

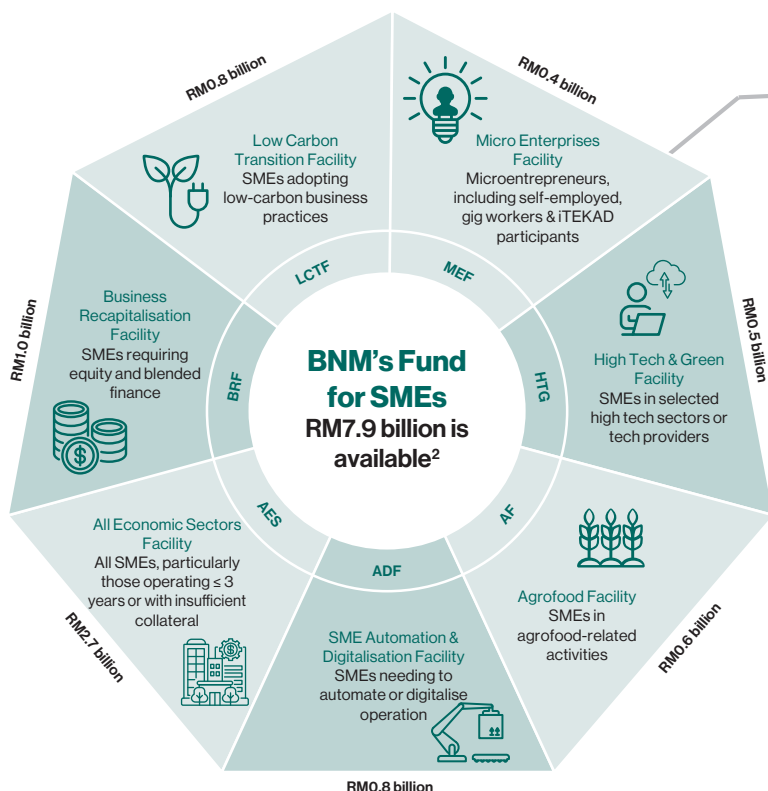
# Promoting a Progressive and Inclusive Financial System

One of the key mandates of Bank Negara Malaysia (BNM) is to promote the development of a progressive and inclusive financial system for the Malaysian economy.

Two years into the Financial Sector Blueprint (FSBP) 2022–26, financial development priorities remain anchored on supporting intermediation function for sustainable and inclusive growth, strengthening ecosystem enablers and driving longer-term reforms. In 2023, BNM continued to

prioritise efforts to ensure financial intermediation activities continue to support the economic transformation agenda and assist businesses, especially micro, small and medium enterprises (MSMEs) to build business resilience and transition to green practices. Significant efforts were also directed at enhancing the financial capability of Malaysians and closing the remaining hurdles to financial inclusion. In addition, efforts were geared towards supporting a vibrant digital financial services landscape that promotes responsible innovations with strong value propositions. Chapters that follow elaborate on other key efforts and progress in facilitating an orderly transition to a greener economy and in advancing value-based finance through Islamic finance thought leadership.

**Diagram 1: Active Facilities<sup>1</sup> under BNM's Fund for SMEs to Support SMEs in Targeted Segments**



Under Budget 2024, RM600 million from selected facilities under BNM's Fund for SMEs has been earmarked for specific target segments:

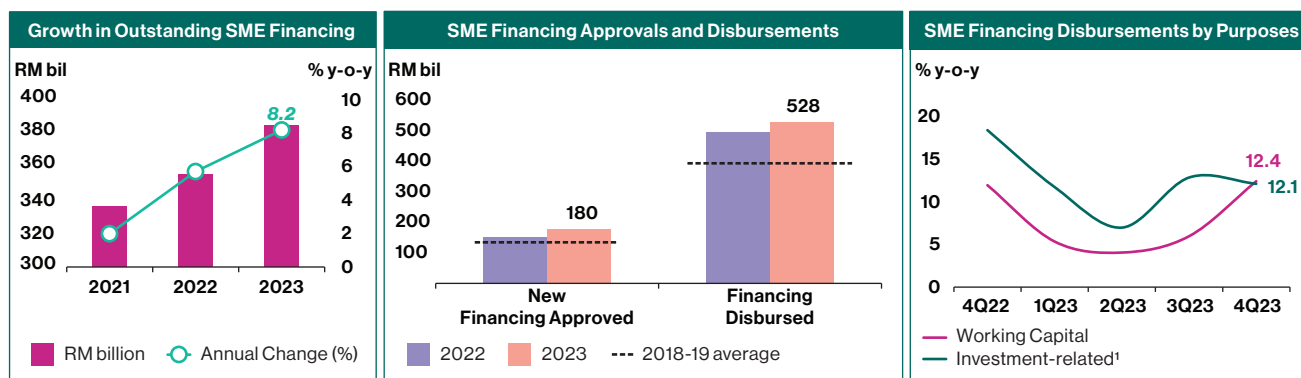
- 1 Micro Enterprises Facility **Additional RM200 million** including RM50 million for low-income microentrepreneurs under iTEKAD programmes
- 2 Agrofood Facility **RM100 million** to support the national food security agenda
- 3 Low Carbon Transition Facility **RM100 million** to incentivise SMEs to obtain sustainability and green certification
- 4 All Economic Sectors Facility **RM200 million** to catalyse the provision of CAKNA II, a contract financing facility for small contractors (G1-G4) awarded government projects valued up to RM1.5 million

Further information available at: <https://www.bnm.gov.my/-/msme-budget24-bm>

<sup>1</sup> Other active facilities under BNM's Fund for SMEs are intended for relief purposes:  
 i) **Disaster Relief Facility (DRF)** to assist MSMEs affected by floods (Allocation: RM500 million)  
 ii) **PENJANA Tourism Financing (PTF)** to support SMEs in tourism sector (Allocation: RM600 million)  
<sup>2</sup> Total balance as at end-December 2023, including for the relief facilities (see footnote 1 above).

Source: Bank Negara Malaysia

Chart 1: Performance of SME Financing



<sup>1</sup> Investment-related purpose includes financing for the purchase of non-residential properties, residential properties for business use, fixed assets (incl. cars) and construction activity.  
 Note: Reflects financing from the banking system and development financial institutions (DFIs).

Source: Bank Negara Malaysia

## Ensuring Continuous Access to Finance for SMEs

In 2023, credit conditions remained supportive of financing needs by businesses. For SMEs in particular, outstanding financing grew by 8.2% as at end-2023 (end-2022: 5.7%). A total of RM528 billion in funds were disbursed to SMEs in 2023 (2022: RM496 billion), which is almost 40% higher than pre-pandemic levels (average 2018–19: RM377 billion). These financing activities were mainly for working capital purposes, reflecting improved business activity. Similarly, SME financing continued to grow with over RM180 billion in new financing approved for more than 235,000 SME accounts (2022: RM150 billion for nearly 231,000 accounts). These include financing the purchases of commercial properties and funding of construction activity. In 2023, we realigned BNM’s Fund for SMEs to further encourage the crowding-in of private financing into identified new growth areas, including activities that support the transition towards a greener, low-carbon future. Subsequently, financial institutions have contributed support to National Investment Aspirations<sup>1</sup> (NIA) initiatives as evidenced by accelerated growth of SME outstanding financing in strategic sectors. The 2023 growth rate of 23% for these sectors outpaced the growth rate in previous years (end-2022: 7.2%; end-2021: 7.6%). The observed trend was mainly driven by higher financing to Information and Communications Technology (ICT) and chemical and pharmaceutical sub-sectors. While SME

financing is primarily funded by banks and development financial institutions (DFIs),<sup>2</sup> BNM’s Fund provided a complementary source of financing to SMEs. More than RM7.9 billion under the BNM’s Fund remained available for further utilisation as of December 2023, from the total allocation of RM32.4 billion since the COVID-19 pandemic. Nevertheless, the total allocation under BNM’s Fund accounts for only 8% of total outstanding financing to SMEs, in line with its intended role to crowd-in financing by banks to the unserved and underserved segments.

Social finance continued to show promise as a credible solution to support the financing needs of the unserved and underserved segments. In 2023, the iTEKAD initiative, which incorporates key elements of social finance for microentrepreneurs, continued to gain traction (Diagram 2).

The feature article on ‘iTEKAD: An Ecosystem Approach in Scaling Up Social Finance’ provides more information on this approach.

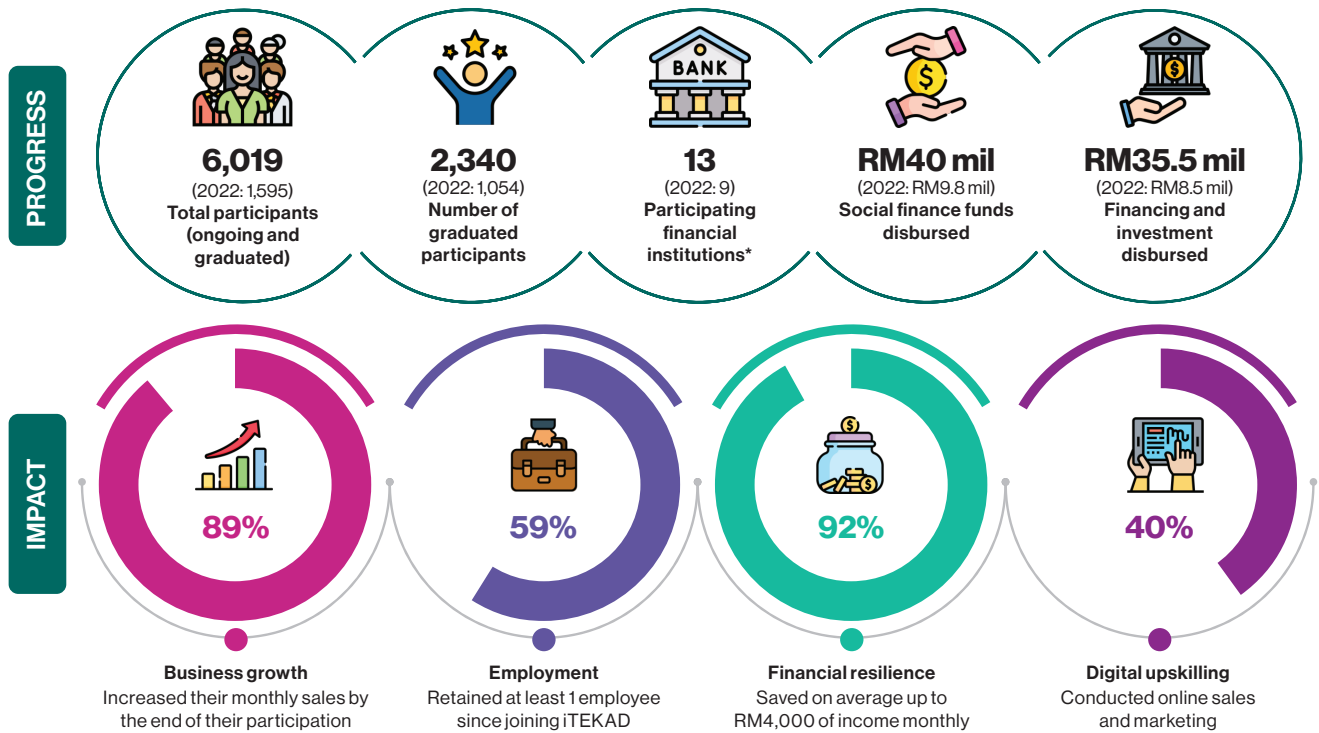
### DFIs as key enablers to enhance inclusivity and access to financing

In 2023, DFIs continued to complement the banking system in financing underserved sectors and segments.

<sup>1</sup> NIA refer to overarching strategic developmental objectives to increase economic complexity, create high-value jobs, extend domestic industry linkages and develop new and existing clusters. Strategic sectors deemed to be aligned with the NIA include the manufacturing of electrical and electronic products, chemicals, medical devices and pharmaceuticals, machinery and equipment and transport equipment (e.g. aerospace); information and communication technology; research and development; and higher education.

<sup>2</sup> DFIs prescribed under the Development Financial Institution Act 2002 are Bank Kerjasama Rakyat Malaysia (Bank Rakyat), Bank Pertanian Malaysia Berhad (Agrobank), Bank Simpanan Nasional (BSN), Bank Pembangunan Malaysia Berhad, Export-Import Bank of Malaysia Berhad and Small Medium Enterprise Development Bank Malaysia Berhad.

Diagram 2: Progress and Impact of iTEKAD in 2023



\*As at February 2024

Note: Impact figures are derived from sample of participants who have completed iTEKAD programmes i.e. graduated participants.

Source: Bank Negara Malaysia

DFIs play a crucial role to support key strategic sectors in the economy. In 2023, DFIs continued to complement the banking system in financing underserved sectors and segments. Outstanding DFI financing grew by 5.9% to RM173.4 billion (2022: 1.3% to RM163.8 billion), while

financing to mandated sectors<sup>3</sup> grew by 12.5%, benefitting more than 176,000 businesses. New financing approved by DFIs saw a notable increase of 38.2% (2022: 7.2%), reaching more than 740,000 low-income borrowers and 30,000 SMEs including start-ups and

Diagram 3: DFIs' Achievements in Additionality Creation in 2023

FINANCIAL ADDITIONALITY DFIs' intermediation towards mandated segments and other services to narrow financing and inclusion gaps	DESIGN ADDITIONALITY DFIs' contribution to positive customers' growth beyond financing	POLICY ADDITIONALITY DFIs advised the Government to support the rollout of novel products <sup>3</sup>
Financing approved <b>RM45 billion</b> (38% y-o-y growth)	<b>10,000</b> businesses achieved income growth	DFIs proactively advocated for the Government to support the mainstreaming of <b>social enterprises</b> .
<b>87%</b> Microfinance borrowers are served by DFIs <sup>1</sup>	<b>2,900</b> businesses achieved upward migration <sup>2</sup>	DFIs successfully advocated for the Government to allocate funds to <b>digitalise hawkers</b> and build financial management capabilities.
<b>83%</b> Mobile bank units are contributed by DFIs	<b>125,000</b> jobs newly created or sustained	DFIs supported pandemic-affected SMEs by advocating for the Government to support the roll-out of the first <b>equity financing</b> scheme in Malaysia.
<b>40%</b> Mukims are solely served by DFIs	<b>DEMONSTRATION ADDITIONALITY</b> DFIs crowded-in private sector to support underserved segments <sup>3</sup>	
<b>944k</b> Individuals reached through financial literacy programs (including youths and low-income workers)	<b>RM2 bil</b> Funding crowded-in from private sector	
<b>33k</b> Businesses helped by capacity building programs	<b>25 projects</b> financed for sustainable waste management, biogas energy & maritime, among others	
Infrastructure RM4.4 billion MSMEs RM5.1 billion Export RM1.7 billion Cooperatives RM650 million Agriculture RM742 million B40 RM23 billion		
<b>32,000</b> Underserved businesses are financed by DFIs <b>Half</b> of iTEKAD participants are served by DFIs		

<sup>1</sup> Based on numbers of accounts under Skim Pembiayaan Mikro (SPM).

<sup>2</sup> Upward migrations: informal to formal, micro → small → medium → large improvement in credit rating.

<sup>3</sup> Since 2021.

Source: Bank Negara Malaysia

<sup>3</sup> MSMEs, agriculture, cooperatives, export and infrastructure.



The World Bank, BNM and the Association of Development Financial Institutions Malaysia (ADFIM) collaborated to host the 'Green Finance Forum for DFIs'.

**Diagram 4: Success Stories from Financing by DFIs**



Source: Bank Negara Malaysia and ADFIM

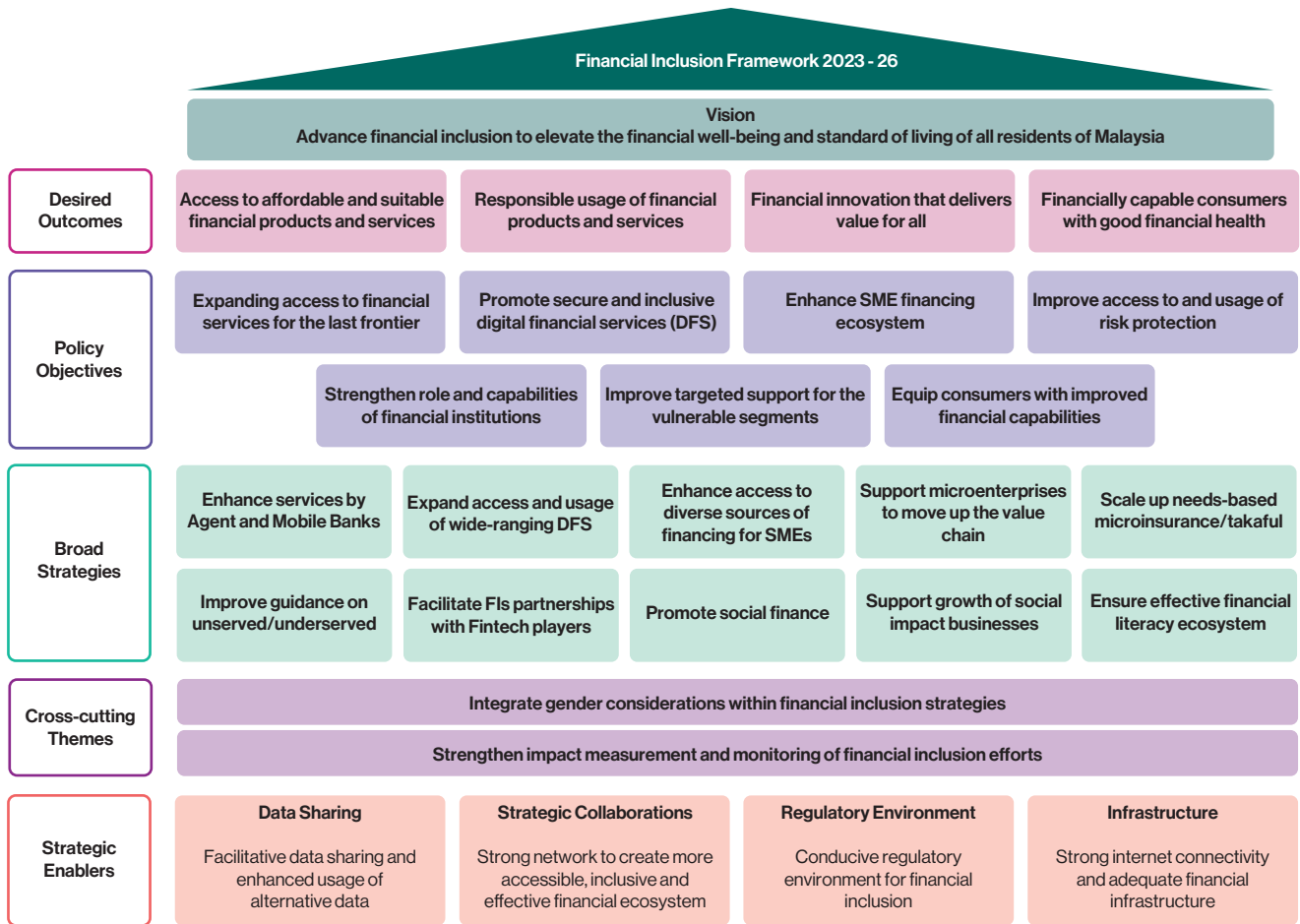
first-time borrowers. DFIs also remain as the main credit provider for microenterprises, constituting 87% of total microfinance accounts. Supported by financing from DFIs, over 10,000 businesses achieved higher turnover and around 2,900 businesses expanded their operations, creating and retaining an estimated 125,000 jobs for the economy in 2023.

The Performance Measurement Framework (PMF) introduced in 2018 helps BNM to track the progress, impact and effectiveness of DFIs and alignment with their developmental mandate. In 2023, DFIs continued to narrow financing and inclusion gaps and contribute to positive socioeconomic outcomes (Diagram 3).

As the PMF matures, BNM expects DFIs to also drive strategic outcomes on sustainability. Specifically, we look to have more DFIs pioneering innovative green finance solutions with a particular focus on mandated segments such as SMEs, green technology and agribusinesses. In 2023, BNM, the World Bank and ADFIM collaborated to host the Green Finance Forum in June 2023.<sup>4</sup> The forum was aimed to strengthen DFIs' familiarity and expertise on green finance. As part of the outcome arising from the forum, DFIs have shown commitments to advance this agenda (Diagram 4). This includes supporting innovative green projects such as Malaysia's first hydrogen-powered transit system, the world's first ocean plastic recycling system and

<sup>4</sup> More information on the highlight and takeaways of 'Green Finance Forum for DFIs' are available at forum report ([adfim.com.my](http://adfim.com.my)).

Diagram 5: The Financial Inclusion Framework (2023–26) at a Glance



Source: Bank Negara Malaysia

smart farming through Artificial Intelligence (AI) and hydroponics to minimise resource usage.

## Enhancing Financial Inclusion and Access to Financial Products and Services

### Advancing financial inclusion strategies

Advancing financial inclusion is pivotal to enhance the overall financial well-being of all Malaysians. This is to ensure that households and businesses can adapt to the evolving financial landscape and consequently, cultivate greater financial resilience to withstand economic fluctuations. The first Financial Inclusion Framework (2011–20) laid a solid foundation to expand the access to and provision of financial services. Today, almost every Malaysian has physical access to financial services within close proximity as a result of efforts over the years to expand the coverage of financial access points, especially outside major towns across the country.

The second Financial Inclusion Framework 2023–26 (FIF)<sup>5</sup> was published in June 2023, and serves as a strategic roadmap to further advance financial inclusion. Recognising the growing complexity and dynamism of the financial landscape, the FIF shifts the focus from accessibility to pursuing broader development outcomes. It sets a clear vision, desired outcomes, policy objectives and strategies to elevate the financial well-being and enhance the standard of living of all Malaysians (Diagram 5).

Importantly, the FIF is designed to build financial resilience and improve overall well-being. It has a strong focus to ensure Malaysians can participate meaningfully in the financial system. This is achieved in part by spurring innovation, fostering a wider array of financial choices for consumers, especially those in vulnerable segments. The FIF also outlines strategies aimed at promoting

<sup>5</sup> The Financial Inclusion Framework (2023–26) Strategy Paper is available at <https://www.bnm.gov.my/documents/20124/55792/SP-2nd-fin-incl-framework.pdf>.

## Promoting a Progressive and Inclusive Financial System

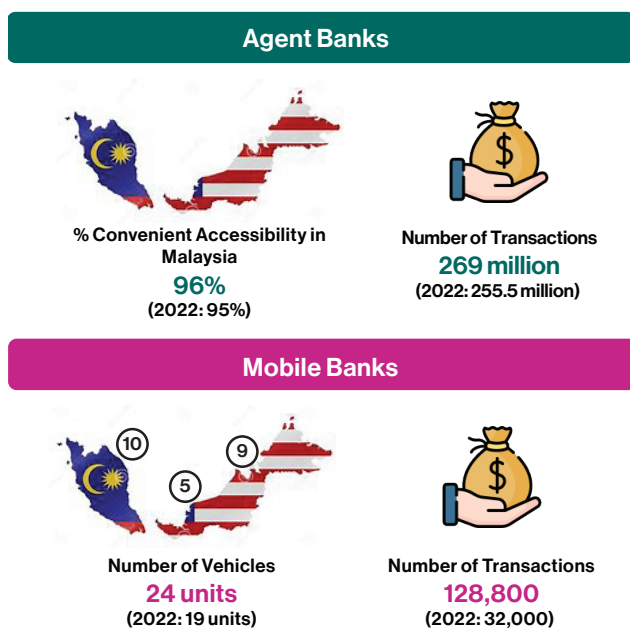
secure and inclusive digital financial services, as well as improving financial risk protection for SMEs and households. To ensure the financial industry's efforts are well-aligned and effective, the FIF provides guidance on defining the financially unserved and underserved.

### Enhancing financial access points

Presently, agent banks and mobile banks are the primary sources of access to financial products and services for the underserved communities (Diagram 6). The range of financial products and services offered by agent banks<sup>6</sup> is now expanded to better meet the needs of customers.<sup>7</sup>

The Bank Bergerak Initiative (BBI) has been crucial in this effort. Participating Financial Institutions (PFIs) of BBI<sup>8</sup> have offered essential banking services through mobile banks since 2021. The BBI was further expanded in 2023 with an allocation of RM10 million from the Government. At present, 24 mobile banks have been deployed nationwide. These mobile banks offer basic banking

**Diagram 6: Key Performance Indicators of Agent Banks and Mobile Banks (under Bank Bergerak Initiative) in 2023**



Source: Bank Negara Malaysia

<sup>6</sup> PFIs of Agent Banking Initiative are Bank Islam Malaysia Berhad (Bank Islam), Bank Rakyat, Agrobank, BSN, Malayan Banking Berhad (Maybank) and RHB Bank Berhad (RHB Bank).

<sup>7</sup> Opening of banking accounts via e-KYC protocols, undertake money services business, distribute microinsurance and microtakaful products and conduct e-money cash-in and cash-out activities.

<sup>8</sup> PFIs of Bank Bergerak Initiative are Affin Bank Berhad, Agrobank, Bank Muamalat Malaysia Berhad, Bank Rakyat, BSN, Maybank and RHB Bank.

services such as cash deposits and withdrawals, while also supporting the adoption of digital financial services. PFIs also play a role in promoting financial literacy through mobile banks. This was particularly evident during the Financial Literacy Month 2023 (FLM 2023).<sup>9</sup>

Moving forward, agent banks and mobile banks will continue to expand their reach to the low-income, elderly and rural communities. This effort will continue while these communities' digital connectivity and digital literacy continue to be enhanced to embrace digital financial services options.

### Promoting inclusive financial protection offerings

During the year, BNM continued to pursue efforts to promote a diverse microinsurance and microtakaful market. Taking into account both demand and supply perspectives, these efforts leveraged on foundational initiatives from previous years, such as the issuance of the *Perlindungan Tenang*<sup>10</sup> Policy Document, completion of a demand-side study<sup>11</sup> and the roll-out of the *Perlindungan Tenang* voucher programme.

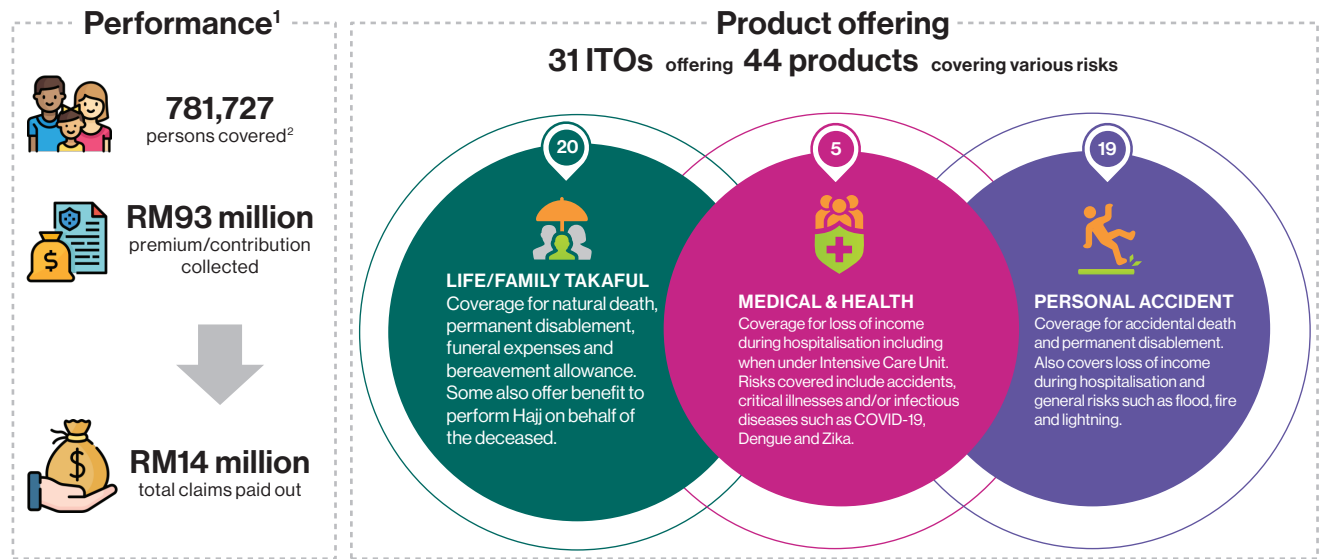
On the demand-side, BNM, together with insurance and takaful operators (ITOs), increased promotional and educational activities to raise greater awareness on the availability of affordable insurance and takaful protection products. For example, outreach activities and educational talks on the importance of insurance and takaful protection to increase the financial resilience of consumers were conducted in conjunction with BNM's *Karnival Celik Kewangan*. Efforts to widen the accessibility of *Perlindungan Tenang* were also pursued. These include exploring strategic partnerships with Government agencies, e-hailing companies, e-wallet providers as well as the Employees Provident Fund (EPF). Through these engagements, BNM was able to gain deeper insights into protection gaps, risks faced by consumers and the behavioural patterns of the unserved and underserved segments.

<sup>9</sup> More information about FLM 2023 is available in the 'Engaging Malaysians' chapter.

<sup>10</sup> The *Perlindungan Tenang* initiative was launched by BNM in 2017. It aims to expand the availability of quality insurance and takaful solutions to meet the needs of the unserved and underserved segments. This is supported by provision of regulatory flexibility under the *Perlindungan Tenang* framework (which covers product design, distribution channel and the offering of value-added services) as well as Government initiatives and support, such as the introduction of the *Perlindungan Tenang* voucher by the Government under Budget 2021 and 2022, and provisions of stamp duty exemptions for purchase of *Perlindungan Tenang* products.

<sup>11</sup> A demand-side study that was jointly commissioned by BNM and the insurance and takaful industry. The study aimed to support the future growth of a sustainable microinsurance/microtakaful market.

Diagram 7: Perlindungan Tenang Performance Since Launch



<sup>1</sup> For full year 2023.

<sup>2</sup> Including individual and group policies/certificates.

Source: Bank Negara Malaysia

From the supply-side, BNM continued to engage with ITOs to expand the range of affordable and accessible product offerings to consumers as well as niche microinsurance players on strategies and initiatives to address specific protection gaps, such as agriculture risk. Discussions and workshops were also held with ITOs and the National Disaster Management Agency (NADMA) to build stronger financial resilience against natural disasters, especially floods. In addition, macro-level *mySalam* claims data was also shared with 19 ITOs to encourage the offering of products with comparable critical illness and hospitalisation income replacement benefits. Meanwhile, efforts are also underway to develop a blended social protection initiative for the vulnerable segments.

### Ensuring inclusive and impactful financial education initiatives

Enhancing financial capability is essential to promote greater financial inclusion and encourage active participation of consumers in the financial system. In 2023, BNM together with members and partners

of the Financial Education Network (FEN), continued to implement a range of financial education initiatives.<sup>12</sup> These efforts were strategically aimed at bridging the gaps identified through various surveys and findings.<sup>13</sup> Primarily targeting youth and micro-entrepreneurs, the focus is to empower them through enhanced digital financial literacy, fostering financial resilience and nurturing sustainable financial growth within the community.

FEN has established a set of Annual Key Performance Indicators (KPIs) in four focus areas (i.e. Solutions, Access, Awareness and Applications) in the FEN Programmatic Roadmap. This is to ensure inclusive and impactful financial education initiatives (Diagram 8).

Additionally, FEN has published the Financial Education Measurement and Evaluation (FEME) Framework<sup>14</sup> to assess the application of acquired knowledge (Diagram 9). This structured outcome-based framework

<sup>12</sup> As of 31 December 2023, 367 initiatives were reported across Strategic Priorities and Action Plans of the National Strategy with a total reach of about 61 million.

<sup>13</sup> Surveys by FEN members and partners include the Financial Capability and Inclusion Demand Side Survey 2021 by BNM, Youth Capital Market Survey by the Securities Commission Malaysia, Behavioural Studies on Savings and Insurance by Perbadanan Insurans Deposit Malaysia, Financial Literacy Survey 2022 by Employees Provident Fund, RinggitPlus Malaysian Financial Literacy Survey as well as insights from engagements with the public.

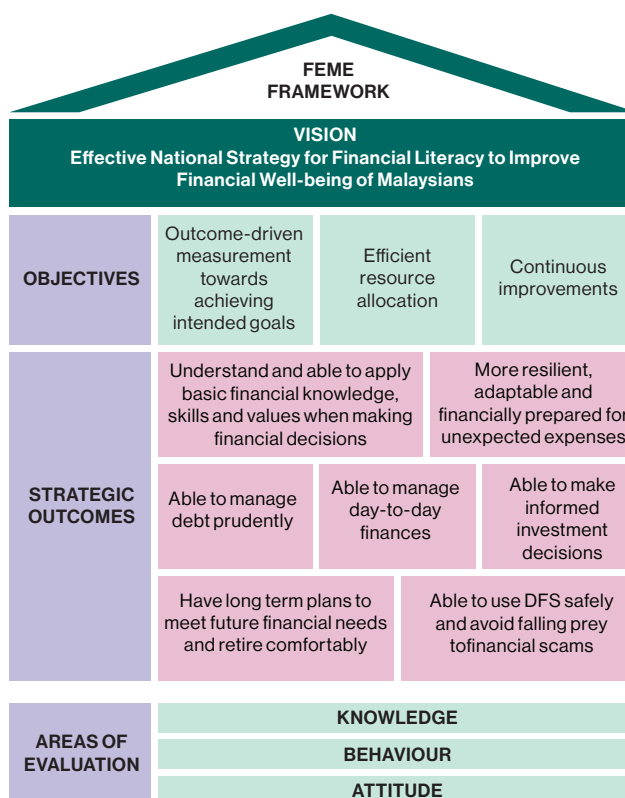
<sup>14</sup> Information on the Financial Education Measurement and Evaluation (FEME) Framework is available at <https://www.fenetwork.my/wp-content/uploads/2024/01/FEME-Framework-Guidelines.pdf>.

Diagram 8: FEN Annual Key Performance Indicators

FOCUS	OUTPUT	PROPOSED BASELINE FOR KPIS	IMPACT (measured longer term >3 years)																				
<b>SOLUTIONS</b>	<b>FE Tools, Resources and Platform</b>	Relevant tools and resources <ul style="list-style-type: none"> <li>• Different life stages</li> <li>• Changing circumstances</li> <li>• Capacity development</li> </ul>	<b>A. OECD PISA students' financial literacy – improvement in comparison with other countries</b> <ol style="list-style-type: none"> <li>1. Content – transactions, planning, risk, reward and landscape</li> <li>2. Process – identify, analyse, evaluate and apply financial information</li> <li>3. Contexts – education, work, home, family and society</li> </ol> <b>B. Malaysia Financial Capability and Inclusion (FCI) Demand Side Survey – improvement from previous survey results</b> <table border="0"> <tr> <td><b>1. Knowledge</b></td> <td><b>2. Behaviour</b></td> </tr> <tr> <td> <ul style="list-style-type: none"> <li>• Awareness</li> <li>• Literacy and numeracy</li> <li>• Financial concepts</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• Money management</li> <li>• Long-term planning</li> <li>• Product decision-making</li> </ul> </td> </tr> <tr> <td><b>3. Attitude</b></td> <td><b>4. Well-being</b></td> </tr> <tr> <td> <ul style="list-style-type: none"> <li>• Self-control</li> <li>• Attitude towards future</li> <li>• Achievement oriented</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• Financial control</li> <li>• Day-to-day financial life</li> <li>• Fraud awareness</li> </ul> </td> </tr> <tr> <td><b>5. Access, Take-up and Usage</b></td> <td><b>6. Quality</b></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td> <ul style="list-style-type: none"> <li>• Awareness</li> <li>• Reasons for not taking up</li> <li>• Satisfaction level</li> <li>• Pain points</li> </ul> </td> </tr> <tr> <td></td> <td></td> <td></td> <td> <b>C. OECD/INFE International Survey of Adult Financial Literacy – improvement in scores</b> <ol style="list-style-type: none"> <li>1. <b>Literacy Scores</b> – Knowledge, Behaviour and Attitude</li> <li>2. <b>Resilience and Well-being</b> – Control, Expenditures, Financial Cushion, Coping with Shortfalls, Financial Planning and Fraud Awareness</li> </ol> </td> </tr> </table>	<b>1. Knowledge</b>	<b>2. Behaviour</b>	<ul style="list-style-type: none"> <li>• Awareness</li> <li>• Literacy and numeracy</li> <li>• Financial concepts</li> </ul>	<ul style="list-style-type: none"> <li>• Money management</li> <li>• Long-term planning</li> <li>• Product decision-making</li> </ul>	<b>3. Attitude</b>	<b>4. Well-being</b>	<ul style="list-style-type: none"> <li>• Self-control</li> <li>• Attitude towards future</li> <li>• Achievement oriented</li> </ul>	<ul style="list-style-type: none"> <li>• Financial control</li> <li>• Day-to-day financial life</li> <li>• Fraud awareness</li> </ul>	<b>5. Access, Take-up and Usage</b>	<b>6. Quality</b>						<ul style="list-style-type: none"> <li>• Awareness</li> <li>• Reasons for not taking up</li> <li>• Satisfaction level</li> <li>• Pain points</li> </ul>				<b>C. OECD/INFE International Survey of Adult Financial Literacy – improvement in scores</b> <ol style="list-style-type: none"> <li>1. <b>Literacy Scores</b> – Knowledge, Behaviour and Attitude</li> <li>2. <b>Resilience and Well-being</b> – Control, Expenditures, Financial Cushion, Coping with Shortfalls, Financial Planning and Fraud Awareness</li> </ol>
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Source: Financial Education Network

Diagram 9: FEME Framework at a Glance



Source: Financial Education Network

will measure and evaluate the impact of financial education initiatives on individuals and their financial well-being. FEME's strategic outcomes are for individuals to have and apply basic financial knowledge to make informed financial decisions. This is done by assessing how well one manages daily and long-term finances, deals with unexpected expenses, and usage of digital financial services.

Aligning financial education initiatives with FEME's strategic outcomes allow financial education providers to monitor progress and make meaningful changes. This alignment helps to track and assess the impact of these initiatives. FEN members and partners have begun integrating the FEME Framework into their financial education programmes. The results of these efforts will be collectively evaluated and measured. The findings will then be presented to the FEN High-Level Inter-Agency Steering Committee co-chaired by BNM and the Securities Commission Malaysia in the first quarter of 2025. By enhancing measurement, the efficacy of FEN's initiatives can be more effective. This allows prioritisation and design of financial literacy initiatives to achieve the intended outcomes.<sup>15</sup>

## Deepening Financial Markets

BNM continued to drive financial market development initiatives through the Financial Markets Committee (FMC)<sup>16</sup> and close collaboration with the industry. In 2023, we directed our efforts towards enhancing accessibility and fostering market breadth and depth.

During the year, the FMC reviewed the progress on the adoption of the Malaysia Overnight Rate (MYOR), which was introduced in 2021 as a robust, transaction-based Alternative Reference Rate (ARR) to the Kuala Lumpur Interbank Offered Rate (KLIBOR). Members noted that the current multiple-rate approach, with the coexistence of KLIBOR alongside MYOR, does not help encourage the adoption of MYOR. The FMC will continue to further develop the MYOR and promote industry adoption, including exploring the publication of an industry transition timeline from KLIBOR to MYOR following a market-wide survey in 2024.

The FMC also established two working groups, alongside the existing Bond Market Subcommittee.

First, the Sustainability Working Group (SWG) serves as a platform for collaboration between financial market industry players to identify opportunities and gaps that will help inform appropriate plans and initiatives for the development of the domestic sustainability market. The SWG is currently identifying strategies to encourage the creation of environmental, social and governance (ESG) assets to satisfy domestic market demand. Second, the Principal Dealer Working Group (PDWG) serves as a platform to discuss Principal Dealer (PD) related matters and drive the development initiatives within the bond and repo markets. The PDWG is currently working on identifying an inter-Principal Dealer Electronic Trading Platform (ETP). The ETP is expected to enhance the PDs' market-making capacity by facilitating larger trade sizes and enhancing operational efficiency, thus improving overall bond market liquidity. Subsequently, the PDWG has urged commitments from PDs to the identified ETP to reduce the risk of market fragmentation.

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In January 2023, BNM launched the Financial Markets Investor Portal (FMIP), a website for the public to access key financial market information, across the domestic money, bond and foreign exchange markets.

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Information on BNM's initiatives to deepen Malaysia's Islamic financial market is available in Chapter 1.4 on 'Promoting a Progressive and Inclusive Islamic Financial System'.

<sup>15</sup> More information about FEN's financial education initiatives available in the 'Engaging Malaysians' chapter.

<sup>16</sup> The FMC was established in 2016 to broaden industry engagement with a focus on reviewing and formulating comprehensive strategies for the wholesale financial markets.

## Advancing the Digitalisation of Financial Services

### Enhancing critical enablers for innovation

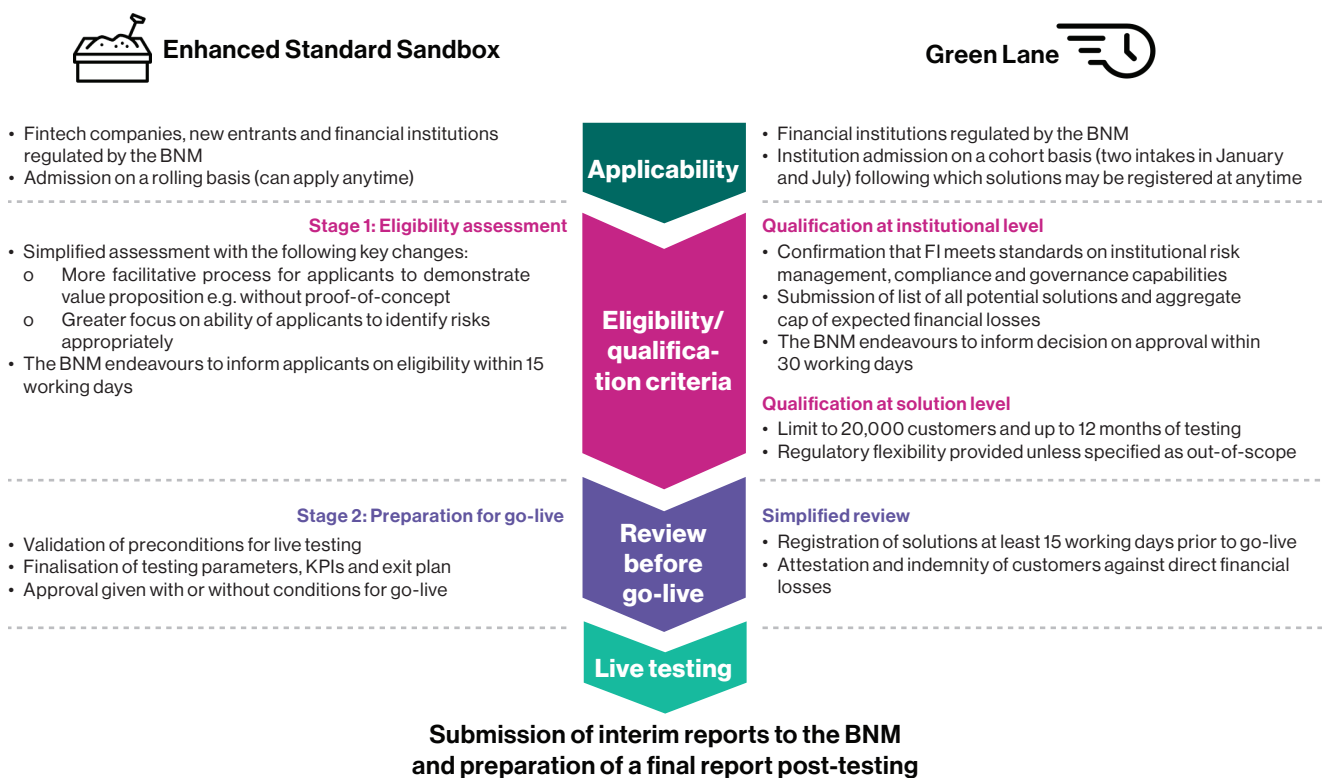
BNM remains committed to provide a conducive environment for innovations, in tandem with the rapid emergence of new business models and solutions, such as credit underwriting using alternative credit models and insurance for electric vehicles (EVs). We recognise that a renewed approach to facilitate emerging trends is needed to allow innovations to be pursued in a timely and responsible manner. To this end, BNM has conducted a holistic review of our regulatory approach to explore areas in which we can provide further guidance and clarity to facilitate responsible innovation. This includes guidance on the adoption of cloud services for financial institutions and expectations around Buy Now Pay Later (BNPL) products.

In the same vein, BNM also directed its efforts in 2023 to refresh the Financial Technology Regulatory Sandbox (Sandbox) that was first introduced in 2016. The refresh aims to support and encourage innovation and delivery of financial services with genuine value propositions within a conducive regulatory environment. In 2023,

the Sandbox supported four new live-testing solutions in the Insurtech and BNPL space. During the year, the Sandbox continued to be an important platform for active and open engagement to strengthen the collaboration between various stakeholders. Following various consultations with stakeholders on the Exposure Draft issued in 2023, the revised policy document on the Financial Technology Regulatory Sandbox Framework was published in February 2024. There are two key enhancements under this revised framework which now contains two distinct tracks (Diagram 10). First, the eligibility assessment for admission to the Sandbox has been simplified for all applicants, including for fintech companies. Second, a Green Lane has been introduced to enable financial institutions with a track record of strong risk management capabilities to test their innovations more quickly and flexibly.

As a broader range of financial services become increasingly digitalised, it is imperative that these innovations remain safe, secure and responsibly implemented. In recent years, end-to-end digital account opening has gained traction, requiring strong safeguards to be in place to minimise the risk of identity theft and fraud. Following the feedback received on the Exposure

**Diagram 10: Overview of Sandbox Application and Assessment Process**



Source: Bank Negara Malaysia

Draft in 2023, a revised electronic know-your-customer, or e-KYC policy document, will be issued in the first half of 2024 to enhance regulatory expectations towards achieving this outcome. Among other things, the revised policy document provides guidance on good practices to improve the overall performance standards of e-KYC solutions within the industry.

A survey conducted by BNM in 2023 on the adoption of AI and Machine Learning (ML) by financial service providers (FSPs) found that adoption in the financial industry is still in the early stages. We are monitoring developments closely and expect FSPs to ensure that the risk of AI and ML does not lead to consumer outcomes that are inconsistent with fair and ethical treatment. In this regard, FSPs are encouraged to establish industry standards and best practices in managing risks from AI and ML.

#### **Facilitating market entry to promote dynamism**

Newly licensed digital banks are required to undergo an operational readiness review prior to going live in the market. The review covers an assessment of the readiness of digital banks' infrastructure and systems as well as ensuring that critical operational processes are in place. The chapter on 'Promoting Financial Stability' provides more information on BNM's supervisory priorities and approach. This evaluation is a critical step to validate the capabilities of digital banks and the robustness of their governance structures, risk management and controls to deliver their value propositions and meet the needs of their customers. Currently, three digital banks – GXBank, Boost Bank and AEON Bank – have passed this review and begun operations.

The rollout of digital banking services will be gradual, starting with simple deposit and payment products, before venturing into other financial offerings including loans. Over time, the introduction of digital banks in the domestic financial system is expected to complement traditional banking services by improving access to financial services via innovative technology. In line with their commitments to financial inclusion outcomes, digital banks will focus on tailoring financial solutions for diverse groups, including gig workers, SMEs and the lower-income segments.

Similar to digital banks, new digital insurers and takaful operators (DITOs) are expected to increase the dynamism of the Malaysian financial landscape by complementing the existing services provided by ITOs. The entrance of these new players in the insurance ecosystem is expected

to foster greater market competition, enhance efficiency and support financial inclusion. In 2023, BNM engaged its stakeholders widely on the proposals to the Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (DITO Framework). Valuable insights were gained and considered in relation to alternative business and operational models as well as on strategies for the operationalisation of the foundational phase. The DITO Framework is expected to be finalised in the first half of 2024. It will provide clarity on emerging and innovative business models such as embedded insurance and insurance-as-a-service to encourage wider participation from players in the insurance and takaful value chain.

#### **Catalysing reforms in the insurance sector**









BNM continued to advocate for reforms in the motor insurance market. A notable progress was the commitment from 90% of general ITOs (GITOs) to roll out digital roadside assistance. With this, 16 million vehicle owners<sup>17</sup> will be able to select their workshops, track their tow truck's geo-location and check their claims status using their phones. These innovative digital features will improve consumers' motor claims experience by providing more options for them to seek immediate assistance and track the status of claims. With the introduction of 39 new motor products, there were discernible efforts by GITOs during the year to provide value-adding products and services to consumers, such as EVs cover and voluntary excess cover.<sup>18</sup> Overall, these enhancements are set to deliver a transformative customer experience by improving the transparency and timeliness of the claims process. These efforts were further supplemented by an industry-led consumer education campaign which will continue in 2024 to increase awareness on motor insurance/takaful products. This is important to ensure that the public has a better understanding of the initiatives, including their rights when it comes to these products.

During the year, BNM continued to advocate for higher standards among all stakeholders within the motor insurance ecosystem. Notably, GITOs and repair workshops have committed towards the establishment of the Repairer Code of Conduct and Independent Resolution Framework in 2024 (Diagram 11). Alongside these initiatives, GITOs have continued to implement risk-based pricing within a broader band to better capture underlying risks and promote responsible behaviour among policyholders.

<sup>17</sup> Based on GITOs' reporting to BNM as at end-2023.

<sup>18</sup> Voluntary excess cover refers to a motor insurance add-on product that allows the customer to voluntarily pay a specified amount when making an insurance claim, in return for a discounted premium.

Diagram 11: Updates on Reforms to the Motor Ecosystem

	What happened in 2023?		How does this help the public?
<b>INNOVATIVE DIGITAL FEATURES</b> 	<b>GITOs rolled out individual Digital Roadside Assistance (DRA) which includes:</b> <ul style="list-style-type: none"> <li>Digitally-enabled distress call</li> <li>Tow-truck tracking</li> <li>Workshop selection</li> <li>Updates on repairs and claims status</li> </ul>		<ul style="list-style-type: none"> <li>Transform customers' motor claims experience</li> </ul> <p><b>16 mil</b> Vehicle owners with access to DRA</p>  More options to seek assistance  Transparency on assistance and claims status
<b>EMPOWERING CONSUMERS</b> 	<b>Consumer Education Programme</b> <ul style="list-style-type: none"> <li>Launch of industry-led public awareness campaign with the collaboration of GITOs</li> </ul>		<ul style="list-style-type: none"> <li>Improve public understanding and perception of purchasing motor insurance/takaful, rights and responsibilities and ongoing digital initiatives</li> </ul>
<b>PROFESSIONALISM OF STAKEHOLDERS</b> 	<b>Gained industry commitment for the establishment of:</b> <ul style="list-style-type: none"> <li>GITOs-Repairer Code of Conduct, which includes an Independent Resolution Framework</li> </ul>		<ul style="list-style-type: none"> <li>Promote more effective collaboration between GITOs and repairers.                             <ul style="list-style-type: none"> <li>The Bank issued a <b>consultation paper</b> in 2023 to seek the public's inputs on minimum standards on fair, timely and professional conduct. The Code is expected to be finalised in 2024</li> </ul> </li> </ul>

Source: Bank Negara Malaysia

In 2023, BNM also held conversations with a wide range of stakeholders, including key Government agencies, car manufacturers, workshops and repairers, loss adjusters and technological providers. Insights from these engagements have been and will continue to be valuable in helping us develop policies to realise our vision for an end-to-end digitalised motor ecosystem.

Medical and health insurance/takaful (MHIT) remains an important part of health financing in Malaysia. It provides consumers with wider healthcare access and enables consumers to be financially resilient when faced with unexpected health events. Over the years, escalating medical cost inflation<sup>19</sup> and rising utilisation of medical services and procedures (especially post-pandemic) have led to rising cost of claims for ITOs. Much of the increase in MHIT premiums have been attributed to higher cost of hospital supplies and services, which account for around two-thirds of hospital bills. As such, it is imperative that we find the right balance between managing rising cost of claims and ensuring the sustainability of MHIT coverage in the long run.

Against this backdrop, BNM continued efforts to pursue reforms to ensure that MHIT protection remains accessible and sustainable. These efforts are anchored on three key strategies, as reflected in the Policy Document on MHIT Business published in February 2024.<sup>20</sup> First, the policy aims to steer positive change in behaviour where all new individual medical reimbursement insurance/takaful products will have a cost-sharing feature.<sup>21</sup> Such products have been observed to promote more responsible usage with better claims experience and lower premiums when compared to similar products without this cost-sharing feature.

Second, the policy facilitates better transparency and management of claims cost through the establishment of a central medical claims data platform. With the platform, ITOs will be able to better identify and manage MHIT cost drivers, compare charges by different healthcare providers and monitor the industry's overall annual claims inflation. The platform will also pave the way towards publication of medical claims costs for common procedures to help consumers make informed decisions on treatment facilities and insurance purchases. The policy also aims to deliver a more positive consumer experience, through increased digitalisation of processes and services.

<sup>19</sup> According to the Global Medical Trend Rates Reports by Aon, medical cost in Malaysia has risen by 10% in 2022 and 12.6% in 2023, which is higher than the global average of 5% in 2022, and 5.6% in 2023. Among the key factors contributing to the rise in medical cost inflation are the increase in costs of hospital supplies and services, including drug prices, advancements in medical technologies and the increase in utilisation of health services following the resumption of elective medical procedures following the COVID-19 pandemic.

<sup>20</sup> The Policy Document on MHIT Business is available at ([https://www.bnm.gov.my/documents/20124/938039/pd\\_mhit\\_feb2024.pdf](https://www.bnm.gov.my/documents/20124/938039/pd_mhit_feb2024.pdf)).

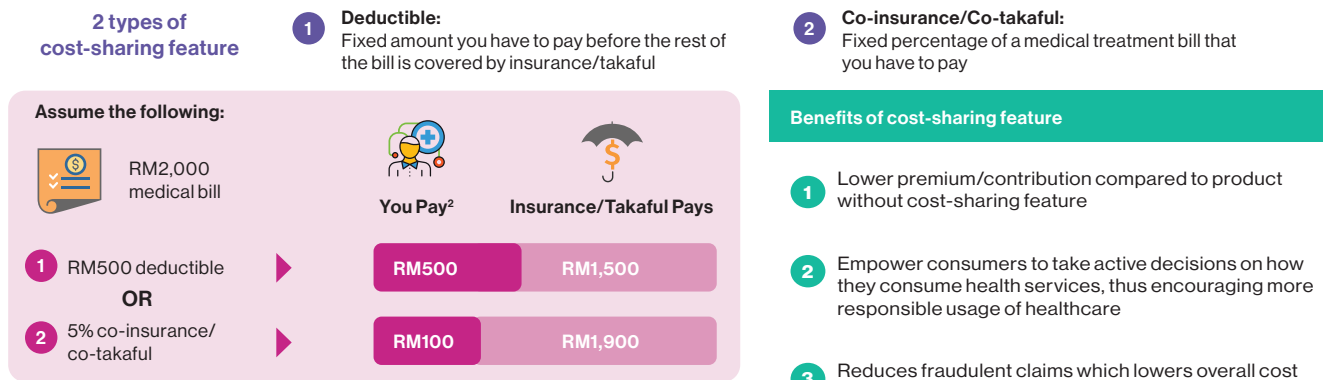
<sup>21</sup> This feature aims to address the 'buffet syndrome' as described in the 'Managing Medical Claims Inflation' Box Article in BNM's Annual Report 2019.



BNM held a series of engagements to exchange ideas with key stakeholders on the future of the motor ecosystem.

### Diagram 12: Illustration of Cost-Sharing Feature and its Benefits

ITOs are required to include cost-sharing feature<sup>1</sup> prospectively to new individual medical reimbursement insurance/takaful products beginning June 2024. Existing products without cost-sharing feature will remain available for purchase in the market as an option to consumers. Consumers can opt for products that suit their needs.



<sup>1</sup> Cost-sharing refers to the payment of medical bill that a policy owner/takaful participant must pay, with the remainder of the medical bill being covered by the ITO

<sup>2</sup> Subject to the relevant terms and limits of your medical reimbursement insurance/takaful product

Source: Bank Negara Malaysia

Third, the policy institutes higher standards on MHIT business conduct and sales practices among ITOs and its intermediaries. This includes improved disclosures and additional guidance to ensure fair and equitable repricing practices.

## Going Forward

Our focus for 2024 is to accelerate efforts to realise the aspirations for the financial sector, as outlined in the FSBP. BNM will continue to facilitate greater adoption of digital financial services while maintaining confidence and safety. To narrow the protection gaps, particularly for the vulnerable and under-served segments, we will advance key financial inclusion initiatives as envisaged in the Financial Inclusion Framework 2023-26. We will also continue

engagements with relevant stakeholders to scale social finance solutions, expand the range of microinsurance and microtakaful product offerings as well as intensify targeted consumer education efforts to narrow financial literacy gaps. On the insurance and takaful front, BNM will continue efforts to manage long-term accessibility and sustainability of MHIT products which include wider adoption of co-payment options and expanded medical savings solutions. We will also provide support to the Ministry of Health in the pursuit for broader healthcare reforms for the nation. For motor insurance, digital roadside assistance solutions will be fully rolled out this year to most customers. We will also pursue progress in other motor initiatives to enable end-to-end digital claims processes. We will engage closely with relevant stakeholders to continue solidifying the digital vision beyond motor claims and facilitate future digital innovations for the motor ecosystem.