Measures to Mitigate the Impact of the COVID-19 Pandemic and Preserve Financial Stability

This box article elaborates on the measures taken by Bank Negara Malaysia (the Bank), in coordination with the banking and insurance/takaful sectors, to assist borrowers affected by the COVID-19 pandemic.

In response to the significant economic disruption brought on by the COVID-19 pandemic and measures taken to contain its spread, the Bank introduced broad-ranging measures to help businesses and individuals weather this difficult period. The measures are aimed at supporting the economy through the large, temporary shocks experienced, and thereby avert longer-term harm to the economy. At the same time, ensuring that the pandemic does not evolve into a financial crisis continues to be of paramount importance to secure a swift and firm economic recovery.

Measures Introduced in the Banking Sector

In the banking sector, measures were focused on: (i) extending immediate cashflow relief to individuals and businesses to preserve jobs and livelihoods; (ii) providing appropriate regulatory and operational flexibilities for banking institutions to respond swiftly to borrowers in need; and (iii) preserving the smooth functioning of the financial intermediation process to support economic recovery and post-COVID-19 economic restructuring and reforms.

Easing cashflow constraints of individuals and businesses (Diagram 1)

Phase 1: Measures to provide immediate cashflow relief following the implementation of the Movement Control Order (MCO)

While banking institutions have been pro-actively supporting borrowers facing financial difficulties through loan/financing rescheduling and restructuring since early-February, the MCO lockdown and temporary closure of businesses in mid-March 2020 posed significant logistical challenges to these efforts as increasingly larger numbers of borrowers required repayment assistance. Also of particular concern was the disproportionately larger impact of the economic and social disruptions on individuals with lower income and smaller businesses.

After a brief consultation with the banking industry and taking into account the practical conditions presented at the time, the Bank and the industry agreed to implement an automatic deferment of all eligible loan/financing repayments for a period of six months from 1 April 2020 for individuals and small and medium enterprises (SMEs). Borrowers who did not wish or need to defer their loan/financing repayments could continue to make their scheduled payments. This enabled banking institutions to deliver immediate relief on a large scale to individuals and SMEs through a very difficult period of financial pressure and low mobility. At the same time, banking institutions' operational resources were reallocated to focus on supporting corporates in need of assistance by restructuring and rescheduling their loans/financing even though these were not covered under the automatic deferment programme.

Temporary exemptions from credit reporting under the Central Credit Reference Information System (CCRIS) were also provided to alleviate concerns among borrowers that availing themselves of the relief measures would affect their credit history and future access to credit. The reporting exemption acknowledges the exceptional conditions that existed, and still exist to some degree, which would substantially reduce the value of credit reporting information as an indicator of a borrower's normal expected repayment behaviour.

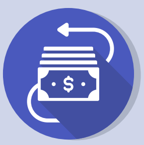
Banking institutions were well-positioned to support the automatic deferment programme on such a scale given the large financial buffers that have been built up over the years. As at end-June 2020, the total capital ratio of the banking system stood at 18.3% with aggregate excess capital buffers of RM122 billion, while the liquidity coverage ratio was 149.2%. As a pre-emptive measure, the Bank also reduced the Statutory Reserve Requirement (SRR) ratio by 100 basis points. Coupled with the additional SRR flexibilities granted to Principal Dealers, this released approximately RM30 billion in additional liquidity into the banking system.

At the start, more than 95% of individual and SME borrowers took up the automatic repayment deferment. Up to 25 September 2020, 840,000 individual and SME borrowers have opted out, or already started to resume repayments in line with the improved economic conditions. This number is expected to increase further following the end of the automatic repayment deferment. For those who still face difficulties to resume repayments, banking institutions will continue to provide more targeted repayment assistance upon request by borrowers.
To date, banking institutions have facilitated requests for repayment assistance of close to 480,000 individuals and 34,400 SMEs in COVID-19-affected sectors. As noted in the Credit Risk section in Chapter 1, the automatic nature of repayment deferments for individuals and SMEs is likely to mask the actual number of borrowers who did, and may continue to, suffer from increased financial pressures. The Bank expects the actual impairment could also be milder than initially anticipated in light of improving signs of recovery.

Phase 2: Measures to support recovery with the gradual easing of the MCO
The gradual easing of the MCO since early-May 2020 saw businesses resuming operations and individuals being able to return to work in phases. With that, many borrowers who initially opted for the moratorium started to resume their loan/financing repayments. Some borrowers however, could continue to face challenges in meeting their financial obligations due to the uneven recovery across different sectors of the economy.

The Bank's next phase of measures has therefore shifted towards a more targeted approach in line with the gradual recovery in economic activities. This approach serves to–
- ensure that repayment assistance continues to be provided to borrowers who need it based on their specific financial circumstances;
- preserve the financial buffers of banking institutions to absorb higher expected credit losses due to the impact of the pandemic, and support new lending/financing as the economy enters the recovery phase. Further erosion of banking institutions' financial buffers under a blanket deferment would increase risks of constraints in credit supply to the economy and losses to depositors and public investments; and
- balance the longer-term interests of borrowers by reducing the overall costs they bear for repayment assistance. Behaviourally, this is achieved by ensuring that only borrowers that need further assistance apply for it, while those that can resume their repayments, do so at the earliest opportunity.

Diagram 1: Measures to Ease Cashflow Constraints of Individuals and Businesses



Phase 1: Measures to provide immediate cashflow relief following implementation of the MCO

Broad-based repayment assistance
- Automatic 6 months deferment on all eligible loan/financing repayments for individuals and SMEs
- Conversion of credit card balances into term loans/financing
- Rescheduling and restructuring of corporate loans/financing

Phase 2: Measures to support recovery with the gradual easing of the MCO

Targeted repayment assistance
- Additional 3 months deferment of loan/financing repayments for unemployed borrowers
- Proportionate reduction of loan/financing repayments for borrowers with reduced income
- Suspension of increase in pricing for repayment in arrears between 1 October to 31 December 2020

- Exemption from "rescheduled and restructured" and "credit impaired" tagging in CCRIS

Source: Bank Negara Malaysia

The number of borrowers who require an extended period of repayment assistance may still be large, relative to the experience of banking institutions under normal conditions. This calls for banking institutions to ensure that they allocate appropriate resources and management attention to repayment assistance efforts, including effectively monitoring the attendant risks arising from these efforts. To this end, banking institutions are required to establish dedicated command centres accountable to oversee and coordinate the implementation of the banking institutions' repayment assistance strategy under a "whole of bank" approach. Such an approach supports the ability of banking institutions to handle a surge in customer enquiries and requests, while providing greater visibility, control and speed in transitioning from the automatic loan/financing repayment deferment to more targeted repayment assistance.

As part of the transition, the Bank also requires banking institutions to suspend the repricing of loans/financing due to missed payments between 1 October and 31 December 2020. This is intended to provide borrowers with an adequate opportunity to finalise their repayment assistance plans with banking institutions after the end of the blanket moratorium on 30 September 2020.

For Islamic banking institutions, additional requirements were introduced to further alleviate the financial hardship and operational burden faced by customers that sought payment assistance. Premised on the Shariah principle of *ihsan* (beneficence), the Shariah Advisory Council of the Bank has prohibited the capitalisation of accrued profits for facilities that are restructured and rescheduled as part of payment assistance extended to customers affected by COVID-19. The ruling aims to reduce the overall financial impact from restructuring and rescheduling on customers who are already adversely affected by the pandemic. To further ease operational burden and avoid additional cost, Islamic banking institutions are allowed to execute the restructuring of a financing facility using a supplementary agreement, without the need for a new agreement provided the same type of contract is used.

Regulatory and supervisory measures to facilitate repayment assistance programmes and support lending/financing to the real economy (Diagram 2)

Wide-ranging regulatory and supervisory measures were deployed by the Bank to provide additional operational capacity for banking institutions to effectively manage and respond to the impact of the pandemic crisis. This included clarifying the application of prudential and conduct requirements to avoid cliff effects and unintended operational frictions which could hurt critical lending/financing activity and repayment assistance efforts. Several earlier planned measures to improve the overall consistency of the capital and credit risk management frameworks were also brought forward to enhance the capacity of banking institutions to support economic activity. In addition, timelines for a number of regulatory and supervisory initiatives were temporarily deferred to enable banking institutions to better manage their resources at this time. These measures are not expected to materially impact the financial strength and resilience of banking institutions.

Diagram 2: Regulatory and Supervisory Measures to Facilitate Repayment Assistance Programmes and Support Lending to the Real Economy

Flexibilities to facilitate repayment assistance

- Clarify conditions for defining default under the capital adequacy framework
- Clarify flexibility to undertake multiple repayment assistance within a defined period
- Exclusion of deferment period from the determination of period in arrears for regulatory and accounting classifications

Expand operational capacity to support lending

- Rationalise lending limits applied to the broad property sector and share financing
- Allow drawdown of the capital conservation buffer of 2.5%
- Allow banking institutions to operate below the minimum liquidity coverage ratio of 100%
- Allow banking institutions to reduce regulatory reserves held against expected losses to 0%
- Allow banking institutions to comply with minimum Net Stable Funding Ratio (NSFR) requirement of 80%

Banking institutions are expected to restore their buffers and comply with minimum NSFR of 100% by 30 September 2021

Ease compliance and operational burden

- Extend timelines for regulatory, supervisory and statistical submissions

Source: Bank Negara Malaysia

Preserve the smooth functioning of the financial intermediation process to support economic recovery and post-COVID-19 economic restructuring and reforms (Diagram 3)

Complementing the financing schemes offered by the Government and financial institutions, the Bank enhanced the existing financing facilities under the BNM's Fund for SMEs (the Fund) and increased the allocation of these facilities to ease lending/financing conditions for viable SMEs during this challenging period. The Fund's allocation was expanded by RM9 billion to RM18.1 billion to support lending to SMEs. Of this amount, RM10 billion was provided under the Special Relief Facility (SRF) which was introduced specifically to support the cashflow needs of viable SMEs affected by the pandemic.[1] A total of 21,000 SMEs received assistance under the SRF which helped to preserve more than 450,000 jobs in SMEs across states and business sectors. SMEs were also able to avail themselves of other financing facilities under the Fund[2], with RM2.6 billion worth of funds still available for new applications as at end-September 2020. These facilities have helped to temper signs of some tightening in bank lending/financing to SMEs. In the first half of 2020, the banking system as a whole disbursed a total of RM120 billion in lending/financing to SMEs, with more accounts being approved in 2020 compared to the same period in previous years (1H 2020: 65,597 accounts; 1H 2019: 57,367 accounts). The average financing size has however declined with more SMEs applying for lower financing amounts, mainly to tide through the pandemic. Policy measures, including credit guarantee schemes and easier access to the Fund, also continue to support access to financing for SMEs.

Diagram 3: Preserving the Smooth Functioning of the Financial Intermediation Process to Support Economic Recovery and Post-COVID-19 Economic Restructuring and Reforms

SRF	AES	PTF	ADF	AF	MEF
RM10 bil	*RM5 bil*	*RM1 bil*	*RM300 mil*	*RM1.5 bil*	*RM300 mil*
• Alleviate short-term cashflow	• Enhance access to financing	• Aid SMEs in the tourism sector	• Incentivise automation and digitalisation	• Increase food production	• Collateral-free financing for micro enterprises

* Special Relief Facility (SRF); All Economic Sectors (AES) Facility; PENJANA Tourism Financing (PTF); Automation and Digitalisation Facility (ADF); Agrofood Facility (AF); Micro Enterprises Facility (MEF)

Source: Bank Negara Malaysia, Ministry of Tourism, Arts and Culture Malaysia

[1] For details on the SRF beneficiaries, refer to https://www.bnm.gov.my/index.php?rp=srf_en.
[2] Excluding SRF, other financing measures under the Fund totalled RM8.1 billion, including RM1.5 billion Agrofood Facility (AF), RM300 million Automation and Digitalisation Facility (ADF), RM5 billion All Economic Sectors (AES) Facility, RM300 million Micro Enterprises Facility (MEF) and RM1 billion PENJANA Tourism Financing (PTF). For further details, refer to https://www.bnm.gov.my/covid19/bnmfunds.php

Measures Introduced in the Insurance and Takaful Sector

A series of temporary relief measures was also provided by insurers and takaful operators (ITOs) to assist insurance policyholders and takaful participants who faced financial constraints arising from the COVID-19 pandemic. These measures helped to alleviate cash flow issues while avoiding a loss of insurance and takaful protection.

Flexibilities to meet payments for insurance premiums and takaful contributions

Life insurers and family takaful operators collectively agreed to offer individuals and SMEs affected by COVID-19 an option to defer payment of their life insurance premiums and family takaful contributions for a period of three months. Policyholders and takaful participants could also avail themselves of other forms of assistance offered by life insurers and family takaful operators based on their protection needs and affordability. These included extending the revival and reinstatement period for policies and certificates which have lapsed, providing alterations of policies and certificates without any fees/charges, and waiving penalties or late payment charges where policyholders and takaful participants were unable to access electronic payment channels during the MCO.

General insurers and takaful operators similarly rolled out assistance to affected policyholders and takaful participants by granting options to restructure their insurance policies and takaful certificates, with flexibility provided on payment terms for premiums and contributions.

Over 57,000 life insurance policyholders and family takaful participants took up the option to defer insurance premiums and takaful contributions amounting to about RM71 million up to September 2020. Meanwhile, general insurers and takaful operators facilitated payment deferments and the restructuring of insurance and takaful plans involving 6,500 insurance policies and takaful certificates, with insurance premiums and takaful contributions amounting to about RM104 million.

Other relief measures to alleviate the financial burden of affected policyholders and takaful participants

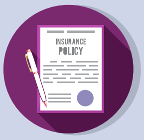
ITOs also waived exclusions, co-payments and waiting periods, and expedited processing of insurance and takaful claims related to COVID-19. This included claims for the costs of COVID-19 tests and personal protective equipment incurred in connection with medical treatments covered by insurance policies and takaful certificates. Further, a number of ITOs deferred the repricing of their medical and health insurance policies and takaful certificates until 2021 to alleviate financial burden on policyholders and takaful participants.

In further support of efforts to ramp up COVID-19 testing and reduce the risk of infection in the community, the insurance and takaful industry committed an amount of RM8 million to fund COVID-19 testing for eligible individuals who have medical insurance policies and takaful certificates.

Regulatory and supervisory measures to facilitate premium/contribution deferment

As for banking institutions, regulatory and supervisory measures were also extended to ITOs to support their efforts in managing and responding to the impact of COVID-19. Among these were bringing forward planned enhancements to improve the risk capture and overall consistency of the risk-based capital frameworks for ITOs (RBC Frameworks). Further details of the measures are provided in Diagram 4.

Diagram 4: Regulatory and Supervisory Measures to Facilitate Premium/Contribution Deferment



Enhanced risk capture in line with RBC enhancements

- Adjustments to the stress factor caps of interest/profit rate risk capital charges, from 40% to 30%, effective from 31 March 2020
- Consideration for ITOs to adopt alternative enhanced methodologies for calculating interest/profit rate risk capital charges

Temporary measures to facilitate assistance to affected policyholders/takaful participants*

Capital	• Waive credit risk capital charge for exposures related to deferred premiums/ contributions • Allow drawdown of capital buffers below the Individual Target Capital Level on a case-by-case basis
Investment-linked business	• Flexibility on compliance with sustainability requirements for premiums/ contributions • Simplified disclosure of sustainability outcomes for policy/certificate alterations, subject to appropriate safeguards
Reverse repo	Allow access to the Bank's reverse repo facility to meet liquidity needs

Ease compliance and operational burden

- Extend timelines for regulatory, supervisory and statistical submissions

*This covers:

(a) Individuals who have been infected by COVID-19, subject to mandatory home quarantine due to contact with a COVID-19 patient or those who have suffered a loss of income as a result of the COVID-19 situation; and

(b) SMEs which have suffered a loss of income as a result of the COVID-19 situation. Examples of events that lead to such loss of income include: (i) For individuals: retrenchment, shorter working hours, no pay leave and salary or commission cuts; and (ii) For self-employed and SMEs: loss of business income.

Source: Bank Negara Malaysia, Life Insurance Association of Malaysia, General Insurance Association of Malaysia and Malaysian Takaful Association