

# **Introduction**

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## Foreword by the Minister of Finance

Malaysia is at an inflection point. As we exit and recover from the COVID-19 pandemic, it is hard to look back and ignore the scars it has left on the lives and livelihoods of many. Yet, it is important for us to look forward and not lose sight as to what is ahead of us, as we continue to push forward towards becoming a high value-added, high-income nation.

The pandemic has accelerated the digital revolution, which has profoundly changed the way we work, play and interact with each other. Meanwhile, the implications of climate change, biodiversity loss, and demographic change are no longer academic, but real and pressing. While these shifts pose new risks – especially to the most vulnerable in our society – they also present opportunities to build back better and transform the country's development trajectory.

In this regard, the launch of the Financial Sector Blueprint 2022-2026 is timely. In realising the nation's aspirations, the financial sector has always played an important role – be it supporting families to grow and protect their wealth, or helping businesses venture into new territories. In the next five years, the strategies expressed in this Blueprint will be critical for the financial sector to navigate the oncoming challenges and capture new opportunities. To that end, I call upon the financial sector to continue to be the catalyst for reform, drive sustainability and contribute to our collective aspiration of a "Prosperous, Inclusive and Sustainable Malaysia".

With this, allow me to express my congratulations and appreciation to everyone involved in formulating the Blueprint, particularly Bank Negara Malaysia.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes.

**YB Senator Tengku Datuk Seri Utama Zafrul Tengku Abdul Aziz**  
24 January 2022



## Message from the Governor

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Through the years, the financial sector has grown and evolved to help improve the lives and livelihoods of many in Malaysia. While the financial sector has come a long way, we have not stopped thinking about how finance can be further propelled to more effectively serve the economy, and in particular, to help support the nation in transitioning to its next stage of development.

In the world of finance, new applications of technology, broader shifts to digital channels and the emergence of new business models have opened up exciting possibilities for better financial services. At the same time, these developments raise fundamental questions about finance itself and how it should be regulated. Similarly, demographic shifts in Malaysia would require fresh ideas to facilitate savings, investments, and effective social safety nets for a soon-ageing population, even as other persistent socioeconomic gaps remain. The economic effects of climate change are also beginning to manifest. Along with this, there has been a growing appreciation for the risks to the financial sector, as well as the potential role of finance in the transition towards a greener, more climate-resilient economy.

Further shaping the path ahead for the financial sector is the pandemic. We are reminded that the health and fortunes of the financial sector are closely intertwined with the wider economy, as well as the natural environment. During the pandemic, the financial sector played a key role in supporting millions of Malaysian individuals and businesses during the lockdowns, as well as in helping jumpstart the economy as it reopened. This has been possible due to the resilience of the financial system, underpinned by the prudent management and build-up of buffers by financial institutions over the years.

As the nation navigates the extraordinarily uncertain times ahead, my hope is that the financial sector will continue to serve the Malaysian economy from a position of strength. This Blueprint sets out our vision for the next steps for that journey, alongside financial sector strategies to advance desired outcomes from 2022 to 2026. Beyond supporting the economic recovery, the financial sector will play a key role in helping Malaysia make the most out of this unique moment in history to realise a more dynamic, inclusive and sustainable development path.

Developing this Blueprint was no small task. I would like to express my heartfelt gratitude to all who worked to grapple with the big questions explored here. Special thanks goes to those from outside the Bank, whose suggestions and insights have been crucial in informing our strategies.

**Nor Shamsiah Yunus**  
24 January 2022

# Executive summary

## Overview of the Blueprint

### Key megatrends shaping the landscape ahead



#### Economic conditions

Uneven global economic recovery, alongside other uncertainties (e.g. virus path, global supply chain shifts)



#### Demographics

Risks of financial exclusion amid ageing population and other persistent gaps (e.g. socioeconomic disparities, financial literacy)



#### Technology

Promise of better financial services but with new regulatory challenges amid shorter innovation cycles, new skillsets required and blurred boundaries



#### Climate and environment

Need for a just and orderly transition to greener, more climate-resilient economy and financial sector

### Desired outcomes and targets for 2026



#### Three broad themes

##### Finance for all

- ◆ Diverse choices for customers, including 'digital first' solutions
- ◆ Strengthened financial safety nets
- ◆ Confident and capable financial consumers



##### Finance for transformation

- ◆ Growth in alternative finance
- ◆ Deeper global integration, with continued leadership as an international gateway for Islamic finance
- ◆ Vibrant and dynamic financial landscape



##### Finance for sustainability

- ◆ Wider adoption of value-based intermediation (VBI) to serve the economy, community and environment
- ◆ Steady progress in greening finance and financing green

#### Key targets and milestones<sup>1</sup>

- ◆ Narrowing of gap between Malaysia's **OECD/ INFE<sup>2</sup> financial literacy scores** and the average score of OECD members
- ◆ Increase in **e-payment per capita** at CAGR<sup>3</sup> of higher than 15%
- ◆ **Insurance/takaful penetration** rate of 4.8-5.0% (as % of GDP<sup>4</sup>)
- ◆ Doubling of number of individuals subscribed to **microinsurance/microtakaful**
- ◆ Enactment of **consumer credit law and oversight body**
- ◆ Single **licensing regime** for financial advisors and financial planners
- ◆ Steady growth in **alternative finance** channelled to new, innovative enterprises
- ◆ Faster, cheaper, more accessible **cross-border payments**
- ◆ More than 50% of new financing is for **green and transitioning activities**
- ◆ Steady growth in **VBI-aligned assets**

<sup>1</sup> Selected areas, not representative of the Blueprint as a whole

<sup>2</sup> OECD International Network on Financial Education

<sup>3</sup> Compounded annual growth rate

<sup>4</sup> Gross domestic product

## Our regulatory focus for financial development



### Foster market dynamism while supporting sustainable development objectives ...

- ◆ Address undue barriers to market entry, while ensuring orderly exit
- ◆ Promote ‘co-opetition’ for critical ecosystem enablers
- ◆ Strengthen conditions for market discipline, focusing on more empowered consumers
- ◆ Build on VBI to advance greater inclusion, climate resilience and environmental sustainability

### ... anchored on monetary and stability mandates

- ◆ Continued monetary policy efficacy amid changing landscape
- ◆ Safeguard system-wide resilience and financial integrity

## Five strategic thrusts for 2022-2026



### Fund Malaysia's economic transformation

#### a. Sustain a strong economic recovery

*e.g. supportive credit guarantee ecosystem, higher usage of forward-looking and alternative data, stronger countercyclical roles of DFIs<sup>5</sup>*

#### b. Facilitate transformation to a high-income nation

*e.g. supportive regulatory and taxation framework for alternative finance, stronger regulatory collaboration to both develop and oversee risks from non-debt finance ecosystem*

#### c. Ensure post-pandemic resilience of financial intermediation role

*e.g. increased collateralised transactions and developed derivatives markets for more vibrant onshore financial market, greater usage of insurance and takaful to support financing to firms, especially to high-risk industries*

<sup>5</sup> Development financial institutions



## Elevate the financial well-being of households and businesses

- a. **Enhance financial capability and access, as well as effective usage of financial services towards greater financial inclusion**  
e.g. financial education initiatives and impact monitoring through FEN<sup>6</sup>, strengthened role of agent banks and Mobile Banks (Bank Bergerak), wider adoption of financial inclusion KPI<sup>7</sup> disclosures
- b. **Strengthen protection for households and businesses to build financial resilience**  
e.g. public-private partnerships for risk protection against high-risk large-scale perils, microinsurance and microtakaful development, further liberalisation of motor and fire tariffs, sustainable MHIT<sup>8</sup> cover
- c. **Shape a financial system that upholds fair and responsible dealings with financial consumers**  
e.g. enhanced professionalism and incentive frameworks of intermediaries, guidance on conduct risk identification and ethical use of technology, consumer protection reforms (e.g. CCA and CCOB<sup>9</sup>, single licensing framework for financial advisors and financial planners)

<sup>6</sup> Financial Education Network

<sup>7</sup> Key performance indicators

<sup>8</sup> Medical and health insurance/takaful

<sup>9</sup> Consumer Credit Act and Consumer Credit Oversight Board



## Advance digitalisation of the financial sector

- a. **Futureproof key digital infrastructures**  
e.g. CBDC<sup>10</sup> proof-of-concepts, non-bank access to RENTAS<sup>11</sup>, high-impact open data use cases, shared infrastructures for fully digitalised motor claims
- b. **Support a vibrant digital financial services landscape**  
e.g. simplified tracks for Regulatory Sandbox, licensing of digital insurers/takaful operators, digital payments, enhanced regulatory guidance for critical digital enablers such as cloud and AI/ML<sup>12</sup>
- c. **Strengthen cyber security readiness and responsiveness**  
e.g. intensified focus on third party service providers, sharing of actionable cyber security intelligence through cyber contagion maps, standards for cyber security and cyber resilience terminology, cyber security training and certification
- d. **Support greater use of technology for regulation and supervision**  
e.g. greater adoption of technology for regulation and supervision, reforms to the Bank's data gathering infrastructure and methods

<sup>10</sup> Central Bank Digital Currencies

<sup>11</sup> Real-Time Electronic Transfer of Funds and Securities System

<sup>12</sup> Artificial intelligence/machine learning



**Position the financial system to facilitate an orderly transition to a greener economy**

- a. Integrate climate-related and environmental risks in prudential regulation and supervision**  
*e.g. effective implementation of taxonomy, greater alignment with VBIAF<sup>13</sup> and its sectoral guides, strengthened supervisory expectations and prudential framework on managing climate and environmental risks, mandatory disclosure of climate risks*
- b. Support orderly transition to a low-carbon economy**  
*e.g. intensified focus on bridging data gaps, expanded specialised funding and risk mitigation mechanisms, synergy between national policies and financial sector initiatives, accelerated capacity building initiatives on global platforms*
- c. Integrate climate risks in the Bank's internal functions and operations**  
*e.g. climate risk stress test for the financial industry, climate and environmental risk considerations in the Bank's portfolio management activities, greater adoption of sustainability in the Bank's physical operations*

<sup>13</sup> VBI Financing and Investment Impact Assessment Framework



**Advance value-based finance through Islamic finance leadership**

- a. Sharpen Malaysia's proposition as an international gateway for Islamic finance**  
*e.g. strengthened gateway-critical capabilities (particularly on distributional capabilities, innovation, competitiveness), deepening of Islamic financial and capital markets, mechanisms for greater industry leadership*
- b. Strengthen policy enablers of value-based finance for greater impact**  
*e.g. alignment of Shariah contracts' application with the underlying wisdom (hikmah), broader application of ta'awun (mutual assistance) in takaful, enhance impact-based disclosures*
- c. Mainstream social finance**  
*e.g. blended finance and funding escalator models, multi-stakeholder efforts to promote shared infrastructures*