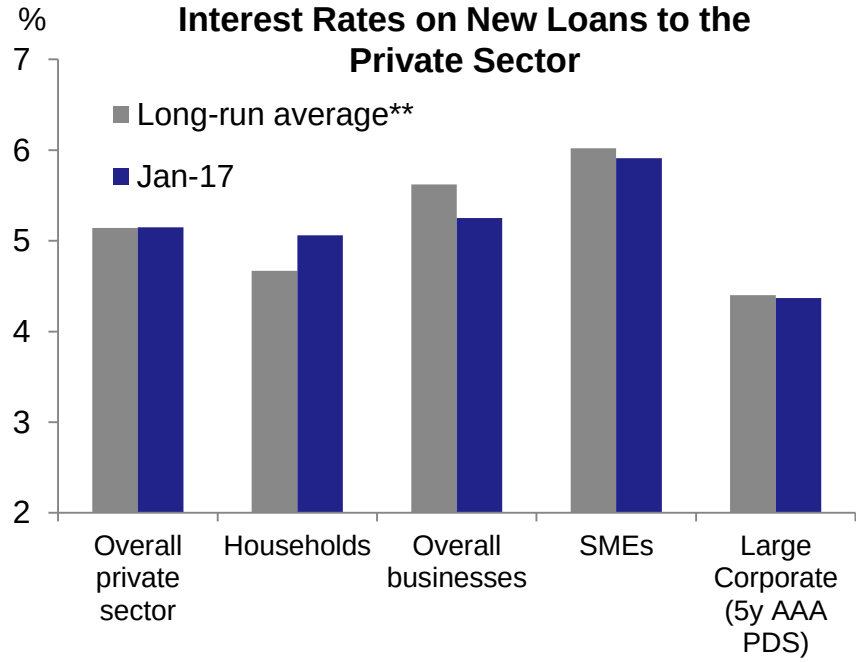
- **Baseline:** Cost-driven inflation primarily due to pass-through impact of higher global oil prices on domestic fuel prices
- Core inflation to increase modestly
- **Risk factors:** Developments in global oil prices and higher spillovers from cost-push inflation

Financing to the private sector remained healthy with relatively stable borrowing costs

Broad-based loan disbursed across all economic sectors for both businesses and households



Private sector continue to benefit from stable financing costs



*Comprises gross loans from the banking system and DFIs, and gross funds raised from the capital markets

**Average (Jan 2002 – Dec 2016)

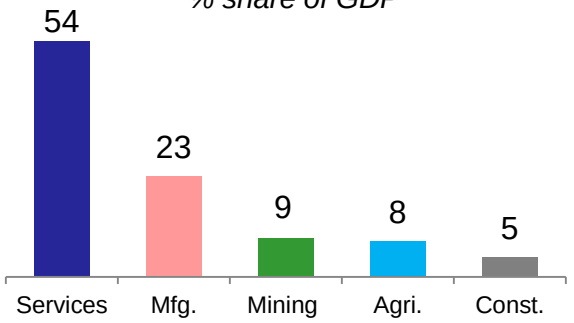
Source: Bank Negara Malaysia

Malaysia's macroeconomic fundamentals remain supportive of growth

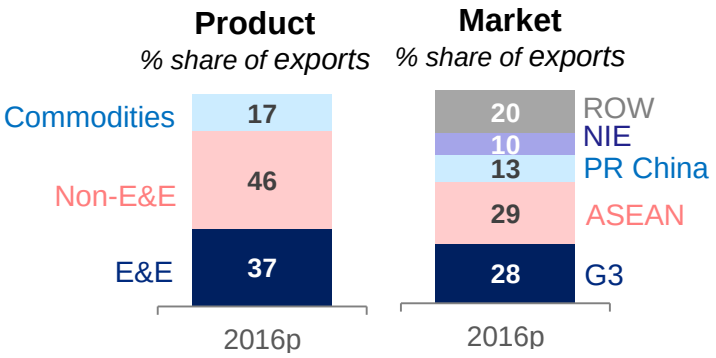
Diversified sources of growth

Malaysia GDP by Economic Sectors (2016)

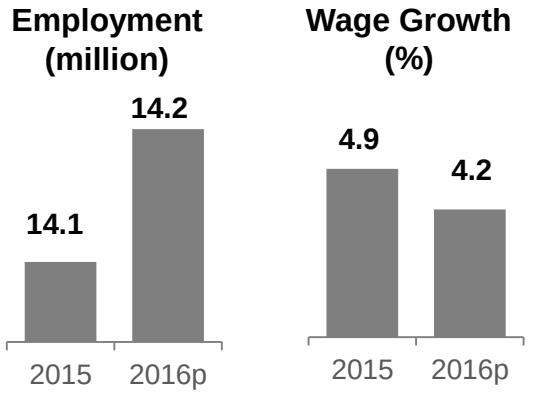
% share of GDP



Diversified export market and product



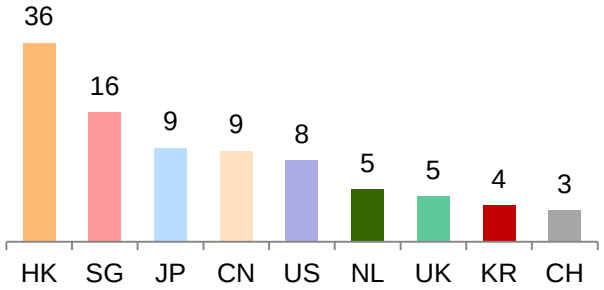
Stable labour market conditions



Conducive investment destination for foreign investors

FDI Inflows by Source Country (2016)

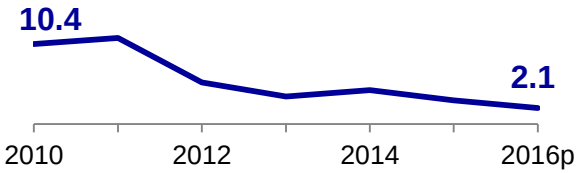
% share of total FDI inflows



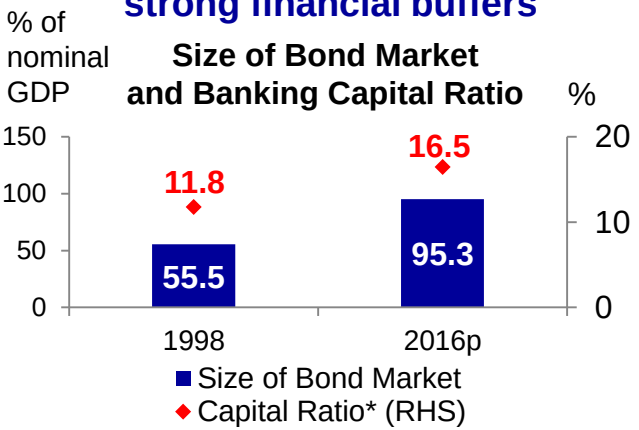
Current account balance reflects strong investment

Current Account Balance

% of GNI



Deeper markets and strong financial buffers



* Capital ratio in '98 refers to the risk-weighted capital ratio; Ratio in 2016 refers to total capital ratio, reported based on Basel III Capital Adequacy Framework adopted since January 2013;
Note: HK= Hong Kong, SG= Singapore, JP=Japan, CN=China, US=United States, NL=Netherlands, UK= United Kingdom, KR=South Korea, CH= Switzerland

Source: Department of Statistics, Malaysia and Bank Negara Malaysia p preliminary

The economy remains resilient with the ability to manage potential downside risks to growth

1. **The Malaysian economy to expand by 4.3 – 4.8% in 2017, driven by domestic demand**

2. **While headline inflation to range between 3.0 – 4.0%, underlying inflation is expected to increase only slightly**

3. **Risks to growth emanating from global and domestic fronts**

   - **Upside:** Positive spillovers from expansionary policies by major economies
   - **Downside:** Slower global growth emanating from global policy uncertainties, volatility in capital flows and exchange rates, and weaker consumer and business sentiments

4. **Malaysia's strong fundamentals to provide resilience in confronting these risks**

   - Diversified economic, trade and FDI structures
   - Stable labour market conditions
   - Current account surplus and ample international reserves
   - Strong financial buffers with well-capitalised banking system and developed capital markets
   - Policy flexibility

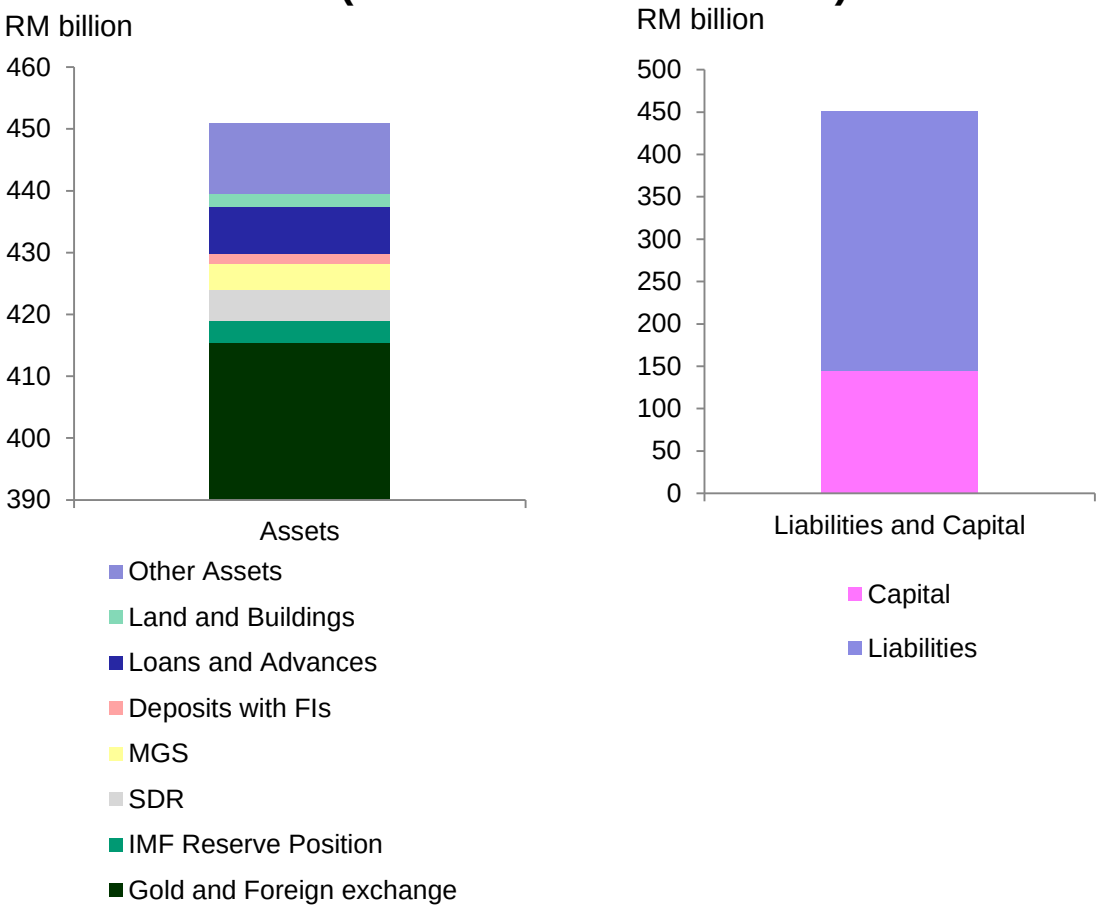
Bank Negara Malaysia: Annual Financial Statements 2016

Financial position remained strong in 2016:

- Total assets of BNM amounted to RM450.98 billion with International Reserves of RM423.9 billion (USD 94.5 billion)
- Net profit of RM6.48 billion
- Dividend of RM2.5 billion to the Government

Bank Negara Malaysia: Annual Financial Statements 2016

Statement of Financial Position (as at 31 December 2016)



Income Statement (Year ended 31 December 2016)

	RM billion
Total Income	**9.02**
Less:	
Recurring Expenditure	1.12
Development Expenditure	1.37
Taxation	0.05
Total Expenditure	**2.54**
Net Profit	**6.48**

Laporan Kestabilan Kewangan dan Sistem Pembayaran 2016

Laporan Kestabilan Kewangan dan Sistem Pembayaran 2016

Financial stability was sustained in 2016

Banking Sector (%)	2015	Jan 2017
Capitalisation		
Common equity tier 1 ratio	**13.3**	**13.1**
Total capital ratio	**16.6**	**16.9**
Excess capital buffer (RM bn)	**124.3**	**131.0**
Profitability		
Return on assets	**1.3**	**1.3**
Return on equity	**12.3**	**11.6**
Asset Quality		
Net impaired loans ratio	**1.2**	**1.2**
Loans in arrears (1-<3 months)	**2.2**	**2.2**
Insurance/Takaful Sector (%)	**2015**	**2016**
Capitalisation		
Capital adequacy ratio		
Insurance	**251.6**	**248.5**
Capital adequacy ratio		
Takaful	**191.6**	**205.3**
Capital buffer (RM bn)	**45.9**	**47.9**
Profitability		
Profit (RM bn)	**14.7**	**16.6**
Claims ratio	**60.2**	**56.0**

1 **Domestic financial stability was sustained in 2016 amid heightened financial market volatility**

- Sound financial institutions and orderly financial market conditions preserved

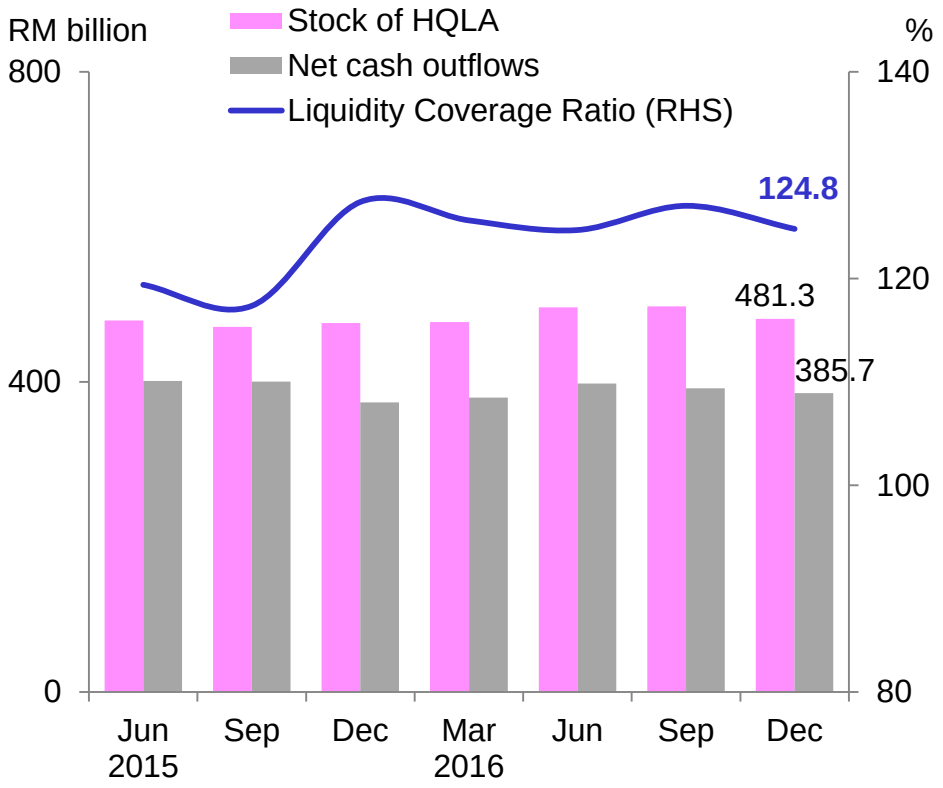
2 **Stable outlook for financial stability in 2017**

- Financial institutions remain resilient to any severe macroeconomic and financial shocks, supported by strong financial buffers

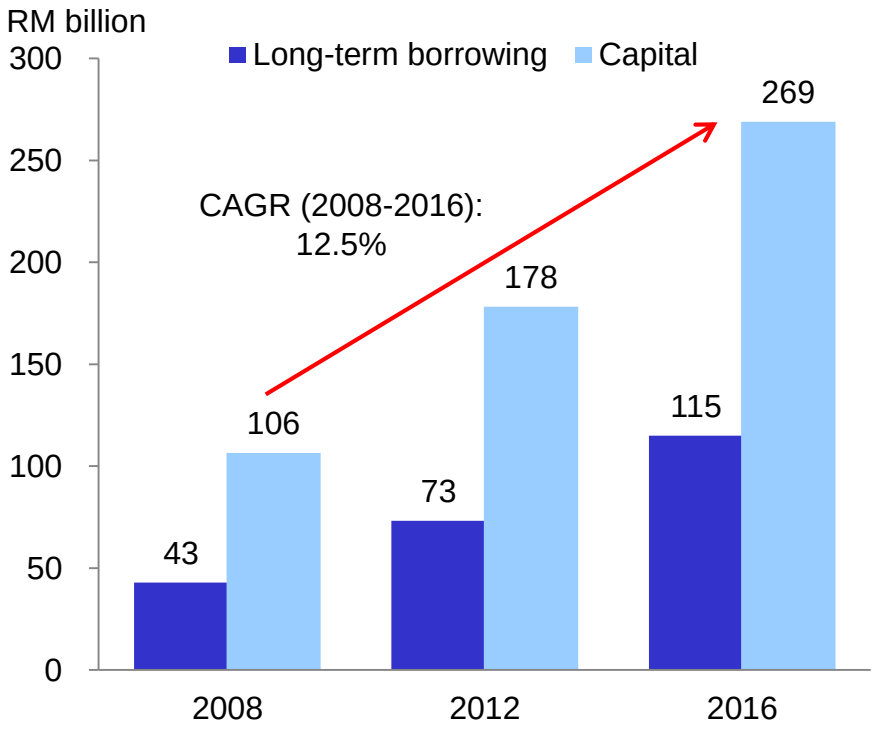
Source: Bank Negara Malaysia

Healthy banking system liquidity positions, supported by diversified funding sources

Sufficient liquidity buffer to withstand potential shocks



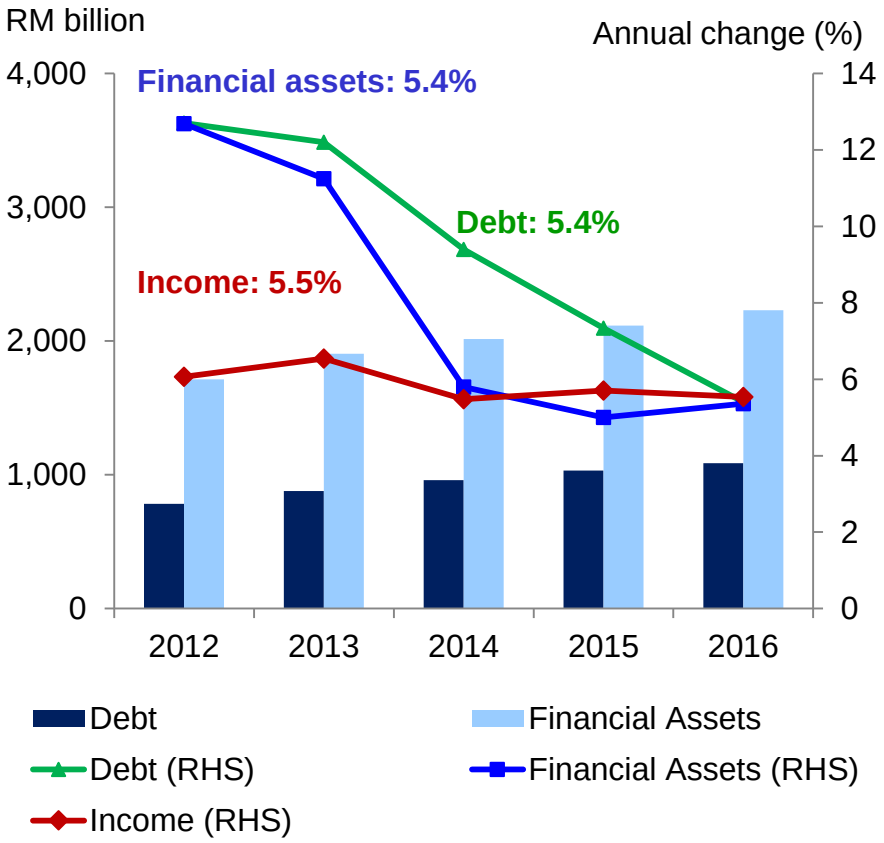
Increased contribution of equity and long term debt instruments to support asset growth



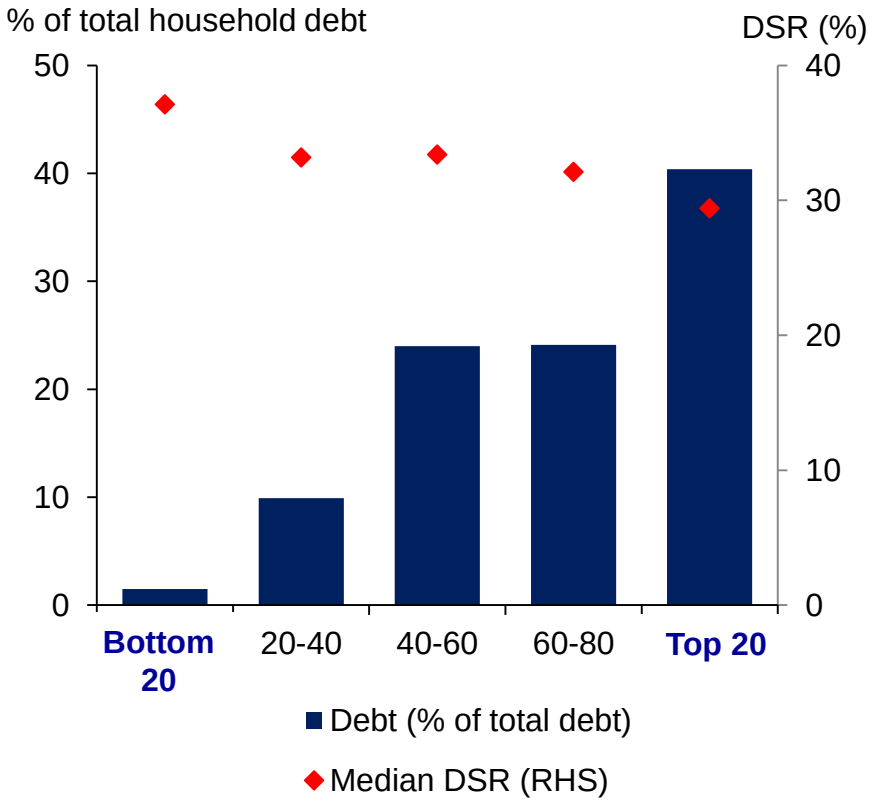
Source: Bank Negara Malaysia

Household debt accumulation more in line with asset and income growth

Growth in debt converged towards financial assets and income growth



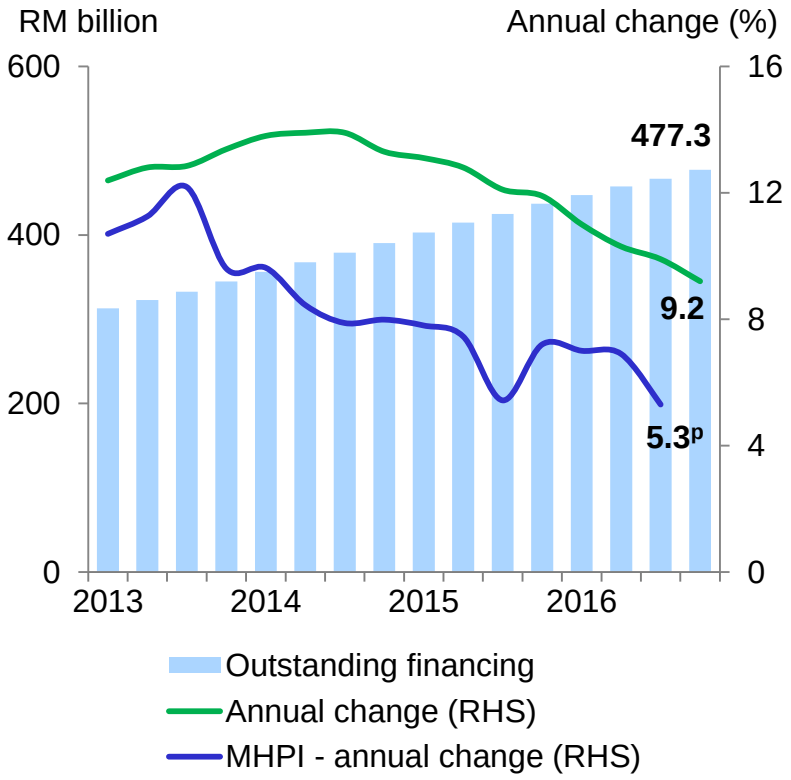
Lower share of debt to vulnerable borrowers



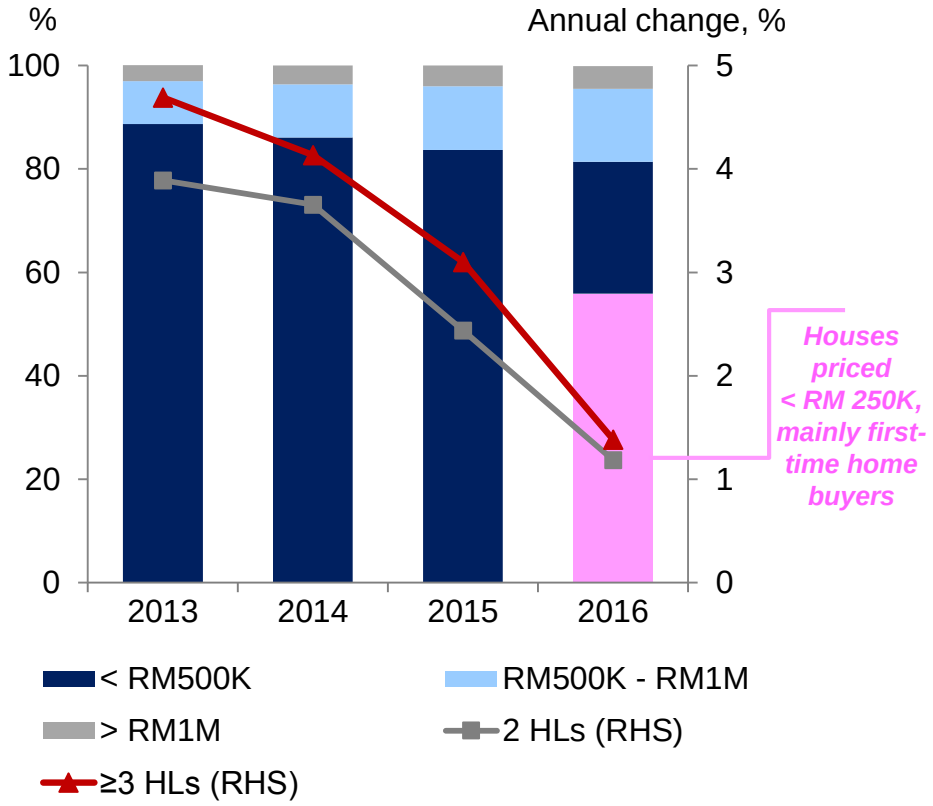
Source: Bank Negara Malaysia and Malaysia Employers Federation

Continued access to house financing, especially for first time home buyers

Growth in financing mainly driven by sustained demand for affordable housing



72% of housing loan borrowers are first time home buyers of houses priced <RM500K

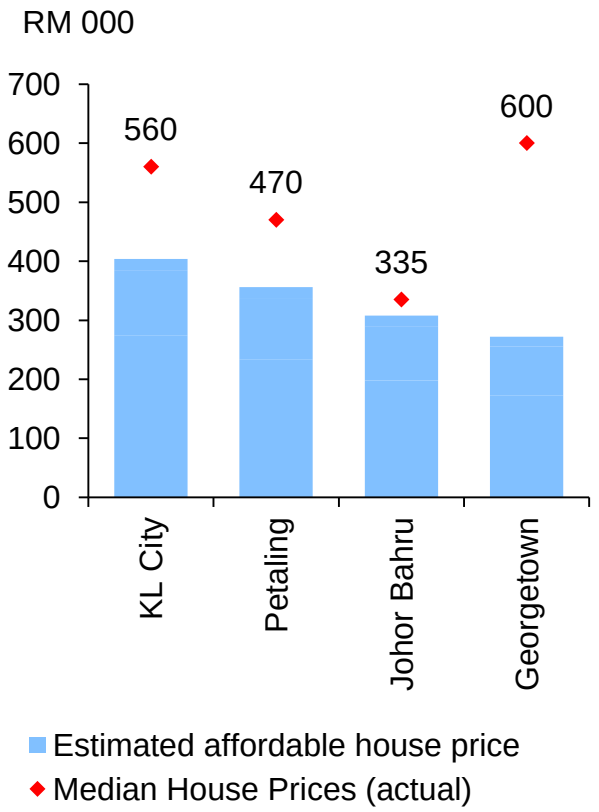


p preliminary

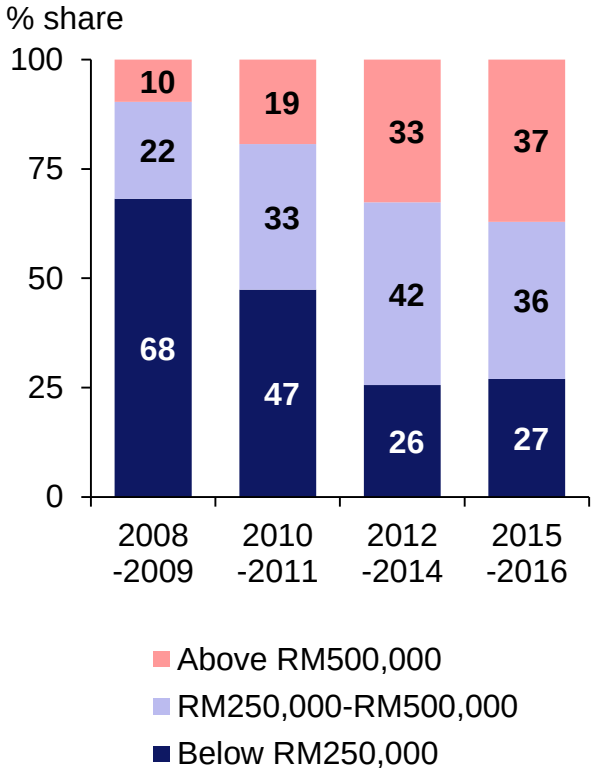
Source: Bank Negara Malaysia

Housing affordability remains low, amid slow pace of new supply in affordable segment

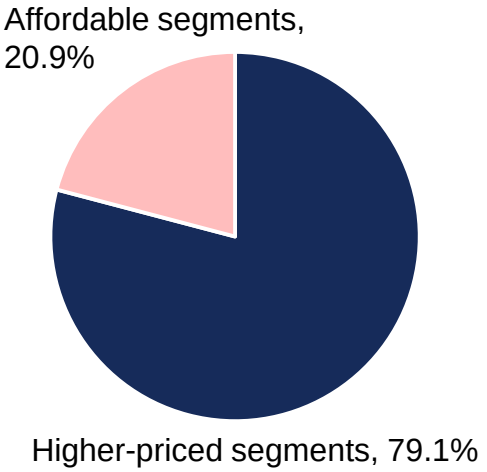
Houses are unaffordable in major urban centres



Higher-priced property forms most of new launches



Most unsold* houses are in the higher-priced segments

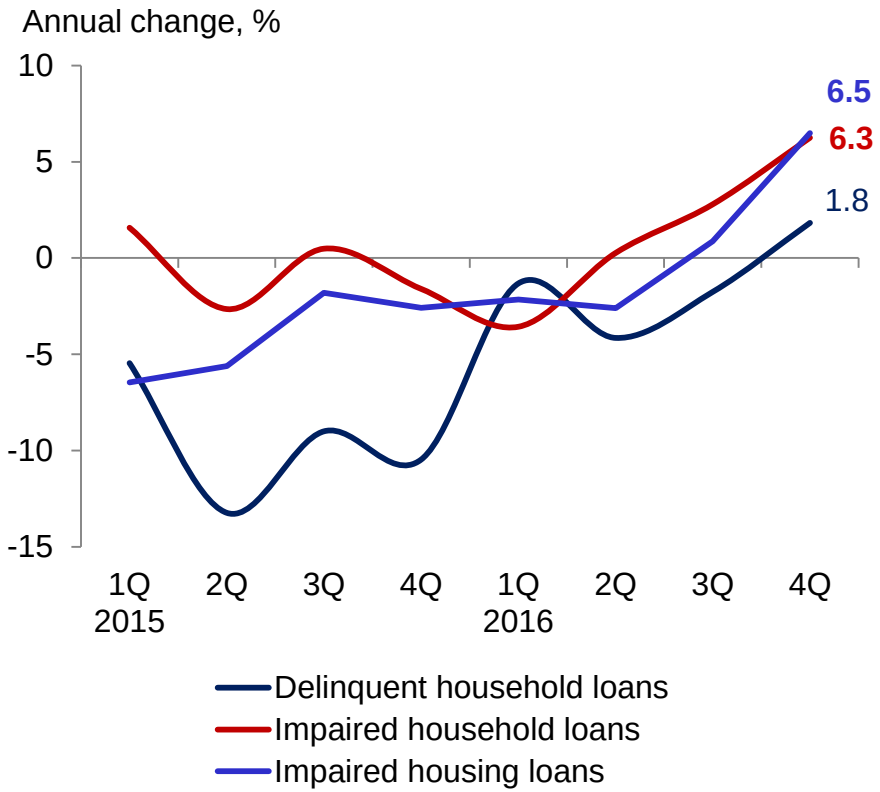


*Includes unsold properties that were completed and under construction

Source: NAPIC, DOSM and BNM estimates. For details, refer to 2016 AR Box Article "Demystifying the Affordable Housing Issue in Malaysia"

Measures to encourage prudent financial discipline remain important, as signs of risk are emerging

Increase in impairment and delinquency in recent period, particularly for housing



Existing measures still needed but more can be done

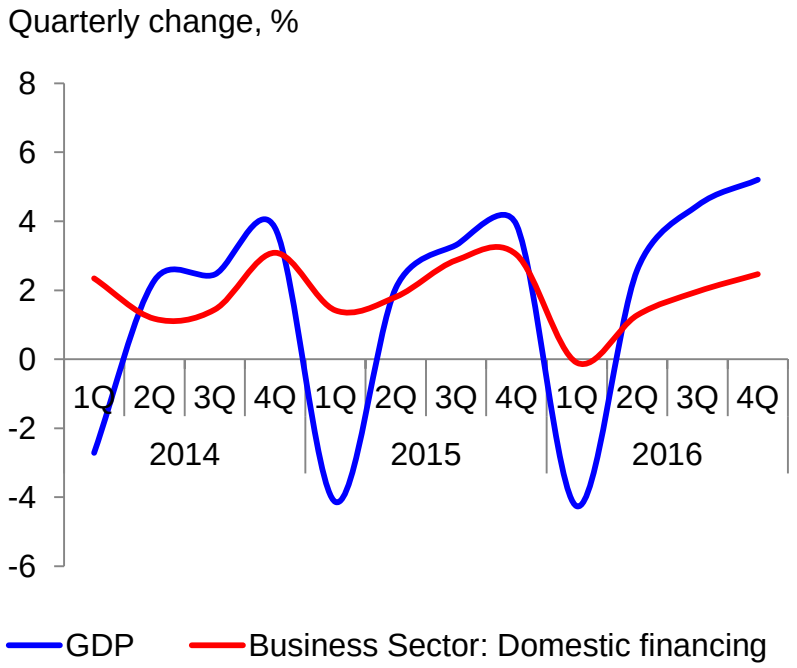
1. **Raise productivity and income**
2. **Reduce unproductive debt through debt rationalisation and consolidation**
3. **Accelerate supply of affordable housing and rental schemes**
4. **Ensure efficient allocation of affordable housing units to eligible target buyers**

Note: Delinquent loans refer to loan-in-arrears of between one and three months

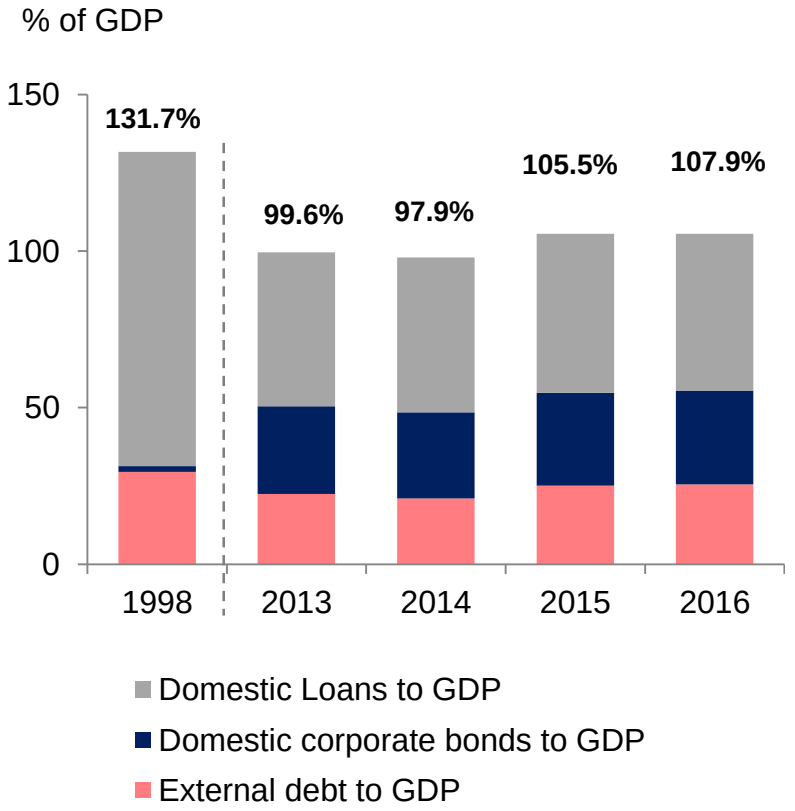
Source: Bank Negara Malaysia

Corporate sector borrowings continue to support domestic economic activities

Financing activities broadly in line with domestic economic activities



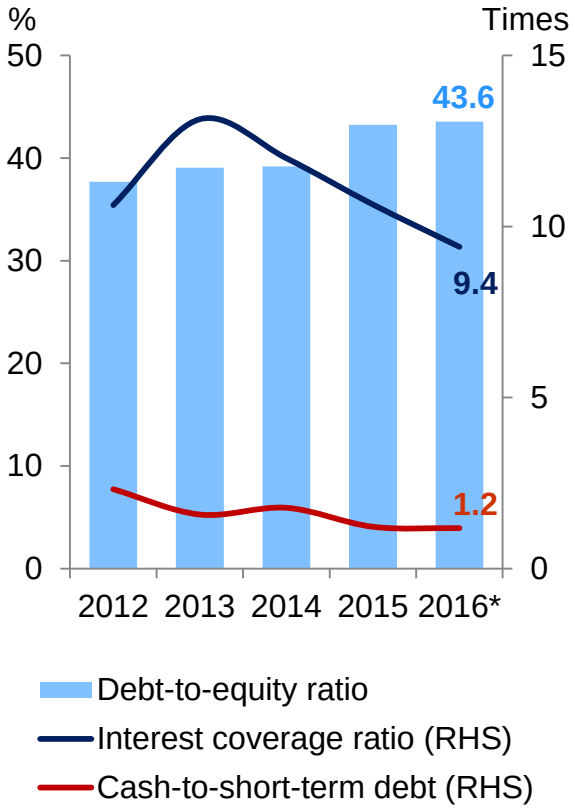
Higher corporate debt driven by new bond issuances



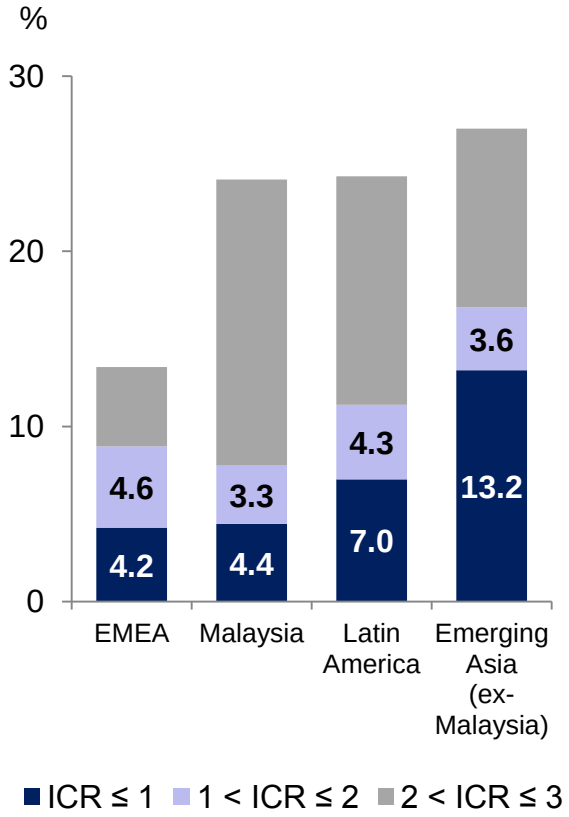
Source: Bank Negara Malaysia

Debt servicing capacity of businesses remained sound

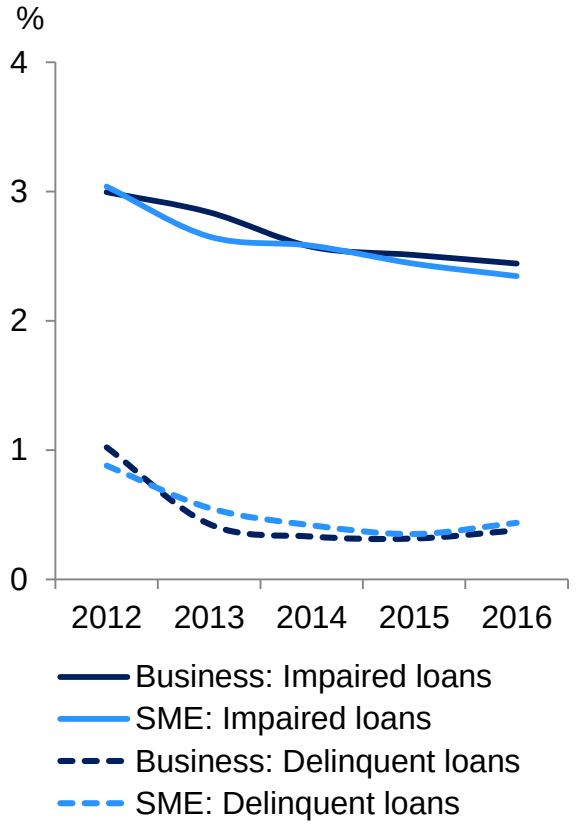
Low leverage, with debt servicing capacity and liquidity sustained above prudent thresholds



Debt-at-risk within manageable levels



Impaired and delinquent loans broadly low and stable



*For 2016, data as at first nine months

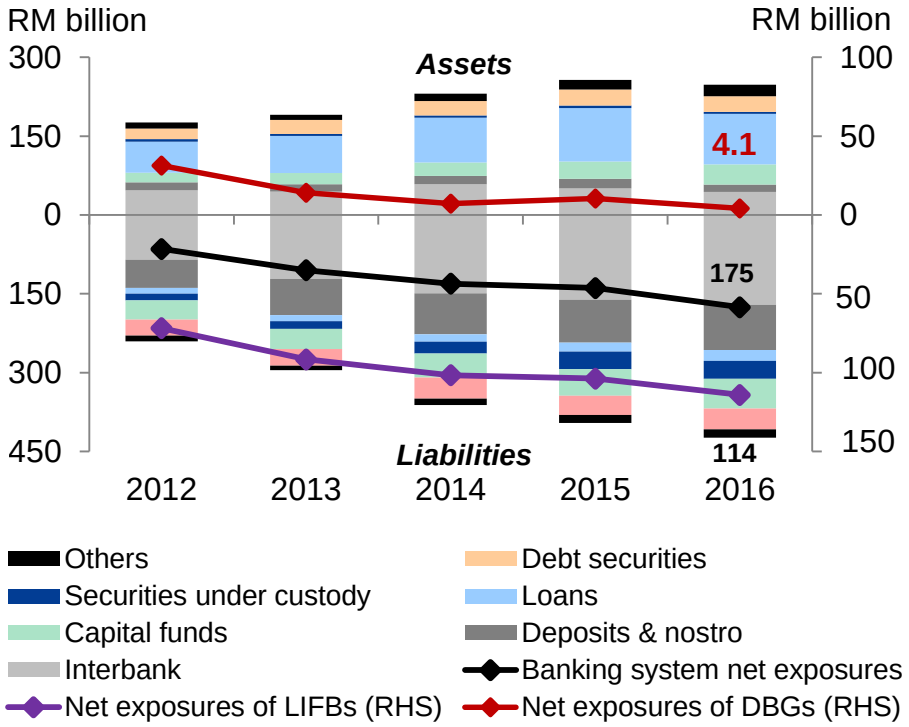
^Debt-at-risk is measured as the share of debt borne by firms with an interest coverage ratio (ICR) of less than two times

ICR= Earnings before interest expense, taxes, depreciation and amortisation / interest expense

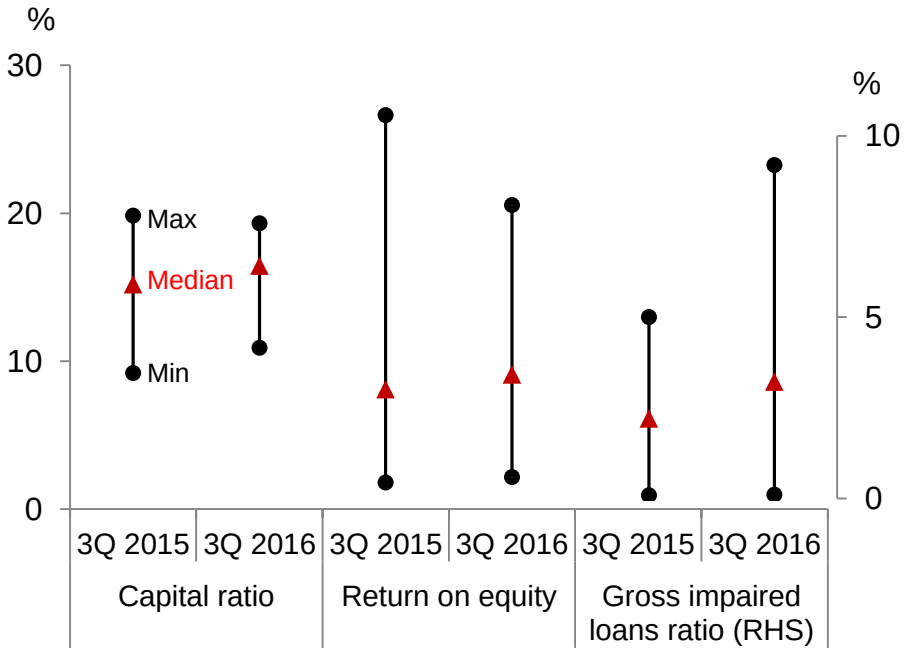
Source: Bank Negara Malaysia, International Monetary Fund

Overseas operations of domestic banks remain financially sound amid continued regional expansion

Net external liabilities largely driven by LIFBs, while DBGs continue to maintain net external assets



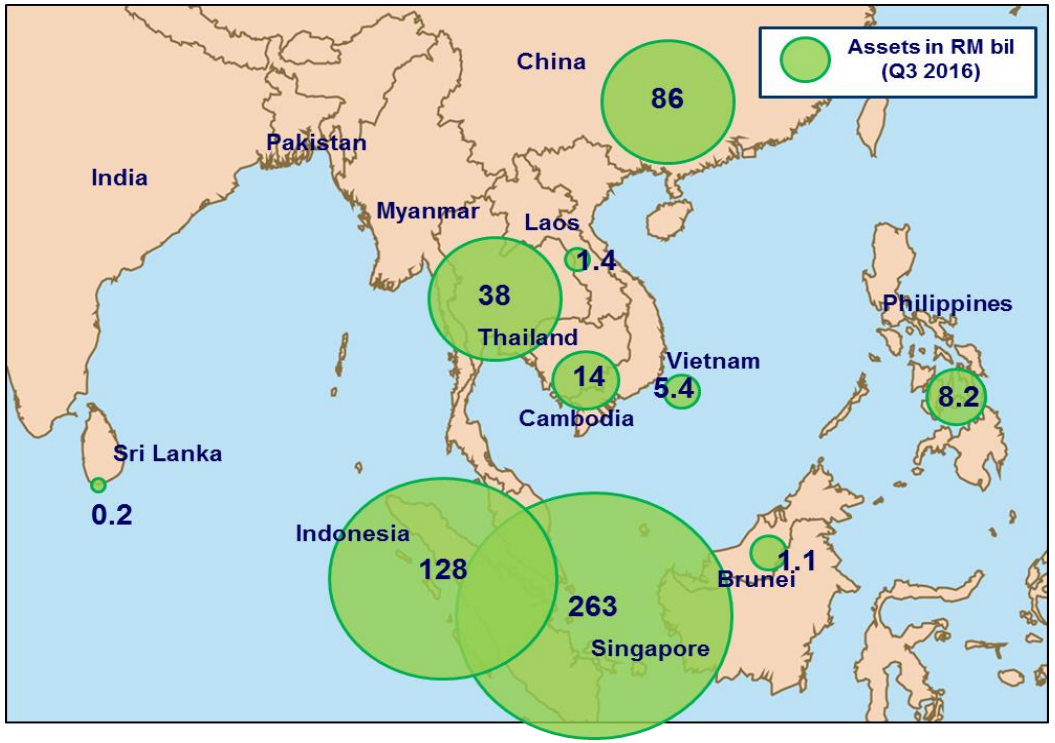
Continued earnings resilience and sustained asset quality of DBGs' overseas operations



LIFBs: Locally incorporated foreign banks; DBGs: Domestic banking groups

Source: Bank Negara Malaysia

Continued regional expansion expected under ASEAN Banking Integration Framework





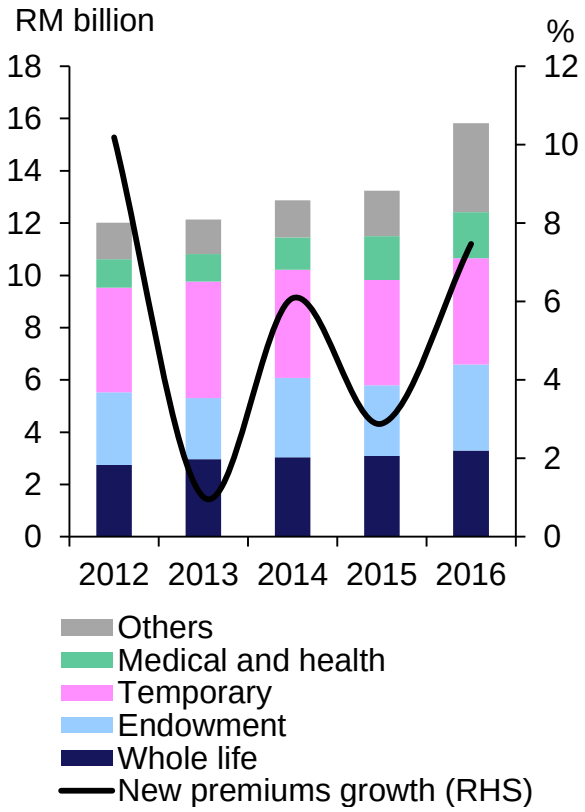
1. Presence in 15 countries worldwide

2. Bilateral arrangements with Indonesia and other ASEAN countries pave the way for further regional integration

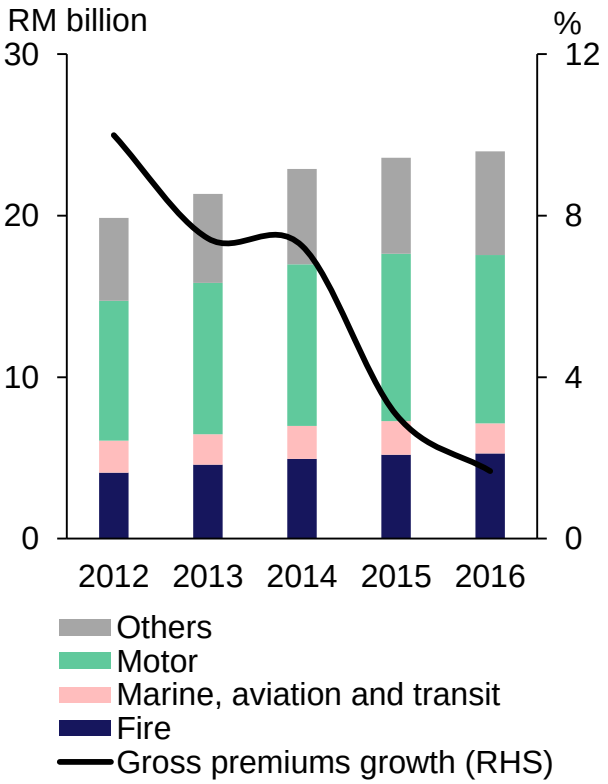
Source: Bank Negara Malaysia

Insurance and takaful sector continued to record positive growth

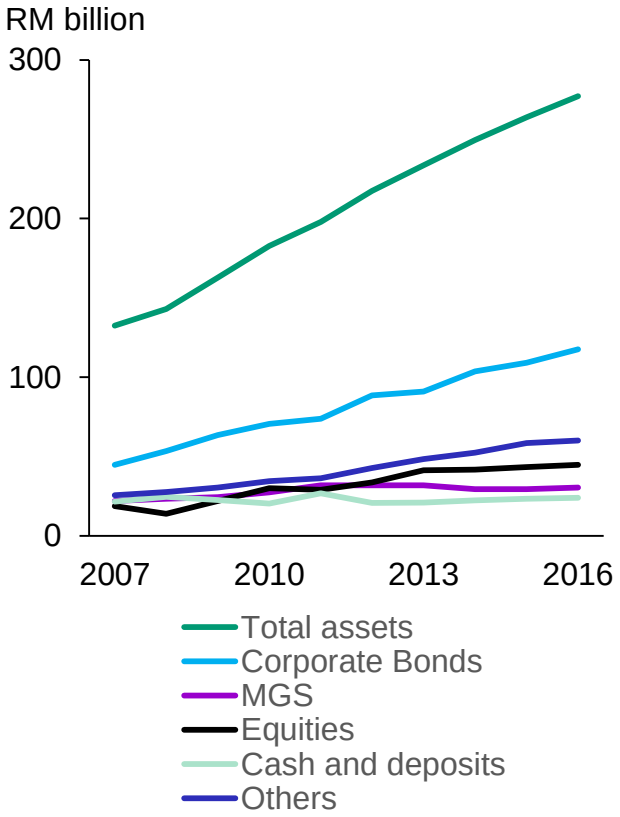
New life/family takaful premiums driven by growth in endowment and group term policies



In the general sector, growth in fire premiums offset slower growth in motor & MAT premiums



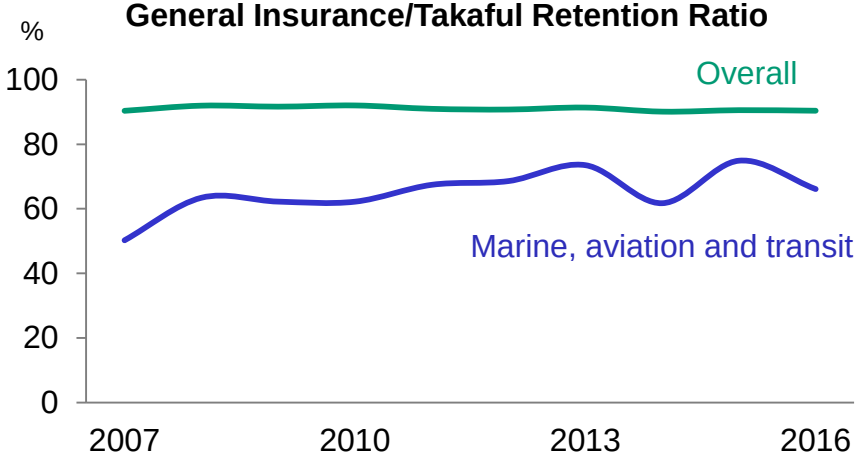
Insurance and takaful assets expanded, with a shift to higher yielding corporate bonds and equity



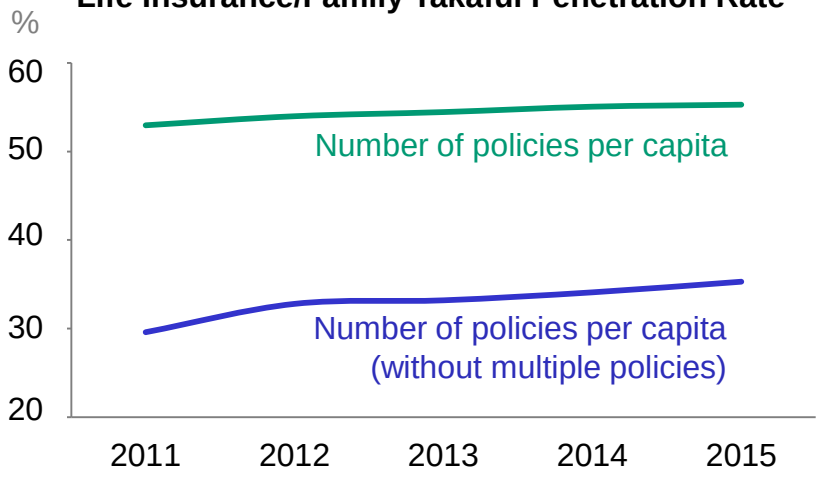
Source: Bank Negara Malaysia

Greater focus on strengthening domestic underwriting capacity and reducing the protection gap

General Insurance/Takaful Retention Ratio



Life Insurance/Family Takaful Penetration Rate



1 Domestic underwriting capacity for more complex & non-traditional risks remains underdeveloped, mainly in the MAT sector

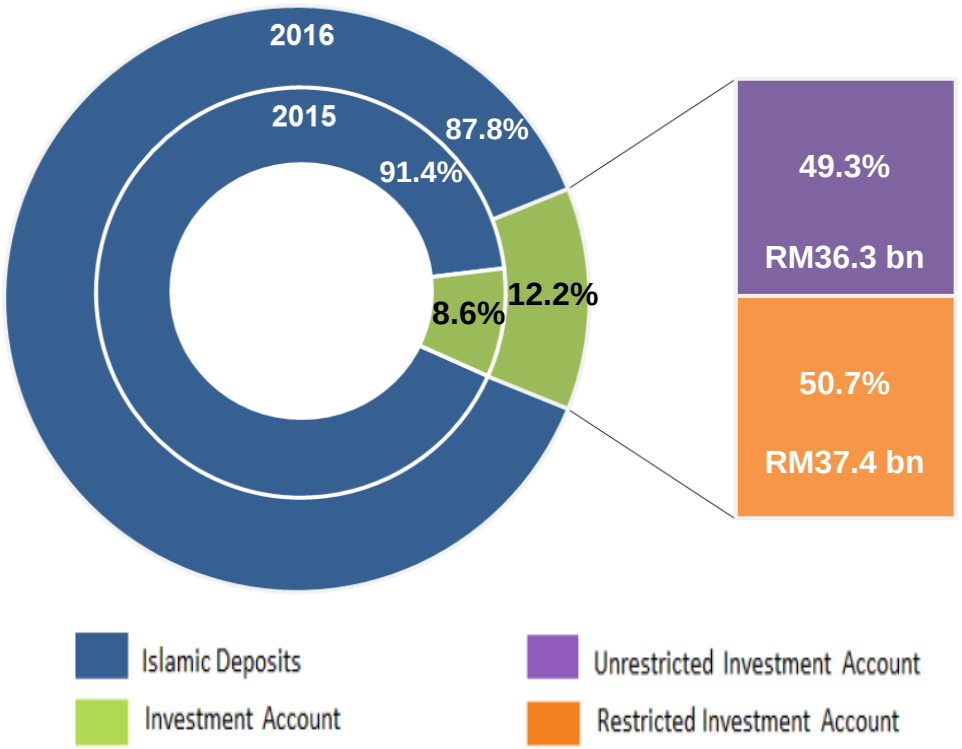
2 Insurance penetration plateaued, with significant protection gap

- Only 35% of the population have at least 1 life insurance/family takaful policy, with average sum assured of RM61k per capita
- Initiatives being pursued to expand the provision of simple & affordable products, leveraging on technology & alternative channels to enhance access

Source: Bank Negara Malaysia

Sustained demand for Islamic financial services, with encouraging growth in investment intermediation

Composition of Investment Accounts out of Total Islamic Deposits & Investment Account (IDIA)



Increasing share of investment accounts as a new source of funding for Islamic banks, facilitated by:

√ *Investment Account Framework and Implementation Guide*

- regulatory expectations on product structuring, operational management & business conduct
- protection of investors
- recognition of distinct risk characteristics compared to Islamic deposits

√ *Investment Account Platform (IAP)*

- Operationalised in April 2016 by a consortium of 6 Islamic banking institutions
- Raised RM20 million in new funding to date
- Combines *wakalah* or *mudarabah* with debt based contracts (e.g. *tawarruq*)

Source: Bank Negara Malaysia

Islamic finance poised to assume a larger role in value-based intermediation

Current Measures

Diversifying measures of effective intermediation in realising socio-economic impact of Islamic finance

Sustainability	Institutional Quality	Inclusivity and Diversity	Efficiency
▪ Financial Deepening ▪ Contribution to GDP ▪ Growth	▪ Institutional Strength	▪ Delivery Channels ▪ Range of Products & Services	▪ Profitability ▪ Cost Efficiency






Future Measures

Sustainability	Institutional Quality	Inclusivity and Diversity	Efficiency
▪ Impact and Value Creation	▪ Institutional Dynamism and Agility	▪ Business Models ▪ Entrepreneurial Mindset ▪ Community Empowerment	▪ Innovation ▪ Technology Adoption

1 Development of Corporate Value Intent framework and value-based scorecard

- Promote high quality disclosures on intent, strategy and performance of business
- Broader dimensions of performance measurement to accelerate value creation for the economy, shareholders and wider community

2 Waqf and sadaqah applications in financial products to deliver positive socio-economic impact

- Cash waqf arrangements
- Debit card with waqf features
- Banking charity accounts

Regulatory measures taken to further strengthen financial system resilience and integrity

Corporate governance and risk management

- Greater emphasis on sound risk culture and risk-aligned compensation
- Strengthened requirements for independent boards
- Enhanced operational and credit risk management standards
- Improvements to stress testing practices

Capital and liquidity

- Smooth transition to higher Liquidity Coverage Ratio
- Implementation of ICAAP for takaful operators

Consumer protection and financial literacy

- Proposed enactment of Consumer Credit Law
- Financial Education Network established to drive the national financial education strategy
- Operationalisation of the Ombudsman for Financial Services

AML/CFT

- Strengthened compliance with international AML/CFT standards
- Enhanced cooperation to combat terrorism financing threats

Supported by supervisory and enforcement actions

Stable outlook for financial stability in 2017



Stable labour market conditions, continued economic growth and sound lending and risk management practices expected to support asset quality



Ample domestic liquidity to remain supportive of financial intermediation



Banks and insurance companies are well positioned to manage transition to strengthened regulatory standards and more competitive environment



Effects from measures to deepen and broaden domestic foreign exchange market will contribute to orderly market conditions

Source: Bank Negara Malaysia

Implementation of the Financial Sector Blueprint is on track with further priorities identified



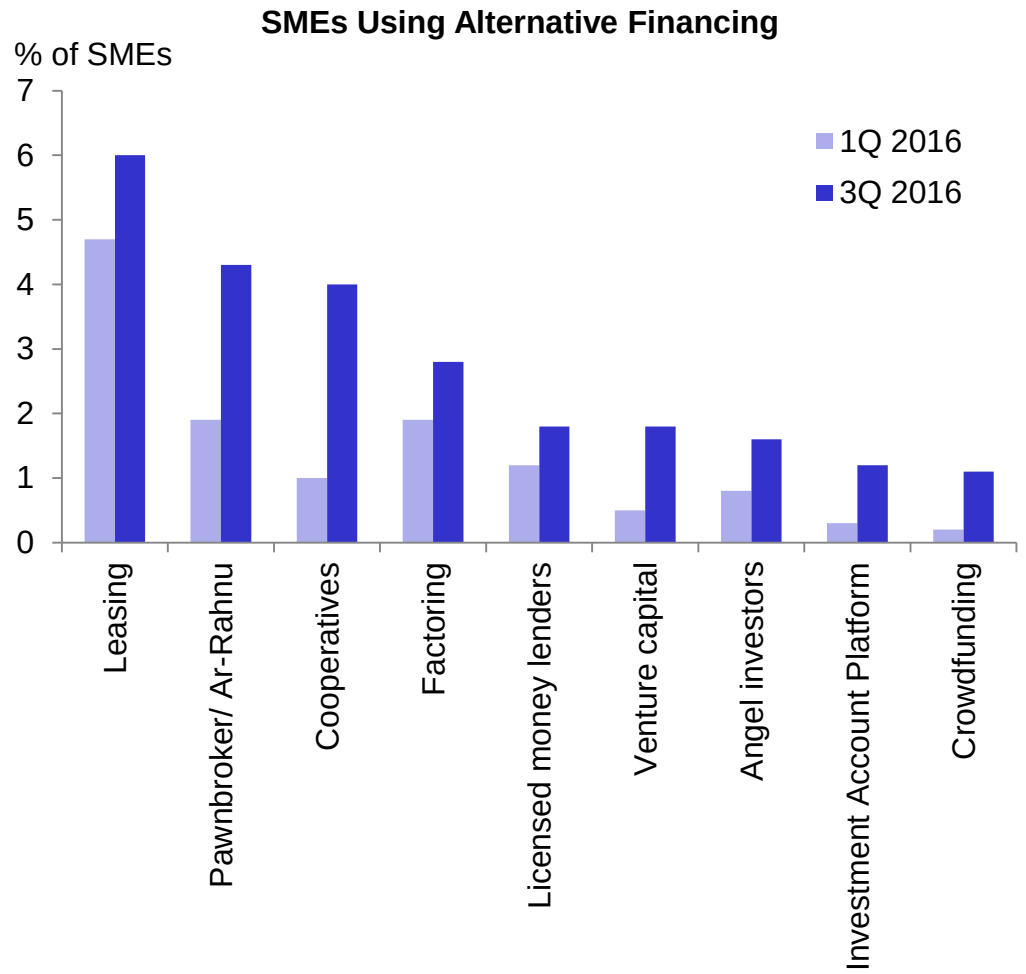
Key Initiatives Implemented

- Strengthened and new legislation (i.e. FSA 2013, IFSA 2013 and DFIA 2002)
- Implementation of Payment Card Reform Framework
- Financial Ombudsman Scheme
- Agent Banking Framework
- ASEAN Banking Integration Framework
- Reforms under the motor and LIFE Framework

New/Expanded Priorities

1. Evolving a vibrant FinTech ecosystem
2. Developing more market-based funding solutions
3. Developing deep and liquid financial markets to manage risk exposures
4. Enhancing the role of development financial institutions
5. Expanding insurance and takaful to address protection gaps

Development of alternative finance to meet diverse financing needs of new economy



Policy priorities moving forward

- Strengthen institutional arrangements
- Improve data on alternative finance and the innovative economy
- Establish a unified collateral registry
- Promote the development of open Application Programme Interfaces
- Raise SMEs' awareness on alternative financing avenues.

Source: SME Corporation Malaysia

Providing a conducive regulatory environment for fintech innovation

Solutions applied through Regulatory Sandbox



Product Aggregator
Comparison of insurance product



Currency Exchange
Peer-to-peer currency exchange model



Remittance
e-money transfer to parties across countries



Artificial Intelligence
Digital identification verification & Chatbot

1. **The Regulatory Sandbox Framework allows innovative fintech solutions to be tested safely in a live environment**

2. **Further initiatives planned to facilitate open banking models, common KYC utilities, distributed ledger applications and cloud computing**

Motor insurance reform on track



New products and add-on covers introduced by insurers

- Flexibility for insurers to introduce new motor products at market-based pricing
- Additional options for consumers e.g. Guaranteed Asset Protection product

Nation-wide awareness campaign to inform and empower consumers

- Important information will be disseminated via print and social media, online, agents and customer support channels
- Empowering consumers to compare products, understand policy options and be aware of price drivers
- Public encouraged to visit www.bnm.gov.my; www.piam.org.my; or www.malaysiantakaful.com.my for more information

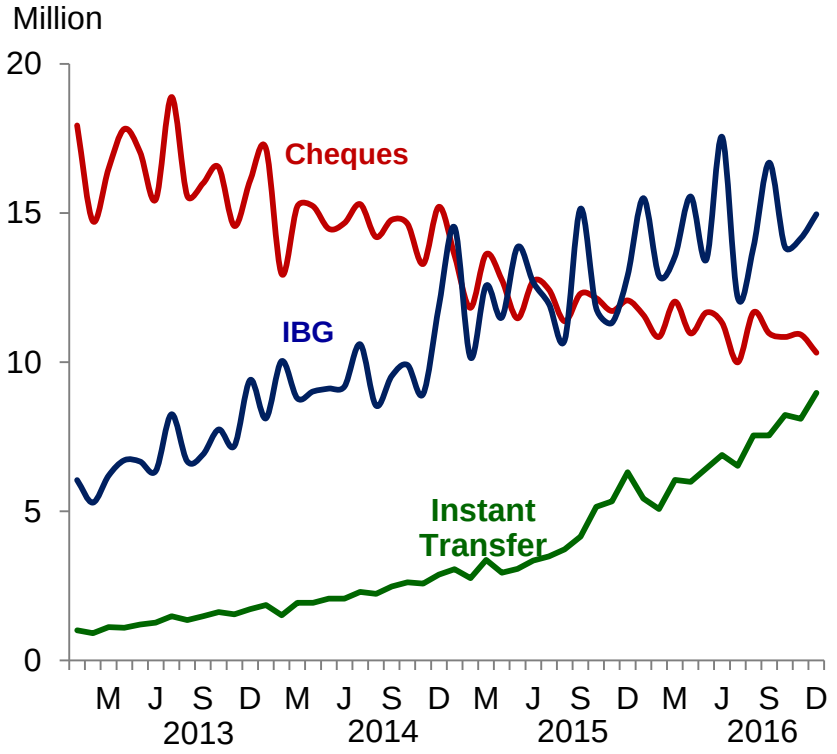
Pricing of motor comprehensive and third party fire & theft products will be liberalised to reflect risks

- More equitable and competitive pricing based on risk
- Improved incentives for safe driving and prevention of vehicle theft

Increasing momentum in migration to e-payments

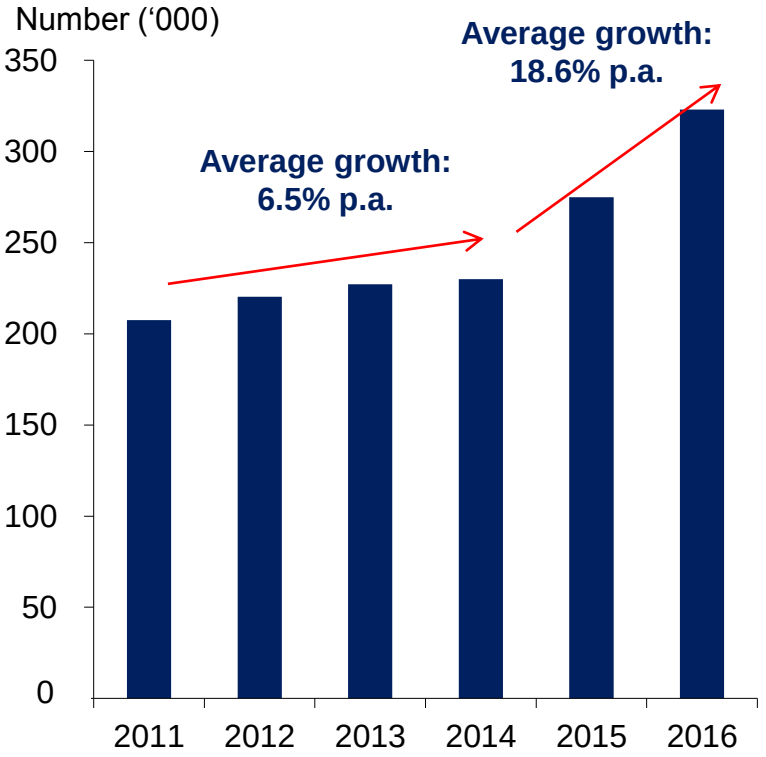
Sustained decline in cheques with increasing use of electronic fund transfers

Transaction Volume for Cheques, IBG and Instant Transfer



Accelerated expansion of payment card acceptance points

Number of Point-Of-Sale (POS) terminals

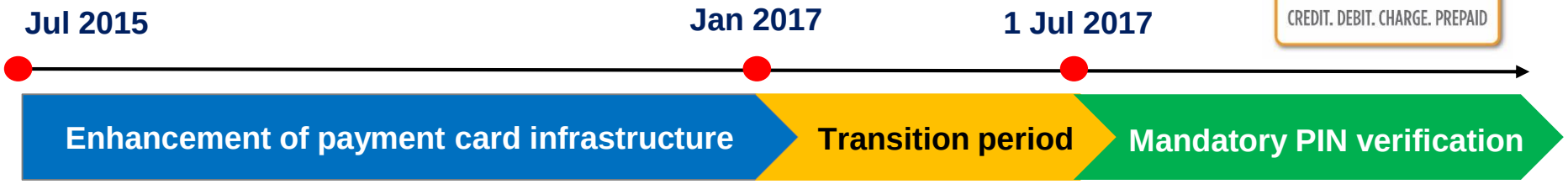


Source: Bank Negara Malaysia

Fostering stronger payment card security

Migration to PIN-based transactions





Enhancement of payment card infrastructure	Transition period	Mandatory PIN verification
Migration from signature to PIN verification for payment card transactions at POS terminals	6-month period to adapt to the usage of PIN at POS terminals	All payment card transactions at POS terminals must be completed with PIN

Cardholders and merchants are urged to adopt the use of PIN today, before PIN is made mandatory for all payment card transactions effective 1 July 2017

End of Presentation

End of Presentation