

Promoting Financial Stability

Financial Stability Priorities in 2024

Apart from monetary stability, Bank Negara Malaysia (BNM) is mandated to promote financial stability conducive to the sustainable growth of the economy. We discharge this mandate by ensuring that the financial system is resilient and able to withstand shocks throughout economic cycles. This involves promoting strong and well-managed financial institutions. It also includes fostering safe and reliable clearing and settlement systems, and maintaining orderly financial markets.

In 2024, the Malaysian economy recorded a stronger growth rate of 5.1% (2023: 3.6%) driven by robust domestic demand, strong investments and rebound in exports contributed by the global technology upcycle. Against this backdrop, Malaysia's financial sector continued to be well-positioned to support financial intermediation activities.

In 2024, our regulatory and supervisory priorities were targeted towards:

- promoting the adoption of globally consistent prudential standards that are appropriate for the Malaysian economy;
- strengthening the governance and risk management practices of financial institutions;
- further strengthening the resilience of financial institutions against emerging risks such as cyber threats, climate and fraud;
- enhancing preparedness of the banking system to withstand crisis; and
- promoting high standards of business conduct to ensure fair outcomes for financial consumers.

Regulatory Priorities

In 2024, BNM issued 11 key prudential and conduct policies (refer to Diagram 1).

Capital framework reforms

BNM is committed to adopt international standards for our regulatory capital framework. Malaysia achieved significant progress in adopting the Basel III¹ reform package in 2024. We finalised the revised capital standards for credit risk under the standardised approach.² Additionally, in December 2024, BNM issued enhanced requirements to limit losses to banks from large exposures³ to a single counterparty or a group of connected counterparties for industry consultation. In 2025, we will be consulting the industry on three additional elements of Basel III reforms: (i) the revised internal ratings-based approach for credit risk; (ii) the capital requirements for counterparty risk for derivative trades; and (iii) the requirements on assessing interest rate risk in the banking book. Collectively, these standards aim to ensure the Malaysian financial system is resilient against future shocks, while remaining competitive and able to better meet the financing and protection needs of households and businesses.

For insurers and takaful operators, we consulted the industry on the revised risk-based capital framework that is aligned with the Insurance Capital Standard (ICS).⁴ The revision aims to improve risk sensitivity and comparability of capital adequacy measurement across the insurance and takaful sector.

¹ Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS) in response to the financial crisis of 2007–09. The measures serve to increase the level and quality of regulatory capital, ensure that significant risks are properly captured, improve bank liquidity and prevent excessive leverage.

² Further details on this policy can be found in the feature article 'Implementation of the Standardised Approach for Credit Risk: Key Revisions under Basel III and the Impact on Banks' in BNM's Financial Stability Review for Second Half 2024.

³ Large exposures refer to total exposures of a bank to a single counterparty that are equal to or above 10% of its Tier 1 Capital.

⁴ The ICS is a prescribed capital requirement that is developed by the International Association of Insurance Supervisors (IAIS) to promote a comparable risk-based measure of capital adequacy for Internationally Active Insurance Groups (IAIGs).

Strengthening prudential standards on risk management

BNM's prudential policy initiatives in 2024 were also focused on strengthening the risk management standards and capabilities of financial institutions amidst a changing operating environment and evolving technology landscape. The growing digitalisation of financial services has heightened the risk of operational disruptions and cybersecurity threats for financial institutions. In light of this, BNM undertook a review of the Risk Management in Technology (RMiT) policy to strengthen the resilience of financial institutions against operational disruptions and enhance system-wide defences against cyberattacks and digital crimes. The requirements for stronger governance and internal controls proposed in the RMiT policy are aimed at preserving public confidence in the reliability and safety of the financial system.

BNM also continued our efforts to enhance the capability of financial institutions in facilitating the transition towards a greener economy. This year, we finalised the Climate Risk Stress Testing Methodology Paper in preparation for the submission of the first industry-wide climate stress testing exercise to BNM in 2025. The outcomes of the stress testing exercise will be used to further improve financial institutions' climate risk management practices.⁵

We also took steps to ensure prudential regulations continue to reflect expectations for the strong governance and oversight of Shariah in the conduct of Islamic financial businesses. This included standards to support the broader application of *ta'awun*⁶ by takaful operators and its proper disclosure to takaful participants.⁷

Ensuring fair treatment and outcomes for financial consumers

BNM requires financial institutions to uphold high standards of market conduct and professionalism to ensure fair outcomes for financial consumers. Amongst others, we ensured that market conduct requirements are adequate to address emerging risks arising from digitalisation of financial services and the growing complexity of financial products and services. In 2024, we updated the product transparency and disclosure requirements to include digital channels, so that consumers have access to detailed information on financial products and services for decision-making. We also strengthened the standards for financial institutions to be responsive, fair, transparent and effective in managing consumer complaints.

As part of efforts to ensure effective avenues for consumers to seek fair redress in the event of disputes with financial institutions, BNM and the Securities Commission Malaysia (SC) consolidated the Ombudsman for Financial Services (OFS) and the Securities Industry Dispute Resolution Center (SIDREC) into the Financial Markets Ombudsman Service (FMOS). FMOS will serve as the one-stop dispute resolution body for financial services. This integrated dispute resolution centre aims to improve the overall process to provide quicker and transparent resolutions for financial consumers and investors, thereby strengthening consumer and investor confidence in the financial system.

In the insurance and takaful sector, we strengthened the requirements to improve the process of handling and assessing general insurance and takaful claims.⁸ New regulatory requirements are also being finalised to ensure prudent and professional conduct of insurance and takaful brokers.

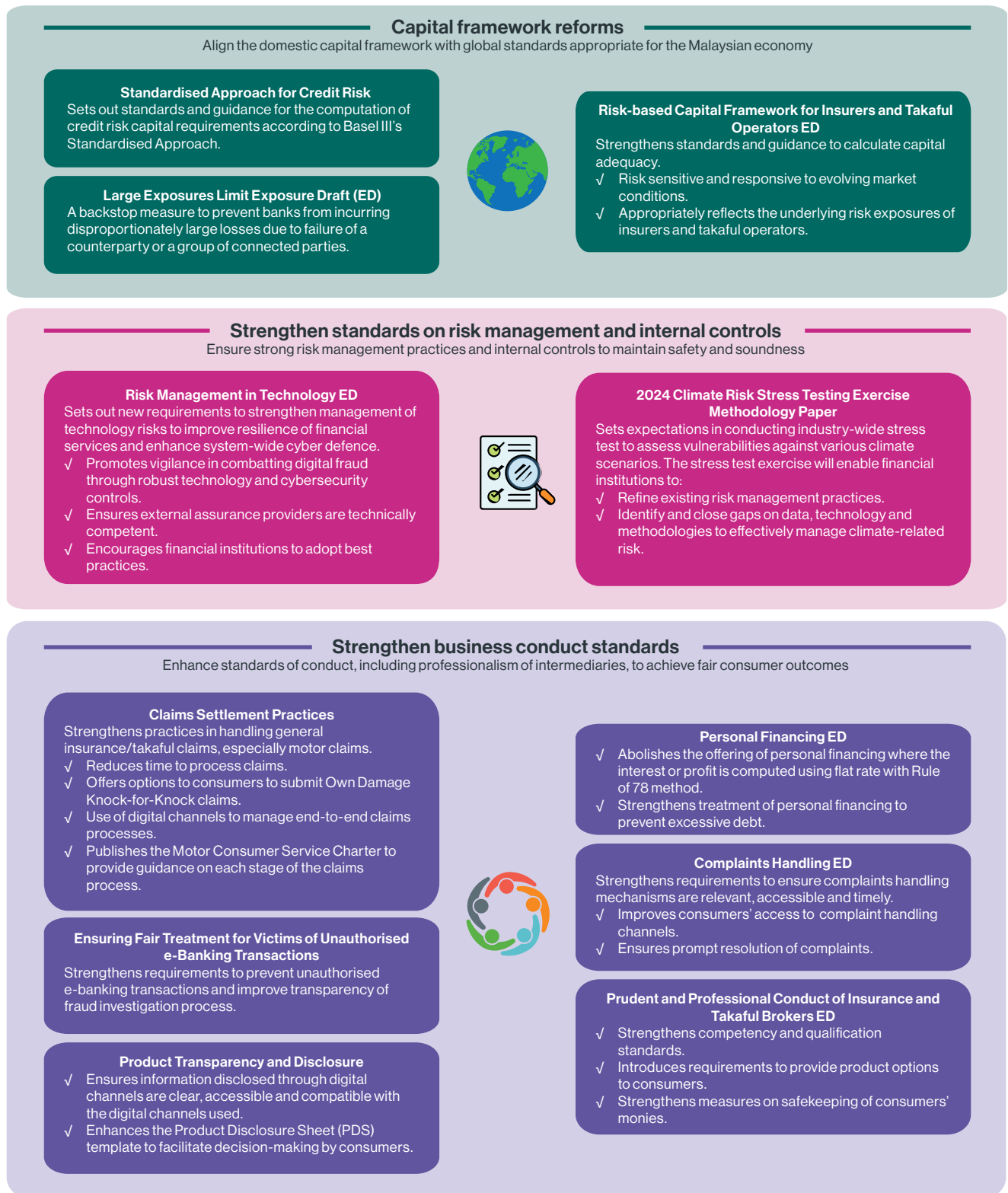
⁵ Further details on BNM's initiatives to facilitate the transition to a greener economy can be found in the section on 'Supervisory Priorities and Approaches' and the chapter on 'Towards a Greener Financial System'.

⁶ *Ta'awun* refers to the cooperation among a group of individuals in a takaful fund to mutually aid each other to meet certain needs, as collectively agreed in a takaful contract.

⁷ More details on the initiatives to expand the application of *ta'awun* can be found in the chapter on 'Promoting a Progressive and Inclusive Islamic Financial System'.

⁸ Further details can be found in the feature article on 'In the Driver's Seat: Enhanced Claims Settlement Practices'.

Diagram 1: Key Policy Issuances and Updates in 2024



Source: Bank Negara Malaysia

Supervisory Priorities and Approaches

BNM adopts a risk-based approach in the supervision of financial institutions, comprising both on-site and off-site reviews. This dynamic and forward-looking approach enables supervisors to focus on activities which pose material risks to financial institutions. Supervisory assessments are formally communicated to financial institutions for prompt corrective actions.

Cyber resilience

A key supervisory focus in 2024 was on strengthening cybersecurity measures of financial institutions and their preparedness to handle cyber incidents that could disrupt the provision of financial services and affect the integrity of the financial system. This includes managing contagion risks arising from interconnectivity with third-party service providers.

BNM conducted a second industry-wide cyber drill exercise to gauge financial institutions' readiness to respond to a widespread cyberattack and test industry-wide cooperation arrangements on information sharing to support incident responses. A total of 242 participants from 49 financial institutions took part in the exercise. Most financial institutions showed improved response levels to a cyberattack event compared to the first cyber drill conducted in 2022. We will continue our ongoing engagements with financial institutions, relevant public and private entities, cybersecurity experts and solution providers to identify emerging cyber risks and inform the development of regulations and supervisory practices.

The Cyber Security Act 2024 (CSA 2024) which was enacted in August 2024 designated BNM as one of the sector leads for the financial sector, together with the SC and the Ministry of Finance. Following this, BNM has designated several financial institutions as National Critical Information Infrastructure (NCII) entities. These entities will be required to adhere to the stringent standards and security measures under CSA 2024, thus contributing towards strengthening Malaysia's cyber defences and resilience against emerging cyber threats.

Strengthening resilience against financial fraud

BNM continued to closely monitor the effectiveness of the fraud countermeasures implemented by the industry since 2022. These measures, which include migrating to more secure authentication methods, introducing a kill-switch capability and implementing a cooling-off period for high-risk transactions, have contributed to the overall reduction in the number of fraudulent unauthorised

transactions. As fraudulent tactics continue to evolve, we required financial institutions to further strengthen their fraud detection measures and remain vigilant against emerging threats. Together with the financial institutions, BNM also increased efforts to raise public awareness on how to avoid falling victim to evolving fraudulent tactics, particularly involving malware and phishing.⁹

Ensuring resilience against climate-related risks

In managing climate-related risks, BNM continued to monitor the progress of financial institutions in adopting the taxonomy for classifying economic activities which are aligned with climate-related outcomes¹⁰ and sound standards on climate risk management.¹¹ Following the issuance of the additional guidance on performing climate-related due diligence assessments on customers in 2023, we have observed notable improvements in the quality of reporting by financial institutions on the climate impact arising from their financing and investment exposures.

We also stepped up our engagements with financial institutions to gain insights into their climate targets and plans to support the transition to a net zero economy. Most financial institutions have set medium to long-term climate targets but are still refining the implementation plans and timelines to achieve the desired targets. As part of this process, we expect financial institutions' business strategies to be more closely aligned with the management of physical and transition risks arising from exposures to high climate risk sectors, while making sure that the transition is done in a just and orderly manner. In addition, progress made by financial institutions in implementing climate-related disclosures that are aligned to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) starting in 2024 are also expected to support the ability of financial institutions to implement the National Sustainability Reporting Framework (NSRF) in phases starting in 2025.¹²

Crisis preparedness

Recovery planning is one of BNM's initiatives to elevate the banking system's preparedness in managing crisis. Following the issuance of the policy on Recovery Planning

⁹ Further details on these various initiatives can be found in the feature article on 'Building a United Front Against Online Fraud Risk' and chapter on 'Maintaining Financial Integrity'.

¹⁰ Policy document on Climate Change and Principle-based Taxonomy.

¹¹ Policy document on Climate Risk Management and Scenario Analysis.

¹² Further details on financial institutions' progress to implement climate-related disclosures and the adoption of NSRF can be found in the feature article on 'Navigating the Financial Sector's Transition to the National Sustainability Reporting Framework' in BNM's Financial Stability Review for Second Half 2024.

in 2021, we reviewed the recovery plans of selected banks in 2024 against the key components of BNM's recovery planning policy. The review focused on governance arrangements on recovery planning, strategic analysis, recovery indicators, recovery options, and analysis of scenarios that could threaten the banks' viability. Based on the findings from the review, these banks will be required to enhance the comprehensiveness and quality of their recovery plans, where relevant.

Ensuring fair outcomes to financial consumers

BNM continued to focus its market conduct supervisory activities to uphold the principles of fair treatment of financial consumers. Our supervisory activities in 2024 were mainly aimed at ensuring financial institutions have in place appropriate governance and controls to treat their consumers fairly. When lapses were identified, financial institutions were required to pursue corrective measures promptly.

In order to manage high household indebtedness, BNM required financial institutions to ensure that suitability and affordability assessment standards for personal financing products with large amounts of financing or those offered to retirees are sufficiently robust. These enhanced measures are intended to protect consumers from incurring debts that are beyond their affordability to repay. In addition, BNM directed financial institutions to enhance their oversight and controls over employees involved in sales and approvals of personal financing. We also intensified financial education initiatives to help consumers, especially vulnerable consumers, to be more aware of risks of excessive borrowings.

In line with BNM's pursuit of achieving fair outcomes for consumers, we reviewed the policies and governance practices surrounding fees and charges to ascertain whether these fees and charges are fair, non-predatory and in accordance with BNM's standards. A total of 14 financial institutions were required to cease or revise fees and charges that were not properly justified or meeting BNM's standards. Additionally, financial institutions were required to provide fair redress and restitution to the affected customers.

Financial institutions are also required to be vigilant in protecting consumers' information at all times. To ensure this, we continued to place strong supervisory focus on financial institutions' governance and controls to assess whether they are effective in protecting consumers' information. Financial institutions were required to step up their vigilance over cyber and ransomware attacks and ensure they are well-prepared to take swift measures to contain any impact from information breaches. This includes providing adequate and timely communication

to the affected consumers as well as instituting controls to monitor for risks of identity theft. We also pursued enforcement actions proportionate to the severity of harm to financial consumers and impact to public trust.¹³

Supervisory cooperation

BNM collaborates with other regulators within the country and internationally through the exchange of supervisory and regulatory information. The exchange of supervisory information with other regulators facilitates the consolidated supervision of financial groups, especially those with cross-border operations. In 2024, BNM participated in 20 supervisory colleges¹⁴ where two of these colleges were hosted by BNM as the home regulator.

During the year, we hosted our first supervisory college focusing on money laundering and terrorism financing risks. Supervisory authorities in the region that are responsible for supervising banking groups with cross-border operations in Malaysia participated in the college. The insightful exchange of experiences in managing cross-border flows was helpful in contributing to global efforts in combating financial crime and maintaining financial system integrity.

We remained active in international forums and committees.¹⁵ Such platforms provide us the opportunity to exchange insights and perspectives on important and emerging areas, especially from the viewpoint of an emerging market. This contributes to our ability to discharge our financial stability mandate effectively by strengthening our supervisory functions and ensuring sound regulations that are consistent with global standards and appropriate to domestic circumstances.¹⁶

BNM is also a member of the Association of Southeast Asian Nations (ASEAN) Cybersecurity Resilience and Information Sharing Platform (CRISP).¹⁷ This initiative brings together central banks from the ASEAN region to enhance capacity of members through sharing of information on cybersecurity threats and insights and the development of robust cybersecurity strategies to combat cyber threats. We have been participating actively in this programme since its inception.

¹³ Further details on the actions taken can be found in the section on 'Supervisory and Enforcement Actions'.

¹⁴ Supervisory colleges are groups of supervisors with the primary objective of exchanging information and establishing a dialogue in order to ensure that they are able to identify and address the main risks across a financial group.

¹⁵ These include the BCBS, IAIS, Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), Islamic Financial Services Board (IFSB), Network for Greening the Financial System (NGFS) and ASEAN Taxonomy Board.

¹⁶ Further information on our role in the international and regional communities can be found in the chapter on 'International Engagements'.

¹⁷ BNM has been an inaugural member of CRISP since its inception in 2019.

Supervisory and Enforcement Actions

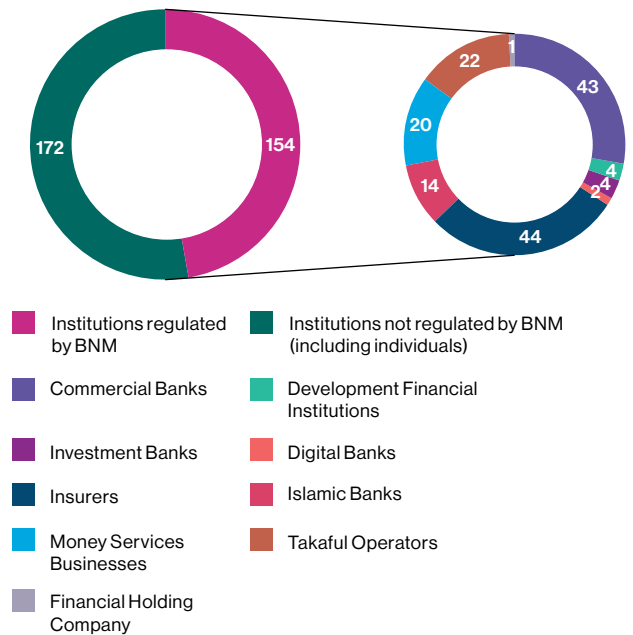
BNM deploys a range of supervisory and enforcement actions to safeguard financial stability and protect the integrity of the financial system. The actions taken against financial institutions vary based on the severity of breaches. Supervisory actions such as orders to comply are normally applied during the regular course of supervision. These are intended to be preventive or corrective in nature. On the other hand, enforcement actions, such as administrative penalties and compounds are more punitive. These are imposed on more serious breaches of regulations. This comprehensive approach has contributed to a positive change in the compliance culture of financial institutions. In our effort to be more transparent in the approach we take in deciding the appropriate actions, we published the Enforcement Approach document¹⁸ to provide clarity on our enforcement regime and strategies.

In 2024, a total of 326 supervisory and enforcement actions were taken against BNM regulatees, as well as individuals and institutions that were in breach of our regulations (see Chart 1). These actions were mainly offences relating to anti-money laundering, countering financing of terrorism and countering proliferation financing (AML/CFT/CPF), prudential and foreign exchange policies (see Chart 2). Monetary penalties amounting to RM18.9 million were imposed on these institutions. We will continue to publish details of enforcement actions in our website to deter future breaches and promote confidence in the financial system.

BNM also deploys preventive and combative actions against financial crimes (Diagram 2). We conducted onsite surveillance activities on 123 entities involving 166 premises to detect potential illegal activities. Our surveillance activities are also supported by law enforcement partners such as the Royal Malaysia Police (Polis Diraja Malaysia, PDRM) and the National Anti-Financial Crime Centre (NFCC) in disrupting and dismantling illegal schemes and entities. In addition, we also leveraged other investigative tools including the use of data analytics.

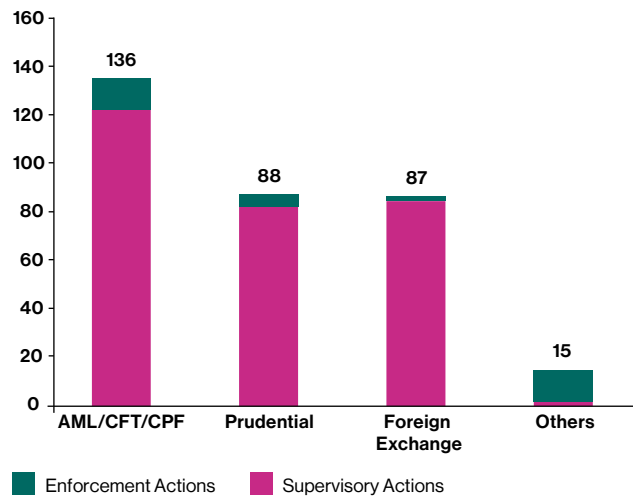
We pursued stronger enforcement actions against illegal activities including investigation and prosecution of illegal money services business (MSB) operators. We issued 37 cease and desist orders against illegal

Chart 1: Number of Actions Taken by Type of Institutions in 2024



Source: Bank Negara Malaysia

Chart 2: Number of Actions Taken by Type of Breaches in 2024

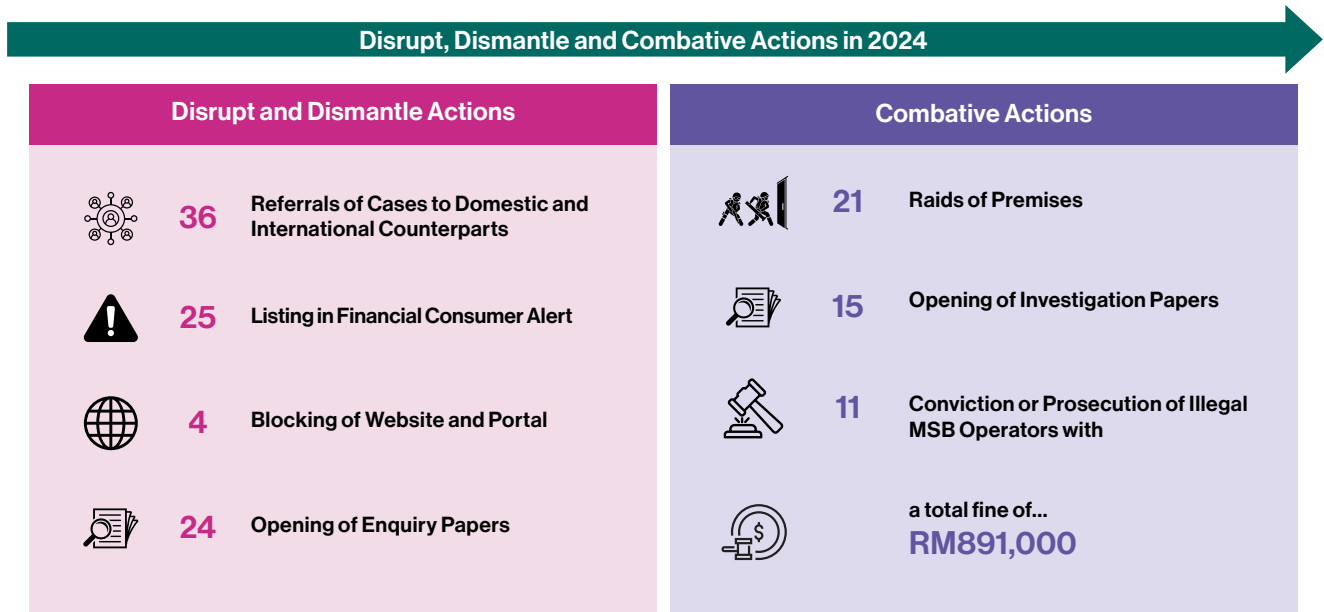


Source: Bank Negara Malaysia

MSB operators. We also forfeited assets from illegal activities, amounting to RM28.4 million. For breaches of the Money Services Business Act 2011 and Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001, we secured convictions against 11 illegal MSB operators in 2024 with a total fine of RM891,000.

¹⁸ BNM issued the document on 30 April 2024.

Diagram 2: Disrupt, Dismantle and Combative Actions in 2024

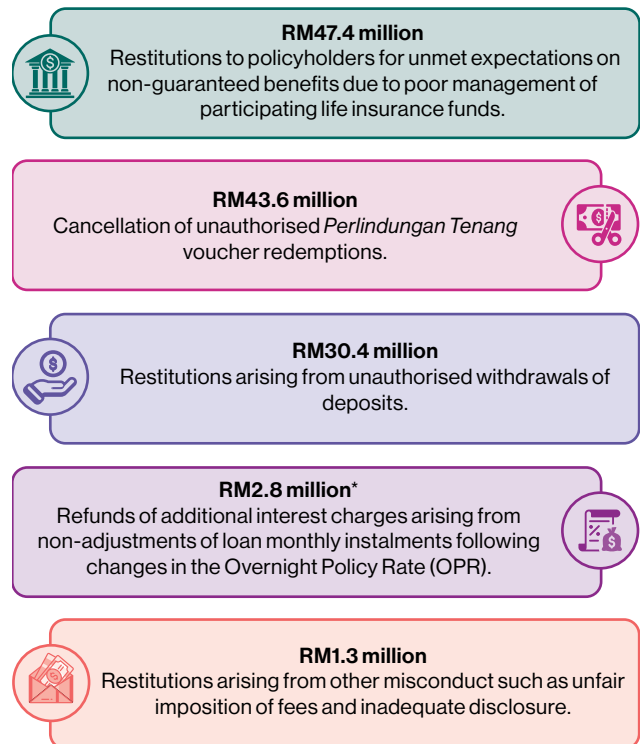


Source: Bank Negara Malaysia

The amended Money Services Business Act 2011 came into force on 1 August 2024. The amendments enable BNM to take more effective enforcement actions against illegal MSB operators. This is intended to act as a strong deterrent against unauthorised activities that endanger the interest of customers and undermine the integrity of the MSB industry. In dismantling other illegal schemes, we collaborated with NFCC and law enforcement agencies¹⁹ to investigate and prosecute cases involving illegal deposit-taking and related money laundering schemes.

On market conduct, we actively pursued punitive actions against financial institutions that failed to maintain acceptable standards of sound and responsible conduct to protect financial consumers. We secured restitutions amounting to RM125.5 million to approximately 1.5 million customers (Diagram 3). We also took supervisory actions against insurance and takaful brokers, and financial advisers that failed to meet regulatory expectations including acceptable standards of professionalism. Where relevant, we also issued specific directives requiring financial institutions to take corrective measures to maintain high quality standards of fair dealings to consumers.

Diagram 3: Refund and Reinstatement Arising from Non-compliances to Business Conduct Requirements in 2024



* By end-December 2024, RM2.8 million in refunds were issued to affected customers, and this process is ongoing into 2025.

Source: Bank Negara Malaysia

¹⁹ These include PDRM, Ministry of Domestic Trade and Cost of Living, Inland Revenue Board of Malaysia, Cybersecurity Malaysia, Companies Commission of Malaysia, Registrar of Societies, and Malaysian Anti-Corruption Commission.

Going Forward

The financial landscape will continue to evolve, primarily driven by digital and technological advancements, new and emerging risks, and changes in demography. Moving forward, to ensure that our regulatory and supervisory priorities are in line with our financial stability mandate, BNM will:

- a. Continue to strengthen our regulatory and supervisory approaches to promote a financial system that is resilient to future shocks and emerging risks. This includes advancing key regulatory initiatives to align with international standards, appropriate to Malaysia's context.
- b. Intensify efforts to protect the safety and integrity of the financial system through strong enforcement actions and ongoing collaboration with other law enforcement agencies.
- c. Ensure the regulations as well as supervisory monitoring and surveillance on conduct matters remain effective in ensuring fair treatment of consumers.
- d. Advance efforts to strengthen the operational resilience and crisis readiness of the financial sector.
- e. Continue to pursue efforts to strengthen financial institutions' resilience against climate-related risk and support an orderly transition towards a greener financial system.