

17th GLOPAC Fellowship Program Introductory Presentation

27 October 2020

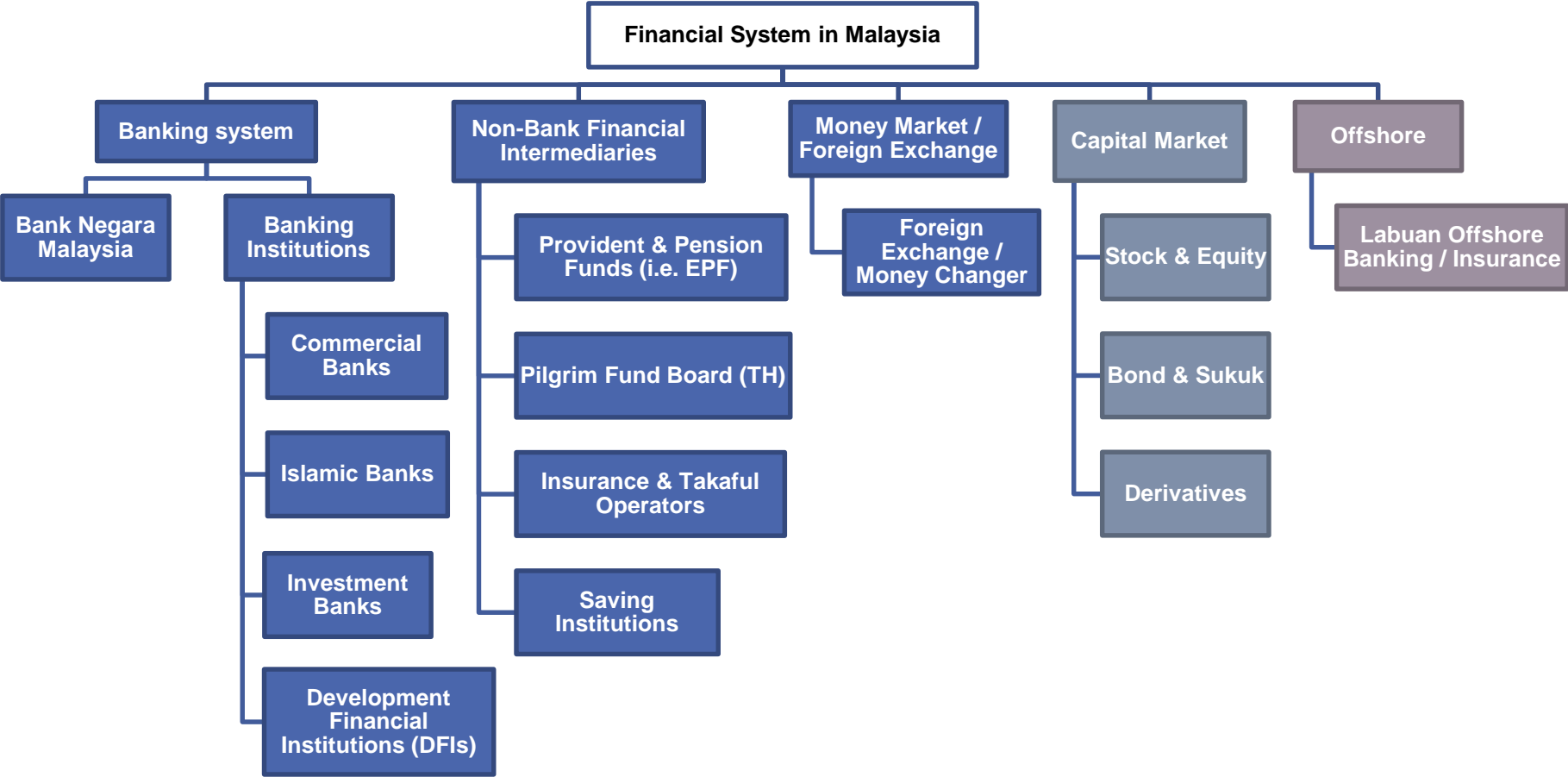
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Outline:

- **Overview of the financial sector and banking industry in Malaysia**
- **BNM roles and functions**
- **How BNM regulates the banking system**
- **Impact of COVID-19 to Malaysian economy**
- **Emerging issues in the banking sector**
- **Areas of interest in the GLOPAC program**



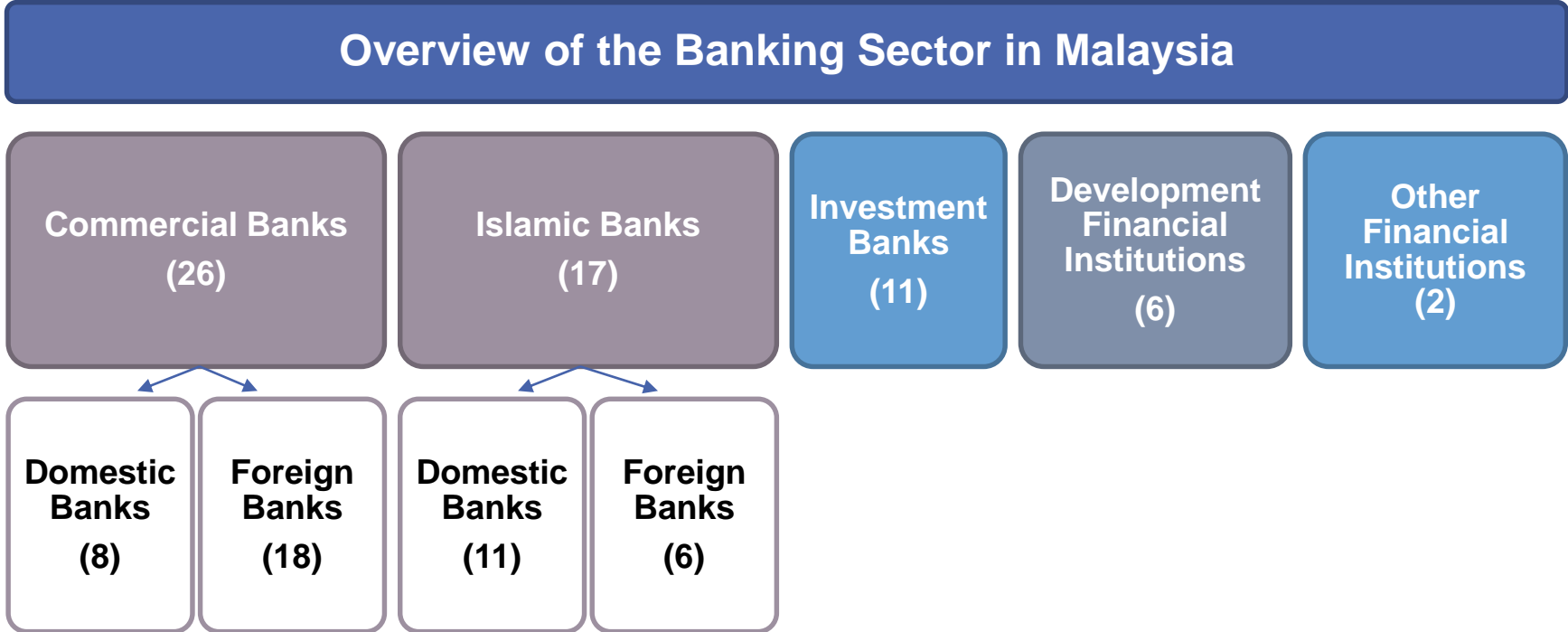
Overview of financial system in Malaysia



Regulated by:

- Bank Negara Malaysia
- Securities Commission
- Labuan Offshore Financial Services Authority

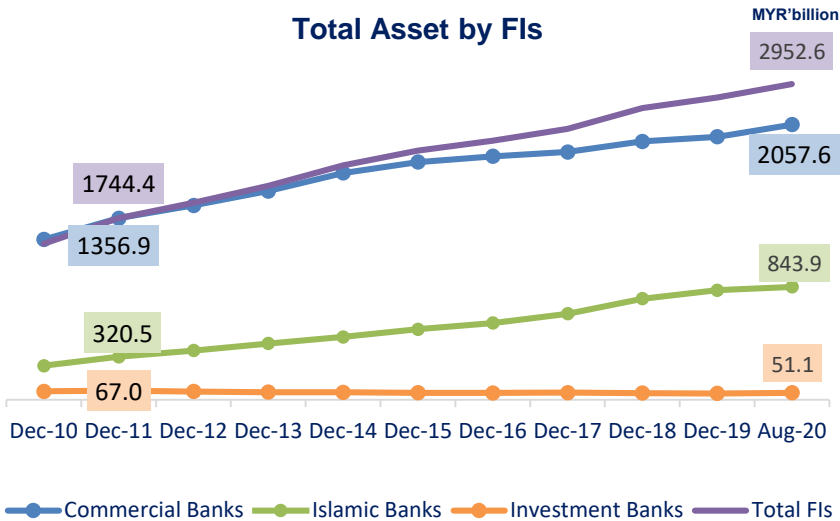
Snapshot of Malaysian banking sector



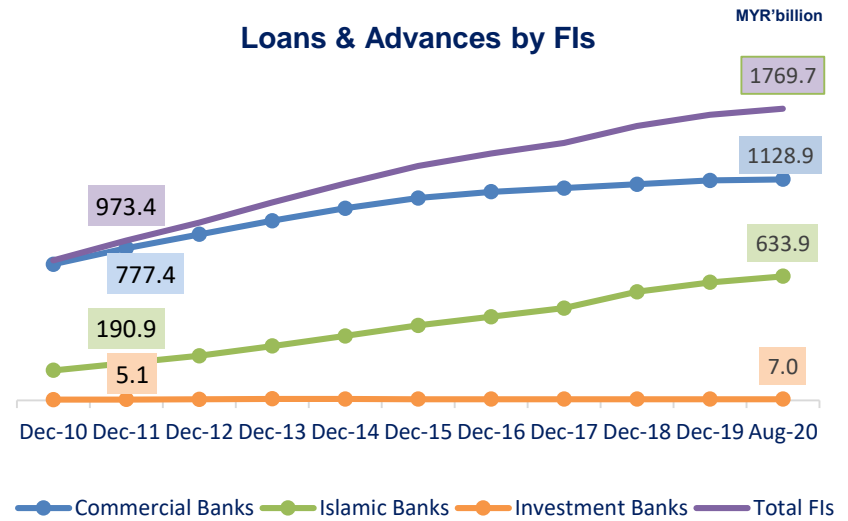
Snapshot of Malaysian banking sector

Growth in banking sector is mainly driven by the expansion of Islamic Banking operations since 2010. Meanwhile, gross impaired loan ratio remains low relative to regional peers.

Total Asset by FIs



Loans & Advances by FIs



GIL/NPL ratios MY outperforming regional peers on asset quality (pre-COVID19)

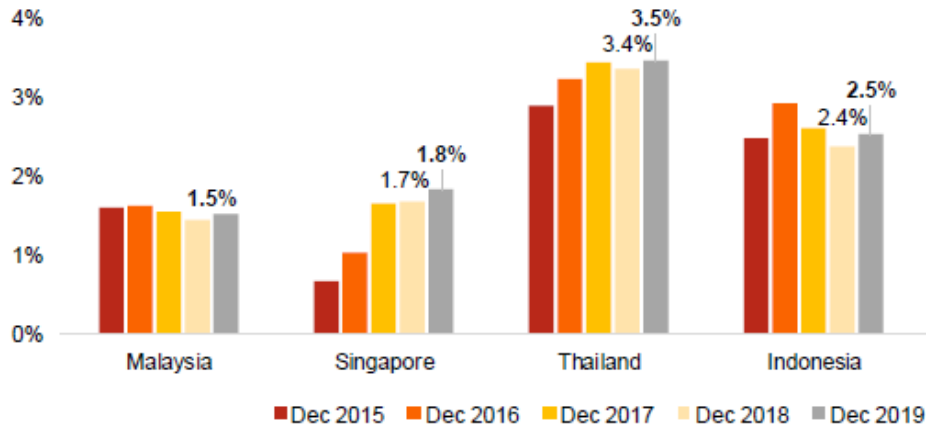
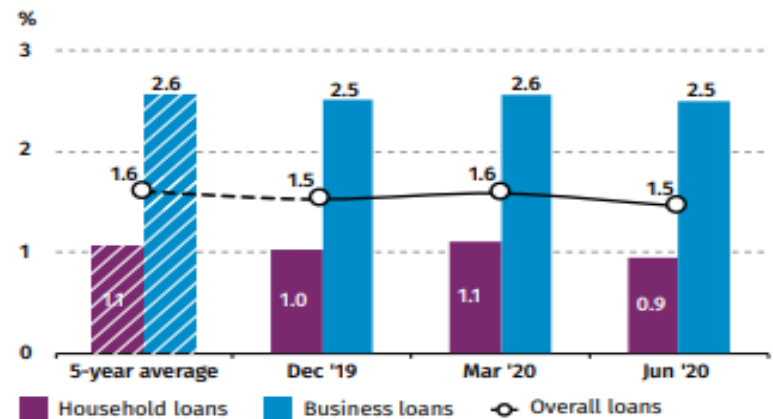


Chart 2.10: Banking System – Gross Impaired Loans Ratio



Source: BNM Financial Stability Review 1H 2020 & RAM Ratings (Banking Insight, Mar 2020)

Roles and Functions of BNM

Statutory mandate

“The principal objects of the Bank shall be to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy”

Section 5(1) of the Central Bank of Malaysia Act 2009

- (2) The **primary functions** of the Bank are as follows:
- a. to formulate and conduct monetary policy in Malaysia;
 - b. to issue currency in Malaysia;
 - c. to regulate and supervise financial institutions which are subject to the laws enforced by the Bank;
 - d. to provide oversight over money and foreign exchange markets;
 - e. to exercise oversight over payment systems;
 - f. to promote a sound, progressive and inclusive financial system;
 - g. to hold and manage the foreign reserves of Malaysia;
 - h. to promote an exchange rate regime consistent with the fundamentals of the economy; and
 - i. to act as financial adviser, banker and financial agent of the Government.
- (3) The Bank shall have all the powers necessary, **incidental or ancillary** to give effect to its objects and carry out its functions.
- (4) The Bank in giving effect to its objects and carrying out its functions under this Act shall have regard to the **national interest**.

other roles, e.g.

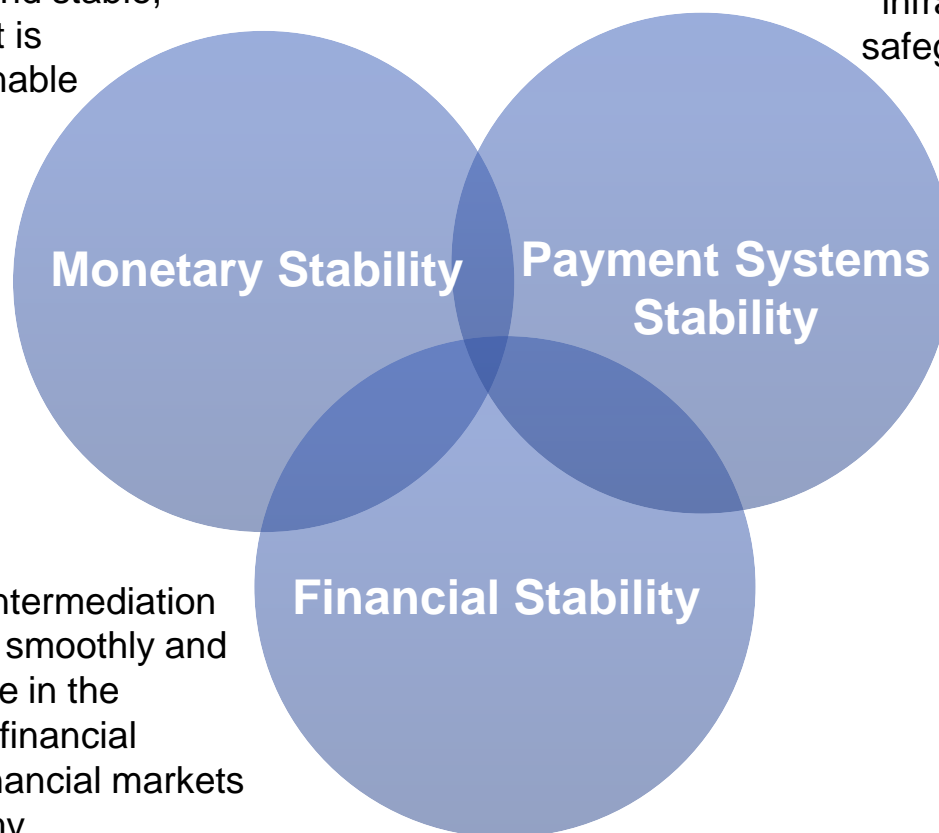
- s60(1): “develop and promote Malaysia as an international Islamic financial centre”
- s70(2)(a): “advise Government on economic matters”



Three remits of central banking

Formulate monetary policy that keeps inflation low and stable, while ensuring that it is supportive of sustainable economic growth.

Ensure the safety, reliability, and efficiency of payment systems infrastructure, and to safeguard the public's interest.



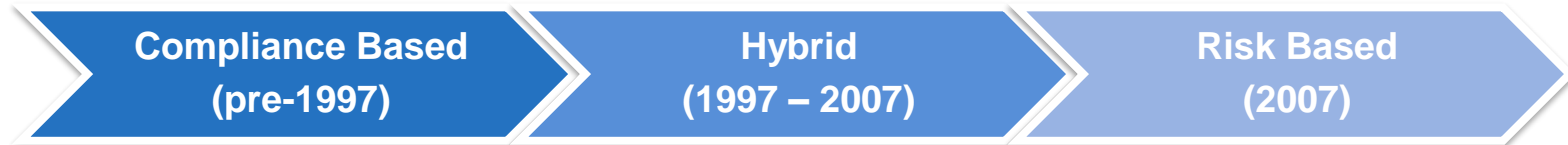
Ensure financial intermediation process functions smoothly and there is confidence in the operations of key financial institutions and financial markets within the economy.

Banking activities are regulated by various line departments across the financial stability sector..

Micro-Surveillance	Regulation	Macro-Surveillance
Financial Conglomerates Supervision <ul style="list-style-type: none"> Supervise commercial, investment and Islamic banks which are part of domestic banking groups 	Prudential Financial Policy <ul style="list-style-type: none"> Develop prudential framework for financial institutions 	Financial Surveillance <ul style="list-style-type: none"> Conduct systemic risk assessment <ul style="list-style-type: none"> Financial sector Non-financial sector Financial markets Non-BNM regulated entities Develop macro-prudential policy Perform crisis management arrangements
Banking Supervision <ul style="list-style-type: none"> Supervise foreign banks, standalone Islamic and investment banks, DFIs 	Islamic Banking & Takaful <ul style="list-style-type: none"> Develop relevant prudential policies to effectively support an Islamic financial system 	
Insurance & Takaful Supervision <ul style="list-style-type: none"> Supervise insurers, re-insurers, Takaful & retakaful operators 	Money Services & Business Regulation <ul style="list-style-type: none"> Regulate money changing, remittance and wholesale currencies services 	
Consumer Market Conduct <ul style="list-style-type: none"> Develop and enforce market conduct policies to ensure fair treatment of financial consumers 		
Payments Oversight <ul style="list-style-type: none"> Develop payment related policies and supervise e-money issuers, merchant acquirer, payment cards. 		
Risk Specialist & Technology Supervision <ul style="list-style-type: none"> Conduct horizontal risk assessments on credit, market, operational, Shariah, IT and cyber risks as well as emerging risks <ul style="list-style-type: none"> Provide technical support to various line departments 		
Financial Intelligence and Enforcement Department <ul style="list-style-type: none"> Conduct surveillance & assessment on potential money laundering, terrorist financing activities <ul style="list-style-type: none"> Pursue enforcement actions 		

Overview of BNM Supervisory Approach

Evolution of risk-based supervision in Malaysia



Past	Present
<ul style="list-style-type: none"> Multiple frameworks for banks and insurance companies 	<ul style="list-style-type: none"> Single framework with consistent assessment criteria
<ul style="list-style-type: none"> Attempt to cover all areas and rely on transaction testing 	<ul style="list-style-type: none"> Assessment is focused on high risk areas and the adequacy of risk management control functions
<ul style="list-style-type: none"> Point in time assessment 	<ul style="list-style-type: none"> Dynamic and responsive to changes to support forward looking assessment and to ensure timely supervisory intervention
<ul style="list-style-type: none"> Division between off-site and on-site supervisors 	<ul style="list-style-type: none"> Adoption of Relationship Manager (RM) concept – single point of contact, for holistic view of institutions and greater accountability
<ul style="list-style-type: none"> Individual FIs managed on standalone basis even though some of them belong under the same banking/ financial holding group 	<ul style="list-style-type: none"> RM is in-charge of the whole financial group to ensure timely supervisory intervention and allow more efficient allocation of resources

Impact of COVID-19 pandemic on the Malaysian economy

Contraction in economic activity and disruptions in labour market arising from weak external conditions and domestic containment measures.

Chart 4: Real GDP Growth

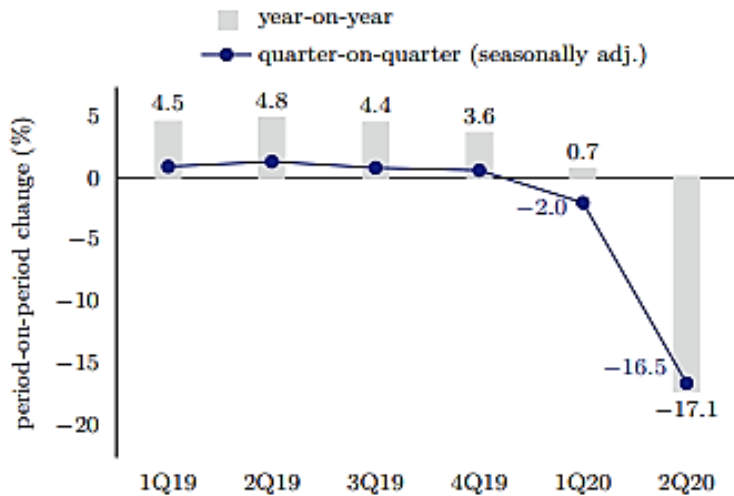


Chart 5: Growth by Economic Sectors

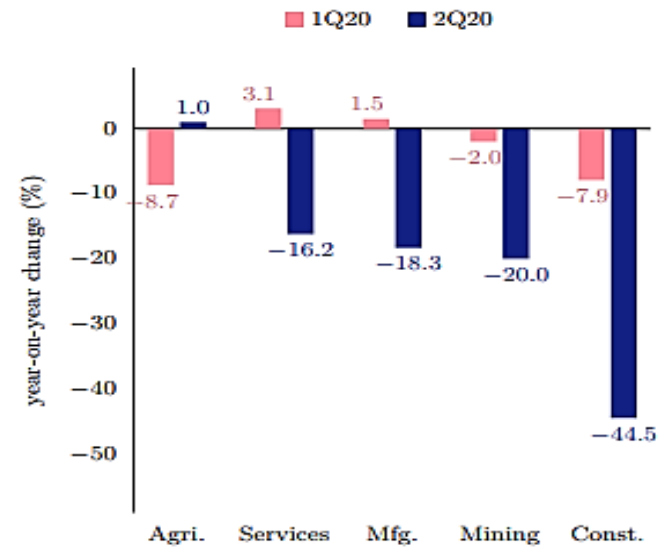
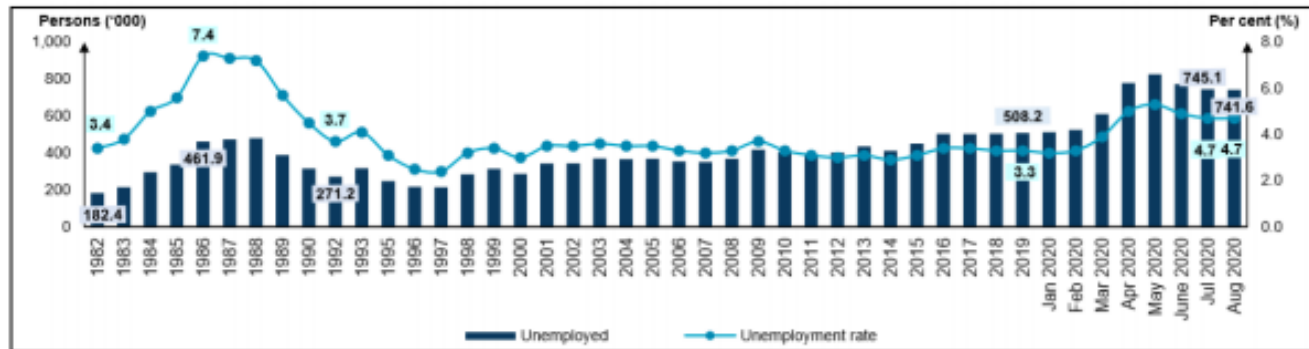


Chart 3: Unemployed persons and unemployment rate, 1982 - 2019 and January - August 2020



Source: BNM Quarterly Bulletin 2Q 2020 and Department of Statistic Malaysia

Emerging issues in the banking industry



Thank You

