

Strategic Thrust 2

Elevate the financial well-being of households and businesses

Financial well-being refers to an individual's ability to meet ongoing financial obligations, stay resilient to income shocks, achieve future financial goals, and make financial decisions to improve one's overall quality of life. In a similar vein, businesses should be in good financial health to withstand unanticipated financial setbacks and capitalise on emerging opportunities to upscale and secure future growth.

The pandemic has surfaced, and in some respects, exacerbated significant vulnerabilities impacting the financial well-being of households and businesses. Addressing these vulnerabilities requires important economic reforms to raise the standards of living of households through employment and income-generating activities, with the financial sector playing a key role to serve the financial intermediation needs

of all. Ongoing reforms to the social protection framework¹ and business ecosystem² will be fundamental to secure future resilience.

Measures to elevate financial well-being go beyond ensuring access. The desired outcome is for individuals and businesses to meaningfully benefit from their participation in the financial system by equipping households and businesses with suitable and affordable solutions, as well as empowering them with the financial capability to make sound financial judgments. Alongside these, it is also important to ensure financial consumers continue to be treated fairly to inspire positive user experience and consumer outcomes.

With this in mind, we will advance three key strategies (Diagram 1).

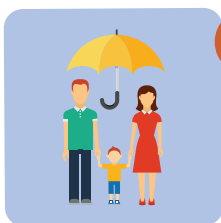
Diagram 1:
Elevate financial well-being



A

Enhance financial capability and access, as well as effective usage of financial services towards greater financial inclusion

- ◆ Equip consumers with improved financial capabilities
- ◆ Address remaining inclusion gaps, focusing on take-up and meaningful usage of financial services, especially for the unserved and underserved segments



B

Strengthen protection for households and businesses to build financial resilience

- ◆ Expand market capacity to meet household and business protection needs against future risks
- ◆ Strengthen efforts to address pre-conditions for a sustainable protection landscape for key risks



C

Shape a financial system that upholds fair and responsible dealings with financial consumers

- ◆ Strengthen professional standards, incentive frameworks and disclosure practices
- ◆ Promote an enabling conduct environment for innovation and efficiency
- ◆ Pursue regulatory reforms to strengthen the oversight of non-bank consumer credit providers and promote consistent consumer protection

¹ This is broadly categorised into social safety nets, social insurance and active labour market policies. For further details, please refer to the Box Article titled "A Vision for Social Protection in Malaysia" in Bank Negara Malaysia's Economic and Monetary Review 2020, accessible at https://www.bnm.gov.my/documents/20124/3026377/emr2020_en_box1_socialprotection.pdf

² Measures to support businesses include debt resolution schemes for the purpose of business rehabilitation, financing guarantee and insurance for microenterprises and informal businesses.

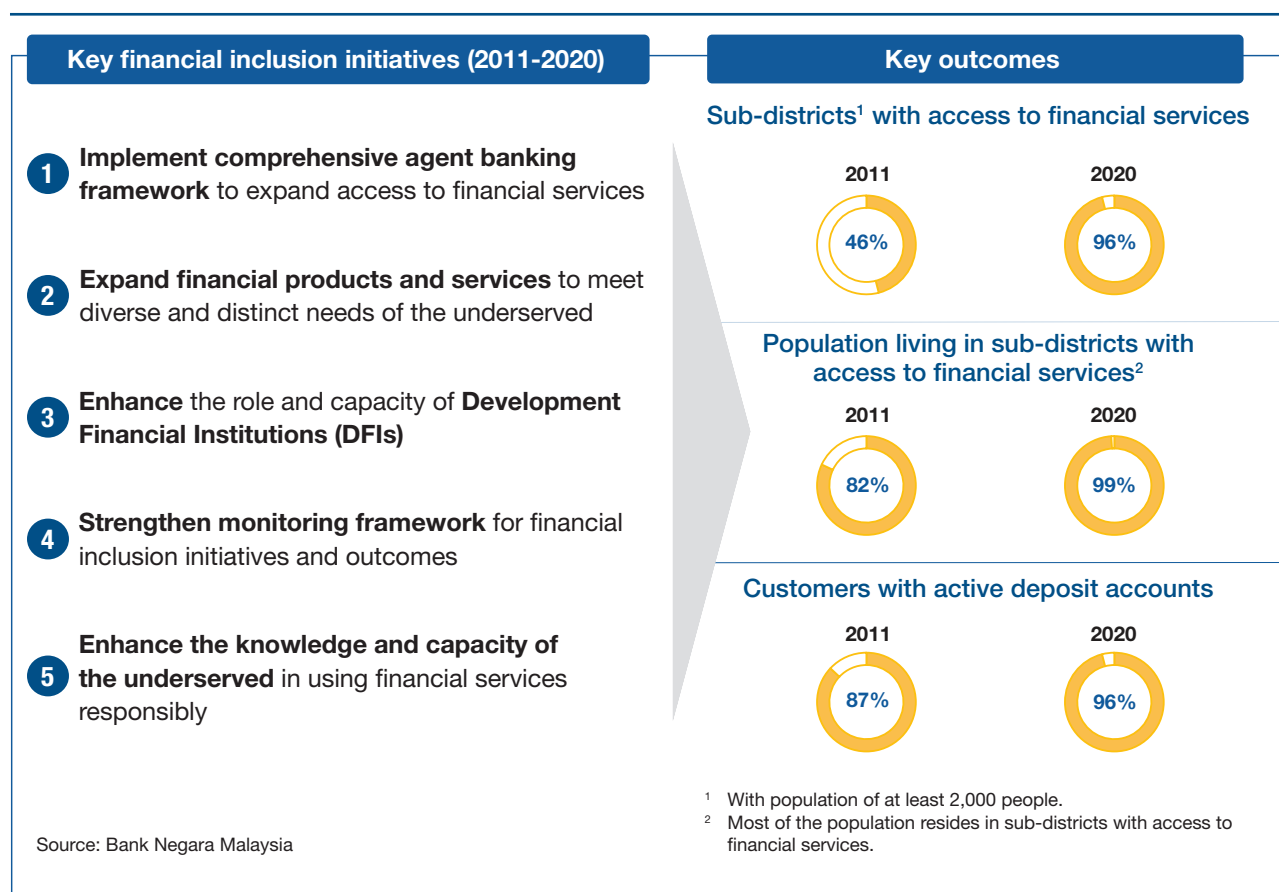
Strategy 2A

Enhance financial capability and access, as well as effective usage of financial services towards greater financial inclusion

Over the past decade, Malaysia has made significant progress in advancing financial inclusion and introduced nationwide financial education initiatives to elevate financial capability³. The Financial Education Network (FEN) was established in 2016 as a cohesive inter-agency platform to lead such efforts, while the National Strategy for Financial Literacy (2019-2023) outlines strategic priorities to elevate financial literacy and promote responsible financial behaviour of consumers across all life stages. Through our collaboration with the Ministry of Education (MOE), financial education modules have also been successfully integrated into all levels of the formal education system and as elective programmes of higher learning and teacher training institutes – with the Financial Literacy Core Competency Framework for adults serving as a key reference to effect lasting behavioural change.

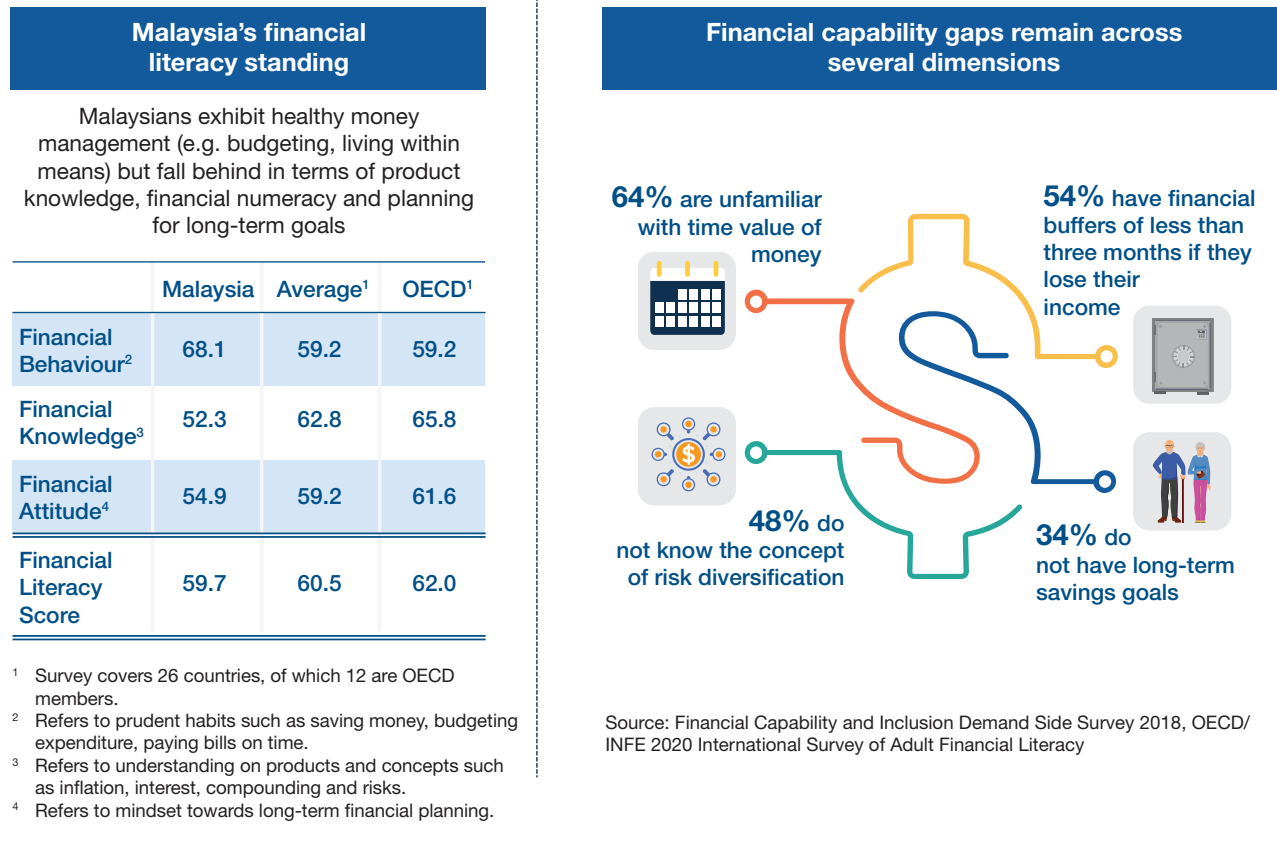
In advancing financial inclusion, a range of measures have been undertaken since 2011, thereby expanding access to and provision of financial services (see Diagram 2). Nonetheless, some financial capability gaps remain to be addressed (see Diagram 3).

Diagram 2:
Key financial inclusion initiatives and outcomes between 2011-2020



³ Financial capability is the combination of attitude, knowledge, skills, and self-efficacy needed to make and exercise money management decisions. (Source: Center for Financial Inclusion)

Diagram 3:
Remaining financial capability gaps in Malaysia



Moving forward, our strategies in enhancing financial inclusion will target initiatives to advance the following:

- i. Equip consumers with improved financial capabilities; and
- ii. Address remaining inclusion gaps, focusing on take-up and meaningful usage of financial services, especially for the unserved and underserved segments.

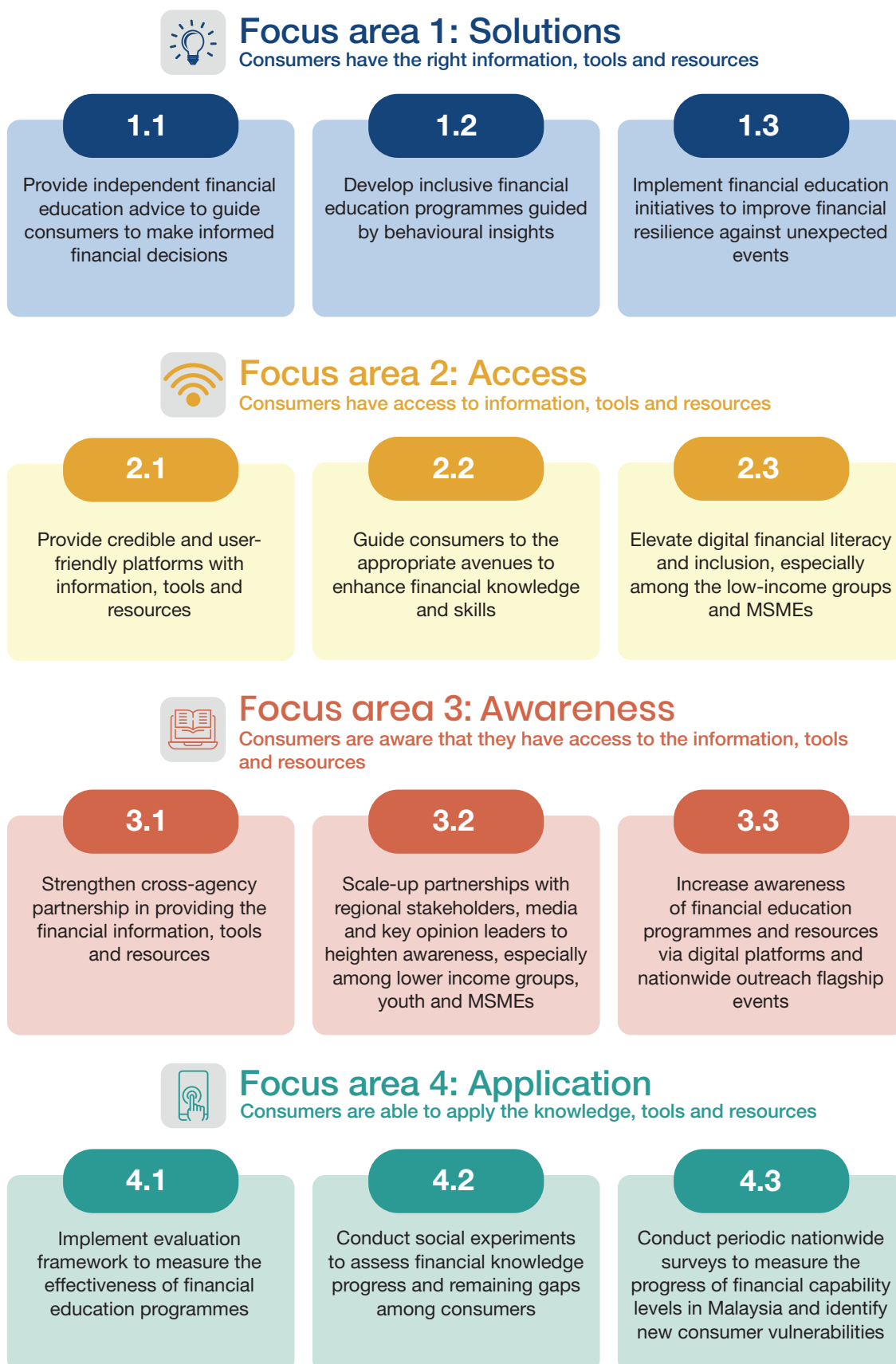
i Equip consumers with improved financial capabilities

- We will **advance national collaboration on financial education initiatives through the FEN** by expanding strategic partnerships, accelerating awareness via digital platforms, and building a research ecosystem. We will build on the FEN Programmatic Roadmap – with a focus on Solutions, Access, Awareness and Applications (see Diagram 4) – to elevate the financial capability of consumers.

We will seek to cultivate sound financial decisions⁴ among consumers and businesses through targeted financial literacy initiatives

⁴ Ability to make rational financial choices through the understanding of financial concepts and take precautions against financial scams as well as behavioural biases (e.g. herd behaviour).

Diagram 4 :
Focus areas and initiatives under FEN Programmatic Roadmap



- We will **scale up targeted consumer engagement measures to elevate financial literacy and inclusion** by leveraging innovative channels and digital touchpoints. These measures will help consumers learn to use financial management tools for financial planning, budgeting, and product comparison. Importantly, we envision consumers having greater knowledge of available financial solutions in the market, as well as being able to develop a habit of saving, investing, and planning for retirement at an early age. We will emphasise cultivating sound financial judgement – including to guard against behavioural biases such as herd behaviour and susceptibility to financial scams. Given the increasing digitalisation of financial services, we will also intensify efforts to enhance digital financial literacy.
- **Annual Key Performance Indicators (KPIs) will be identified** under the four focus areas of the FEN Programmatic Roadmap to measure and track the impact of financial capability initiatives more effectively. These annual KPIs will be evaluated alongside improvements in the levels of knowledge, behaviour, and attitude of consumers in Malaysia on financial matters as measured under the Financial Capability and Inclusion (FCI) Demand Side Survey, which is conducted on a triennial basis.

At a broader level, we will also ensure our assessment and monitoring tools – such as the FCI – are aligned to international best practices and remain relevant so that financial capability and inclusion gaps can be addressed in a timely manner. A financial education measurement and impact assessment framework will be developed to systematically assess the effectiveness of financial education initiatives targeting all segments of the population – from students to adults. Findings from the assessment will be used to continuously improve financial education initiatives.

With better capabilities to accurately identify remaining gaps, we can enhance the efficacy of our inclusion strategies and help achieve other development goals under the 2030 SDGs. For instance, we will account for emerging financial services channels by building in digital take-up, quality of digital services, and digital literacy.

Together, these measures will augment efforts by the Bank and FEN members towards more evidence-based policymaking – to prioritise critical financial capability and inclusion initiatives and design targeted interventions.

ii Address remaining inclusion gaps, focusing on take-up and effective usage of financial services, especially for the unserved and underserved segments

Moving forward, financial inclusion efforts will go beyond improving access, with an aim towards driving sustained and responsible usage of financial products and services. We will strive to enable more meaningful financial participation by all in Malaysia so that they are able to save, invest, and build long-term financial buffers. At the same time, we will continue to find innovative ways to address financial barriers, particularly for the unserved and underserved communities.

Financial inclusion initiatives will go beyond improving access – we will seek to drive sustained, responsible and meaningful usage of financial solutions

- We will continue to **strengthen the role of agent banks and Mobile Banks (*Bank Bergerak*)** to enable wider access to financial services through existing networks and facilitate the digital on-boarding of consumers in unserved and underserved areas. This includes the following:
 - **Preserve physical financial touchpoints** to help low-income, elderly, and non-urban communities – at least for the medium term – until the necessary levels of connectivity (i.e. internet and devices) and digital literacy are achieved in these segments to support the transition to digital financial channels.
 - **Expand the range of services of agent banks**, including to facilitate a simplified onboarding process for customers. We will focus on rural and underserved areas that lack bank branches to carry out customer due diligence.

□ **Explore greater interoperability⁵ between banks.** This aims to facilitate access to a wider range of financial services and service providers, including withdrawals and deposits, as well as digital payments through all agent banks, digital banks, and Mobile Banks.

■ **We will improve outreach to the “last mile” unbanked population.** On this front, our priority will be to strengthen the roles and capabilities of financial institutions to serve financial inclusion objectives. To this end, we will accord focus to:

□ **Increase the impact of DFIs in delivering their developmental mandates** towards the financial inclusion agenda (refer to Strategy 1A(i) of the chapter “Fund Malaysia’s economic transformation” for more details).

□ **Ensure that digital banks address remaining market gaps** among the unserved and underserved segments. Performance of the digital banks will be monitored against the respective institutions’ financial inclusion commitments, which form an essential component of the value proposition for the granting of digital bank licences.

□ **Liberalise the policy on the establishment of physical branches** for locally-incorporated foreign banks (LIFBs), aimed at enhancing the role of LIFBs in contributing to the needs of the domestic economy and furthering financial inclusion objectives.

□ **Facilitate industry efforts to pilot and expand the use of behavioural analytics to engage out-of-reach communities** more effectively. This is expected to encourage the development of more targeted, needs-based products and to effectively nudge consumers towards better-informed financial decisions – through applications ranging from credit assessments, identification of protection needs, predictive modelling, product design, and marketing.

■ **We will promote wider adoption of financial inclusion KPI disclosures** by financial institutions to encourage greater alignment with inclusive finance goals. We will improve guidance on how financial institutions should define the financially unserved and underserved, and consider standardised reporting on KPIs – to enable financial institutions to express their commitment as socially responsible institutions in a systematic manner. Such disclosures will serve to demonstrate how financial institutions support the broader ESG goals and SDG agendas.

■ **We will promote more seamless data sharing** across the financial sector to further unlock new financial inclusion opportunities through common standards for data sharing (as referenced in Strategy 3A(ii) of the chapter “Advance digitalisation of the financial sector”). Our immediate focus will be to enable improved access to data on the profiles, needs, usage and behaviour of unserved or underserved segments by enabling data sharing pipelines with other partner institutions such as microfinance institutions and key government agencies. In prioritising datasets for sharing with the industry, we will accord greater priority to high-impact, innovative use cases that can address remaining financial inclusion gaps. For example:

□ **Access and needs-based solutions.** Facilitate the development of alternative credit scoring models by sharing pooled information on “thin file” consumers with financial providers. Similarly, more granular data points on consumer protection needs will also enable better targeted and affordable microinsurance/microtakaful product designs for key consumer groups (e.g. B40 group).

□ **Consumer choice and financial management.** While existing financial aggregators predominantly feature products by financial institutions, this should be expanded to more offerings by other financial providers such as fintech companies, so consumers can compare the price and suitability of more diverse financial products. In this regard, we will facilitate the integration of product comparison features with additional value-add services (e.g. financial management tools and financial advisory), taking into account the benefits and risks of such arrangements.

⁵ Financial services where the issuer and the acquirer are not the same financial institution.

Strategy 2B

Strengthen protection for households and businesses to build financial resilience

Malaysia's next stage of economic transformation stands to significantly benefit from a rich and diversified range of mechanisms that can protect financial consumers. The financial needs of households and businesses are expected to evolve in several important ways amid wider demographic shifts and technological change. Individuals will be more discerning and are likely to seek more specific, affordable, and needs-based protection. Meanwhile, businesses would need solutions that support future resilience against emerging risks. The pandemic – which underscored the value of financial security in a time of uncertainty and distress – has also generated greater appreciation and demand for insurance and takaful solutions.

The insurance and takaful landscape must therefore be positioned to support the new demands and play an effective risk transfer role. This requires a protection landscape that is competitive, efficient, and inclusive. These three outcomes will shape our strategic priorities in the coming years. We will also leverage the universal principles under the Value-based Intermediation for Takaful (VBIT) framework, which supports value creation for stakeholders – consumers, society, and the environment (further details in the chapter “Advance value-based finance through Islamic finance leadership”). We also see digitalisation as a catalyst for innovation and competition, including through the use of shared digital infrastructures to address structural gaps in the ecosystem (further details in the chapter “Advance digitalisation of the financial sector”).

Financial resilience must be supported by a diverse range of factors: sufficiency of income above the living wage, savings buffers, social protection, diverse wealth accumulation solutions and protection against unanticipated events. Efforts to support this outcome require a whole-of-government approach. In addition to protection solutions, our efforts to develop a vibrant funding and financial markets landscape (see the chapter “Fund Malaysia's economic transformation”) will also support improved financial resilience of households and businesses. At a broader level, we will continue to work with other regulatory authorities and relevant agencies – particularly the SC – to holistically develop a diverse ecosystem of wealth and risk management solutions that will cater to various life and business stages. This includes solutions for wealth accumulation and preservation (e.g. fixed deposits, unit trusts, exchange-traded funds), decumulation (e.g. reverse mortgage, deferred annuity), and for the management of risks (e.g. insurance protection, hedging instruments).

To this end, our efforts here aim to:

- i. Expand market capacity to meet household and business protection needs against future risks; and
- ii. Strengthen efforts to address pre-conditions for a sustainable protection landscape for key risks.



Public-private risk transfer mechanisms can help manage systemic risk implications and foster more sustainable economic growth by building future resilience against risk events

i Expand market capacity to meet household and business protection needs against future risks

- We will **explore public-private partnerships to develop business risk transfer protection schemes against high-risk, large-scale perils** – serving as safety nets that can be quickly activated in times of crisis. This builds on lessons learned during the pandemic and floods, which revealed a significant protection gap in business interruption risks. The absence of suitable coverage and low take-up have left MSMEs vulnerable to weather these risk events given their limited financial buffers, and places increased fiscal demands on the Government to provide relief measures.

A key success factor will be the ability of public-private risk pools to cover a wide range of risks, given the systemic nature of such events. These risk pools should capture not only risks arising from pandemics, but also other emerging ones such as cyber risks, as well as climate-related and environmental risks. Challenges due to adverse selection⁶ and a small domestic consumer pool limit the ability of the private sector market to expand and provide cover for systemic risks, which is observed globally to be particularly evident for natural disaster perils such as flood risk. To manage this, larger public-private national insurance pools are typically explored as a more sustainable and inclusive solution. Doing so will in turn enable the private sector to be the first line of defence to provide protection through risk pooling in the event of such shocks. Meanwhile, the public sector can redeploy financial resources for longer-term outcomes, such as to provide financial backing – including through initial capacity development and backstop guarantee for excess losses. Importantly, given the systemic nature of these risks, such support by the public sector will provide greater certainty for insurance and takaful players to design and price the right risk coverage.

- We will continue to **support the growth of a diverse microinsurance and microtakaful market** which delivers products that provide good protection value, are accessible, affordable, simple to purchase, and make claims against. The *Perlindungan Tenang* initiative was first introduced in 2017 to spur greater awareness as well as the development of microinsurance and microtakaful products. While the increased take-up has been encouraging, some challenges remain to hinder the initiative from achieving its potential in benefitting unserved and underserved consumers. Building on

our experience over the last four years, we will take a three-pronged strategy to catalyse further growth in this market segment:

- **Promote greater innovation through flexibilities under the *Perlindungan Tenang* framework.** ITOs can leverage the flexibilities granted in the framework in serving the underserved segments (e.g. offering more diverse products, expanding distribution channels, and introducing innovation through product bundling). We will continue to enhance the framework to ensure that it remains relevant and fit-for-purpose.
- Further **develop and provide access to more granular demand-side information** to enable the industry to better identify protection coverage gaps, risks and behaviours of the unserved and underserved segments, such as the B40 group. This will help facilitate more informed and targeted policies, and the expansion of product offerings by the industry.
- **Advance financial literacy initiatives** to improve consumer awareness and understanding of microinsurance and microtakaful protection, as well as benefits of the *Perlindungan Tenang* initiative among segments that need it the most, through our role in the FEN.

While we are committed to delivering the above strategies, private sector supply-side measures alone would be insufficient. Government support (e.g. purchase vouchers and stamp duty exemptions for *Perlindungan Tenang* products first announced in the 2021 Budget) and the social safety net system should serve as a key foundation to widen protection coverage. Moving forward, we will continue to work with relevant government agencies to advance alternative means of developing and funding protection instruments that take into account economic dependencies (e.g. income levels, size of household, age) of target groups.

⁶ Occurs when only those facing higher risk purchase insurance, and those less at risk do not.

ii Strengthen efforts to address pre-conditions for a sustainable protection landscape for key risks

We will adopt a whole-of-ecosystem approach in addressing structural challenges for key risks in the insurance and takaful landscape

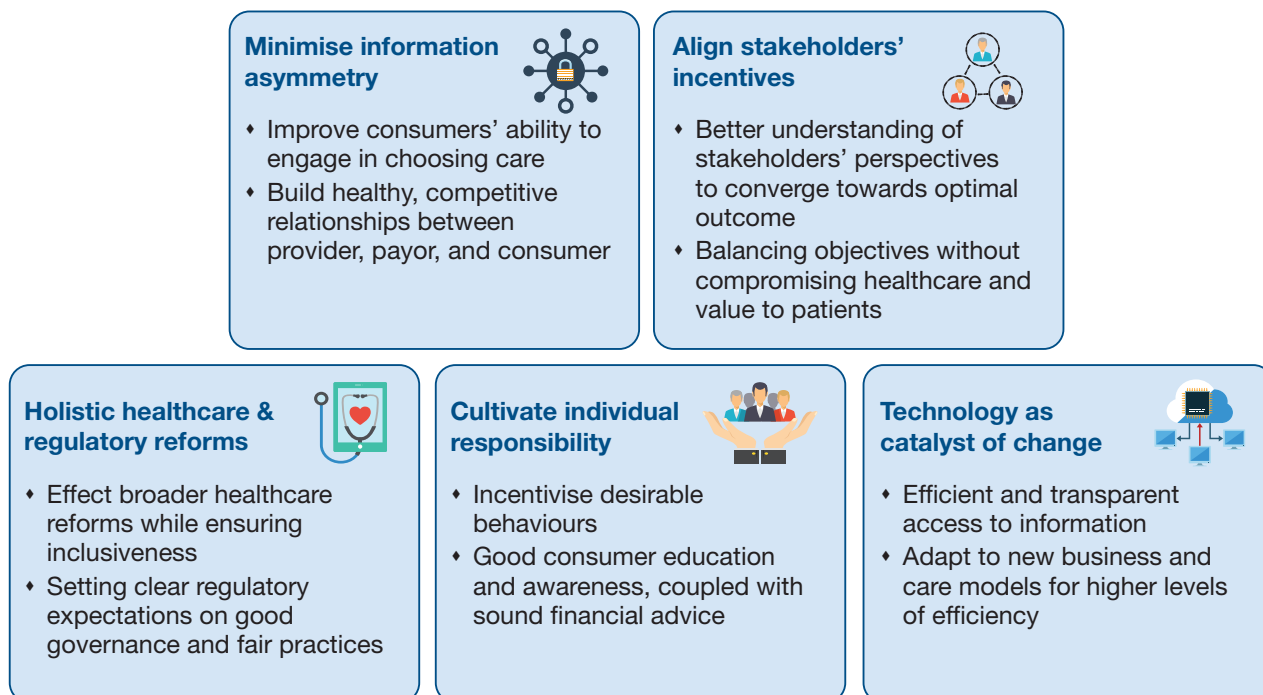
- We will **advocate and support comprehensive social protection reforms** by the Government to strengthen the financial resilience of society. In doing this, we will continue to play an active role in existing policy platforms such as the Malaysia Social Protection Council (MySPC) and Economic Action Council (EAC) to recommend best practices for Malaysia.
 - We will **advocate for a social protection floor** to ensure that all vulnerable groups are adequately protected. For comprehensive protection, it is key to draw on the three complementing pillars of social protection reforms: (i) social safety nets; (ii) social insurance; and (iii) active labour market policies. Together, these policies will mitigate existing vulnerabilities and ensure long-term resilience as well as economic security.
 - We will **assist the Government's policy development efforts through an ongoing gap assessment** on Malaysia's social protection framework. For example, we will help to identify the right private sector solutions as the nation progresses further towards voluntary contribution schemes of social insurance (e.g. private retirement schemes).
 - We will **support and work with the Government to adopt a comprehensive and unified social protection database**, with the goal of minimising inclusion and exclusion errors⁷. In achieving this, the application of technology, inter-agency collaboration, and continuous capacity building will be key.
- We will continue to **pursue further liberalisation of the motor and fire tariffs** to support an orderly transition to a more market-based pricing approach. Further liberalisation will serve as an impetus for ITOs to innovate in products and elevate the quality of services, thereby bringing better benefits and cost savings for consumers. Even as we do so, we will ensure basic motor protection cover remains accessible to all consumer segments. Our priorities on this front in the next five years will seek to complement broader efforts to support the transformation of the motor claims ecosystem into the desired end state. Digital transformation across the value chain will be key in achieving this (see further details of Strategy 3A(ii) of the chapter "Advance digitalisation of the financial sector").
- We will focus on measures to **address the long-term sustainability and affordability of private medical and health insurance/takaful (MHIT) cover**. Since 2016, the growth of medical claims (11.6% per year) has outpaced that of medical premiums/contributions (9.5% per year), with 2020 being the sole exception. Coupled with the rising cost of private medical care in Malaysia – reported to be among the highest in Southeast Asia⁸ – there is likely to be more pressure on the pricing and sustainability of hospital and surgical insurance/takaful (HSIT) covers.

With MHIT players having to frequently reprice their products to keep up with these rising costs, there can be significant knock-on effects on the costs of premium/contributions to existing policy and certificate holders – thereby making it increasingly unaffordable. These developments highlight the urgency for early intervention and structural reforms to stem the rise in medical claims inflation. From our global benchmark findings and assessments, we have identified five key success factors to sustainably manage medical costs and claims inflation (see Diagram 5).

⁷ Inclusion errors refer to aid provision to the non-targeted groups who do not require aid, whereas exclusion errors refer to undercoverage or failure to aid the targeted groups.

⁸ Willis Towers Watson (2021), "2022 Global Medical Trends Survey Report".

Diagram 5 :
Key success factors to sustainably manage medical costs and claims inflation



With these findings in mind, we will aim to advance efforts to help address these issues, anchored on three intended outcomes:

- First, we will **explore measures that can steer positive change in behaviour** among actors in the private medical healthcare ecosystem so that covers remain inclusive and sustainable for policy and certificate holders, and financially viable for insurance and takaful providers.

We will work with relevant stakeholders to explore measures that can promote more responsible usage among consumers, including the feasibility of introducing more meaningful cost-share⁹ features in HSIT covers. Based on our observation, cost-sharing features implemented in other countries have effectively nudged positive consumption behaviour by reducing “buffet syndrome”¹⁰ among policy and certificate holders, and thereby moderate excessive utilisation of medical services that can lead to higher claims inflation. In Malaysia itself, based on a sample group of HSIT¹¹, we have observed how cost-sharing features have reduced premiums/contributions by 19% to 68%.

To complement cost-share features, we will also explore the viability of other mechanisms to encourage active savings and mobilise funds for medical-related expenditures. Such savings mechanisms would enable better management of longevity risks – funds can be used to fund top-up premiums/contributions, rises in future medical costs, and out-of-pocket expenses for services not covered under medical covers. As such, we will explore and assess the suitability of establishing a national-level plan with relevant agencies and stakeholders vis-à-vis planned healthcare reforms by the Government.

⁹ Cost-sharing refers to the portion of costs for healthcare services that is shared between the patient and their insurer/takaful operator.

¹⁰ A phenomenon where policy and certificate holders seek to maximise the value premiums/contributions paid, thereby consuming medical services without considering the reasonability or necessity of associated costs. This invariably leads to over-consumption of medical services.

¹¹ Based on a range of products with deductibles between RM300 – RM50,000.

- Second, we aim to **support better cost control management and transparency** of the MHIT cover by leveraging digital solutions. This will be pursued in phases, with the first phase focusing on setting up data protocols among ITOs. Ideally, this can also be expanded to standardise data protocols among hospitals in collaboration with the relevant stakeholders in the future.

As a start, the Bank will facilitate the collection and standardisation of MHIT claims data across the industry via a centralised data exchange platform. This aims to enable greater industry-wide analysis of medical claims data and pave the way for both the publication of cost of common medical procedures and implementation of minimum cost-sharing levels. We will steer the industry to establish an open data architecture for the platform to lay the foundation for ITOs to transmit and analyse the data in a more efficient as well as systematic way, as part of the broader vision to digitalise MHIT data.

We will also advocate for greater transparency for consumers to make informed healthcare decisions on their preferred medical provider and the reasonableness of costs incurred – this includes working with the Ministry of Health (MOH) to provide relevant information to the public on the cost of common medical procedures. Similar efforts have been observed to be effective in Singapore, Australia, and the USA.

- Third, we will **institute higher standards on business conduct and sales practices**, including but not limited to: (i) enhancing product disclosure sheet requirements to improve understanding by consumers and encourage informed actions; (ii) strengthening needs-based sales requirements for MHIT products to reduce the risk of mis-selling; and (iii) providing additional guidance on repricing practices to promote a more objective, structured and consistent repricing approach for the industry moving forward.

Managing the long-term affordability and sustainability of medical reimbursement cover in Malaysia requires coordination and collaboration by all stakeholders in the ecosystem from payors, healthcare providers, managed care organisations, the Government and regulators, to consumers. Wider structural reforms and coordinated efforts led by the MOH will be necessary to ensure healthcare services remain inclusive and affordable for all. To this end, the Bank is committed to working with MOH and other relevant stakeholders to advance the above measures together with the industry and support wider ecosystem reforms.

- We will **support early financial planning and access to diverse financial solutions that meet the retirement needs** of individuals. We will facilitate the development of new business models and solutions in the retirement planning ecosystem that will address coverage gaps, as well as complement this with our literacy efforts on financial planning for retirement under the FEN. Importantly, immediate efforts to rebuild retirement funds depleted by early withdrawals and relief measures, together with broader reforms through the three pillars of social protection, will be key to strengthen financial resilience for retirement (refer to ‘comprehensive social protection reforms’ in the earlier part of this section).

Strategy 2C

Shape a financial system that upholds fair and responsible dealings with financial consumers

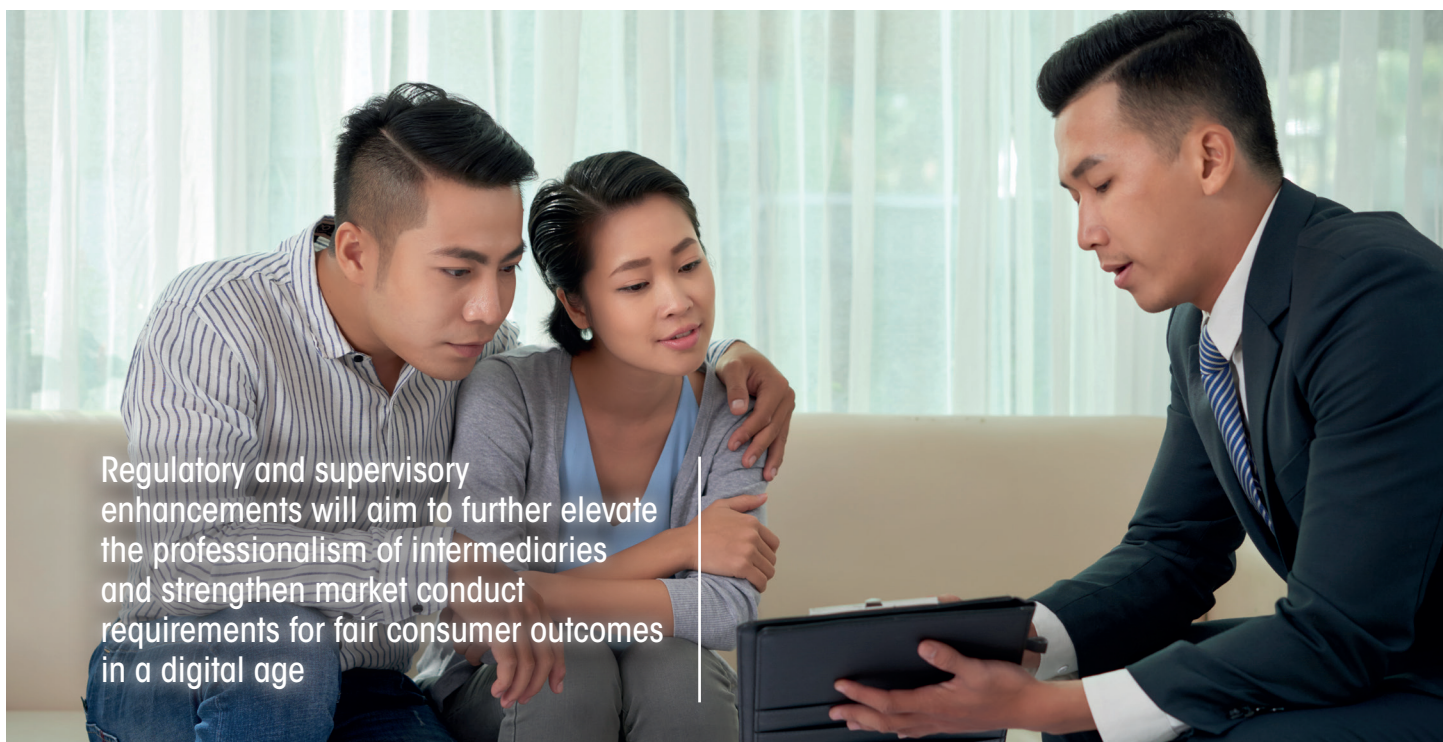
An effective consumer protection framework is critical for an inclusive and enabling financial services landscape – it creates trust, inspires confidence, and empowers consumers with knowledge of their rights and responsibilities. This in turn supports more active and productive use of financial solutions by consumers. The acceleration of digital finance presents tremendous opportunities to enhance the consumer empowerment journey by providing consumers with more needs-based, personalised solutions and innovative tools to make informed financial decisions. However, it also introduces new risks that can undermine consumer trust – such as digital fraud, misuse of personal data, and financial exclusion associated with machine learning biases – which must be actively mitigated.

Emerging financial service applications enabled by AI/ML such as robo-advisory platforms, aggregator services, and personal financial management are already gaining market acceptance. In some cases, these platforms displace the role of agents, in particular those who do not upskill to deliver more value to their customers with specific, needs-based, and cost-efficient advisory services. This places greater urgency for brick-and-mortar intermediaries – particularly insurance and takaful agents – to consider how their business practices must evolve to remain relevant, be it through digital transformation, adoption of higher standards of professionalism, or both.

In navigating the environment ahead, we will foster an enabling regulatory environment that continues to deliver fair and sound consumer outcomes by addressing undue regulatory frictions, and further empowering consumers. At the same time, we will also enhance existing consumer protection and market conduct frameworks by addressing emerging consumer concerns and placing greater accountability on FSPs to safeguard the interests of consumers. This will be underpinned by our overarching principles in regulating innovation (see Strategy 3B(iii) of the chapter “Advance digitalisation of the financial sector”).

To this end, we will seek to advance the following:

- i. Strengthen professional standards, incentive frameworks and disclosure practices;
- ii. Promote an enabling conduct environment for innovation and efficiency; and
- iii. Pursue regulatory reforms to strengthen the oversight of non-bank consumer credit providers and promote consistent consumer protection.



Regulatory and supervisory enhancements will aim to further elevate the professionalism of intermediaries and strengthen market conduct requirements for fair consumer outcomes in a digital age

i Strengthen professional standards, incentive frameworks and disclosure practices

- We will **ensure a responsive regulatory framework for conduct regulation** of new and existing intermediaries, particularly in the insurance and takaful business.
 - We will **review existing regulatory requirements on the conduct of intermediaries** to accommodate new digital business models and the expansion of solutions offered by existing intermediaries – such as insurance/takaful agents, brokers and financial advisers (FAs). This will also promote the entry of credible new digital intermediaries that can offer innovative solutions to minimise critical protection gaps among underserved segments by leveraging the outreach potential of their platforms.
 - We will **enhance the bancassurance/bancatakaful policy framework** to strengthen consumer safeguards and ensure the fair and responsible promotion of insurance/takaful products through the bancassurance channel. As bancassurance/bancatakaful evolves as a key distribution channel – particularly for life insurance and family takaful products – we see room to better align the conduct and sales practices of bancassurance agents with consumer needs. Policy refinements include reinforcing internal governance requirements and requiring effective consumer needs-based identification, targeting, and marketing to be conducted moving forward. This aims to ensure that the bancassurance channel continues to grow in a sustainable and responsible manner, with due regard to the interests and needs of financial consumers.
- We will **elevate the professionalism and integrity of intermediaries** in dispensing their roles to better support informed financial decisions by consumers.
 - We will **enhance professional qualification and employee screening requirements** to bolster public confidence in the agency workforce as a fair and trusted distribution channel. The agency workforce remains a key bridge between ITOs and consumers, with 41% of business transacted in life insurance/family takaful business facilitated by the workforce in 2020¹². To better equip life insurance/family takaful agents with the necessary skills to conduct a financial needs analysis and explain product risks, we will enhance existing entry-level qualification requirements. We will also impose more robust standards on ITOs with regard to employee screening and procedures to ensure agents' compliance with fit and proper requirements.
 - The Bank and the SC will **conduct a joint review towards rationalising the regulation of insurance/takaful and capital market intermediaries** who provide advisory services to financial consumers and investors into an integrated licensing framework. FAs and financial planners (FPs) play an important role in providing quality financial and investment advice to facilitate informed decisions by consumers. At present, FAs which are approved to advise on insurance/takaful products are regulated by the Bank, while FPs licensed to advise on capital market products fall under the SC's purview. However, most FAs also apply for FP licenses with the SC to offer a full range of advisory services to their customers. Recognising this, the rationalisation aims to reduce regulatory costs from the dual licensing regime of FAs and FPs and enable greater efficiency through the offering of a wider range of financial advisory and planning services.
 - We will **review and strengthen the incentive frameworks for insurance and takaful intermediaries** to ensure alignment with the delivery of good consumer outcomes and experiences. As financial solutions increase in diversity and complexity, consumers place higher trust and reliance on intermediaries to have their best interests in mind when recommending products. Our measures will aim to promote greater transparency and align incentive frameworks with these expectations. We will begin by exploring the viability of transitioning from a commission-based to a fee-based remuneration structure and further improving disclosures to consumers on the amount, type, and source of remuneration received by intermediaries.

¹² Source: Bank Negara Malaysia.

- We will **enhance the effectiveness of product transparency and disclosure requirements** by improving accessibility to key product information and leveraging behavioural insights to facilitate informed financial decisions. To this end, we will:
 - **Double down on the use of plain language** with better navigation (e.g. sign-posting with bite-sized guides, diagrams) to aid consumers in distilling the benefits, risks as well as key terms and conditions behind the products offered.
 - **Ensure that disclosure requirements** continue to reflect the changing needs and experiences of consumers (e.g. disclosures via digital channels for consumers who access financial services through mobile devices).
 - **Make greater use of behavioural insights** to nudge consumers towards responsible and optimal financial choices. For example, interactive designs and mobile-friendly layouts have been shown to encourage reading by consumers who are less inclined to review digital disclosure documents.
- We will incorporate **conduct risk assessments as a key component of supervisory engagements with financial institutions under the annual Composite Risk Rating (CRR)¹³ review process**. This adds another dimension beyond safety and soundness criteria, which form the current focus of the CRR communication. FSPs will be assessed on their conduct and business practices, as well as the extent to which these practices may cause harm to consumers and pose material financial or reputational risks to FSPs. We may also issue public reprimand as part of our enforcement, with the aim to reinforce a strong conduct risk culture within FSPs. As FSPs strengthen accountability for and management of conduct risks moving forward, this is envisioned to further pave the way for the Bank to adopt a more principles-based approach to the regulation of conduct risk.



¹³ Represents the FSP's overall risk profile, level of monitoring and type of supervisory intervention required by the Bank. This in turn determines the category of deposit protection premium the FSP falls under.

ii Promote an enabling conduct environment for innovation and efficiency

- We will **outline minimum parameters for conduct risk identification and mitigation** for new business models and innovations by the industry. For example, the use of technology to capture, store, and analyse data must be complemented by safeguards to prevent the misuse of customer data and exposure to cyber security risks. As the landscape continues to evolve with greater complexity from innovation, FSPs must also regularly enhance their business continuity and resolution framework through clear contingency planning, recovery and exit resolutions to minimise disruption to financial services delivery and safeguard consumer interests in the event of market exits.
- We will **outline guiding principles and regulatory expectations on the ethical use of emerging technology**, in particular AI. Applications of AI can offer a significant leap in process efficiency and enrich the customer experience, such as through automated credit assessments enabled by algorithms and non-traditional indicators such as social media postings and online purchase transactions. However, AI algorithms are also subject to biases that can lead to unfair outcomes or unintended financial exclusion of certain consumer segments that are otherwise creditworthy borrowers. Proper AI governance is important to mitigate these instances. Consistent with global regulatory developments, our framework will therefore aim to emphasise the importance of fair and ethical use of such technologies, underpinned by robust and transparent AI governance.
- We aim to **facilitate greater ease of product comparison, portability and innovative product offerings by FSPs**. In doing so, we will focus our efforts towards identifying structural reforms that will promote greater market transparency and competition in order to benefit consumers.
 - First, we will **ensure the effective implementation of the enhanced Reference Rate Framework (RRF)¹⁴ for a more competitive loan market**. The framework which takes effect in August 2022 will introduce the Standardised Base Rate (SBR) as a common reference rate for all FSPs in pricing new retail financing facilities, where the price of the facility offered to consumers will be quoted as “SBR + spread”. This change aims to make it easier for consumers to identify the FSPs offering the most competitive rates. We will also pursue parallel efforts to enable a more efficient and competitive loan market, by exploring measures to minimise switching costs for consumers.
 - Second, we will **facilitate broader efforts towards open and secure data sharing** that will support ease of product comparison and switching by consumers (refer to Strategy 2A(ii) in this chapter and Strategy 3A(ii) of the chapter “Advance digitalisation of the financial sector” for further details). To this end, we will first focus on establishing data infrastructures and a robust data governance framework.



¹⁴ The Policy Document on ‘Reference Rate Framework’ was issued on 11 August 2021 and will be effective from 1 August 2022. Further details are accessible at <https://www.bnm.gov.my/documents/20124/938039/Reference+Rate+Framework.pdf>.

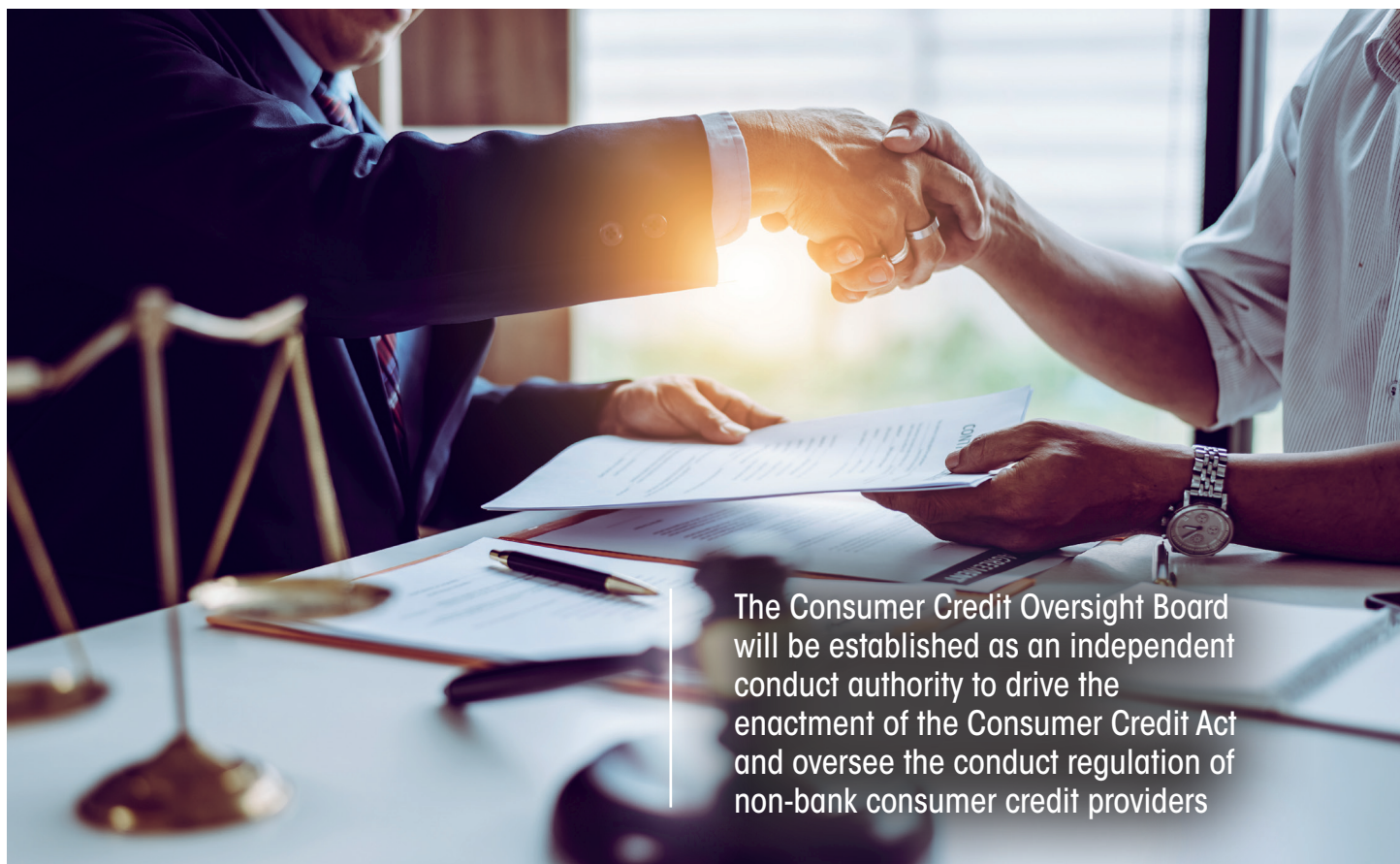
iii Pursue regulatory reforms to strengthen the oversight of non-bank consumer credit providers and promote consistent consumer protection

■ We will work closely with the MOF and the SC to **reform the conduct regulatory architecture** to strengthen regulation of non-bank consumer credit providers. This will be achieved through the following:

□ First, the **enactment of the proposed Consumer Credit Act (CCA)**. Overlaps in responsibilities between regulatory authorities and coverage gaps in the supervision of consumer credit providers have led to inconsistencies in the level of protection accorded to consumers. Recognising this, the Bank and the SC, with the support of the MOF, are leading reforms to close these gaps through the enactment of the CCA. Under the proposed CCA, the Consumer Credit Oversight Board (CCOB) will be established to serve as an independent conduct authority to oversee consumer credit providers which are not currently subject to conduct regulation¹⁵. Over the longer term, these functions are expected to expand to include other non-bank credit

providers that are currently under the purview of various Ministries and agencies, with a view to ultimately transition to an integrated structure for the regulation of financial conduct in Malaysia.

□ Second, the **OFS and the Securities Industry Dispute Resolution Center (SIDREC) will be consolidated** into an integrated dispute resolution scheme. An independent dispute resolution framework is important in our effort to ensure effective redress arrangements are available to financial consumers. The OFS was established to provide dispute resolution related to entities regulated by the Bank, while SIDREC under the SC provides dispute resolution services to investors dealing with capital market products, services, and institutions. Consolidation of the OFS-SIDREC aims to enhance operational synergies of dispute resolution schemes given the increasing complexity of financial solutions and blurring of lines between financial and capital market activities conducted by FSPs.



The Consumer Credit Oversight Board will be established as an independent conduct authority to drive the enactment of the Consumer Credit Act and oversee the conduct regulation of non-bank consumer credit providers

¹⁵ Leasing companies, factoring companies, debt collectors, non-bank impaired loan buyers, entities offering Buy Now Pay Later schemes.