Taklimat
Laporan Tahunan 2015 dan
Laporan Kestabilan Kewangan
dan Sistem Pembayaran 2015

Gabenor Bank Negara Malaysia
23 Mac 2016
In 2015, the Malaysian economy is still on a stable growth path despite a challenging environment.

Malaysian economy grew by 5.0% in 2015

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

Annual change (%) Real GDP Growth

- India: 7.6%
- PR China: 6.9%
- Philippines: 5.8%
- Malaysia: 5.0%
- Indonesia: 4.8%
- Thailand: 2.8%
- Korea: 2.6%
- Singapore: 2.0%
- Chinese Taipei: 0.7%

Global growth: 3.1%

Source: IMF, Department of Statistics, Malaysia and Bank Negara Malaysia
Private domestic demand continued to anchor growth

- **Private consumption:**
  - Weighed down by weaker sentiments and households adjusting to rising cost of living
  - But supported by continued income growth and stable labour market conditions

- **Private investment:**
  - Driven by the manufacturing and services sectors

- **Net exports:**
  - Weighed down growth as domestic demand-driven imports grew stronger than exports

---

Source: Department of Statistics, Malaysia
Global growth to improve at a modest pace in 2016

• Modest growth momentum in the advanced economies, reflecting:
  - Moderate growth in the US
  - Slow improvement in the euro area

• In Asia, growth to be underpinned by private domestic demand given:
  - Favourable labour market conditions
  - Stimulus measures in a number of economies
  - Supportive monetary conditions

Source: IMF and Bank Negara Malaysia estimates
Moderate expansion in global trade

Lower global trade intensity post-GFC

- Structural and cyclical factors contribute to the decline in trade intensity
  - Structural factors:
    - Waning impact of previous drivers of trade growth
    - Slower expansion of global value chains
    - Weaker investment by corporates
  - Cyclical factors:
    - Modest economic recovery in a number of major advanced economies
    - Greater economic and financial uncertainty

*The ratio increased significantly in 2009, due to weak world growth

Source: IMF and Bank Negara Malaysia estimates
Global inflationary pressures to remain subdued amid lower commodity prices

Global commodity prices are expected to remain low in 2016 amid excess supply

Low commodity prices to contain inflationary pressures across economies

* Price index simple average of three spot prices - Brent, West Texas Intermediate, and the Dubai Fateh
** Asia refers to Chinese Taipei, Hong Kong SAR, Indonesia, Korea, Malaysia, the Philippines, PR China, Singapore and Thailand
*** G3 refers to the US, euro area and Japan

Source: Haver, IMF and Bank Negara Malaysia estimates
Divergent but still very accommodative monetary policies in the major economies

The US Federal Reserve has begun a slow-paced interest rate normalisation...

...whereas ECB and BOJ continue with monetary accommodation through asset purchases and negative interest rates

Policy Rates of Selected Major Central Banks

Source: National authorities, Haver and Bank Negara Malaysia estimates
The Malaysian economy to expand at between 4.0 – 4.5% in 2016

- Domestic demand will continue to be the principal driver of growth, sustained primarily by the private sector.
- External sector to provide support to growth in 2016.
- All economic sectors, except for agriculture, are expected to expand, with the services and manufacturing sectors remaining as the key drivers of overall growth.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Domestic demand will continue to drive growth with support from external demand

<table>
<thead>
<tr>
<th>Real GDP</th>
<th>% share of GDP (2015)</th>
<th>2015p</th>
<th>2016f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic demand (excluding stocks)</td>
<td>91.6</td>
<td>5.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Private expenditure</td>
<td>69.2</td>
<td>6.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Private consumption</td>
<td>52.4</td>
<td>6.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Private investment</td>
<td>16.9</td>
<td>6.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Public expenditure</td>
<td>22.4</td>
<td>2.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Public consumption</td>
<td>13.5</td>
<td>4.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Public investment</td>
<td>8.9</td>
<td>-1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation</td>
<td>25.8</td>
<td>3.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Net exports of Goods &amp; Services</td>
<td>8.6</td>
<td>-3.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Exports of Goods &amp; Services</td>
<td>73.0</td>
<td>0.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Imports of Goods &amp; Services</td>
<td>64.4</td>
<td>1.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Real GDP</td>
<td>100.0</td>
<td>5.0</td>
<td>4.0 - 4.5</td>
</tr>
</tbody>
</table>

p preliminary, f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Private consumption to grow by 5.1% in 2016

Consumer spending to be affected by an environment of higher prices and greater uncertainty…

…but remain supported by continued income and employment growth

**Real Private Consumption Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>6.0</td>
</tr>
<tr>
<td>2012</td>
<td>8.0</td>
</tr>
<tr>
<td>2013</td>
<td>7.0</td>
</tr>
<tr>
<td>2014</td>
<td>6.0</td>
</tr>
<tr>
<td>2015p</td>
<td>5.1</td>
</tr>
<tr>
<td>2016f</td>
<td>5.1</td>
</tr>
</tbody>
</table>

**Unemployment and Salary Growth**

- **Salary increment (Annual change, %)**
  - 2011: 5.5
  - 2012: 5.6
  - 2013: 5.5-6.0

- **Unemployment rate (Share of labour force, %)**
  - 2011: 2.9
  - 2012: 3.2
  - 2013: 3.3-3.5

Long-term average (1990-2014): 6.7%

Source: Department of Statistics, Malaysia, Bank Negara Malaysia and Malaysian Employers Federation (MEF)

p preliminary, f forecast
Private investment to expand by 5.5%

However, growth remains supported by on-going and new investments, particularly in the manufacturing sector.

Approved Investment by MIDA

Source: Department of Statistics, Malaysia Investment Development Authority (MIDA) and Bank Negara Malaysia
Malaysia’s exports supported by a diversified trade structure

Continued expansion in manufactured exports amid a smaller decline in commodity exports

<table>
<thead>
<tr>
<th>Trade Annual change (%)</th>
<th>% share (2015)</th>
<th>2015p</th>
<th>2016f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross exports</td>
<td>100.0</td>
<td>1.9</td>
<td>2.4</td>
</tr>
<tr>
<td>Manufactured</td>
<td>80.2</td>
<td>6.5</td>
<td>5.6</td>
</tr>
<tr>
<td>E&amp;E</td>
<td>35.6</td>
<td>8.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Non-E&amp;E</td>
<td>44.6</td>
<td>5.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Commodities</td>
<td>19.2</td>
<td>-13.4</td>
<td>-11.1</td>
</tr>
</tbody>
</table>

Malaysia’s exports supported by diversified structure across products and markets

Exports by Product

<table>
<thead>
<tr>
<th>% share of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
</tr>
<tr>
<td>90</td>
</tr>
<tr>
<td>80</td>
</tr>
<tr>
<td>70</td>
</tr>
<tr>
<td>60</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>40</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Exports by Market

<table>
<thead>
<tr>
<th>% share of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
</tr>
<tr>
<td>90</td>
</tr>
<tr>
<td>80</td>
</tr>
<tr>
<td>70</td>
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<tr>
<td>60</td>
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<tr>
<td>50</td>
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<tr>
<td>40</td>
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<td>30</td>
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<tr>
<td>20</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

p preliminary, f forecast

Note: G3 refers to the US, EU and Japan, NIEs refers to Hong Kong, Korea and Chinese Taipei

Source: Department of Statistics, Malaysia
Current account to remain in surplus

Narrower current account surplus reflects global developments and domestic structural transformation

Continued expansion of investment activity, particularly to boost productivity and capacity

Source: Department of Statistics, Malaysia
While ringgit has strengthened in recent months, volatility is likely to persist going forward.

Ringgit has outperformed most regional currencies since end Sept 2015:
- NEER: -21.3%
- REER: -19.6%
- NEER: 7.6%
- REER: 8.1%

Ringgit volatility since September 2014 has exceeded levels in previous episodes of sharp adjustments:

- Pre-GFC
- GFC
- European SDC
- Taper Tantrum
- Since Sept '14

Note: Regional currencies include IDR, KRW, SGD, THB, TWD, INR, PHP, CNY

Historical Volatility* of Ringgit against USD:

*Average historical volatility of the stated period. Historical volatility defined as a 22-day (trading days in 1 month) rolling standard deviation of daily currency change (%)

Source: Bloomberg and Bank Negara Malaysia
Malaysia is well-positioned to smoothly intermediate the large volume in capital flows

Short-term capital flows were largely driven by 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 economic adaptability, 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
Non-resident holdings of Malaysian government bonds are stable, underpinned by long-term investors

Non-resident holdings of Malaysian government bonds are stable at 30%

Distribution of Non-resident Holdings in Government Bonds as at end-January’16

- Asset Management: 44%
- Central Bank/Government: 29%
- Pension Funds: 13%
- Banks: 10%
- Insurance Companies: 2%
- Others: 1%
- Nominees/Custodians: 1%

Note: *Others include individuals, non-financial corporations and unidentified sectors

Source: Bank Negara Malaysia
International reserves are adequate to provide a buffer against external shocks and facilitate international transactions

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

**Net International Reserves**

- 15 Mar. 2016 USD96.1 bil
- 1997: USD21.7 bil
- Redefinition of external debt

Increased holdings of foreign assets by banks and corporations

**Malaysia’s External Assets**

- USD118.7 billion vs USD384.1 billion
- 2005: 59% vs 75%
- 2015: 41% vs 25%

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
External debt remains manageable

Higher external debt in 2015 due mainly to foreign exchange valuation effects

- **Healthy external debt profile:**
  - Contained risks of foreign exchange fluctuations as 36% of external debt is denominated in ringgit
  - Limited rollover risks as 57.8% of external debt is skewed towards medium- to long-term tenures
  - Debt service ratio remained low at 22.6%

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Foreign currency debt remains low while short-term external debt is mostly covered by assets

Foreign currency external debt remained stable at 41.8% of GDP

*Based on previous definition of external debt, which excludes trade credits

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
While headline inflation to range between 2.5 – 3.5% in 2016, cost of living expected to remain elevated

- Higher inflation reflects upward adjustment of administered prices and the weaker ringgit exchange rate
- Inflationary pressures will be mitigated by:
  - Low global energy and commodity prices
  - Subdued global inflation
  - More moderate domestic demand
- However, rising cost of living continues to affect low- and middle-income households

**Inflation Forecast**

Long-term average (1991-2015) = 3%

While headline inflation to range between 2.5 – 3.5% in 2016, cost of living expected to remain elevated

**Annual change (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
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<tr>
<td>2012</td>
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<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016f</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Department of Statistics, Malaysia and Bank Negara Malaysia
Monetary policy will focus on sustainable economic growth and price stability

- Monetary policy in 2016 will focus on ensuring monetary conditions remain supportive of the sustainable growth of the domestic economy and price stability
- The Bank will continue to ensure that liquidity is sufficient, to support the orderly functioning of the money and foreign exchange markets

Source: Bank Negara Malaysia
Continued access to financing for private sector

Gross Financing through Banking System and the Capital Markets*

- Going forward, financing activity is expected to remain supportive of economic activity
  - Level of loans disbursed to remain healthy, and broad-based across all economic sectors
  - Funds raised from the capital market to be sustained given continued investment activity

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

Source: Bank Negara Malaysia
Borrowing costs for the private sector remain stable

- Private sector will continue to benefit from stable financing costs
  - Lending rates in the banking system remains stable. In particular, lending rates to businesses and SMEs remain below their long-run average
  - Despite financial market volatility, cost of financing from the capital markets remains attractive for fund-raising

Note: * Average (Jan 2002 – Dec 2015)
Source: Bank Negara Malaysia
Malaysia’s macroeconomic fundamentals remain supportive of growth

**Steady growth path**

- Annual change (%)
  - Real GDP
    - 2009: -1.5
    - 2011: 7.4
    - 2013: 6.0
    - 2015: 5.0

**High private sector participation in the economy**

- % of GDP
  - 2011: 61.7
  - 2013: 69.2

**Stable labour market conditions**

- Rate (%)
  - 2009: 3.7
  - 2011: 2.9
  - 2013: 3.2

**Low and stable inflation environment**

- Annual change (%)
  - Headline Inflation
    - 2009: 0.6
    - 2011: 1.7
    - 2013: 3.2
    - 2015: 2.1

**Current account balance reflects strong investment**

- % of GNI
  - 2011: 15.8

**Deeper markets and strong financial buffers**

- % of nominal GDP
  - 2011: 55.5

---

* Capital ratio in ‘98 refers to the risk-weighted capital ratio; Ratio in 2015 refers to total capital ratio, reported based on Basel III Capital Adequacy Framework adopted since January 2013.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
The economy remains resilient with the ability to manage potential downside risks to growth

1. In this challenging environment, the Malaysian economy is projected to expand by 4.0 – 4.5% in 2016, driven by domestic demand

2. Low and stable inflation of 2.5 – 3.5%

3. Downside risks to growth emanating from global and domestic developments
   - Moderate recovery in the major economies
   - Further weakness in global commodity prices
   - Households’ ongoing adjustments to higher cost of living

4. Malaysia’s strong fundamentals and benefits from earlier reforms and structural adjustments
   - Diversified sources of growth
   - Favourable external position
   - Well-capitalised banking system and well-developed capital markets
Financial position remained stable in 2015:

- Total assets of BNM amounted to RM440.6 billion with International Reserves of RM409.1 billion (USD 95.3 billion)
- Net profit of RM7.79 billion
- Dividend of RM3.0 billion to the Government
Bank Negara Malaysia: Annual Financial Statements 2015

Statement of Financial Position
(as at 31 December 2015)

<table>
<thead>
<tr>
<th>RM billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities and Capital</td>
</tr>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Gold and Foreign Exchange</td>
</tr>
<tr>
<td>IMF Reserve Position</td>
</tr>
<tr>
<td>SDR</td>
</tr>
<tr>
<td>MGS</td>
</tr>
<tr>
<td>Deposits with FIs</td>
</tr>
<tr>
<td>Loans and Advances</td>
</tr>
<tr>
<td>Land and Buildings</td>
</tr>
<tr>
<td>Other Assets</td>
</tr>
</tbody>
</table>

Income Statement
(Year ended 31 December 2015)

<table>
<thead>
<tr>
<th>RM bil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
</tr>
<tr>
<td>Less:</td>
</tr>
<tr>
<td>Recurring Expenditure</td>
</tr>
<tr>
<td>Development Expenditure</td>
</tr>
<tr>
<td>Taxation</td>
</tr>
<tr>
<td>Total Expenditure</td>
</tr>
<tr>
<td>Net Profit</td>
</tr>
</tbody>
</table>
Laporan Kestabilan Kewangan dan Sistem Pembayaran 2015
## Financial stability in 2016 to remain sound

<table>
<thead>
<tr>
<th>Banking sector (%)</th>
<th>2014</th>
<th>Jan ‘16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capitalisation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common equity tier 1 ratio</td>
<td>13.3</td>
<td>12.8</td>
</tr>
<tr>
<td>Total capital ratio</td>
<td>15.9</td>
<td>16.4</td>
</tr>
<tr>
<td>Excess capital buffer (RM bil)</td>
<td>107.2</td>
<td>120.5</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on assets</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Return on equity</td>
<td>15.2</td>
<td>12.2</td>
</tr>
<tr>
<td><strong>Asset quality</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net impaired loans ratio</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Loans in arrears (1-&lt;3 mths)</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Liquidity position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity coverage ratio*</td>
<td>-</td>
<td>124.7</td>
</tr>
<tr>
<td><strong>Insurance/Takaful sector (%)</strong></td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td><strong>Capitalisation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital adequacy ratio – Insurance</td>
<td>251.9</td>
<td>251.9</td>
</tr>
<tr>
<td>Capital adequacy ratio – Takaful</td>
<td>190.2</td>
<td>190.3</td>
</tr>
<tr>
<td>Capital buffer (RM bil)</td>
<td>32.3</td>
<td>46.0</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit (RM bil)</td>
<td>16.9</td>
<td>14.7</td>
</tr>
</tbody>
</table>

- Financial institutions continue to maintain strong capitalisation with ample liquidity buffers and sustained profitability
- Malaysian banks adopt global reforms from a strong starting point
- Stable asset quality, reinforced by sound provisioning practices

---

* Basel III Liquidity Coverage Ratio requirement implemented from 1 June 2015, superseding the previous Liquidity Framework and Liquidity Framework-i requirements
Sustained moderation in the growth of household debt and property prices

**Household debt and financial assets**

- **Household debt:** Slower pace of growth since 2010
  - Sustained slower expansion in personal financing (+4.6%)
  - Share of debt by vulnerable borrowers declined further (23.6%), with stable leverage

- **Stable growth in average house prices since 2Q 2014**
  - Speculative purchases with borrowings remained in check
  - Continued strong demand for affordable housing
  - 74% of housing loans are to first time house buyers
Expansion in corporate borrowings reflected increased domestic investment activities

- Expansion in domestic borrowings (+9.5%) remained close to long term trend
  - Driven by capital expenditure for private sector investments and public infrastructure projects

- Higher external borrowings (24.8% of GDP) largely driven by exchange rate valuation effects
  - 54% of external debt associated with trade credits, non-resident holdings of RM-denominated securities and intra-group borrowings, with low currency and funding risks

- Overall debt servicing capacity of businesses remained sound
  - Relatively low share of debt-at-risk
  - Aggregate debt service capacity of large borrowers supported by stable and healthy cash buffers
Liquidity and funding conditions remained supportive of financing activities

- Banking system surplus liquidity remained high at RM178.3 billion as at January 2016

- Measures taken by the Bank to ease funding pressures amid heightened deposit competition
  - Liquidity facilities
  - Reduction in SRR

- Expansion of liquidity metrics to capture effects of financial deepening on banks funding structure
  - Publication of loan-to-funds and loan-to-funds and equity ratios from January 2016
Domestic banking groups maintained net external asset position reflecting operations of overseas branches and subsidiaries.

Net external liability position of locally-incorporated foreign banks reflects parent funding, as operations in Malaysia remain profitable.

Banks continue to maintain prudent risk controls to manage credit risks and currency and maturity mismatches.

- Capitalisation, profitability and asset quality of overseas operations remain healthy.
Banks and insurers well-placed to withstand severe macroeconomic and financial shocks

- Capitalisation of banks and insurers remained above minimum regulatory requirement under simulated stress scenarios:
  - Synchronised sharp economic slowdown and banking sector distress in several major trade partners;
  - Heightened geopolitical tensions;
  - Protracted commodity market rebalancing and extreme global financial market volatility; and
  - Domestic economy in recession deeper than 2008 with sharp correction across major asset classes.

| System-wide post-shock capitalisation from the Bank’s multiyear solvency stress test |
|---------------------------------|-----------------|
| **Banks**                      | **Insurers**    |
| Total capital ratio: 10.4% and 9.9% | Capital adequacy ratio between 176% and 245% |
| Common equity Tier-1 ratio: 7.6% and 6.9% |

**Banks’ post-shock common equity tier 1 capital ratio**

- Adverse scenario 1
- Adverse scenario 2

- 1st quartile
- Median
- 3rd quartile
- Average
Effective financial intermediation and the further deepening of financial markets have continued to support economic activity

1. Continued expansion in financing for SMEs

- Financing to SMEs expanded by 14.4% to RM273.3 billion
- Additional RM1 billion funding for the Shariah Compliant SME Financing Scheme

2. Measures to further promote the utilisation of renminbi as a settlement currency

- Malaysia’s admission into the Renminbi Qualified Foreign Institutional Investor (RQFII) programme by PR China in November 2015
  - Enables development of more renminbi-denominated financial products
  - Guidance Note issued jointly by the Bank and Securities Commission Malaysia to facilitate applications by qualified Malaysian institutions
ASEAN financial integration gained further traction

1. Conclusion of ASEAN Banking Integration Framework
   - Greater market access and operational flexibilities for Qualified ASEAN Banks based on mutually agreed commitments between home and host countries in the region

2. Liberalisation of foreign exchange administration measures
   - To facilitate cross-border offerings of collective investment scheme (CIS) products within ASEAN under the ASEAN Capital Market Forum

3. Broad framework on ASEAN Financial Integration post-2015
   - 10-year plan based on the three pillars of financial integration, financial stability and financial inclusion
   - Further integration opportunities to be pursued in areas of financial sector, capital market and cross border payments

4. Operationalisation of first local currency trade settlement framework in ASEAN currencies
   - Collaboration with the Bank of Thailand to promote the use of the ringgit and Thai baht for settlement activities
Improving consumer outcomes and promoting long-term sustainability in the insurance/takaful sector

- Implementation of capital management for takaful operators
- Strengthening independence and role of the appointed actuary
- Standards on management of participating life insurance business
- Implementation of Life Insurance and Family Takaful Framework
- Phased liberalisation of motor and fire insurance tariffs
Further liberalisation of Motor and Fire Tariffs will benefit consumers while ensuring long-term sustainability

**Initiatives under New Motor Cover Framework**
- Inter-agency committee to drive efficiency improvements
- 24-hour nationwide accident call centre
- Gradual adjustments to the Motor Tariff (2012-2015)

**Outcomes achieved**
- Claim settlement time reduced by 17%
- Number of complaints reduced by 33%
- More than 1,000 calls to Accident Assist Call Centre per month
- Loss ratio for bodily injury and death claims improved from 301% to 210%
- 42% reduction in declined risks (previously under MMIP)

**Roadmap for further liberalisation**

<table>
<thead>
<tr>
<th>Motor Class</th>
<th>Fire Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurers may introduce new non-tariff products and optional add-on covers*</td>
<td>Gradual adjustments to Fire Tariff rates</td>
</tr>
<tr>
<td>Removing of tariff rates for Motor Comprehensive and Motor Third Party Fire and Theft policies</td>
<td>Assessment of readiness of consumers and industry for further liberalisation</td>
</tr>
<tr>
<td>Gradual adjustments for Motor Third Party tariff rates</td>
<td></td>
</tr>
</tbody>
</table>

* New products/coverage not defined under the Motor/Fire Tariff, or any variation to, or extension of, existing products/coverage.
Further progress in financial inclusion

Malaysia's Financial Inclusion Indicators

1. Convenient accessibility
   - Mukim with at least 2,000 population with at least one access point
     - 46% in 2011, 97% in 2015
   - Population living in mukim with at least one access point
     - 82% in 2011, 98% in 2015

2. Take-up rate (adult population)
   - Deposit accounts
     - 92% in 2011, 91% in 2015
   - Financing accounts
     - 36% in 2011, 25% in 2015

3. Responsible usage
   - Customers with active deposit accounts
     - 87% in 2011, 92% in 2015
   - Customers with performing financing accounts
     - 97% in 2011, 98% in 2015

4. Satisfaction level
   - Malaysians who are satisfied with overall financial services
     - 61% in 2011, 73% in 2015

8% of adult population still unbanked

- Gender
  - 55% women
- Income
  - 86% no income & low income
- Region
  - 33% in East Malaysia
- Age group
  - 46% from age of 15-24 years old

- Need to improve take-up rate among lower income groups for financial services
- Microsavings, microinsurance/microtakaful and microfinancing products to be pursued to expand reach
Amendments to DFIA will support more effective role and performance of DFIs

Key outcomes

Further strengthen the ability of DFIs to support Malaysia’s socio-economic development and promote inclusive growth

Ensure sound financial management and improve the operational efficiency and resilience of DFIs to ensure long-term sustainability
Operationalisation of Financial Ombudsman Scheme

1. To commence operations in 2Q 2016 with expanded scope and, enhanced governance and operational arrangements

Expansion of AKPK’s Debt Management Programme to non-bank borrowers

2. Services expanded to borrowers of non-banks including credit cooperatives and Malaysia Building Society Berhad

Supported by sustained financial education agenda

3. Progressive integration of financial education into formal school curriculum

Expansion of redress and debt resolution arrangements for financial consumers

• Targeted financial education programmes by AKPK to more than 370,000 adults in 2015

• Launched nationwide Financial Capability and Inclusion Demand Side survey to measure financial capability levels of consumers

• Introduced mobile applications to elevate consumer awareness and skills in money management matters

My Ringgit    My Tabung    My BNM    BNM MyLINK

BANK NEGARA MALAYSIA
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41
Continued development of an efficient Islamic financial system built on strong Shariah foundations

- **Expansion of investment accounts**
  - New investment accounts offered by 8 Islamic banks as part of measures to comply with IFSA
  - RM47.1 billion placed in investment accounts as at end December 2015 representing 10% of total funding of Islamic banks
  - Investment Account Platform serves as an online market place for entrepreneurs and investors to participate in investment accounts

- **Further progress on development of a comprehensive Shariah contract-based regulatory framework**
  - 13 key Shariah standards and 5 operational guidelines issued to date
Increasing momentum in the migration to e-payments

- Encouraging progress in the migration away from cheques with accelerated decline rate
- Payment Card Reform Framework to promote wider acceptance and usage of debit cards

<table>
<thead>
<tr>
<th>Payment indicators</th>
<th>2011</th>
<th>2015</th>
<th>2020 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-payment per capita</td>
<td>49</td>
<td>82</td>
<td>200</td>
</tr>
<tr>
<td>Cheques cleared (million)</td>
<td>205</td>
<td>148</td>
<td>100</td>
</tr>
<tr>
<td>Card terminals (per 1,000 inhabitants)</td>
<td>7</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>Debit card transactions per capita</td>
<td>1</td>
<td>3</td>
<td>30</td>
</tr>
</tbody>
</table>

Five focus areas to accelerate the migration to e-payments

- Price signal
- Industry incentive structure
- Access points
- Quality and value proposition
- Awareness and confidence
Professionalising talent to meet the evolving need of the financial sector

Creation of comprehensive infrastructure to nurture a deep professional talent pool

Lead Institutions

1. Strong leadership

2. Technically competent

3. Qualified and certified

4. Ethical and professional

Recent Key Outcomes

- Over 20,000 strong leaders including senior management, Board of Director and Shariah experts nurtured in past 5 years
- Training institutes and standard-setters continually enhanced and evolving to deliver highest, globally-benchmarked standards in learning
- Over 50,000 technically-competent banking, insurance and Islamic finance employees produced in past 5 years
- Chartered Banker qualifications track benchmarked against the highest standards of industry excellence and professionalism
- Over 1,300 students enrolled/registered
- Industry code of ethics (CoE) published in January 2016 will set a high bar for professionalism and ethics

Lead Institutions

- Institute of Directors in Islamic Finance (IDIF)
- Chartered Institute of Bankers in Malaysia (CIBM)
- Asian Institute of Financial Management (AIFM)
- Institute of Islamic Bankers Malaysia (IIBM)
- Malaysian Institute of Petroleum (MIP)
- Financial Services Professional Board (FSPB)
Financial sector is in a stronger position to cope with the more challenging environment

1 Resilient financial institutions and ample liquidity to support financial intermediation activities
   - Financial institutions well-placed to withstand severe macroeconomic and financial shocks

2 Deep and diversified financial system will continue to support orderly market conditions

3 Priorities of the Bank going forward include:
   - Maintaining close vigilance over domestic developments and management of risks by financial institutions including overseas operations
   - Continuing with the implementation of global prudential standards and insurance reforms
   - Strengthening inter-agency and cross-border arrangements for management of financial stability