# Promoting Financial Stability

The Bank is mandated to promote financial stability conducive for sustainable economic growth. We discharge this mandate by ensuring that the financial system is resilient throughout the economic cycle and is able to withstand shocks. This involves us promoting resilient and well-managed financial institutions, fostering safe and reliable clearing and settlement systems, and ensuring orderly financial markets. Ultimately, a sound and stable financial system contributes to the delivery of safe and effective services to financial consumers.

## Financial stability priorities in 2020

The significant disruptions and impact on the economy brought about by the pandemic were a major test for financial institutions. In light of these challenges, the Bank adjusted its regulatory and supervisory priorities to achieve three key objectives. Firstly, to ensure that financial institutions have sufficient buffers to support intermediation activities during the crisis and recovery phase. Secondly, to ease cash flow pressures of affected borrowers by providing timely and coordinated assistance. Thirdly, to reduce procyclical behaviours that could amplify financial and macroeconomic risks.

Given the economy-wide disruptions due to movement restrictions, financial institutions made immediate adaptations in working arrangements to ensure that financial services remained uninterrupted, while protecting the safety and health of employees. Coordinated responses – both within financial institutions and across the industry – were critical in efficiently managing the operational risk under these unprecedented circumstances (Diagram 1).

There were no significant operational risk losses or events in 2020 as financial institutions stepped up their controls and governance processes that enabled them to swiftly identify and respond to operational disruptions from the movement control orders. Even so, the pandemic fundamentally tested the business continuity and disaster recovery plans of financial institutions, as they were not designed to address the specific nature and extended duration of business interruptions encountered in this crisis. Most financial institutions have now updated their business continuity plans to provide for more pervasive and persistent operational disruptions, thus strengthening their operational capacity to respond to future shocks.

***Banking – COVID-19 relief measures***

Following the strict nation-wide Movement Control Order (MCO) announced in March 2020, we worked with the industry to introduce a six-month automatic moratorium on repayments for eligible individual and small and medium enterprise (SME) loans/financing starting 1 April 2020. This was to enable immediate cash flow relief for households and businesses at the scale and speed necessary amid a sudden halt to economic activities. Roughly eight million individual borrowers and 250,000 SMEs benefited from the automatic moratorium. In addition, banks also provided support to larger corporates via restructuring and rescheduling of loans/financing.

**Diagram 1: Key responses to manage operational risk in the COVID-19 landscape**

**Key Responses to Manage Operational Risk in the COVID-19 Landscape**

| Coordinated action and standardised procedures | Centralisation of communications | Managing information technology (IT) risk |
|---|---|---|
|  |  |  |
| The Bank worked closely with the Government and industry to develop and implement various standard operating procedures (SOPs) for the financial sector during the series of Movement Control Orders (MCOs). This covered both workplace safety and customer-facing operations. | A centralised, two-way communication channel was established between the Bank and industry to ensure clear communication of instructions and swift reporting of operational risk incidents, issues and challenges to the Bank to facilitate coordinated responses where relevant.<br>Within financial institutions, dedicated taskforces were set up to coordinate various facets of the COVID-19 response. | Restricted movements necessitated greater use of online platforms for customer engagements, and also for employees in work-from-home arrangements and split operations. Cyber and IT risk management was thus a key priority for financial institutions. Throughout the year, financial institutions reinforced their cyber defences and strengthened coordination with third-party service providers to ensure the resiliency of their IT security and infrastructure. |

With the easing of MCO restrictions from May onwards and improving economic conditions, about 840,000 borrowers resumed repayments by the end of September 2020. We worked concurrently with the industry to transition towards more targeted repayment assistance, focusing on those who continued to require financial assistance, such as microenterprises and those who have become unemployed or have experienced significant reduction in incomes. As the gradual resumption in economic activities meant that borrowers would have different financial needs, the targeted assistance enabled borrowers to receive continued help based on their specific financial circumstances. Borrowers that could afford to repay their loans/financing were encouraged to do so in order to reduce overall borrowing costs. At the same time, borrowers were assured that if their financial circumstances change as a result of further shocks due to the pandemic, they could still seek help in future, without affecting their credit records in the Central Credit Reference Information System (CCRIS). Key figures on targeted assistance are provided in Diagram 2.

Beyond assistance packages, banks also worked closely with the Credit Counselling and Debt Management Agency (or *Agensi Kaunseling dan Pengurusan Kredit* (AKPK)) to ensure that borrowers who go through AKPK's debt management programmes were able to secure assistance quickly. This was done by standardising the debt restructuring assessment metrics, thus materially shortening the time taken for AKPK to process individual applications for assistance.

Banks adopted new approaches to render COVID-19 repayment assistance as efficiently as possible, without compromising on robust governance and risk management standards. Given the scale and speed of the endeavour, there were dedicated functions with clearly defined authority and assigned accountabilities to coordinate actions within banks. These dedicated functions were primarily responsible for developing the overall strategy and outcomes of repayment assistance, establishing internal policies and procedures, ensuring the adequacy of infrastructure and resources, overseeing effective communication and engagement strategies, as well as monitoring the risks and effectiveness of the assistance programmes.

**Diagram 2: Take-up for assistance provided by the banking sector and insurance and takaful sector**

## BANKING SECTOR

By 31 December 2020,

**95%** of retail borrowers

**85%** of SME borrowers

were able to **resume payments**

**95%** of applications for repayment assistance were approved

Loans/financing under approved repayment assistance plans **RM 204 billion**

**1.3 million** applications received

## INSURANCE AND TAKAFUL SECTOR

### COVID-19 TEST FUND

*for eligible individuals with medical insurance policies and takaful certificates*

By 31 December 2020,

**RM 8 million** was committed, of which **RM 1 million** was used by **>3,600 beneficiaries**

### PREMIUM AND CONTRIBUTION DEFERRALS

By 31 December 2020,

**>58K** life insurance premiums/takaful contributions were deferred, amounting to **>RM 74 million**

**6.7K** restructured general insurance premiums/takaful contributions, amounting to **RM105 million**

***Insurance and takaful – COVID-19 relief measures***
Similar relief measures were provided by the insurance and takaful industry to ease cash flow constraints, preserve coverage and reduce the cost of protection for affected policyholders and takaful participants. These include options to defer payment of life insurance premiums and family takaful contributions for three months, restructuring of insurance policies and takaful certificates, waivers of fees and charges, and expedited claims processes. Despite significantly higher claim costs incurred by insurers and takaful operators in recent years, the industry also deferred planned repricing exercises that were due for medical and health insurance policies and takaful certificates to 2021. Further information on the take-up rate of assistance is provided in Diagram 2.

In light of the reintroduction of the MCO in many parts of the country in January 2021, the insurance and takaful industry has agreed to extend these relief measures and introduced new measures to further reduce the financial burden of policyholders and takaful participants. These include an extension of the application period for premium/contribution deferments until 30 June 2021 and a six-month waiver of interest for repayments of deferred premiums/contributions to help consumers gradually resume their premium /contribution payments.

Additionally, the insurance and takaful industry also supported the Ministry of Health's efforts to ramp up COVID-19 testing by pledging a sum of RM8 million to the COVID-19 Test Fund (CTF) established by the industry. More details on the take-up of the CTF are provided in Diagram 2.

***Ensuring clear and transparent communications***
The Bank stepped up its communications during the pandemic to keep customers informed of the financial assistance rendered by the financial industry. We worked closely with the financial industry on various initiatives throughout the year to communicate information on available assistance programmes, and to provide redress and advisory channels where customers can get help to manage their financial challenges during this period. Outreach initiatives to the public and SMEs are elaborated in more detail in the chapter "Engaging Malaysians".

Beyond creating awareness on repayment assistance, the Bank also collaborated with member institutions[1] of the Financial Education Network (FEN) to expand the reach of financial literacy initiatives, leveraging digital platforms and social media. Outreach programmes that focused on prudent and effective financial management matters were well received nation-wide. Further details are provided in Diagram 3, as well as the Feature Article on "A Primer on Taking Control of Your Finances".

***Regulatory and supervisory priorities***
Financial institutions entered the pandemic from a position of strength. Banks, insurers and takaful operators were able to provide meaningful assistance largely due to their financial buffers built up over the years. This strong financial position enabled them to support substantial relief measures and financial intermediation. The Bank's regulatory and supervisory priorities focused on practices of financial institutions in managing risks and promoting fair consumer outcomes, particularly in connection with financial assistance rendered to consumers. We also intensified our engagements with financial institutions on measures taken to ensure their operational resilience in light of significant adjustments to work processes and customer interfaces in response to the pandemic. In addition, we provided greater financial and operational flexibility to financial institutions through appropriate adjustments to regulatory requirements to reflect the heightened uncertainty generated by the pandemic crisis and mitigate procyclical behaviour. We also re-planned our regulatory and supervisory programme to reduce burdens on financial institutions so that they could focus on supporting their customers during the crisis. An overview of these measures is provided in Diagram 4.

For the money services business industry, with border closures and restricted movements, the currency exchange segment was particularly affected. Operational flexibilities were provided to ease the financial and operational burdens of

[1] The FEN member institutions are the Bank, Securities Commission Malaysia, Ministry of Education, Ministry of Higher Education, Malaysia Deposit Insurance Corporation, Employees Provident Fund, Credit Counselling and Debt Management Agency, and *Permodalan Nasional Berhad*. FEN formulated the National Strategy for Financial Literacy 2019-2023, a 5-year roadmap to elevate the financial literacy of Malaysians and to empower Malaysians to (a) save, manage and protect their finances, (b) plan and ensure a sustainable future, and (c) protect themselves from fraud and financial scams.

**Diagram 3: Financial education initiatives conducted by FEN**

**FEN initiatives aim to educate target segments of the population**
*e.g. youth, workers, MSMEs & low-income group*

over
**290**
initiatives by FEN members and partners

with
**36.1** million
interactions* (participants, viewers, listeners, readers)

and over
**300** million
reached on social media platforms

**Key topics covered**

- Seeking help early for loan repayment assistance
- Money management in challenging times
- Financial hygiene
- Healthy financial behaviours & rational attitudes on financial management
- Financial fraud alerts
- E-payments

* Refers to interactions via webinars, competitions, financial education talks, games, quizzes, radio and TV programmes, newspaper articles, virtual exhibitions.

money services business operators. These measures included waiving their annual licence fees, exempting them from staff training expenditures, and extending submission deadlines of audit and statistical reports to the Bank.

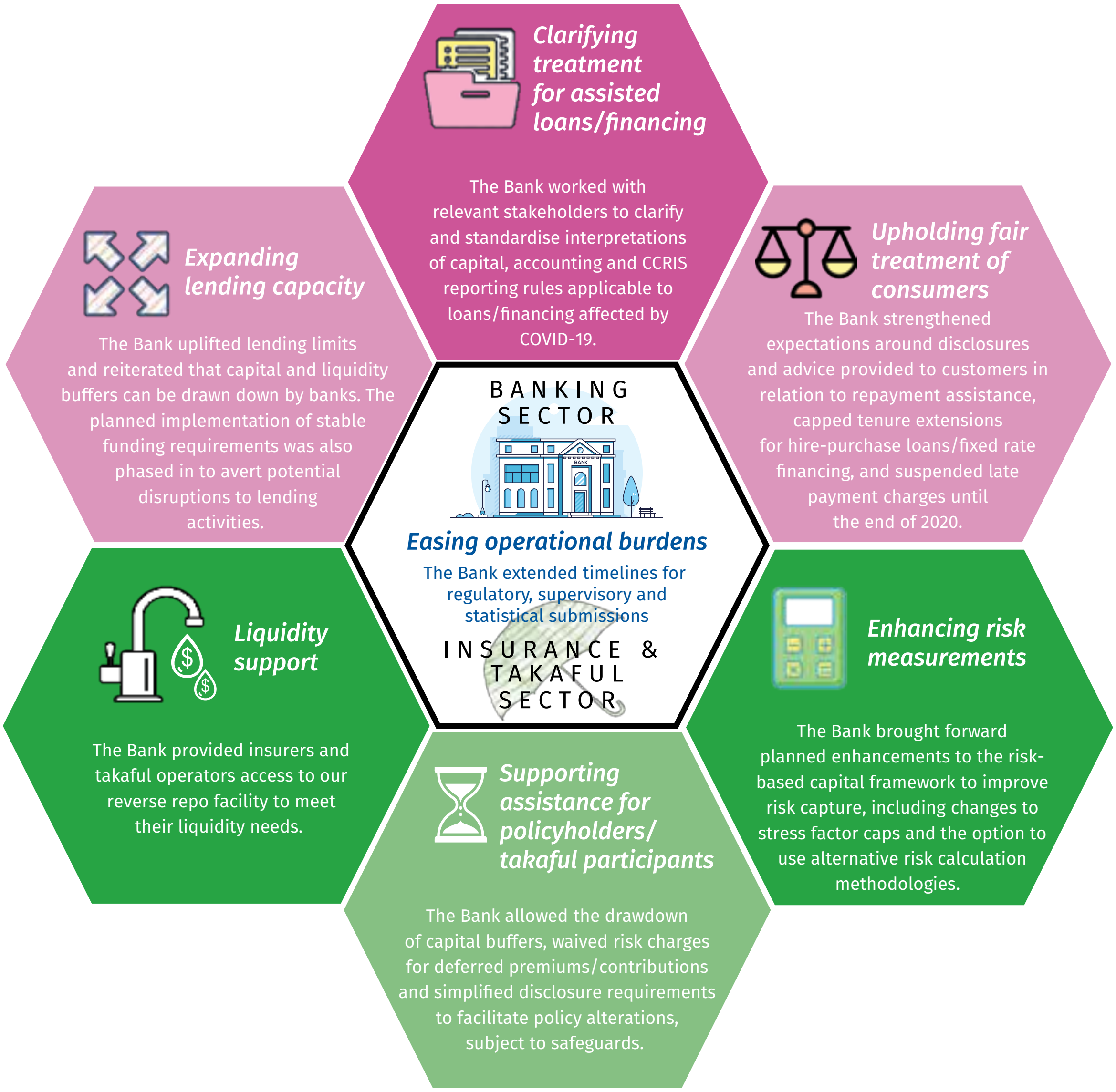
***Supervisory focus and priorities***

The pandemic presented challenges for prudential supervision that called for the Bank to adapt its supervisory approach and practices. Cross-section teams were set up to undertake more timely and integrated assessments that brought together the Bank's macroeconomic and sectoral reviews with financial sector perspectives as the crisis unfolded. There were more frequent engagements with boards and senior officers of financial institutions, as well as external auditors, to complement off-site surveillance by the Bank. Discussions with banks focused on their approaches and development of alternative metrics and indicators to assess borrowers' financial health in a time of significantly reduced visibility or accessibility to more conventional indicators of repayment behaviour. Supervisory efforts were also directed at strengthening the rigour of stress test exercises and forward-looking risk assessments conducted by both the Bank and financial institutions to take into account evolving risks. Collectively, these enabled the Bank to maintain close vigilance over the risk-taking behaviours of financial institutions and the adequacy of their capital and liquidity buffers.

***Engagements with other regulators and supervisors***

Given the pandemic's global impact, cross-border and inter-agency cooperation and exchanges were critical during the year. We engaged closely with regulators globally and in the region to share experiences and lessons on policy and supervisory responses to COVID-19. Supervisory colleges also continued to be organised virtually to support the Bank's group-wide supervision of financial institutions with significant overseas operations as well as the supervision of the local subsidiaries of large international financial institutions. During the year, we hosted or participated in supervisory colleges for nine insurance groups and four banks, with regulators from 13 countries. These engagements were particularly important to enable us to anticipate and size up emerging risks arising from the economic impact of the pandemic, evaluate alternative options for responding to identified risks and where relevant, coordinate actions, including communications, to mitigate risks.

**Diagram 4: Regulatory relief measures for the banking and insurance and takaful sectors**




We also continued to actively contribute to the work of the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Islamic Financial Services Board (IFSB), and the Network for Greening the Financial System (NGFS) towards reinforcing the resilience of the financial sector during the crisis and facilitating a sustainable recovery post-crisis. Our areas of focus are broadly in line with the priorities of the BCBS and the IAIS. These include strengthening supervisory monitoring and coordination, and ensuring that prudential standards are implemented sustainably to provide financial institutions with the operational capacity to respond to the COVID-19 pandemic, especially in providing the necessary support to meet the needs of the economy. We also continue to maintain a line of sight over emerging risks from climate change and digitalisation.

Domestically, we worked closely with other regulators and agencies, including the Malaysia Deposit Insurance Corporation (or *Perbadanan Insurans Deposit Malaysia* (PIDM)) and the Securities Commission Malaysia to address risks and issues affecting the financial sector. We also continued to work with the National Cyber Security Agency (NACSA) and CyberSecurity Malaysia (CSM) on coordinating responses to cyber threats targeted at financial institutions. In addition, the Bank continuously worked with the industry to enhance the cyber hygiene of the financial sector and foster information sharing on latest developments relating to cyber threats. Another key area of collaboration was the establishment of a joint taskforce with banks and the Malaysian Accounting Standards Board (MASB) to identify and streamline key interpretation issues relating to the treatment of assisted loans.

## Enforcement actions

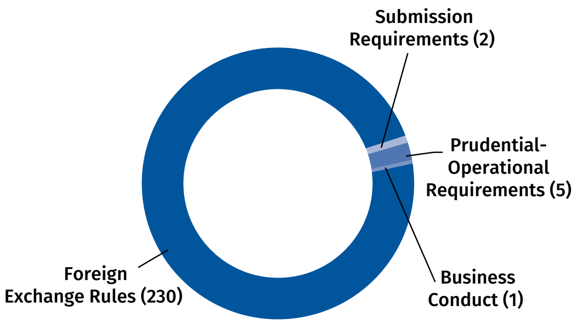
In delivering the Bank's financial stability mandate, we use a range of supervisory and enforcement actions to promote strong governance, compliance and risk management practices by financial institutions, ensure appropriate protection of financial consumers and protect the integrity of the financial system. Supervisory actions, such as reprimands and directives, are typically used to address shortcomings in compliance, governance and risk management practices that are less severe in nature. Formal enforcement actions such as administrative monetary penalties and compounds, on the other hand, are pursued in cases of serious breaches of our regulatory requirements and unlawful activities that can create undue risks to the public or undermine confidence in the financial system. In 2020, a significant majority (99%) of our interventions were supervisory actions. The remaining 1% were enforcement actions, where the Bank imposed administrative monetary penalties against two licensed institutions. The higher number of supervisory actions taken as compared with enforcement actions is commensurate with improving compliance amongst reporting institutions.

During the year, we pursued 277 supervisory and enforcement actions against institutions. Notably, almost three quarters were taken against institutions that are not under the Bank's regulation (Chart 2). These were mainly low severity cases involving export-related non-compliances, which arose from a lack of awareness or understanding of the prevailing rules. As part of ongoing efforts to raise awareness on relevant regulatory requirements, the Bank has continued to conduct periodic briefings for exporters and trade associations, develop training programmes for bank personnel in collaboration with the Asian Banking School, and widely disseminate key information and supplementary materials to SME associations and business chambers.

The Bank also curbed various illegal financial activities by imposing cease and desist orders against eight illegal money services business operators and pursuing criminal investigations against ten others. Our efforts also secured six convictions related to illegal money services business, illegal deposit taking and money laundering, resulting in fines totalling RM 1.3 billion and jail terms for the offenders.

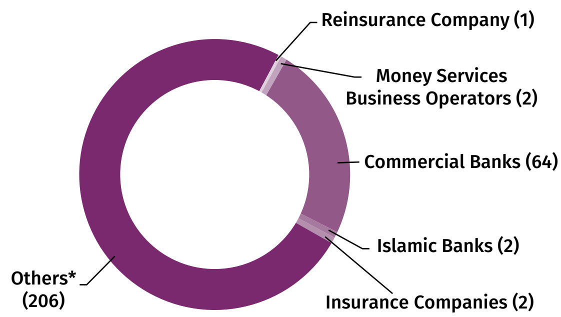
During the year, enhancements were made to the Bank's Enforcement and Penalty Framework and the assessment process to clarify the application of principles of proportionality and consistency, as well as to improve its transparency. In line with the latter objective, all enforcement actions taken by the Bank have been published on our website since 2019. Changes were also made to facilitate more expedient enforcement actions and settlements when an offence or breach has been proven.

**Chart 1: Number of cases in 2020 by type and nature of offences**




Source: Bank Negara Malaysia

**Chart 2: Number of actions taken in 2020 by type of institutions**




*Individuals and entities not regulated by the Bank

Source: Bank Negara Malaysia

## Going forward

While we are on a recovery path, uncertainties surrounding COVID-19 and the structural impact on certain economic sectors will continue to present challenges in the immediate future. As such, regulatory and supervisory priorities in 2021 will remain focused on identifying and responding to emerging risks, while laying the foundations for a swift and sustainable economic recovery. Ongoing initiatives will also continue to be pursued to ensure that the financial system remains well placed to support the real economy amid transformational shifts brought about by new technology, new players and structural changes in the economy.

The regulatory and supervisory work in 2021 will centre on enhancing the risk capture and responsiveness of regulatory policies set by the Bank. It will also seek to strengthen the longer-term resilience and sustainability of financial institutions both financially and operationally. We will continue to focus on stress testing and crisis simulations, as well as technology risk management given the accelerating pace at which financial services will move from physical spaces to virtual platforms. Refinements to existing regulatory and supervisory frameworks in the coming year will also account for new technologies and business models adopted by financial institutions, including those by new entrants to the system such as digital banks.