



Governor's Statement

Financial stability is a key precondition for sustainable economic development. This is more so for Malaysia, a highly open economy, where volatile financial markets and capital flows can cause major disruptions to trade and investment activities. And yet, the preservation of domestic financial stability is more challenging given the high degree of interconnectedness of domestic financial markets with the international financial system. External developments – geopolitical events, policy uncertainties in major economies and volatile commodity prices – will continue to have a significant impact on our financial system. The Bank, thus, remains vigilant of global developments and steadfast in ensuring that the domestic financial system is resilient to shifts in global market conditions.

In 2017, domestic financial stability was preserved in an environment of low financial market volatility and stronger performance of the domestic economy. Financial markets remained orderly, and financial market stress indicators trended lower. The series of measures introduced by the Financial Markets Committee are yielding results as seen in a more balanced demand and supply of ringgit, improved liquidity and contained speculative activities in the foreign exchange market. The efforts to deepen and strengthen the resilience of the domestic financial market will continue.

The financial sector remains robust with sound financial institutions that have strong buffers to weather potential shocks under extreme stress scenarios. Critically, this will continue to support financial intermediation activities. Great strides have been made in tackling concerns on household indebtedness. Household debt is now growing at its slowest pace since 2010 and overall household finances have continued to improve. However, there remain pockets of vulnerabilities that call for continued vigilance and the prudent management of risks by financial institutions. The Bank's surveillance and supervisory priorities will continue to focus on key risk hotspots, including the imbalances in the property market. New forward-looking assessment tools are also being developed to further strengthen the Bank's surveillance capabilities.

As the financial system grows in sophistication alongside rapid advancements in technology, the regulatory framework must remain progressive and relevant, guided by an appropriate balance between stability and progress. Given the state of constant change in the operating landscape, the Bank has established a five-year review regime to ensure that our policies remain relevant, appropriately tailored and proportionate in relation to financial stability and inclusion objectives. Regulatory priorities will focus not only in dealing with the risks and challenges of today, but also in ensuring that the financial sector is well-prepared for the future.

The Bank will continue to promote a market-based system to drive efficiency, innovation and competition in the financial sector. Through the Regulatory Sandbox, the Bank is facilitating new ways of delivering financial products and services to the market while the liberalisation of motor and fire insurance/takaful entered a new phase in 2017. The introduction of Value-based Intermediation in Islamic banking is a key industry-driven initiative to raise the impact of Islamic finance on the economy and society. In the payments system, the entry and offering of new payment solutions presents consumers and merchants with greater choice. This is further supported by ensuring interoperability between the different systems, thus promoting competition in the retail payment market and accelerating Malaysia's progress towards becoming a cashless society.

The emergence of digital currencies and cyber threats requires increased scrutiny as part of broader efforts to protect the integrity of the financial system. The Bank is working to shed more light on the informal sector to better protect consumers and expose criminal activities. The rise of illegal schemes, fraud and consumer misinformation are clear examples of risks confronting financial consumers. While the Bank, together with other agencies, is intensifying enforcement actions to address this problem, ultimately, it is critical to equip and empower the public with the knowledge and means to make sound financial decisions. During the year, eCCRIS was launched to provide Malaysians with secure access to their personal credit information at their fingertips.

The Bank places great importance on creating a more financially literate population with the capability and confidence to make sound financial decisions. This is an important condition to achieve a resilient and inclusive financial system and economy, particularly with the rise of increasingly innovative and sophisticated financial products. The series of Karnival Kewangan, organised jointly by the Bank and the financial industry, has reached out to thousands of Malaysians from all walks of life. These outreach and financial literacy initiatives will be further intensified under the planned implementation of a National Strategy for Financial Literacy formulated by the Financial Education Network. The National Strategy for Financial Literacy will provide a comprehensive and coordinated approach to elevate the financial literacy of Malaysians, involving key collaborators from the industry, regulatory authorities and government agencies.

The financial sector plays a critical role in supporting the country's transformation into a high value-added economy. More can be done to increase the contribution and quality of financial sector growth. Financial inclusion needs to go beyond access and include innovative solutions for meeting the financing needs of SMEs and new areas of growth. Increasingly, the financial sector is also expected to be more forthcoming in offering solutions to pressing issues facing the public. Housing affordability is such a case where greater innovation in financing products can be leveraged to help more eligible house buyers. Technology also offers enormous potential in this respect, particularly to improve the delivery and reach of financial products and address information asymmetries. Recognising the challenges of the lower income households, Perlindungan Tenang was launched to provide access to basic and affordable insurance and takaful protection for the eight million working-age Malaysians who are currently uninsured. Development financial institutions (DFIs) are also being revitalised to be in a better position to carry out their developmental mandates more effectively, including through the introduction of a new regulatory and supervisory framework that recognises the unique roles of DFIs.

The financial sector is at an exciting phase of its development. Greater adoption of cutting-edge technology, competition from non-traditional players and regulatory reforms will recast the workforce of the industry. New roles will be created and new skills required. The industry must therefore prepare the workforce for these changes, including retraining and upskilling employees, and assisting those who will be displaced. Ultimately, the financial sector must continue to create and provide high quality, highly productive and high paying jobs.

The bedrock to a sustainable financial sector is the quality and integrity of people in the industry. We are now approaching the 10th anniversary of the Global Financial Crisis, a sober reminder of the destructive effect of broken trust. As finance is built on trust, the Bank will continue its relentless pursuit of high standards of integrity and professionalism at all levels in the industry. In 2017, the focus on elevating the professional standing and capability of bank employees was strengthened through specialised certifications and professional accreditation. More remains to be done. The mandatory screening of new hires, which will be effective later in 2018, is aimed at ensuring that individuals joining financial institutions, particularly at senior positions, embody high standards of ethical and professional conduct. In addition, through the Responsibility Mapping initiative, the Bank will accord greater accountability to senior roles in financial institutions. Further, beginning this year, enforcement actions taken by the Bank for non-compliances by financial institutions will be publicly disclosed.

New ways will continue to be adopted to make more information on financial stability issues accessible to the public. This aims to better inform the public and encourage a greater appreciation of financial stability issues and policies taken to address them. The Housing Watch website, publication of research on property imbalances, data on changes in the financial sector workforce and regular releases of motor insurance premium developments highlight efforts on this front. In addition, recognising that the fluidity and dynamism of economic and financial conditions entails more timely updates, the Bank will, starting this year, publish Financial Stability Statements following Financial Stability Committee meetings. The Financial Stability Report will also be published twice a year.

The pursuit of a strong, resilient and inclusive financial sector that effectively contributes to economic sustainability and the betterment of Malaysians is a collective effort. In this endeavour, the Bank will continue to work with the industry and other stakeholders in the coming years to turn plans into reality and commitments into action.



Governor Muhammad bin Ibrahim, FCB

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