

Impact of COVID-19 on Systemic Non-bank Financial Institutions

Amid the COVID-19 outbreak, several systemic non-bank financial institutions (NBFIs) experienced increased demands for liquidity arising from the implementation of Government support measures.² Despite their significant investment holdings in the capital market, rebalancing activities by some NBFIs in response to liquidity needs have not had a material impact on asset prices. Increased liquidity needs of NBFIs were largely met from available cash and other liquid assets, with rebalancing activities generally conducted in an orderly manner. Although NBFIs' deposit placements in banks fell briefly in the first quarter, this had limited impact on banks' liquidity as the share of banking system deposits held by these systemic NBFIs remained low (June 2020: 5.3%).

NBFIs remain key participants in the domestic financial markets with sizeable investment holdings of 30.5% and 42.4% of equity market capitalisation and outstanding debt issuances, respectively. During periods of heavy sell-offs, NBFIs have continued to provide countercyclical support to markets, as observed when the FTSE Bursa Malaysia KLCI (FBM KLCI) fell by 15% in the first quarter of 2020. NBFIs' investments in equities correspondingly increased amid attractive market valuations. Systemic NBFIs similarly provided support to the government bond market amid bouts of sizeable non-resident outflows. NBFIs' holdings of shares in banks increased during this period from 37% to 40% of the market capitalisation of listed banks. Financial stability risks associated with such holdings remain low given the continued financial strength of NBFIs, the strategic and longer-term nature of these investments and the strong governance requirements imposed on licensed financial institutions.

Continued uncertainty surrounding the pandemic is likely to weigh on NBFIs' investment performance for the year. Some NBFIs may experience higher withdrawals or redemptions by investors who are more sensitive to investment returns if returns underwhelm. Redemption risks by such investors, however, are expected to be mitigated by more cautious risk appetite and low returns from alternative investments in the current environment. Systemic NBFIs generally also continue to hold sufficient liquid financial buffers in the form of cash deposits and government debt securities to meet potential stressed withdrawals over a period of more than 90 days.

² The relief measures include lowering the contribution rate and allowing the withdrawal of contributions from retirement funds, introducing wage subsidy programmes to encourage continued employment, and education loan deferments.