BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Annual Report 2023

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BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Statutory Requirements

In accordance with section 13 of the Central Bank of Malaysia Act 2009, Bank Negara Malaysia hereby publishes and has transmitted to the Minister of Finance a copy of this Annual Report 2023 together with a copy of its Financial Statements for the year ended 31 December 2023, which have been examined and certified by the Auditor General. The Financial Statements will also be published in the Gazette.

For the purposes of section 115 of the Development Financial Institutions Act 2002, the annual report on the administration of the Development Financial Institutions Act 2002 and other related matters for the year ended 31 December 2023 is incorporated in this Annual Report.

Abdul Rasheed Ghaffour
Chairperson
Board of Directors
20 March 2024

Contents

Foreword

Our Role

Promoting Monetary Stability 9

Feature Article: Behind the Scenes of Bank Negara Malaysia's Monetary Policymaking 14

Feature Article: Promoting Cross-border Local Currency Settlement (LCS) 22

Promoting Financial Stability 26

Feature Article: Personalising Financial Services: Promoting Fair Treatment of Vulnerable Consumers 33

Promoting a Progressive and Inclusive Financial System 35

Feature Article: iTEKAD: An Ecosystem Approach in Scaling Up Social Finance 48

Promoting a Progressive and Inclusive Islamic Financial System 52

Feature Article: Realising the Value-based Intermediation Vision: Five Years After Introduction 61

Promoting Safe and Efficient Payments and Remittance Services 65

Feature Article: DuitNow QR: Fostering Inclusive Digital Payments 68

Issuing Currency 77

Maintaining Financial Integrity 84

Feature Article: BNM's Enforcement Approach and Disclosures of Enforcement Actions 91

Managing Bank Negara Malaysia

People 96

Towards a Greener Financial System 102

Feature Article: Supporting SMEs Transition to Greener Practices 113

Risk Management and Internal Controls 119

Engaging Malaysians 125

International Engagements 134

Governance

Board of Directors, Senior Management and Statutory Committees of BNM 140

Our Finances

Statement of Financial Position as at 31 December 2023 169

Income Statement for the Year Ended 31 December 2023 170

Notes to the Financial Statements for the Year Ended 31 December 2023 171

Abdul Rasheed Ghaffour
Governor, Bank Negara Malaysia

Foreword

The year 2023 has been one defined by a confluence of challenges globally. The continuing threat of inflationary pressures, high-profile global bank failures, geopolitical tensions and disruptions in global trade were among factors that continued to test the resilience of the global economy. Against the heightened uncertainty in major economies, global financial markets also remained volatile. In Malaysia, the newly-formed Government started charting the path for Malaysia's post-pandemic growth while paving the way for structural reforms.

In navigating these developments, we remained focused on our core mandates of promoting monetary and financial stability conducive to sustainable growth and price stability. We continued to use our policy levers to carefully manage complex policy trade-offs and interdependencies between the OPR, inflation, growth and the ringgit. Timely actions since 2022 to gradually normalise monetary policy in line with improvements in economic activity have helped contain the build-up of inflationary pressures without hurting growth. In light of the challenging environment for the ringgit, we also continued to ensure sufficient liquidity and orderly functioning of the financial markets, so that businesses can be assured that their foreign currency needs can be met. Notwithstanding this, external factors continue to affect emerging market currencies including the ringgit. Bank Negara Malaysia (BNM) is resolved to preserve confidence in the ringgit and to that end, we have recently taken coordinated actions and stepped up engagements with key stakeholders to encourage inflows to ease the short-term pressure on the ringgit. At the same time, we continue to advocate for structural reforms which are critical to strengthen our growth prospects and encourage investments to provide more enduring support for the ringgit.

As I write this, a number of national reform efforts have been launched, with major inroads made in the past year. In 2023, Malaysia embarked on several flagship policies and master plans – which include the New Industrial Masterplan 2030 and National Energy Transition Roadmap – to lay the foundation for sustainable growth. The timely and effective execution of these initiatives is paramount. In our role as economic advisor to the Government, we will continue to provide our analysis and recommendations to inform policies at the national level, particularly on critical reforms like subsidy rationalisation and fiscal consolidation measures. The effective coordination of fiscal, monetary and financial policies is crucial to achieve optimal outcomes for the economy.

A strong financial sector, being the bedrock of the Malaysian economy, continues to provide critical support to Malaysia's economic aspirations. Measures continue to be taken to ensure that the financial system is well positioned not just to finance the needs of today's economy, but to also prepare for and pivot to the future. This includes helping households and businesses adopt sustainable practices and embrace digitalisation. We have scaled up and are refining the design features for our special funds – such as the High Tech and Green Facility, Agrofood Facility, and SME Automation and Digitalisation Facility – to further improve access to financing for SMEs and help them successfully pivot to new growth areas. Efforts are also underway to advance value-based intermediation and promote solutions by the Islamic finance industry in Malaysia to meet the growing demand for green and sustainable finance. This is an area with a lot of promise and potential, not just for Malaysia in its journey to meeting its Net Zero commitment, but for other economies in the region and the world at large.

We remain committed to providing a facilitative environment for responsible innovation in the financial sector. This continues to pave the way for more financial services to be accessed and delivered through digital channels, including to previously underserved segments of society. To date, three out of five successful applicants for digital bank licences have commenced operations. We are finalising the licensing and regulatory framework for digital insurers and takaful operators this year. We are also doubling down on efforts to combat online financial fraud, working closely with the financial industry and law enforcement agencies through the National Scams Response Centre to improve fund tracing and disrupt fraudulent fund flows.

The Financial Inclusion Framework 2023–26, which was launched during the year, will further propel the inclusion agenda by setting out strategies to close the remaining gaps to meaningful access to quality and affordable financial services for all. One area with large potential is social finance. Being at the intersection of not just financial inclusion and sustainability but also with Islamic finance – areas which are all close to my heart – we believe that innovative social finance solutions can be developed at scale to make a meaningful impact in the lives and livelihoods of Malaysians. We expect this to gain further traction as more Islamic financial institutions progressively adopt innovative financial structures, such as blended finance and other alternative sources of funding, which integrate social finance into Islamic finance solutions.

As we reach the midway point of the Financial Sector Blueprint 2022–26, it will also be key for the financial sector to take stock of progress made thus far. This means not just stepping up efforts to see through the implementation of Blueprint strategies we set out in 2022, but to also consider what more recent developments – such as breakthroughs in artificial intelligence – mean for finance and the economy. The financial sector will continue to play a critical role both as a counter-cyclical force during periods of stress and as a catalyst for reform in the economy.

This is only possible because of the strength and resilience of the financial system – the product of decades of reform. The strong financial buffers built up over the years and the levelling up of risk management practices have ensured that the financial sector is able to support the economy in good times and bad, providing a source of stability during turbulent times. While banks in Malaysia were insulated from the global banking turmoil in early 2023, we took the opportunity to consider lessons for Malaysia to further strengthen the financial system.

With the pandemic now fully behind us, our regulatory and supervisory work programme is moving at full speed. Key regulatory and supervisory initiatives – such as that to strengthen the capital and liquidity positions of banks, insurers and takaful operators – are underway to further strengthen the buffers that have helped protect Malaysia against shocks, such as the pandemic. We are also increasing the preparedness of the financial sector to face crises, through recovery and resolution planning, and simulation exercises. We continue to make further inroads in integrating climate-related risks into prudential regulation and supervision. Strengthening the climate resilience of the financial sector will remain a key priority for us in the coming years. This is important for financial stability and for the financial sector to support Malaysia's orderly transition to a greener economy.

Looking ahead to 2024 and beyond, the Malaysian economy is expected to remain resilient despite headwinds, mainly on the external front. In 2024, growth is projected to be higher, while inflation remains moderate. The year ahead provides Malaysia with a window of opportunity to accelerate the implementation of structural reforms. These reforms are critical to strengthen the economy's resilience while raising its prospects – imperative for Malaysia to meet the challenges of tomorrow. At the same time, it is crucial that they are implemented along with appropriate support for more vulnerable segments. Everyone has a role to play in this reform journey. Government, businesses, households, and individuals would need to work together to ensure these efforts bring positive results for the country.

The central bank's mission is as challenging as ever. Supporting me in this effort are the members of my team who tirelessly give their best in discharging BNM's mandates. We will continue to transform and renew ourselves in meeting the evolving challenges. There are many things that we are doing to further strengthen BNM as an organisation to ensure that we remain a trusted public institution for the people and the nation. This is underpinned by our ongoing culture transformation journey, where we seek to foster norms and practices that are critical to effectively discharge our mandates – in particular, collaboration, candour and accountability. Alongside this, we continue to further strengthen our collective knowledge and skillsets as policy challenges evolve, while also modernising BNM to be future-ready. Just as we are preparing the Malaysian financial system to be more sustainable and climate-resilient, we are also working to reduce our own carbon footprint in our investments, currency operations, travel and energy consumption.

In closing, I would like to extend my heartfelt gratitude to Governor Tan Sri Nor Shamsiah Mohd Yunus for her invaluable contributions and service to BNM and the country. She laid the foundations and set in motion a number of initiatives that has placed BNM in a stronger position, allowing us to be well-positioned to deal with the many challenges we face today. Sincere thanks also go out to all our staff for their unwavering dedication and commitment. I am also thankful to the Board of Directors for their unwavering support and guidance. We will continue to deliver the mandates entrusted upon us with uncompromising standards of professionalism and integrity.

Abdul Rasheed Ghaffour

Our Role

Promoting Monetary Stability 9

Feature Article: Behind the Scenes of Bank Negara Malaysia's Monetary Policymaking 14

Feature Article: Promoting Cross-border Local Currency Settlement (LCS) 22

Promoting Financial Stability 26

Feature Article: Personalising Financial Services: Promoting Fair Treatment of Vulnerable Consumers 33

Promoting a Progressive and Inclusive Financial System 35

Feature Article: iTEKAD: An Ecosystem Approach in Scaling Up Social Finance 48

Promoting a Progressive and Inclusive Islamic Financial System 52

Feature Article: Realising the Value-based Intermediation Vision: Five Years After Introduction 61

Promoting Safe and Efficient Payments and Remittance Services 65

Feature Article: DuitNow QR: Fostering Inclusive Digital Payments 68

Issuing Currency 77

Maintaining Financial Integrity 84

Feature Article: BNM's Enforcement Approach and Disclosures of Enforcement Actions 91

Our Role

Our Role

Bank Negara Malaysia (BNM) is Malaysia's central bank. Our principal objective is to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. BNM derives its mandate and powers from the Central Bank of Malaysia Act 2009 and other laws that it administers.[1]

In our role to promote monetary stability, BNM formulates and conducts monetary policy to keep inflation low and stable, while ensuring that it is supportive of sustainable economic growth. We are also mandated to promote an exchange rate regime consistent with the fundamentals of the economy.

To promote financial stability, BNM regulates and supervises financial institutions to promote their safety and soundness. We oversee money and foreign exchange markets to promote their integrity and orderly functioning. We also exercise oversight over payment systems to foster safe, efficient and reliable payment systems and payment instruments. In addition, we regulate the conduct of financial institutions and intermediaries in order to provide appropriate protection to financial consumers.

BNM plays a key role in promoting a progressive and inclusive financial system. This takes into account the changing needs of the Malaysian economy and its people, and the central role of finance in the nation's economic and social progress. Our pursuit to develop and deepen both the conventional and Islamic financial system also recognises that a well-developed financial system is one that can help absorb shocks, and therefore contributes to the country's resilience.

BNM carries out a number of other important functions. These include issuing currency, and holding and managing the country's foreign reserves. BNM is also the financial adviser, banker and financial agent of the Government. Together with other government and law enforcement agencies, we play a role in helping to prevent the criminal abuse of financial services. Additionally, BNM has been responding to climate risk, firstly through appropriate regulation and supervision of financial institutions, to support an orderly transition to a low-carbon economy; and secondly by embedding sustainable practices in our own operations.

In all BNM does, it does in the best interest of the nation.

[1] Other key legislation includes the Financial Services Act 2013; Islamic Financial Services Act 2013; Development Financial Institutions Act 2002; Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001; Money Services Business Act 2011; and the Currency Act 2020.

Promoting Monetary Stability

Bank Negara Malaysia (BNM) Monetary Policy Committee (MPC) sets monetary policy to maintain price stability while giving due regard to economic developments in Malaysia. To achieve this goal, the MPC decides on the Overnight Policy Rate (OPR) based on its assessment of domestic inflation and economic growth prospects.

Monetary Policy in 2023

In 2023, the global economy continued to face a series of challenges. High interest rates, elevated inflation, slowing global trade, and geopolitical tensions created a high level of uncertainty and weighed down on global growth during the year. Despite initial positive signs early in the year with the reopening of China's economy post-COVID-19, the optimism and momentum of China's recovery were short-lived. In addition, the global technology downcycle, shifts in consumer spending from goods to services, and ongoing trade restrictions dampened global trade activity.

Although inflation came down from its peak in 2022 for many countries, it remained at high levels. This prompted many central banks to keep a tight monetary policy stance, with some even continuing to raise their policy rates. Global financial conditions tightened during the year. Expectations of prolonged high interest rates in the US also resulted in continued US dollar strength in 2023. The strong US dollar was further contributed by safe-haven flows following concerns about banking sector stress in advanced economies and escalating geopolitical tensions. The continued US dollar strength affected other major and emerging market currencies, including the ringgit.

Despite the challenging global conditions, Malaysia's economy continued to expand, growing by 3.7% in 2023 (2022: 8.7%). The more moderate growth also reflected normalising conditions following the economic rebound in 2022, which was supported by the reopening of the economy and sizeable policy measures.[1] During the year, Malaysia's economy was supported by resilient domestic demand and further recovery in tourism activities. Labour market conditions improved as the unemployment rate declined to its pre-pandemic level. Employment continued to grow amid ongoing economic expansion. These improvements, along with policy measures such as targeted cash transfers, provided a lift to Malaysian household spending. Rising tourist arrivals also boosted Malaysia's tourism sector and supported domestic businesses. Continued progress in large investment projects throughout the year further contributed to domestic growth.

Like other economies in the region, the slower global demand affected Malaysia's export activities. Nevertheless, Malaysia's diverse export products and destinations helped to partly lessen the impact of external shocks. Despite the volatile global financial and foreign exchange markets, Malaysia's sound financial system served as strong buffers against the external shocks. This helped ensure that domestic financial conditions remained conducive to financial intermediation and sustained credit growth, supporting the economy.

After reaching its peak in the second half of 2022, headline inflation trended lower, averaging 2.5% in 2023 (2022: 3.3%). Although the continued US dollar strength against the ringgit led to higher costs of imported materials for domestic production, overall cost pressures eased during the year. This was mainly due to the lower global commodity prices and improving global supply chain conditions. Existing domestic price controls and subsidies on fuel and key food items (e.g. fresh eggs)

[1] These measures included cash transfers, Employees Provident Fund (EPF)-related measures, and the implementation of a higher minimum wage, which supported household spending in 2022.

also helped to partly contain the upward pressures on prices. In addition, domestic demand stabilised in 2023 following the heightened demand since the reopening of the economy in 2022.

Meanwhile, underlying inflation, as measured by core inflation,[2] also trended lower in the second half of 2023 and averaged at 3% for the year (2022: 3%). The pace of decline in core inflation during the year was more gradual, partly reflecting persisting demand pressures, particularly during the first half of 2023.

After four consecutive OPR increases in 2022, the MPC[3] decided to keep the OPR unchanged at 2.75% in the January and March 2023 meetings. This allowed the MPC to review the cumulative impact of the previous OPR increases in 2022 on Malaysia's economy. This was because monetary policy changes take some time to fully influence economic activity. The assessment showed no signs of excessive tightening in the economy. Rather, the domestic economy continued to expand, with moderating unemployment and continued expansion of household spending. Considering all these together amid resilient domestic growth prospects in 2023, the MPC decided to further normalise the OPR, increasing it by 25 basis points at the May meeting. This brought the OPR to the pre-pandemic level of 3.00%. With that, the MPC had totally withdrawn the monetary policy stimulus provided during the COVID-19 crisis to support the economic recovery.

It was crucial for the MPC to ensure that monetary policy was aligned with the health of Malaysia's economy. Although domestic inflation had been moderating during the year, there were still concerns about potential upward pressures on prices, particularly coming from resilient domestic demand. As such, the increase in the OPR was also aimed at pre-emptively safeguarding against the upside risks to inflation. High inflation, if left unchecked, would be damaging to the welfare of all Malaysians, especially the lower-income group.[4] Conversely, if the OPR is kept too low as the economy strengthens, this could lead to excessive spending and borrowing by households and businesses. This would not only fuel higher inflation, but also pose financial risks for both households and businesses in the future.

Following the cumulative OPR adjustments since May 2022,[5] lending rates increased broadly in line with the OPR increases. For borrowers, the impact of the higher OPR on loan repayments depended on the type of loan. Existing fixed-rate loans, like most car loans, remained unchanged. Meanwhile, borrowers with floating-rate loans, mainly housing loans, faced increased monthly instalments. Nevertheless, targeted assistance, such as debt restructuring and advisory arrangements, remained available for borrowers who continued to experience financial difficulties. For new loans, interest rates also increased broadly in line with the OPR adjustments. Similarly, returns to depositors, especially fixed deposits, also trended higher.

Throughout the year, BNM's monetary operations continued to focus on ensuring sufficient liquidity in the banking system.[6] This enabled the orderly functioning of domestic financial markets and financial intermediation in the economy.

Diagram 1: 2023 Key Domestic Figures at a Glance

Real GDP grew by

3.7%

(2022: 8.7%)

Headline inflation averaged at

2.5%

(2022: 3.3%)

Overnight Policy Rate (OPR) increased to

3.00%

back to its pre-pandemic level

Source: Bank Negara Malaysia and Department of Statistics, Malaysia

[2] Core inflation is computed by excluding price-volatile items (e.g. fresh meat, vegetables and eggs) and price-administered items (e.g. electricity, road tolls and sugar).

[3] The MPC meets six times a year to decide on monetary policy. More information on Malaysia's monetary policy and the MPC can be found in the 'Governance' section of this report and in the 'Monetary Stability' section of the BNM's website (https://www.bnm.gov.my/monetary-stability).

[4] High inflation erodes people's purchasing power and savings, especially affecting those in the lower-income group. High inflation is also detrimental for businesses as they face increased costs to produce goods and provide services, or lower sales due to reduced demand. These would then lead to slower economic activity and growth.

[5] The OPR was increased by a total of 125 basis points through five 25-basis point adjustments.

[6] BNM conducts monetary operations using a range of instruments. More information on the various instruments used can be found in the 'Monetary Operations' section of the BNM's website (https://www.bnm.gov.my/web/guest/overview).

The Ringgit Exchange Rate

In 2023, the ringgit continued to face depreciation pressures against the US dollar and other major trading partners. These were largely due to global developments. Investors favoured US dollar-denominated assets amid expectations of prolonged high interest rates in the US, which were higher than the prevailing interest rates in Malaysia. Ongoing geopolitical conflicts led to financial market participants' preference for holding the US dollar as a safe-haven asset. Uncertainties over China's economic growth prospects also dampened investor sentiments in the region.

The movements in the ringgit exchange rate did not reflect Malaysia's sound economic fundamentals in 2023 despite the challenging global environment. Nevertheless, these external factors would be short-term in nature. As global financial conditions improve and volatility eases in the future, these would ease the pressure on the ringgit.

BNM's foreign exchange operations also provided necessary support to smoothen excessive volatility in the movements of the ringgit exchange rate.[7] We did so by our presence in the foreign exchange market to buy and sell ringgit when necessary. This ensures sufficient two-way liquidity in the ringgit exchange rate market. We continued to deepen the foreign exchange market through ongoing efforts by BNM's Financial Markets Committee and banks operating in Malaysia, thus enabling businesses to meet their funding needs more effectively. We also continued to promote access to hedging instruments for businesses to better manage their foreign exchange risks.[8]

In 2023, we continued to engage large investors and corporates, including exporters, on their foreign exchange activities. We also closely monitored the conversion of export proceeds to ringgit by the large resident exporters. More recently, the Government and BNM have also been taking coordinated actions to encourage Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs) to bring back and convert their realised foreign investment income into ringgit more consistently. These collective actions will contribute to greater and sustained inflows, lending support to a firmer ringgit. Meanwhile, the ongoing structural reforms should bring in more investment flows into Malaysia, and thus provide more enduring support for the ringgit in the long run.

Analysis and Research

BNM's economic analysis and policy research in 2023 focused on assessing Malaysia's economic resilience, especially amid external challenges, and further understanding domestic inflation drivers. Through a scenario analysis, we assessed how the strength of the recovery in China's economy might impact Malaysia's GDP growth due to the close trade ties. We also studied how Malaysia could be affected by the banking sector stress in advanced economies, and slower global growth in the medium term. In addition, we analysed Malaysia's economic resilience post-pandemic, including recovery in economic sectors and labour market, and exports resilience.[9] On inflation, we looked deeper into whether price changes in Malaysia were driven by economy-wide or sector-specific factors,[10] and the different approaches to measuring underlying inflation.[11] Our research also investigated how firms set prices and wages amid elevated inflation and ringgit exchange rate movements.

Throughout the year, we continued to closely monitor the impact of past OPR changes on the broader economy. In particular, we closely monitored for signs of overtightening that could hinder domestic economic growth. This assessment covered the effects on credit, financing, and consumption activities. To further strengthen our analytical surveillance and research, we continued to integrate ground-level insights from BNM's regional offices. These insights from industry players, including businesses, were essential in helping us gain a better understanding of the economy, including how evolving developments and domestic policies affect different sectors of the economy. We also improved our economic surveillance tools during the year. This included refining methods for measuring the output gap, developing an indicator to better assess interest rate conditions, and creating an index to gauge sentiment in domestic financial markets.

[7] More information on the ringgit can be found in the 'Ringgit Exchange Rate Policy' section of the BNM's website (https://www.bnm.gov.my/monetary-stability/ringgit).

[8] More information on financial market development initiatives can be found in the 'Market Development Initiatives' section of the BNM's website (https://www.bnm.gov.my/committees/fmc#devt).

[9] More information can be found in the BNM 3Q 2023 Quarterly Bulletin Box Article titled 'Malaysia's Economic Resilience: A Post-pandemic Analysis'.

[10] More information can be found in the BNM 2Q 2023 Quarterly Bulletin Box Article titled 'Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia'.

[11] Further discussion on underlying inflation can be found in the BNM Economic and Monetary Review 2023 Box Article titled 'Underlying Inflation at its Core'.

As the financial and economic advisor to the Government, BNM continued to actively contribute to several policy groups focusing on economic priorities. These included policies related to the cost of living, investment, labour, public finance, and social protection. We provided policy advice on the Government's subsidy rationalisation plan from a macroeconomic perspective, including the potential impact on domestic inflation and growth. Our input also covered potential strategies for implementing the subsidy rationalisation, as well as potential measures to minimise its impact on households and businesses. We also contributed to the formulation of the Public Finance and Fiscal Responsibility Act 2023 which was passed by Dewan Negara in November 2023. This Act is important to enhance accountability and transparency in the management of public finances. This would ultimately serve towards preserving macroeconomic stability and protecting the welfare of Malaysians.

We also supported policies that would facilitate the country's transition to a high-income nation. This included advocating for a mission-based approach to industrial planning and promoting cross-industry collaboration in the formulation of the New Industrial Master Plan 2030 (NIMP 2030).[12] We also supported the initiatives to improve investor relations practices in Malaysia, aimed at enhancing the country's attractiveness as a business and investment destination. We continued to advocate for a more comprehensive and efficient social protection system in Malaysia to ensure the well-being of the people in the long term. This included to streamline social assistance programs to ensure those who need the support receive it. We also advocated for extending the coverage of the Malaysian private retirement savings scheme to all individuals, including workers in the informal sector (e.g. self-employed individuals).

We also continued to advocate for structural reforms aimed at boosting household incomes, especially amid the rising cost of living issues. This included generating opportunities for high-skilled jobs through quality investments in new growth areas, and supporting initiatives to improve wage growth via upskilling and enhanced labour productivity.

Communication and Outreach

Throughout 2023, BNM continued to share insights on our monetary policy decisions, and the latest developments on inflation and ringgit. By doing so, we aimed to improve public understanding and address concerns surrounding these topics. Given the economic issues and the interplay with many factors, we sought to communicate in a simpler and more engaging way for a wider audience. For instance, we have published explanations to dispel common misconceptions about the OPR, as well as a short video explaining how the OPR works on our social media platforms (see Diagram 2). We also continued our active engagement with the public, analysts, investors, media, and Government representatives during the year.[13]

We also maintained ongoing collaborations with academia through various initiatives. These included the Visiting Research Fellowship (VRF)[14] and Research Support Initiative (RSI)[15] programmes. Through the RSI programme, we provided support to academics in their research on areas relevant to BNM. The VRF programme also helped to expand our research on monetary and financial economics, with ongoing joint studies in areas such as the labour market, inflation, and investment. Ultimately, these collaborations aimed to incorporate diverse perspectives, enriching our understanding of complex economic issues for informed policy-making.

[12] The NIMP 2030 was launched on 1 September 2023.

[13] More information on the BNM's public engagements throughout the year can be found in the 'Engaging Malaysians' chapter of this report.

[14] The VRF was launched in October 2020. The programme aims to produce joint research publications between academics and BNM staff. More information can be found on the BNM's website (https://www.bnm.gov.my/research/vrf).

[15] The RSI was launched in October 2020. This program is designed for post-graduate and post-doctorate candidates specialising in econometrics, macroeconomics, monetary and financial economics, machine learning, and data science. More information can be found on the BNM's website (https://www.bnm.gov.my/research/rsi).

Diagram 2: Snippets of Information Shared on Social Media

Source: Bank Negara Malaysia

Going Forward

In 2024, the Malaysian economy is poised for continued expansion. In addition to resilient domestic expenditure, the sustained global growth and rebound in trade activity will benefit our exports. These would lend support to Malaysia's economic growth. At the same time, inflation is also expected to remain moderate. These favourable economic conditions in 2024 provide a window for the implementation of structural reforms as announced by the Government. Pursuing these reforms, such as subsidy rationalisation, is necessary for strengthening the economy post-crisis, ultimately benefitting Malaysia in the long run.

As the domestic policies related to subsidies and price controls undergo review and potential adjustments, they would affect the inflation path going forward.

Beyond domestic policies, there could also be global headwinds and emerging challenges that may pose risks to Malaysia's economic outlook. As such, BNM remains vigilant to the ongoing domestic and global developments. We will ensure that the monetary policy stance remains conducive to sustainable domestic economic growth in the long term amid price stability. Foreign exchange and monetary operations will also continue to ensure sufficient liquidity in the foreign exchange, money, and Government bond markets. They will complement our other policies to ensure the smooth functioning of domestic financial markets and financial intermediation. BNM is committed to collaborating closely with our stakeholders on relevant policy measures, especially structural reforms. These efforts would not only address immediate economic challenges, but also enhance Malaysia's economic resilience in the years ahead.

Behind the Scenes of Bank Negara Malaysia's Monetary Policymaking

[The Star] ***'Bank Negara raises OPR by 25bps to 2.75%'*** – 3 Nov. 2022

[Sinar Harian] ***'Jawatankuasa Dasar Monetari (MPC) Bank Negara Malaysia (BNM) mengumumkan dasar semalaman (OPR) meningkat dua puluh lima perpuluhan kepada tiga peratus'*** – 3 May 2023

[Harian Metro] ***'OPR tidak naik, masih 3.0%'*** – 7 Sep. 2023

[Malay Mail] ***'Bank Negara Malaysia maintains OPR at 3pct'*** – 24 Jan. 2024

At some point, you may have come across these types of headlines when browsing the news or social media. The topic could have also surfaced during a chat with your family and friends, and you may have wondered – Who and what is the 'MPC'? Why are they making these decisions? Why would they raise the interest rates when the cost of living is already high? These are all valid questions, and this article aims to shed some light on these and related issues. In particular, we'll look into what Bank Negara Malaysia's Monetary Policy Committee (MPC) is and what they do, in addition to a 'behind the scenes' look at MPC meeting preparations.

Part I: The MPC – What is it and what do they do?

Let's start with the big picture. Bank Negara Malaysia (BNM) is tasked with promoting monetary and financial stability, and fostering a sound and progressive financial sector to achieve sustainable economic growth. Simply put, monetary stability means keeping prices in check so the economy can steadily grow over time. Stable prices create a reliable environment for investment and spending, which are crucial for long-term growth and job creation. However, while stable prices are important, they're just one ingredient towards a strong and healthy economy. For BNM, a dedicated committee is charged with this mandate of promoting monetary stability – the Monetary Policy Committee (MPC). The MPC sets monetary policy[1] by adjusting the Overnight Policy Rate (OPR).[2] The refresher box explains in more detail why price stability is important and what happens when the OPR is changed.

[1] Monetary policy is the action that BNM takes to influence interest rates in the economy.
[2] The OPR is BNM's policy interest rate that influences, among others, banks' lending and financing rates, as well as deposit rates. This means that even if you do not have loans, changes in the OPR could still affect you through changes in returns for deposits and savings, among others. Changes in the OPR affect economic activity and overall price level changes, typically by influencing interest rates in the economy.

Let's refresh our memories on some key monetary policy concepts.

Why is price stability important?

- When inflation is low and stable, it means that changes in the overall level of prices are stable and predictable. This is important because if prices keep changing and are hard to predict, it is difficult for households and businesses to plan how much they can spend, save or invest. This will then affect economic activity and growth.
- When prices increase rapidly or significantly, it hurts our purchasing power. High and unstable inflation affects everyone, but it hurts lower-income households the most. Compared to the higher-income group, a larger share of their spending is on essential purchases like food and housing.
- High inflation also makes it harder for businesses, which may face higher costs to produce goods and services, or lower sales if the high prices affect consumers' demand. This can then affect business sales and profits. When prices keep changing, businesses also find it difficult to plan and invest for the future. For savers and retirees, high inflation eats into their savings. Rapid increases in prices will quickly erode the purchasing power of savings.
- Conversely, having a long period where overall prices are falling is not good either. This is known as deflation, which is bad when it is due to a collapse in demand. When this happens, many people lose their jobs and there is more uncertainty and financial stress. As a result, there would be lower investment and spending. Businesses would have to cut prices to attract consumers, but people would not spend as their finances are uncertain and they wait for prices to come down even more. Like high inflation, deflation is also harmful to the economy.

What happens when the MPC changes the OPR?

- When the MPC decides to raise the OPR, higher interest rates on savings and loans will influence people to save more and spend less. For example, when the demand for goods and services in the economy is more than the supply available, prices will keep rising. The higher OPR will help to slow demand down. This brings demand more in line with supply and prices would increase more slowly.
- The reverse happens when the MPC decides to reduce the OPR. Lower interest rates on loans and savings will get people to save less and spend more. This spurs economic activity and avoids a situation of falling price levels due to weak demand, which will hurt the economy.
- It's important to understand that the OPR is a 'blunt tool'. Even though the MPC tries to maintain stable prices and keep the economy growing steadily over time, its actions do not affect everyone in the same way. Monetary policy cannot target specific parts of the economy precisely, but it is needed to set the overall interest rate conditions.

Source: Adapted from BNM's Monetary Policy Frequently Asked Questions (FAQs) (https://www.bnm.gov.my/monetary-stability#mpfaq)

The MPC is chaired by the Governor and the members comprise the Deputy Governors and up to seven other members. The composition of the MPC aims to ensure a broad range of technical expertise and perspectives in monetary policy discussions, rather than representing specific interest groups. Since 2015, individuals outside BNM have also made up the MPC, known as external MPC members. Having external members is highly beneficial as they bring diverse viewpoints, specialised knowledge, and additional insights to the table when it comes to making decisions about monetary policy. This gives a more well-rounded and informed view on various issues that complement the expertise of the internal MPC members.

Part II: What goes into an OPR decision?

To understand how a decision on the OPR is made, it's helpful to look at it in two key parts: i) **the analysis** – the areas the MPC analyses and forecasts and ii) **the process** – the step-by-step journey from gathering information to arriving at the final policy decision.

The analysis

At the heart of it all, the standard questions the MPC has in mind for each MPC meeting are:

How is the economy doing?	Where is the economy heading?	How should monetary policy respond?
Growth and inflation developments	*Outlook on growth and inflation*	*Monetary policy strategy*

In pursuit of maintaining low and stable prices while fostering a steadily growing economy over the long term, the MPC's guiding 'north star' in terms of economic variables is growth and inflation. Importantly, the MPC always looks ahead when setting monetary policy. This is because the full effects of OPR changes on economic activity and inflation do not happen right away. According to some estimates, it can take up to two years for monetary policy to have the most effect on the economy.[3] This is why understanding the growth and inflation outlook (where the economy is heading) is crucial for the MPC.

[3] For example, the European Central Bank has said that tighter monetary policy can take almost two years to have the most effect on inflation, which is the same case for Malaysia.

The MPC always looks ahead when setting monetary policy. This is because the effects of OPR changes on economic activity and inflation do not happen right away.

A key part of assessing the outlook is having a grasp of how the economy is currently performing. The MPC looks at areas that span the latest economic, monetary, and financial market developments and outlook. They tap into a range of information and insights, which cover in-house data and information, expertise of BNM staff, engagements with various economic players – from households to SMEs to large corporates, and academic research. These sources are used in tandem with data and information from Government agencies like Malaysia's Department of Statistics, on top of analyses and forecasts from other central banks, international institutions, and private sector economists.

Diagram 1 provides a broad overview of the surveillance areas that BNM staff[4] look at. The economic growth assessments start with the global economy, which matters as Malaysia is a small and open economy, affected by what happens beyond our borders. For the domestic economy, staff would cover areas spanning consumption, investment, and trade, among others.

Inflation, the rise in the overall price level of goods and services, is another crucial aspect to assess. Understanding the dynamics of inflation is key as it directly influences purchasing power, and how people spend their money. For businesses, it would determine how much it would cost to produce goods and services. In our surveillance, a broad range of indicators are monitored. These include key price measures like the Consumer Price Index and Producer Price Index, factors influencing demand and supply, as well as inflation expectations gauged through BNM's Consumer Sentiment Survey (CSS).[5]

Diagram 1: Broad Overview of Main Surveillance Areas and Selected Key Indicators Used

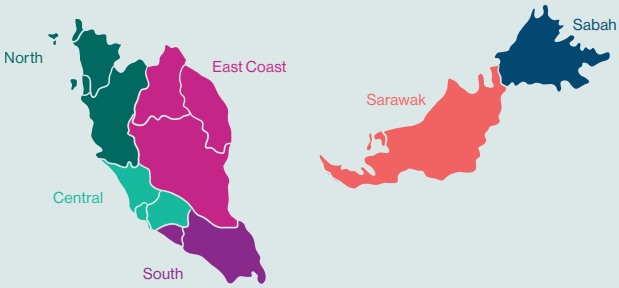
Note: This list is not exhaustive

Source: Bank Negara Malaysia

[4] These staff are mainly from the departments that focus on monetary policy, economics, and investment operations and financial markets in BNM.
[5] The CSS, which commenced in 2013, captures how households feel about economic growth, inflation, wages and borrowing costs. This is important to know, because expectations may influence people's spending decisions, which affects the economy.

Financial market assessments also come into the picture as markets and financial institutions are important channels through which monetary policy affects the economy. Their performance is closely linked to global economic trends and conditions, influencing liquidity, interest rates, and credit availability, which are essential for businesses and consumers. Staff also assess domestic financing conditions, including lending rates, the availability of credit for borrowers, and the presence of financial imbalances.

While these developments provide insights into how the economy is doing, they also feed into the question of where the economy is heading through forecasting exercises. These forecasts, developed by staff with the help of technical models and judgement, project what would happen next. For example, there would be numbers for what inflation and economic growth are estimated to be in the next few quarters or years ahead. However, projections can never always be spot on. They are frequently updated to reflect new information, especially when there is a lot of uncertainty. Yet, while never 100% accurate, forecasts provide a good guide for MPC members to form their views on what monetary policy should do.



The main assessments are indeed based on data and models. However, integrating on-the-ground insights is crucial for gaining early and better understanding of the outlook. These insights are sourced by BNM's Regional Economic Surveillance team. They are stationed in major economic hubs across the country, [6] covering surveillance in the surrounding regions. The BNM economic liaison officers engage regularly with industry players and businesses, delving into their economic and inflation outlooks, sentiments, and business strategies. The surveillance enables the MPC to grasp how evolving developments and domestic policies are impacting various sectors of the economy. Such reliance on firsthand insights is a vital bridge connecting us with timely, forward-looking, and qualitative information that fills in the gaps left by statistics alone.[7]

Lastly, staff put together the relevant information to inform a monetary policy strategy. This involves assessing the balance of risks to growth and inflation and conducting scenario analyses. Staff also highlight aspects of the monetary policy communication strategy.

Ultimately, each of these assessment areas serves as a puzzle piece. They contribute to the formation of a comprehensive picture of the Malaysian economic landscape, where it's headed, and how monetary policy should respond. Depending on the circumstances, some MPC meetings might dive into specific issues or research.

After piecing together the puzzle, the MPC would come to a decision, which is made autonomously. Although the process is far more nuanced, it boils down to the balance of risk to domestic growth and inflation.

The Monetary Policy Committee makes monetary policy decisions autonomously

Recall that the MPC is guided by its goal of stable prices and sustainable economic growth. If inflation is likely to be too high for a long time while signs point to strong growth, the MPC would typically tighten monetary policy by increasing the OPR. In assessing the inflation outlook, what's crucial for the MPC are its drivers – whether the forecasted higher inflation stems from higher consumer demand or because the cost of making goods has gone up. Understanding the root cause is key because monetary policy is most effective in tackling demand-driven inflation.[8] Meanwhile, looser monetary policy (i.e. lower policy rates) would be essential in a situation of weak growth and low inflation. This would help spur growth and ward off deflation (which is also not desired). There are also risks of keeping the OPR too low for too long. Doing so when

[6] Namely Johor Bahru, Kuala Terengganu, Pulau Pinang, Kota Kinabalu, and Kuching.
[7] For more details, see the box article from the 2013 Annual Report titled 'Broadening Economic Surveillance through Bank Negara Malaysia's Regional Offices' (https://www.bnm.gov.my/documents/20124/830154/cp01_002_box.pdf).
[8] There are times when higher costs set off a ripple effect, leading to a series of other price increases across the economy (including instances where workers demand higher wages). In this case, monetary policy would be effective in addressing the higher inflation.

the economy is healthy can lead to higher inflation. It can encourage excessive borrowing by individuals and businesses, potentially causing financial imbalances.

The OPR adjustments following the economic recovery in 2022 offer a real-life example of the MPC's considerations. During the COVID-19 crisis in 2020, the MPC cut the OPR from 3.00% to a historic low of 1.75% to help the economy stay afloat. By 2022, more material signs of recovery had appeared as the lockdown was lifted. It became clear to the MPC that the economy was on a firmer footing.

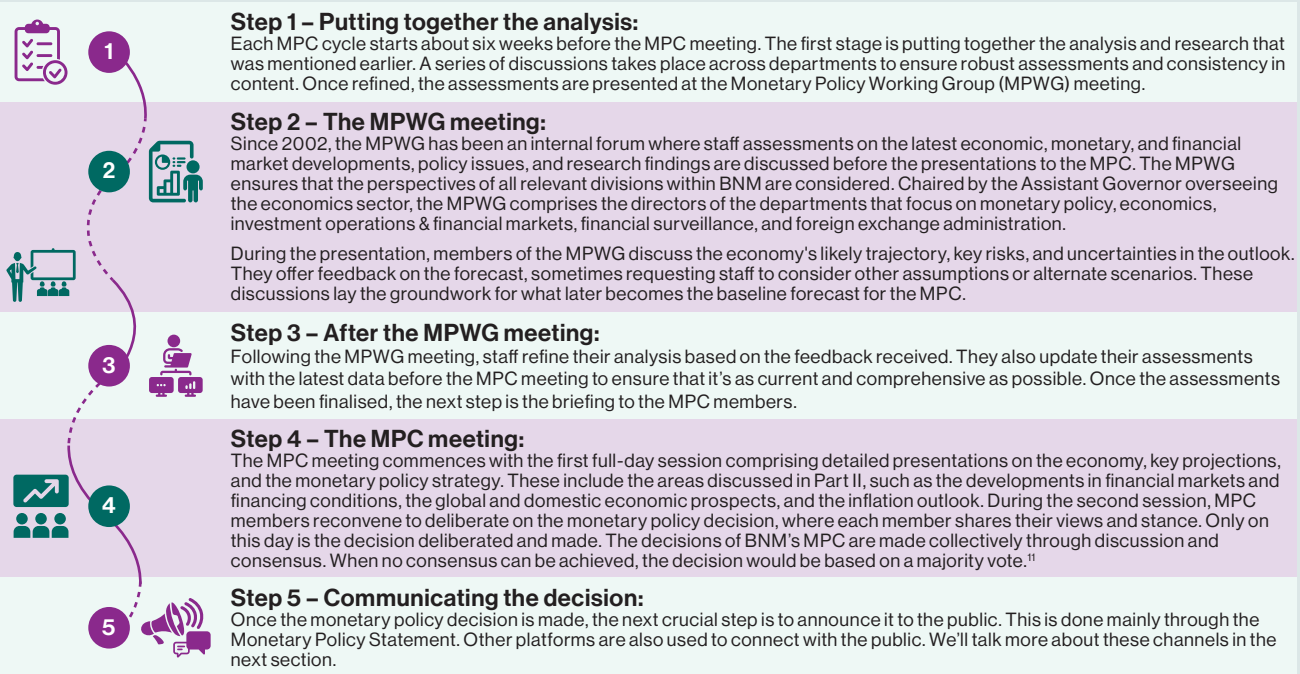
The MPC judged that it was the right time to remove the large monetary policy support provided during the COVID-19 crisis. The MPC gradually raised the OPR to reach 3.00%, a move which would also curb risks of financial imbalances from prolonged low rates. Amid the environment of high costs, the MPC also started seeing early signs of inflation caused by rising demand. Thus, the MPC viewed that the OPR hikes were also needed to prevent price pressures from building up and hurting households and businesses.

There are times when making monetary policy decisions is often far from black and white. The economy might face periods of low growth and high inflation, posing a dilemma where reducing the OPR could lift growth but also risk fueling inflation further. In such cases, the MPC has to navigate the delicate balance between stimulating growth and controlling inflation.[9] In addition, coordination with fiscal policy is crucial. Both monetary and fiscal policies should complement each other to ensure a more effective and coordinated approach to achieving a healthy economy.[10]

The process

Now that we've explored the content of MPC assessments, let's now see how it all comes together. The MPC meets at least six times a year to discuss and decide on monetary policy. These sessions are scheduled and announced in advance, with the dates for the next year's meetings disclosed to the public at the end of each year.

Diagram 2: Bank Negara Malaysia's MPC Decision-Making Process



Source: Bank Negara Malaysia

[9] Moreover, there could be times when a monetary policy decision impacts BNM's other mandates, like financial stability, which could pose another tradeoff. For more details about such tradeoff, see the box article from the 2014 Annual Report titled 'Financial Imbalances and Policy Responses in Malaysia' (https://www.bnm.gov.my/documents/20124/829724/cp03_001_box.pdf).

[10] To learn more about this topic, see the box article in the 2023 Economic and Monetary Review titled 'Navigating Economic Cycles: Interactions Between Monetary and Fiscal Policy'.

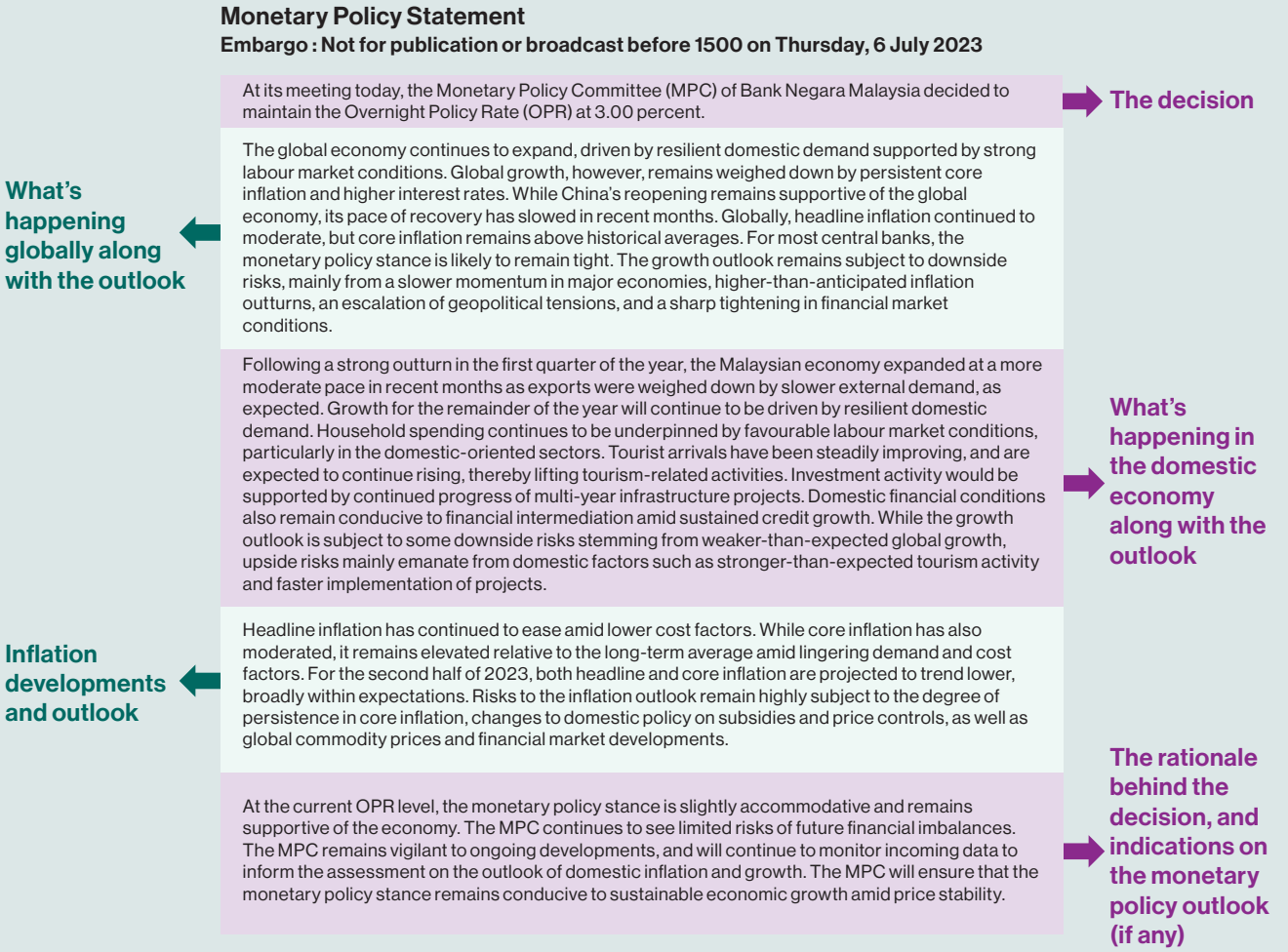
[11] For more details, see the box article from the 2015 Annual Report titled 'Evolution of the Monetary Policy Committee of Bank Negara Malaysia: Key Milestones over the Years' (https://www.bnm.gov.my/documents/20124/829207/cp03_001_box.pdf).

Part III: How does the MPC communicate its monetary policy decisions to its stakeholders?

Now that we have unpacked the different assessment areas that the MPC looks at, let's shift to what happens after an OPR decision has been made. The crucial next step is communicating this decision to the public. Such communication is key because it will also shape how households, businesses, and investors view the future of the economy, which affects their spending and investment choices. When people have a better sense of the economy and monetary policy, they can make more informed financial choices. This helps achieve the outcomes the MPC aims for.

The MPC communicates its decisions primarily through the Monetary Policy Statement (MPS, Diagram 3). The MPS is a press release from the MPC, informing the stakeholders of the monetary policy decision taken by the MPC and why. This statement sets out the MPC's assessments of how the economy is doing, both globally and domestically, and provides insights into their expectations for Malaysia's future inflation and economic growth. The MPS is released on BNM's website following an MPC meeting.

Diagram 3: Breaking Down the MPS



Source: Bank Negara Malaysia

Beyond the MPS, the information on monetary policy is conveyed to a wider universe of audiences through various other channels. These include press conferences, typically held after key report releases such as the Quarterly Bulletin and the Annual Report. In these sessions, BNM fields questions on monetary policy to provide clarity and further explanations. BNM also engages with analysts, media, and Government officials as part of the communication approach. For instance, briefings with analysts, industry practitioners and academics are held after most MPC meetings. These interactions offer deeper insights into the nuances of monetary policy decisions and the economic outlook. They help cultivate an open dialogue, fostering trust and transparency between the MPC and its stakeholders.

Given that monetary policy affects everyone, the MPC is committed to making its decisions easier to understand. To achieve this, several steps have been taken. One example is the Monetary Policy Statement Snapshot (MPSS), released alongside the MPS. It breaks down the key factors behind the monetary policy decisions into concise points. The Monetary Stability page on the BNM website[12] also explains monetary policy in simple terms, covering the factors behind monetary policy decisions and frequently asked questions on relevant topics. Through the transparency of its monetary policy decisions, the MPC is thus accountable to the public for its decisions and the outcomes.

Conclusion

As a final word, through careful analysis and deliberations, the MPC ensures that its policies are focused on delivering the mandate of maintaining price stability while giving due regard to economic developments. At the end of the day, the MPC remains steadfast in its role as guardian of the nation's economic well-being.

[12] https://www.bnm.gov.my/monetary-stability

Promoting Cross-border Local Currency Settlement (LCS)

Over the last two decades, Malaysia's trade, investment and financial linkages within the region have deepened. As a result, trade with China and ASEAN as a percentage of Malaysia's total trade has increased from 13% and 25.6% in 2009 to 17.1% and 27.3% in 2023 respectively, while at the same time, trade with the United States (US) has declined from 11.1% in 2009 to 9.5% in 2023.[1]

Despite the shift, the bulk of trade continued to be settled in US dollars (2023: 82.1%, 2009: 82.9%) (Table 1a). Even for intra-regional trade within ASEAN, the trade settlements in the US dollar remain dominant (Figure 1b). Only 13.1%[2] of trade within ASEAN was settled in regional currency pairs. Based on Bank Negara Malaysia (BNM)'s engagements with major exporters, some companies have stated that their preference to settle their trade in US dollars is to ensure that their US dollar income matches their exposure to US dollar-denominated external debt. Multinational corporations with strong presence in the global supply chain, like those in the Electrical and Electronics (E&E) industry, also commonly use the US dollar to implement a more centralised treasury management system to manage the flow of funds across countries. Malaysia's commodity exporters and importers also transact in US dollars as the majority of commodities are invoiced in such terms. As such, the prevalence of trade settlement in US dollars is not a unique phenomenon to Malaysia. The transactional dominance of the US dollar in global trade, investment and financial activities is a structural feature of the global economy primarily due to its standing as a global settlement currency.

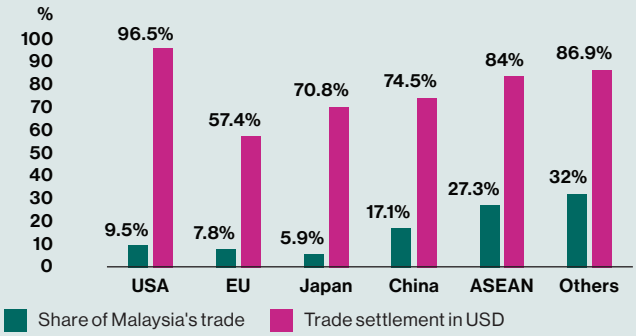
Chart 1: The Dominance of the US Dollar as the Settlement Currency for Trade Activities

Table 1a: Percentage of Malaysia's Total Trade Settled in Respective Currencies

Top Currency	% (2009)	% (2023)
USD	82.9	82.1
EUR	5.0	4.3
MYR	1.3	3.6
CNY	0.0	2.9
SGD	3.7	2.6
JPY	3.4	1.9
Others	3.7	2.5

Source: Bank Negara Malaysia

Chart 1b: Breakdown of Malaysia's Trade by Trading Partners Vis-à-Vis Percentage of Trade Settlement in USD with These Trading Partners in 2023



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

As a small open economy,[3] the settlement of trade in US dollars may appear to be a given. However, there are costs involved, and these are particularly evident when relying on the US dollar for regional trade purposes. Consider the example of a Malaysian firm importing from an Indonesian supplier. Rather than being able to conduct the trade with just both their local currencies, the importer has to convert ringgit to US dollars while the supplier has to convert from US dollars to Indonesian rupiah. The additional step adds to business costs, while also increasing both firms' exposure to volatility in the US dollar. Additionally, regional countries have to hold high US dollar-denominated reserves to match the prevalent choice of currency settlement. Given these factors, efforts to encourage more intra-regional trade in local currencies could help to increase business efficiency and reduce cost.

In this regard, BNM has gradually introduced flexibilities to our foreign exchange policy (FEP) since 2001, allowing both trade and investment to be settled directly using ringgit through licensed onshore bank (LOB). The ringgit settlement flexibility was further expanded in 2010 through the Appointed Overseas Office (AOO) framework[4] to cover banks

[1] Source: Department of Statistics, Malaysia
[2] Source: Bank Negara Malaysia
[3] Malaysia is an open economy but it is relatively small compared to the rest of the world given that we do not have much control over the prices of goods and services in the global market.
[4] For further information on AOO, please refer to Financial Markets Investor Portal (https://financialmarkets.bnm.gov.my/Foreign-Exchange-Market).

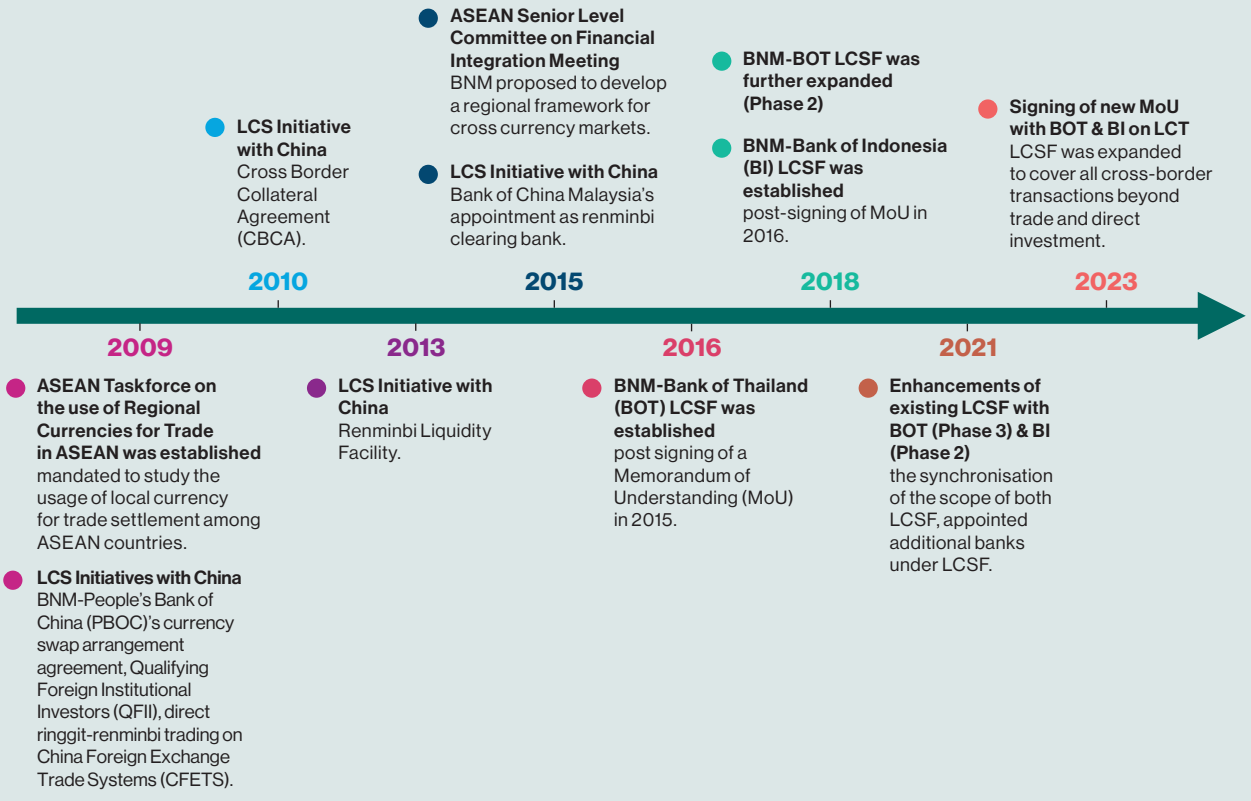
outside of Malaysia within the LOB's group. Through the AOO, foreign companies and investors outside Malaysia can now settle cross-border transactions in ringgit from abroad.

In parallel, BNM has also enhanced financial cooperation with Malaysia's key regional trading partners to promote the use of local currency for cross-border settlement. These regional collaborations endeavour to overcome the underlying challenges hindering wider use of regional local currencies for cross-border settlement. These challenges include the relatively underdeveloped local currency markets that have resulted in higher business costs.

One of the success stories has been the cooperation with China, Malaysia's largest trading partner. Many initiatives[5] have been put in place since 2009 to facilitate and encourage more local currency settlement by increasing access to renminbi which includes the Renminbi Liquidity Facility introduced in 2013 and the appointment of Bank of China Malaysia as a renminbi clearing bank in 2015. As a result, the value of bilateral trade settled in renminbi and ringgit has increased from 1.2% of trade settlement (RM0.5 billion) in 2009 to 24.4% of trade settlement (RM57.8 billion) in 2023 (Figure 3a).

Additionally, the lack of harmonisation of foreign exchange regulations across regional countries also constrains access to local currencies and domestic assets. To address these issues, BNM has established the Local Currency Settlement Framework (LCSF) with the Bank of Thailand[6] (BOT) (2016) and Bank Indonesia[7] (BI) (2018) to introduce more harmonised and flexible foreign exchange rules for bilateral transactions, while taking into account each country's circumstances. This framework provides flexibilities in foreign exchange regulations for the participating banks[8] to offer

Chart 2: Key Developments on Advancing LCS Involving Malaysia



Source: Bank Negara Malaysia

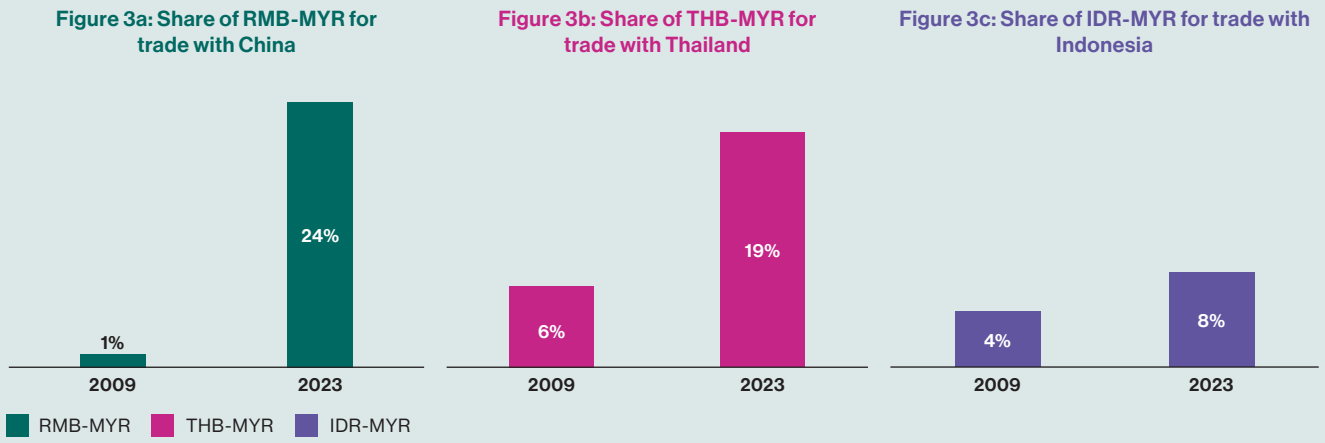
[5] Other initiatives includes bilateral currency swap arrangement agreement, Qualifying Foreign Institutional Investors (QFII) and direct ringgit-renminbi trading on China Foreign Exchange Trade System (CFETS) in 2009 and the Cross Border Collateral agreement (CBCA) in 2010.

[6] For further information on the LCSF with Thailand, please refer to Further Expansion of The Local Currency Settlement Framework Between Bank Negara Malaysia and the Bank of Thailand - Bank Negara Malaysia (https://www.bnm.gov.my/-/further-expansion-of-the-local-currency-settlement-framework-between-bank-negara-malaysia-and-the-bank-of-thailand).

[7] For further information on the LCSF with Indonesia, please refer to Expansion of Local Currency Settlement Framework between Bank Negara Malaysia and Bank Indonesia - Bank Negara Malaysia (https://www.bnm.gov.my/-/expansion-local-currency-settlement-framework-bnm-bi).

[8] Also known as the Appointed Cross-Currency Dealers (ACCDs).

Chart 3: Increasing Share of Local Currencies Used for Trade with Regional Countries



Source: Bank Negara Malaysia

competitive financial services for market players to settle their cross-border transactions in local currencies. Local currency settlements with Thailand and Indonesia have gained traction since the LCSF was established. Overall trade with Thailand settled in local currencies (the ringgit and Thai baht) has increased from 6.4% of trade settlement (RM1.9 billion) in 2009 to 18.6% of trade settlement (RM11 billion) in 2023 (Figure 3b). At the same time, trade with Indonesia settled in local currencies (the ringgit and Indonesian rupiah) grew from 4.5% of trade settlement (RM1.2 billion) in 2009 to 7.6% of trade settlement (RM5.9 billion) in 2023 (Figure 3c). Notwithstanding the progress achieved on this front, on 25 August 2023, BNM signed a Memorandum of Understanding (MoU) with BI and BOT to broaden the LCSF's scope to cover cross-border transactions beyond trade and direct investment activities such as portfolio investment.

In our pursuit of a more conducive ecosystem for promoting the use of local currencies, initiatives to address demand-side structural issues are equally important and would require a more coordinated approach with market players. Recently, BNM has stepped up engagements with stakeholders including the market players to better understand the operational challenges faced by companies. A common issue raised by most companies was the difficulty persuading clients to settle in local currency, particularly when this would require companies to reconfigure processes and systems.

The advancement of financial technology may also help to promote local currency within the region, especially for consumers. Of significance on this front is the establishment of cross-border payment linkages,[9] such as the ones with Indonesia, Singapore and Thailand for QR payments as well as person-to-person (P2P) fund transfer with Singapore. These initiatives not only promote efficiency in term of faster, cheaper, and more seamless cross-border payments, but also encourage greater usage of local currencies.

Moving forward, BNM and the Government will continue to encourage the use of local currencies for trade and investment. Priorities will include expanding local currency settlement and cross-border payment linkages with other countries in tandem with stepping up promotional efforts to increase awareness of market players on these initiatives. These efforts will provide an alternative avenue for companies and investors to better manage their exposure to movements of the exchange rate, reduce overdependence on US dollar, and ultimately, strengthen the region's financial resilience against external shocks.

[9] For further information, please refer to the 'Promoting Safe and Efficient Payment and Remittance Services' chapter.

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Promoting Financial Stability

Bank Negara Malaysia (BNM) is mandated to promote financial stability conducive to the sustainable growth of the economy. We discharge this mandate by ensuring that the financial system is resilient and can withstand shocks throughout the economic cycle. We do this by promoting strong and well-managed financial institutions and ensuring orderly financial markets. This also includes fostering safe and reliable clearing and settlement systems.

Financial Stability Priorities in 2023

The global economy continued to face a series of challenges in 2023. High interest rates amid elevated inflation, the US banking turmoil, and geopolitical tensions weighed on global growth during the year. In addition, the global technology downcycle, shifts in consumer spending from goods to services, and ongoing trade restrictions dampened global trade activity. Despite challenging global conditions, the Malaysian economy continued to expand, growing by 3.7% in 2023 (2022: 8.7%).

Against this backdrop, the Malaysian financial sector continued to perform its intermediation function effectively. While a number of banking failures in advanced economies during the first quarter of the year raised concerns on the resilience of banks and financial markets in other jurisdictions, its spillover effects to our domestic financial sector were limited. Malaysian banks were unaffected. The resilience of the domestic financial sector continued to be underpinned by well-capitalised financial institutions and strong risk management practices. The various developmental reforms pursued under the existing and previous iterations of the financial sector blueprint have also enhanced the capacity and dynamism of the financial sector to keep pace with emerging developments and capitalise on new opportunities in support of Malaysia's economic development.

In 2023, we continued to focus our regulatory and supervisory initiatives on the following areas -

- First, upholding strong risk management practices, governance and internal controls of financial institutions as key pillars of a sound financial system.
- Second, making further progress in aligning the domestic regulatory framework with global standards.
- Third, strengthening the resilience of financial institutions against climate-related risks, fraud risk and cyber threats.
- Fourth, promoting fair outcomes for financial consumers through responsible practices.

Regulatory Priorities

In 2023, we issued 11 key prudential and conduct policies (refer to Diagram 1). These policies aim to preserve the resilience of financial institutions against risk events, strengthen financial institutions' safety and soundness through prudent practices, promote ethical and professional behaviour of financial institutions to achieve fair consumer outcomes, and foster the adoption of global regulatory standards appropriate to domestic conditions.

Strengthening governance, risk management and conduct

During the year, we finalised the policy on Responsibility Mapping. The policy establishes requirements for financial institutions to strengthen individual accountability at the senior level. This forms an integral part of broader efforts to ensure that financial institutions are managing their compliance and business risks effectively across the organisation. This policy emphasises the importance of the tone-from-the-top to drive good culture and decision-making in financial institutions. In Islamic finance, we pioneered the development of a policy for Islamic financial institutions on the application of *Hajah* and *Darurah* in navigating

situations of hardship[1] where exceptions from Shariah principles are permitted. The policy promotes more consistent application of governance standards that comply with Shariah principles. Specifically for the insurance sector, we updated the policy on management of insurance funds, focusing on measures that would ensure strong internal controls and governance surrounding the rectification of deficits and withdrawal of surpluses in insurance funds to preserve the sustainability of such funds.

Drawing lessons from the global banking failures in 2023, we have also finalised and issued principles on sound liquidity management for banks. The principles serve to codify BNM's expectations on sound practices to manage liquidity risks for all banks, including strengthened requirements on monitoring funding concentrations and contingency funding plans. Further details on the broader initiatives to strengthen resilience to liquidity shocks in the financial sector can be found in the feature article 'The Imperatives for Strengthened Regulation and Supervision of Liquidity Risk in Malaysia' in BNM's Financial Stability Review: Second Half 2023.

We also took steps to enhance the market conduct requirements for financial institutions to reinforce their responsibilities to safeguard consumer interests, especially when dealing with vulnerable consumers. Further details on the requirements for vulnerable consumers can be found in the feature article on 'Personalising Financial Services: Promoting Fair Treatment of Vulnerable Consumers'. Amid more offerings of Buy Now Pay Later (BNPL) schemes, we also expanded the coverage of regulatory requirements applicable to Personal Financing to cover BNPL. This applies to financial institutions under BNM's purview where they are required to conduct reasonable affordability assessments to mitigate excessive borrowings by households. They are also required to comply with requirements relating to late payment charges. We also continued to raise standards of professionalism within the insurance and takaful intermediary sector through strengthened qualification criteria, alongside stronger expectations on corrective actions to be taken on those found to engage in improper practices.

Advancing the adoption of global regulatory standards

BNM continues to drive progress on Malaysia's adoption of the strengthened capital and liquidity regulations in the Basel III reform package[2]. This aims to ensure the continued strong resilience of the banking sector to cushion unexpected shocks by building buffers during good times (see Diagram 3 on 'Malaysia's progress in adopting Basel III reform' in BNM's Annual Report in 2022).

The focus during the year was to finalise the policy[3] on capital requirements relating to operational risk and exposure to central counterparties[4]. We are also finalising the Basel III capital requirements for credit risk and will issue the finalised policy in 2024. Similarly, for insurers and takaful operators, we completed a comprehensive review of the risk-based capital framework (RBCT) to ensure its continued effectiveness to address existing, new and emerging risks. We plan to consult the industry on the new RBCT in 2024.

Supervisory Priorities and Approach

BNM's approach to supervision is risk-based and forward-looking. We conduct on-site reviews and off-site information analysis to assess the risk profiles of financial institutions, and their ability to manage and respond to risk events from a continuously evolving operating environment. In 2023, we resumed the frequency of our on-site reviews which had been interrupted during the pandemic years. In addition, we continued to conduct more targeted reviews to complement our ongoing supervision. These reviews included assessing (i) the preparedness of banks to respond to and withstand crises through robust recovery and resolution planning; (ii) the robustness of AML/CFT-related policies and controls in financial institutions; and (iii) financial institutions' compliance with Shariah governance requirements.

[1] Hardship is a situation of unfavourable circumstances, severe adversity or intolerable levels of distress, arising from internal or external factors that require a person to resort to a different solution(s) which may permit an exception in applying existing Shariah principles or Shariah rulings, as set out in the Paragraph 8.1 of policy on *Hajah* and *Darurah*.

[2] Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS) in response to the financial crisis of 2007-09. The measures serve to increase the level and quality of regulatory capital, ensure that significant risks are properly captured, improve bank liquidity and prevent excessive leverage.

[3] The policy sets out standards and guidance for computation of risk-weighted assets which improves risk sensitivity as a measure to determine how much capital should be set aside.

[4] Central counterparties (CCPs) are financial institutions that provide clearing and settlement services for trades in foreign exchange, securities, options and derivative contracts.

Diagram 1: Key Policy Issuances and Updates in 2023

Promote alignment to global standards

Continued progress on the implementation of Basel III reforms

Operational Risk
Sets out standards and guidance to calculate operational risk-weighted assets under Basel III capital standards.

Exposures to Central Counterparties
Sets out requirements to manage risks arising from financial institutions' exposure to central counterparties, in its capacity as clearing member or its client.

Strengthen standards on risk management, governance and internal controls

Ensure financial institutions accord greater focus and alignment on management of risks

Liquidity Risk ED
Strengthens standards to address liquidity risk, proportionate to the size of exposures and business activities.
- √ Assess their exposures to liquidity risk effectively.
- √ Take appropriate measures to address their liquidity needs.

Management of Participating Business
Outlines the roles and responsibilities of the board, senior management and appointed actuary to manage participating life business effectively.
- √ Sets out requirements to promote sustainability of the business, with adequate disclosures to policy owners.

Management of Insurance Funds
Sets out requirements on appropriate segregation of insurance funds, proper attribution of assets and liabilities in insurance funds, robust controls over withdrawals from insurance funds, and maintenance of proper records of policies and claims.

Hajah and _Darurah_
Ensures compliance to Shariah principles through operational requirements and expectations on application of *hajah* and *darurah*.
- √ Outlines the definitions, preconditions, scope of prohibited application and parameters.
- √ Outlines the operational requirements and guidance in facilitating Shariah deliberations and decision-making.

Responsibility Mapping
Clarifies accountability of key responsible persons in senior leadership positions in financial institutions and their principal roles and responsibilities.
- √ Ensures responsibilities are clearly allocated to senior management.
- √ Encourages consideration whether the allocation of responsibility is compatible with effective risk management practices.

Enhance business conduct standards

Elevate professionalism of intermediaries and introduce business conduct safeguards to promote fair outcomes to financial consumers

Management of Customer Information and Permitted Disclosures
- √ Enhances public trust and customer information security by introducing new disclosure requirements based on customer's consent.
- √ Outlines expectations relating to measures and controls in handling customer information, throughout the information lifecycle.

Personal Financing
Promotes prudent and responsible financing practices for personal financing, while encouraging responsible borrowing behaviours by financial consumers. This includes Buy Now Pay Later (BNPL) products.

Fair Treatment of Vulnerable Consumers ED
Provides adequate protection for vulnerable consumers by ensuring that they are treated fairly and equitably, and provided with the appropriate assistance.
- √ Promotes culture for considering and responding to the interests and needs of vulnerable consumers appropriately.
- √ Sets out requirements and expectations to ensure support provided to vulnerable consumers are consistent with fair treatment outcomes.

Professionalism of Insurance and Takaful Agents
Elevates capability and integrity of insurance and takaful intermediaries through professional standards.
- √ Requires insurers and takaful operators to ensure agents are competent, qualified and act professionally in the best interest of customers at all times.
- √ Improves public confidence in the integrity of insurers and takaful operators' agency workforce.

Source: Bank Negara Malaysia

We also conducted reviews on the readiness of newly licensed digital banks to commence their operations. These evaluations covered digital banks' governance structures, and risk management policies and controls with a particular focus on their ability to meet the higher expectations in managing technology and operational risks. We also reviewed how the digital banks would execute the strategies committed under their business plans to close market gaps in the unserved and underserved segments. Importance was also placed on ensuring that countermeasures against fraud were in place to protect the interest of the digital banks' customers.

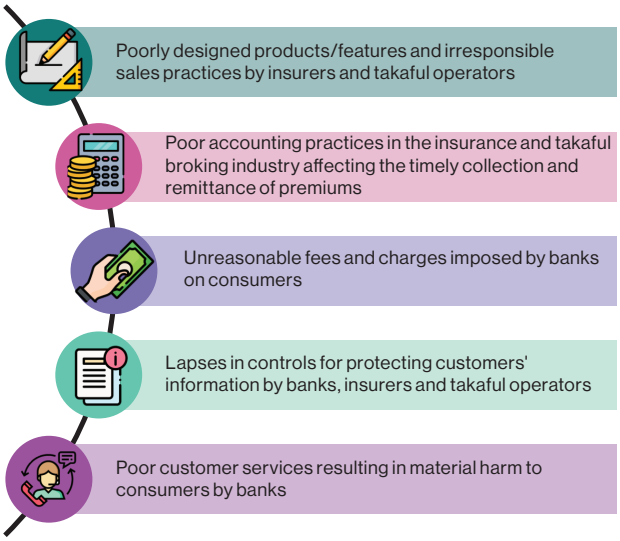
Another key supervisory focus was on financial institutions' progress in implementing the requirements in the Climate Change and Principle-based Taxonomy (CCPT). The CCPT is a framework that guides financial institutions to identify and categorise economic activities that contribute to climate resilience. In 2023, BNM together with industry representatives in the CCPT Implementation Group[5] continued to work towards improving the consistent application of the CCPT classification system. Efforts were taken to develop more granular criteria and information that can be used by financial institutions to conduct climate-related due diligence assessments on customers. The aim is to support the effective assessment and management of climate-related risks and encourage financial flows towards environmentally sustainable economic activities.

Promoting fair outcomes for financial consumers

The focus of BNM's supervisory activities on market conduct in 2023 was directed at five key conduct risks (Diagram 2).

In promoting fair outcomes to consumers, we continued to take action against unjustified fees imposed by banks. The banks were ordered to cease the unjustified fees and provide restitution to affected customers where relevant. We also introduced requirements for banks to standardise certain generic terms and conditions in their housing loan/financing agreements. Standardisation in how these terms and conditions are expressed in agreements aims to help consumers better understand their legal rights and obligations under the agreements.

Diagram 2: Key Conduct Risks in 2023



Source: Bank Negara Malaysia

In relation to the targeted repayment assistance (TRA) introduced during the COVID-19 pandemic, we reviewed how banks were meeting expectations to proactively re-engage their customers to revise the terms of their loan agreements when their financial conditions improved. In the insurance and takaful sector, we assessed motor policies and product disclosure sheets to ensure the terms around the choice of repairers that policyholders can send their vehicles to is made clearer to policyholders. We also reviewed practices by insurance intermediaries to ensure appropriate handling of premium monies received from customers. For financial institutions that failed to meet the expected standards of fair conduct, we took firm actions against them. Further details on the actions taken can be found in the section 'Supervisory and Enforcement Actions'.

BNM continued to maintain a strong focus on the effectiveness of financial institutions' controls to safeguard their customer's information. Measures being taken by financial institutions to further strengthen their cyber resilience and controls around the management of third-party service providers will contribute towards ensuring the protection of confidential information. Further details on cyber resilience can be found in the section on 'Cyber resilience and combating financial fraud' and the chapter on 'Operational Risk' in BNM's Financial Stability Review: Second Half 2023. We will continue to monitor progress made by financial institutions on this front as part of our ongoing supervisory activities.

[5] CCPT Implementation Group serves as a collaborative platform for financial industry players to share knowledge, experiences and common issues to CCPT implementation. It was established under the purview of JC3 represented by members of domestic and foreign financial institutions, including banks, insurers, takaful operators as well as asset management companies.

Cyber resilience and combating financial fraud

As technological advancements continue to take place at an unprecedented pace, BNM expects financial institutions to continuously manage the attendant risks that may threaten financial stability, consumer outcomes and confidence in the financial sector. Preserving operational and cyber resilience remains a key priority for us and financial institutions.

To step up the resilience against fraud, we announced the requirement for financial institutions to implement five key fraud countermeasures and a kill-switch capability in September 2022 (Diagram 3). Most banks have fully implemented the six countermeasures.

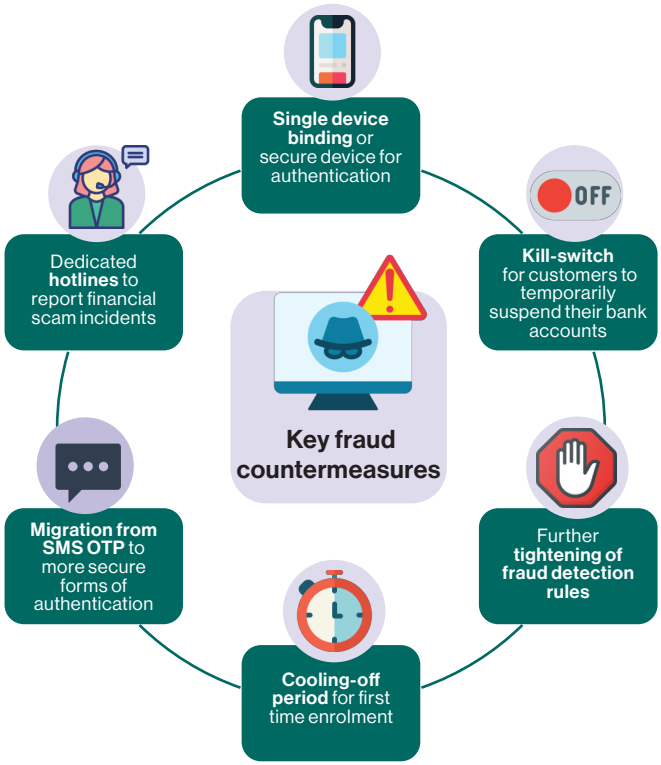
We continued to work closely with financial institutions to ramp up other safeguards to combat financial fraud. We intensified efforts to educate customers on scam tactics and how to protect themselves against fraud attempts. We issued FAQs to further assist in the operationalisation of the fraud countermeasures. Financial institutions were also required to conduct independent validation reviews to assess the robustness of their controls on fraud detection and management, and effectiveness of their fraud countermeasures. Additionally, some banks were required to appoint a senior independent director to oversee the bank's management of fraud and data breach incidents, coordination with the National Scam Report Centre (NSRC), as well as the communication strategy of the bank with its customers, affected victims and the public. These efforts have contributed to a marked reduction in cases of unauthorised online banking fraud as reported to the NSRC. Further details on NSRC can be found in the chapter on 'Maintaining Financial Integrity'.

Engagement with other regulators and supervisors

BNM continued to cooperate closely with our international counterparts on the oversight of financial institutions that have cross-border operations. We participated in 17 supervisory colleges in 2023 organised by home regulators of locally-incorporated foreign banks, insurers and takaful operators (including one reinsurer). The supervisory colleges provided a platform for supervisors and regulators to share and exchange views on industry and market developments, emerging risk areas and supervisory priorities.

We also continued to actively participate in international forums and committees. We are an observer and member of the Basel Committee on Banking Supervision (BCBS)

Diagram 3: Key Fraud Countermeasures



Source: Bank Negara Malaysia

and Basel Consultative Group respectively, supporting the committee's broader outreach and engagements on international prudential standards. We also participated in the review of the Basel Core Principles[6] which has been finalised recently. We continued to contribute to the development of global insurance standards through our representation in the International Association of Insurance Supervisors (IAIS) Executive Committee, Policy Development Committee and various sub-committees including the Supervisory Forum. These engagements have also informed our own regulatory requirements, supervisory frameworks and practices to ensure they remain effective, responsive and aligned with international best practices. At the regional level, our participation in the central bank platforms such as the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and the Association of Southeast Asian Nations (ASEAN) helped in strengthening our cooperation with other central banks on monetary and financial stability issues and to advance our strategic priority areas through constructive policy dialogues. Further information on our role in the international and regional communities can be found in the chapter on 'International Engagements'.

We continued to actively engage in cyber information sharing initiatives at regional platforms such as the ASEAN Cybersecurity Risk Information Sharing Program (CRISP), as well as collaboration with other key regulators and international organisations. Additionally, we further strengthened bilateral strategic collaboration with relevant regulatory authorities within the ASEAN region, to facilitate the sharing of cyber threat intelligence (CTI).

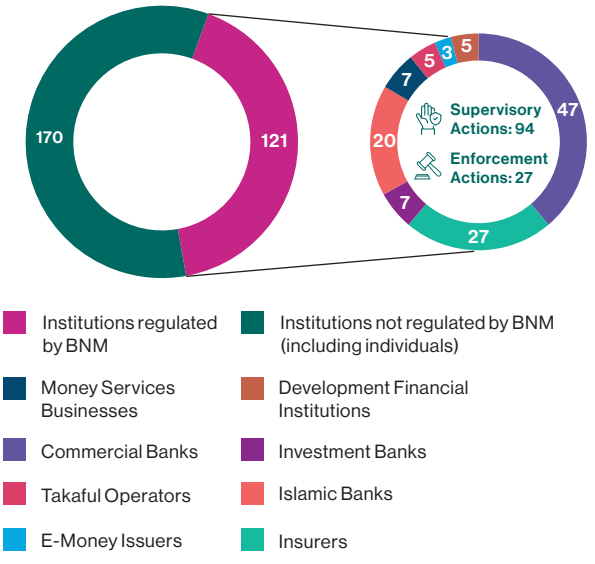
Supervisory and Enforcement Actions

BNM employs a range of supervisory and enforcement actions to promote compliance, good governance and sound risk management practices among financial institutions. The types of actions taken against financial institutions are based on the severity of breaches. Supervisory actions such as reprimands and directives are preventive and corrective in nature. We take these actions to ensure financial institutions rectify gaps and establish strong compliance frameworks and processes. Enforcement actions such as administrative penalties and compounds are more likely to be pursued in cases of material regulatory breaches. These include breaches involving elements of criminal misconduct, recurring and unresolved risk management and control deficiencies, and consumer conduct breaches that have adverse consequences on public interest.

In 2023, our enforcement approach continued to support positive changes in the risk and compliance culture of financial institutions. A total of 291 supervisory and enforcement actions were taken on financial institutions (see Chart 1). Details of enforcement actions by BNM are published on our website to deter future misconduct.

BNM continued to take strong enforcement actions against illegal deposit-taking and remittance activities that can pose significant financial risks to the public and facilitate criminal activity. We issued nine cease and desist orders against illegal money services business (MSB) operators and opened three Investigation Papers. We also forfeited assets from illegal activities, amounting to RM11 million. For breaches of the Money Services Business Act 2011 and Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001, we secured convictions against 11 illegal MSB operators with a total fine of RM570,000. In addition, we also secured convictions with a fine of RM15,000 on an individual for breaches of customers' information under the Financial Services Act 2013.

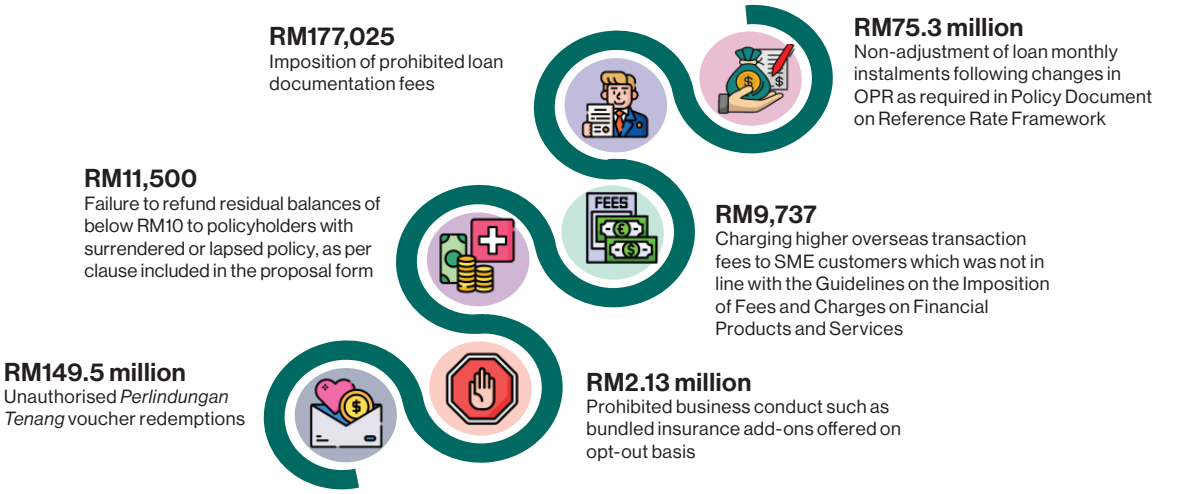
Chart 1: Number of Actions Taken by Type of Institutions in 2023



Source: Bank Negara Malaysia

[6] The Basel Core Principles are a comprehensive standard for establishing a sound foundation for the regulation, supervision, governance and risk management of the banking sector.

Diagram 4: Refund and Reinstatement Arising from Non-compliances to Business Conduct Requirements in 2023



Source: Bank Negara Malaysia

BNM has also taken preventive measures to disrupt and dismantle schemes or entities that are potentially involved in illegal activities. These include listing in Financial Consumer Alert, case disclosures to other relevant law enforcement agencies, referrals of cases to domestic and international counterparts, blocking of website and social media accounts, as well as public awareness campaigns.

As part of supervisory actions taken by BNM in relation to consumer conduct breaches, we secured restitution amounting to more than RM227 million for 2.4 million financial consumers (summarised in Diagram 4). We took punitive actions against insurance and takaful brokers, and financial advisers that failed to meet acceptable standards of professionalism. These actions included imposing shorter renewal periods for their approved business, issuing stop business orders and rejecting applications for renewal of approval. We also issued specific directives, requiring corrective measures to be taken by these intermediaries to raise standards in the quality of advice and fair dealings.

Going Forward

The financial landscape continues to evolve, driven by greater digitalisation of financial services, climate change and demographic shifts. Against this backdrop, BNM is committed to ensure the financial system is resilient and well-positioned to support economic activity.

- We will continue to maintain a strong focus on financial institutions' governance, Shariah and risk management practices, while further strengthening our domestic regulatory framework in line with international standards.
- We will intensify efforts to protect the integrity of the financial system and prevent its abuse, including through strong enforcement actions and collaborations with other enforcement agencies to combat fraud risks and financial scams.
- We will work to preserve strong incentives for financial institutions to ensure fair treatment of consumers through timely and proportionate conduct policy and supervisory interventions.
- We will continue to advance efforts to enhance the industry's capacity and preparedness to manage climate-related risks, and to support an orderly transition towards a greener and more sustainable economy. This will include better integration of climate risk considerations into our regulatory and supervisory frameworks.
- We will strive to promote a regulatory environment that is responsive to technological innovation, including developments in AI, while ensuring the related financial, strategic and operational risks are well-understood and managed.

Personalising Financial Services: Promoting Fair Treatment of Vulnerable Consumers

A progressive and inclusive financial system is characterised by the presence of financial institutions that are responsive to the needs of financial consumers. Bank Negara Malaysia's (BNM) mandate includes regulating the business conduct of financial institutions to engender trust and confidence in the financial system. BNM promotes fair treatment of consumers, including vulnerable consumers by strengthening business conduct standards on financial institutions to better respond to their needs.

Any person may experience or go through vulnerable circumstances at some point in their lives due to unavoidable or unpredictable life events. Vulnerable consumers may face greater constraints in their ability to act in their own best interests and hence, face higher risks in their capability to respond to such events. BNM expects financial institutions to exercise greater care when they are dealing with vulnerable consumers and to respond to their specific needs appropriately. The introduction of additional requirements for financial institutions to ensure their products, services and delivery channels can better meet the needs of vulnerable consumers aims to reduce the likelihood of unfair treatment or exclusion from essential financial services.

Types of Consumer Vulnerabilities

The circumstances that can contribute to vulnerability covers a wide spectrum that can arise from factors such as health issues, medical conditions, level of income and savings, life events, level of education and financial capability as well as age. A combination of these factors, such as having a low level of financial literacy and low financial resilience can also amplify vulnerabilities for some consumers, making them less able to cope with their financial circumstances. This is also true when significant life events affect a consumer at the same time. For example, experiencing a serious illness or injury after an accident or job retrenchment. Consumers experiencing such vulnerabilities often face constraints in making informed financial decisions and may not be able to fully benefit from financial development and innovations such as the use of digital financial services.

Diagram 1: Consumers in Vulnerable Circumstances

Challenges in access

- Faces challenges in accessing financial services or requires assistance to engage with financial services.
- Example: individuals with disabilities or senior citizens who need assistance to use digital financial services.

Low financial resilience

- Have limited capacity to withstand financial shocks.
- Example: individuals who are highly indebted or have little or no savings.

Adverse life events

- Experiencing or have experienced temporary or long-term financial hardship due to adverse life events such as job loss, natural disaster, the death or total permanent disability of the main breadwinner.

Limited financial skills

- Have limited understanding on financial matters, poor language skills or limited digital skills.
- Example: individuals who have low financial skills, who are illiterate, or who are not conversant in Bahasa Malaysia or English.

Source: Bank Negara Malaysia

Anticipated Outcomes of the New Measures for Consumers

With the introduction of new measures on fair treatment of vulnerable consumers in the existing Policy Document on Fair Treatment of Financial Consumers, financial institutions are required to consider the specific circumstances of vulnerable consumers and how to address the issues they may face. The board of directors and senior management of financial institutions are expected to ensure reasonable standards of fair dealing that are informed by a better understanding and consideration of the needs of vulnerable consumers. This in turn must be supported by appropriate policies and processes to deliver improved customer experiences for such consumers. The measures also serve to ensure that consumers are provided with relevant information on actions they can take to receive the assistance and support appropriate to their needs should they encounter a sudden change in their financial circumstances.

The examples below illustrate how vulnerable consumers may be assisted by staff who are equipped with appropriate training to recognise, assess and respond to signs of vulnerability. This would reduce the likelihood of vulnerable consumers making poor financial decisions that may have detrimental implications on their financial well-being.

Mr. Tan is a retiree with no regular income. He went to the bank to close his fixed deposit account. Based on the recommendation of a friend, he wanted to place his entire savings in a high-risk investment product which promised higher returns compared to fixed deposits. The staff explained the risks involved in the language and manner he can understand. The staff alerted him on the possibility that he might make losses on his investment and advised him to reconsider if it was safer to keep his money in low risk investments such as fixed deposit or a money market fund.

Loga is a deaf consumer but holds a steady job with a good income. He cannot read and understand English and Bahasa Malaysia well. He went to the branch to sign his housing loan agreement. When prompted by the branch staff to read the agreement before signing, he did not respond. The staff who has been trained to identify consumer vulnerability sensed that he has hearing disabilities. The staff took the time to explain the key terms to him using simple written notes and visual aids. Loga was able to understand his rights and obligations prior to signing up for his housing loan.

It is important for all consumers to have easy access to information on whom they can contact if they need assistance or advice from financial institutions in managing their financial obligations in the event that they encounter a sudden change in their circumstances. As vulnerable consumers may have different communication needs, financial institutions are expected to provide a range of communication channels. This would enable vulnerable consumers to better convey their needs through a channel they find most convenient and are comfortable with as illustrated in the example below. Financial institutions are also required to regularly test the effectiveness of channels used to communicate important information to vulnerable consumers. Financial institutions' customer service processes should hold their staff to standards that emphasise treating vulnerable consumers with sensitivity and respect, with appropriate flexibility provided for staff to deliver tailored responses where necessary to alleviate genuine financial hardship. This would enable such consumers to better cope with challenging life events and avoid further financial distress.

Sheila was recently diagnosed with cancer and required hospitalisation. She wanted to make a claim on her critical illness insurance policy. She needed to contact her insurer by phone given her situation. When she called, the customer service officer enquired about her diagnosis, was able to understand her needs and helped to email the relevant forms that she needed to complete to make a claim. Sheila's claim was promptly processed. The staff also informed her of other digital channels which Sheila could use should she need to contact the insurer again.

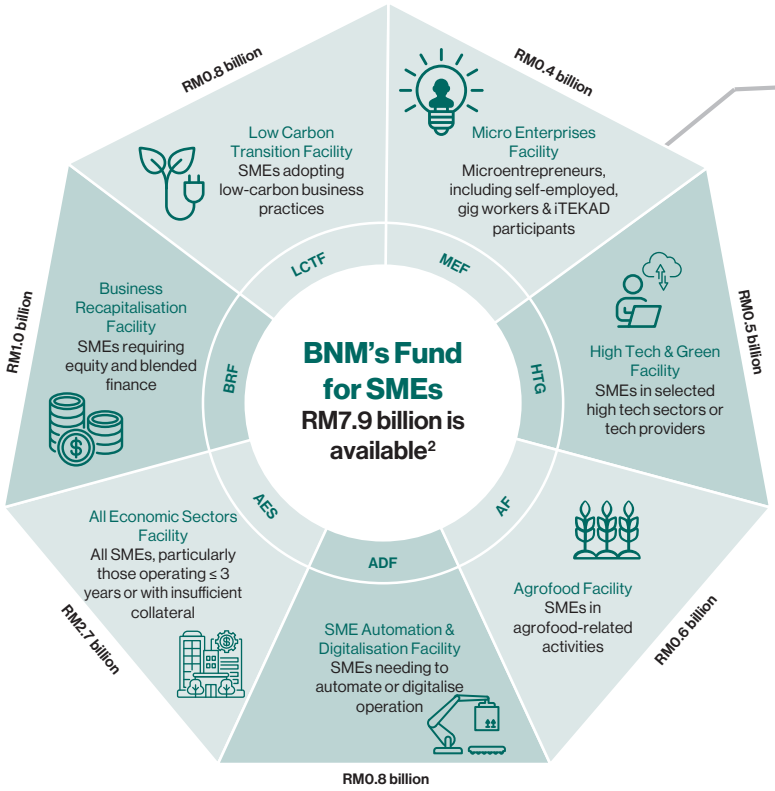
The new measures will come into effect in 2025 after a period of transition for financial institutions to comprehensively review and enhance their current policies and processes. While BNM strives to lift overall standards of fair dealing that financial institutions are expected to meet, BNM remains focused on intensifying financial education initiatives to help consumers to make better financial choices as the strongest form of protection against consumer harm.

Promoting a Progressive and Inclusive Financial System

One of the key mandates of Bank Negara Malaysia (BNM) is to promote the development of a progressive and inclusive financial system for the Malaysian economy.

Two years into the Financial Sector Blueprint (FSBP) 2022–26, financial development priorities remain anchored on supporting intermediation function for sustainable and inclusive growth, strengthening ecosystem enablers and driving longer-term reforms. In 2023, BNM continued to prioritise efforts to ensure financial intermediation activities continue to support the economic transformation agenda and assist businesses, especially micro, small and medium enterprises (MSMEs) to build business resilience and transition to green practices. Significant efforts were also directed at enhancing the financial capability of Malaysians and closing the remaining hurdles to financial inclusion. In addition, efforts were geared towards supporting a vibrant digital financial services landscape that promotes responsible innovations with strong value propositions. Chapters that follow elaborate on other key efforts and progress in facilitating an orderly transition to a greener economy and in advancing value-based finance through Islamic finance thought leadership.

Diagram 1: Active Facilities[1] under BNM's Fund for SMEs to Support SMEs in Targeted Segments



Under **Budget 2024**, RM600 million from selected facilities under BNM's Fund for SMEs has been earmarked for specific target segments:

1. Micro Enterprises Facility
   Additional RM200 million
   including RM50 million for low-income microentrepreneurs under iTEKAD programmes
2. Agrofood Facility
   RM100 million
   to support the national food security agenda
3. Low Carbon Transition Facility
   RM100 million
   to incentivise SMEs to obtain sustainability and green certification
4. All Economic Sectors Facility
   RM200 million
   to catalyse the provision of CAKNA II, a contract financing facility for small contractors (G1-G4) awarded government projects valued up to RM1.5 million

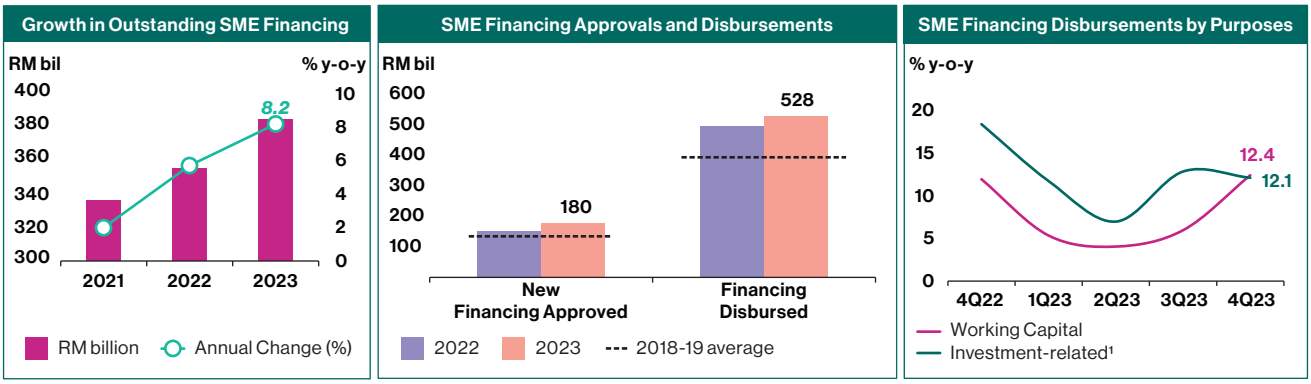
Further information available at:
https://www.bnm.gov.my/-/msme-budget24-bm

[1] Other active facilities under BNM's Fund for SMEs are intended for relief purposes:
i) **Disaster Relief Facility (DRF)** to assist MSMEs affected by floods (Allocation: RM500 million)
ii) **PENJANA Tourism Financing (PTF)** to support SMEs in tourism sector (Allocation: RM600 million)

[2] Total balance as at end-December 2023, including for the relief facilities (see footnote 1 above).

Source: Bank Negara Malaysia

Chart 1: Performance of SME Financing



[1] Investment-related purpose includes financing for the purchase of non-residential properties, residential properties for business use, fixed assets (incl. cars) and construction activity.
Note: Reflects financing from the banking system and development financial institutions (DFIs).

Source: Bank Negara Malaysia

Ensuring Continuous Access to Finance for SMEs

In 2023, credit conditions remained supportive of financing needs by businesses. For SMEs in particular, outstanding financing grew by 8.2% as at end-2023 (end-2022: 5.7%). A total of RM528 billion in funds were disbursed to SMEs in 2023 (2022: RM496 billion), which is almost 40% higher than pre-pandemic levels (average 2018–19: RM377 billion). These financing activities were mainly for working capital purposes, reflecting improved business activity. Similarly, SME financing continued to grow with over RM180 billion in new financing approved for more than 235,000 SME accounts (2022: RM150 billion for nearly 231,000 accounts). These include financing the purchases of commercial properties and funding of construction activity. In 2023, we realigned BNM's Fund for SMEs to further encourage the crowding-in of private financing into identified new growth areas, including activities that support the transition towards a greener, low-carbon future. Subsequently, financial institutions have contributed support to National Investment Aspirations[1] (NIA) initiatives as evidenced by accelerated growth of SME outstanding financing in strategic sectors. The 2023 growth rate of 23% for these sectors outpaced the growth rate in previous years (end-2022: 7.2 %; end-2021: 7.6%). The observed trend was mainly driven by higher financing to Information and Communications Technology (ICT) and chemical and pharmaceutical sub-sectors. While SME financing is primarily funded by banks and development financial institutions (DFIs),[2] BNM's Fund provided a complementary source of financing to SMEs. More than RM7.9 billion under the BNM's Fund remained available for further utilisation as of December 2023, from the total allocation of RM32.4 billion since the COVID-19 pandemic. Nevertheless, the total allocation under BNM's Fund accounts for only 8% of total outstanding financing to SMEs, in line with its intended role to crowd-in financing by banks to the unserved and underserved segments.

Social finance continued to show promise as a credible solution to support the financing needs of the unserved and underserved segments. In 2023, the iTEKAD initiative, which incorporates key elements of social finance for microentrepreneurs, continued to gain traction (Diagram 2).

The feature article on 'iTEKAD: An Ecosystem Approach in Scaling Up Social Finance' provides more information on this approach.

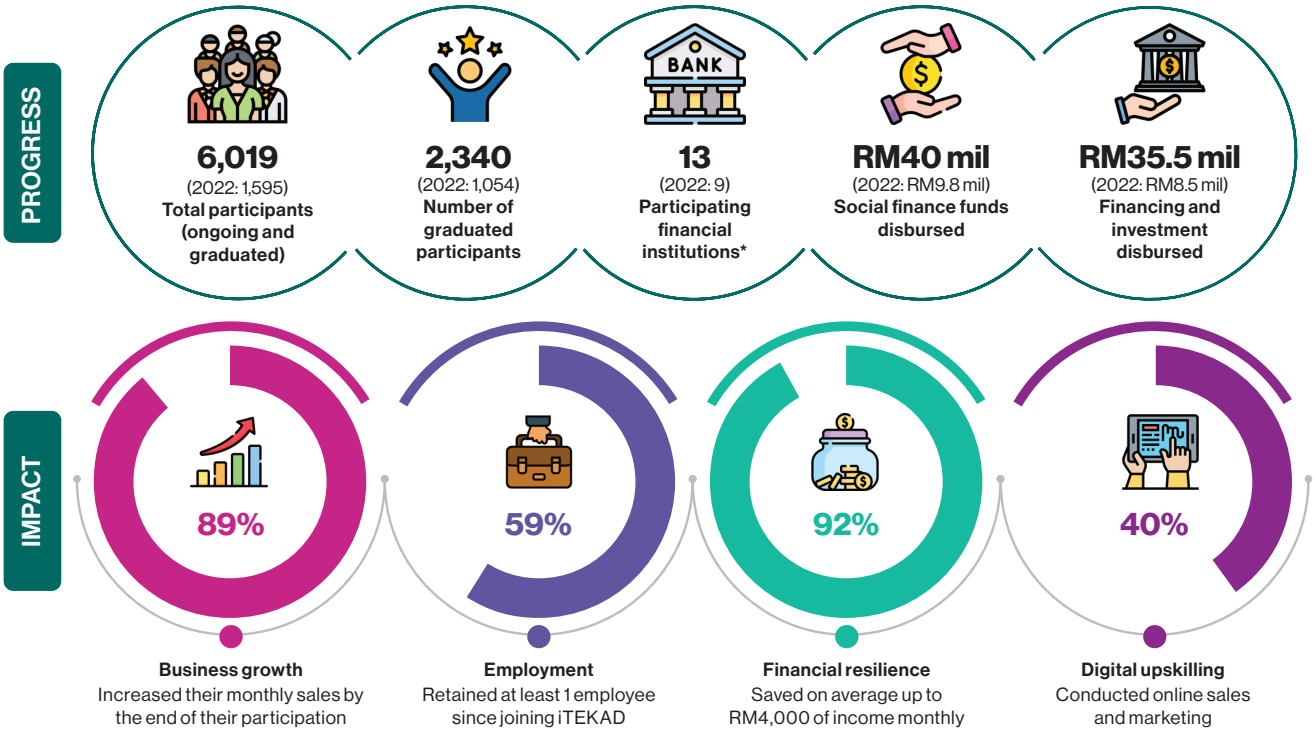
DFIs as key enablers to enhance inclusivity and access to financing

In 2023, DFIs continued to complement the banking system in financing underserved sectors and segments.

[1] NIA refer to overarching strategic developmental objectives to increase economic complexity, create high-value jobs, extend domestic industry linkages and develop new and existing clusters. Strategic sectors deemed to be aligned with the NIA include the manufacturing of electrical and electronic products, chemicals, medical devices and pharmaceuticals, machinery and equipment and transport equipment (e.g. aerospace); information and communication technology; research and development; and higher education.

[2] DFIs prescribed under the Development Financial Institution Act 2002 are Bank Kerjasama Rakyat Malaysia (Bank Rakyat), Bank Pertanian Malaysia Berhad (Agrobank), Bank Simpanan Nasional (BSN), Bank Pembangunan Malaysia Berhad, Export-Import Bank of Malaysia Berhad and Small Medium Enterprise Development Bank Malaysia Berhad.

Diagram 2: Progress and Impact of iTEKAD in 2023



*As at February 2024

Note: Impact figures are derived from sample of participants who have completed iTEKAD programmes i.e. graduated participants.

Source: Bank Negara Malaysia

DFIs play a crucial role to support key strategic sectors in the economy. In 2023, DFIs continued to complement the banking system in financing underserved sectors and segments. Outstanding DFI financing grew by 5.9% to RM173.4 billion (2022: 1.3% to RM163.8 billion), while financing to mandated sectors[3] grew by 12.5%, benefitting more than 176,000 businesses. New financing approved by DFIs saw a notable increase of 38.2% (2022: 7.2%), reaching more than 740,000 low-income borrowers and 30,000 SMEs including start-ups and

Diagram 3: DFIs' Achievements in Additionality Creation in 2023

FINANCIAL ADDITIONALITY
DFIs' intermediation towards mandated segments and other services to narrow financing and inclusion gaps

Financing approved
RM45 billion
(38% y-o-y growth)

- **Infrastructure** RM4.4 billion
- **MSMEs** RM5.1 billion
- **Export** RM1.7 billion
- **Cooperatives** RM650 million
- **Agriculture** RM742 million
- **B40** RM23 billion

32,000 Underserved businesses are financed by DFIs

Half of iTEKAD participants are served by DFIs

87% Microfinance borrowers are served by DFIs[1]

83% Mobile bank units are contributed by DFIs

40% Mukims are solely served by DFIs

944k Individuals reached through financial literacy programs *(including youths and low-income workers)*

33k Businesses helped by capacity building programs

DESIGN ADDITIONALITY
DFIs' contribution to positive customers' growth beyond financing

10,000 businesses achieved income growth

2,900 businesses achieved upward migration[2]

125,000 jobs newly created or sustained

DEMONSTRATION ADDITIONALITY
DFIs crowded-in private sector to support underserved segments[3]

RM2 bil Funding crowded-in from private sector

25 projects financed for sustainable waste management, biogas energy & maritime, among others

POLICY ADDITIONALITY
DFIs advised the Government to support the rollout of novel products[3]

DFIs proactively advocated for the Government to support the mainstreaming of **social enterprises**.

DFIs successfully advocated for the Government to allocate funds to **digitalise hawkers** and build financial management capabilities.

DFIs supported pandemic-affected SMEs by advocating for the Government to support the roll-out of the first **equity financing** scheme in Malaysia.

[1] Based on numbers of accounts under Skim Pembiayaan Mikro (SPM).
[2] Upward migrations: informal to formal, micro → small → medium → large improvement in credit rating.
[3] Since 2021.

Source: Bank Negara Malaysia

[3] MSMEs, agriculture, cooperatives, export and infrastructure.

The World Bank, BNM and the Association of Development Financial Institutions Malaysia (ADFIM) collaborated to host the 'Green Finance Forum for DFIs'.

Diagram 4: Success Stories from Financing by DFIs

1 Support Malaysia's 2050 net-zero carbon vision
DFIs are actively supporting emerging green-tech companies. This includes financing companies involved in Southeast Asia's first hydrogen-powered transit system in Sarawak, pioneering circular economy practices - world's first ocean plastic recycling programme and promoting smart farming through Artificial Intelligence and hydroponics to minimise resource usage.

2 Encouraging social entrepreneurship in line with environmental, social and governance (ESG) goals
DFIs played a leading role in supporting social enterprises (SEs) in line with the Government's aspirations under Social Entrepreneurship Action Framework 2030 or *SEMy2030* by pioneering dedicated financing products in the industry aimed at developing SEs. The program is complemented by a dedicated capacity building programme intended to increase the number of basic and accredited SEs.

3 Equity financing to bridge gap in funding to the unserved and underserved
DFIs continue to provide equity financing to support innovative firms and highly leveraged businesses that may otherwise be unable to access conventional financing. This innovative approach is coupled with mandatory training and advisory support during the investment stage, aimed at steering the business towards enhanced bankability and a healthier capital structure.

Source: Bank Negara Malaysia and ADFIM

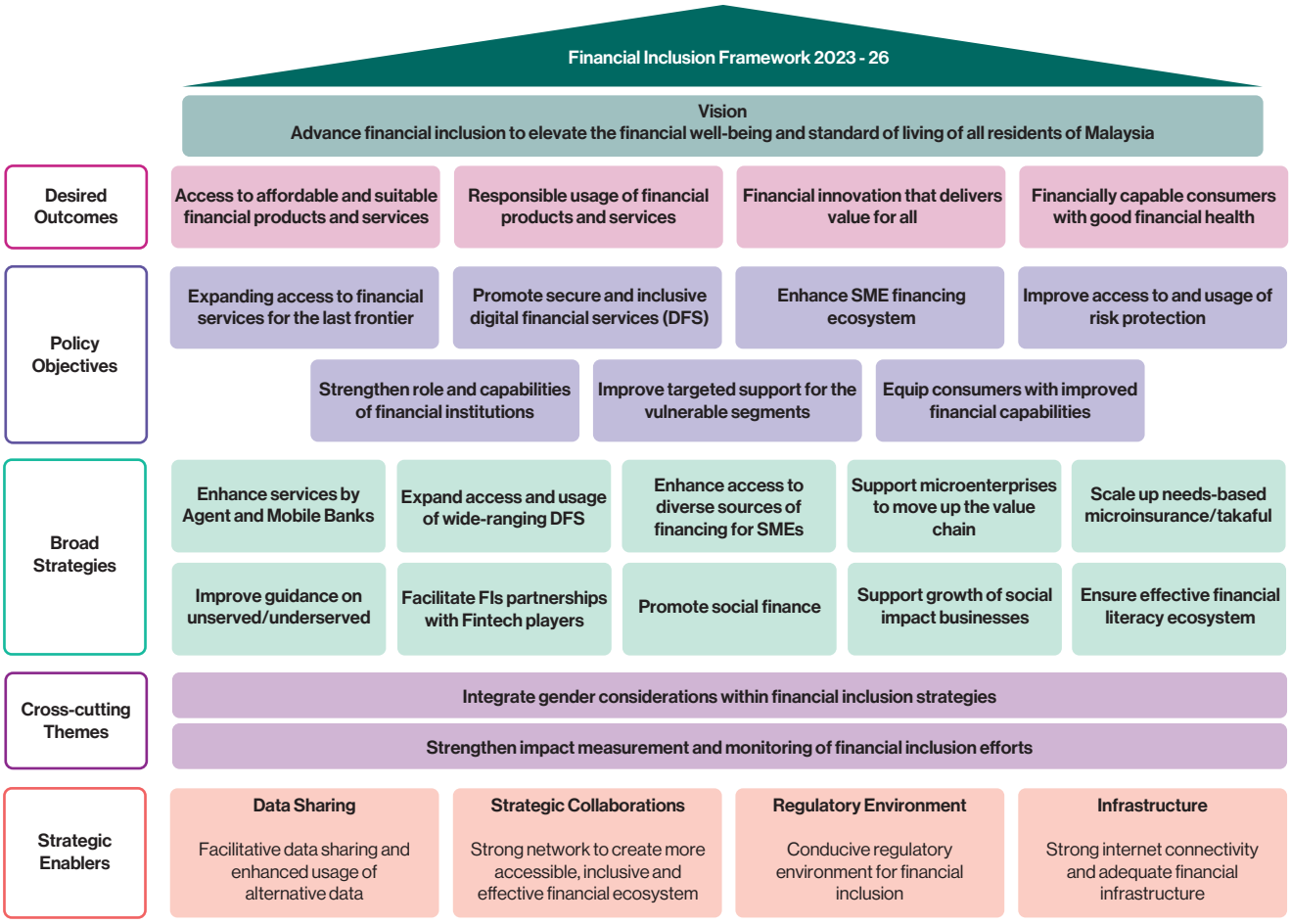
first-time borrowers. DFIs also remain as the main credit provider for microenterprises, constituting 87% of total microfinance accounts. Supported by financing from DFIs, over 10,000 businesses achieved higher turnover and around 2,900 businesses expanded their operations, creating and retaining an estimated 125,000 jobs for the economy in 2023.

The Performance Measurement Framework (PMF) introduced in 2018 helps BNM to track the progress, impact and effectiveness of DFIs and alignment with their developmental mandate. In 2023, DFIs continued to narrow financing and inclusion gaps and contribute to positive socioeconomic outcomes (Diagram 3).

As the PMF matures, BNM expects DFIs to also drive strategic outcomes on sustainability. Specifically, we look to have more DFIs pioneering innovative green finance solutions with a particular focus on mandated segments such as SMEs, green technology and agribusinesses. In 2023, BNM, the World Bank and ADFIM collaborated to host the Green Finance Forum in June 2023.[4] The forum was aimed to strengthen DFIs' familiarity and expertise on green finance. As part of the outcome arising from the forum, DFIs have shown commitments to advance this agenda (Diagram 4). This includes supporting innovative green projects such as Malaysia's first hydrogen-powered transit system, the world's first ocean plastic recycling system and

[4] More information on the highlight and takeaways of 'Green Finance Forum for DFIs' are available at forum report (adfim.com.my).

Diagram 5: The Financial Inclusion Framework (2023–26) at a Glance



Source: Bank Negara Malaysia

smart farming through Artificial Intelligence (AI) and hydroponics to minimise resource usage.

Enhancing Financial Inclusion and Access to Financial Products and Services

Advancing financial inclusion strategies

Advancing financial inclusion is pivotal to enhance the overall financial well-being of all Malaysians. This is to ensure that households and businesses can adapt to the evolving financial landscape and consequently, cultivate greater financial resilience to withstand economic fluctuations. The first Financial Inclusion Framework (2011–20) laid a solid foundation to expand the access to and provision of financial services. Today, almost every Malaysian has physical access to financial services within close proximity as a result of efforts over the years to expand the coverage of financial access points, especially outside major towns across the country.

The second Financial Inclusion Framework 2023–26 (FIF)[5] was published in June 2023, and serves as a strategic roadmap to further advance financial inclusion. Recognising the growing complexity and dynamism of the financial landscape, the FIF shifts the focus from accessibility to pursuing broader development outcomes. It sets a clear vision, desired outcomes, policy objectives and strategies to elevate the financial well-being and enhance the standard of living of all Malaysians (Diagram 5).

Importantly, the FIF is designed to build financial resilience and improve overall well-being. It has a strong focus to ensure Malaysians can participate meaningfully in the financial system. This is achieved in part by spurring innovation, fostering a wider array of financial choices for consumers, especially those in vulnerable segments. The FIF also outlines strategies aimed at promoting

[5] The Financial Inclusion Framework (2023–26) Strategy Paper is available at https://www.bnm.gov.my/documents/20124/55792/SP-2nd-fin-incl-framework.pdf.

secure and inclusive digital financial services, as well as improving financial risk protection for SMEs and households. To ensure the financial industry's efforts are well-aligned and effective, the FIF provides guidance on defining the financially unserved and underserved.

Enhancing financial access points

Presently, agent banks and mobile banks are the primary sources of access to financial products and services for the underserved communities (Diagram 6). The range of financial products and services offered by agent banks[6] is now expanded to better meet the needs of customers.[7]

The Bank Bergerak Initiative (BBI) has been crucial in this effort. Participating Financial Institutions (PFIs) of BBI[8] have offered essential banking services through mobile banks since 2021. The BBI was further expanded in 2023 with an allocation of RM10 million from the Government. At present, 24 mobile banks have been deployed nationwide. These mobile banks offer basic banking services such as cash deposits and withdrawals, while also supporting the adoption of digital financial services. PFIs also play a role in promoting financial literacy through mobile banks. This was particularly evident during the Financial Literacy Month 2023 (FLM 2023).[9]

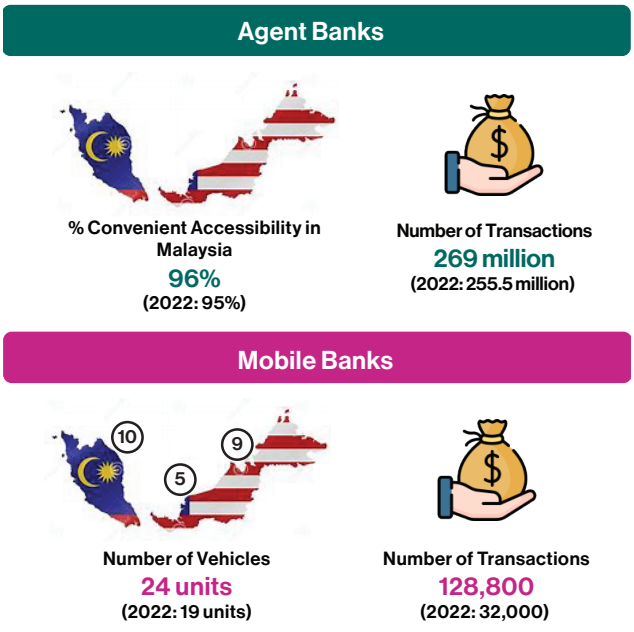
Moving forward, agent banks and mobile banks will continue to expand their reach to the low-income, elderly and rural communities. This effort will continue while these communities' digital connectivity and digital literacy continue to be enhanced to embrace digital financial services options.

Promoting inclusive financial protection offerings

During the year, BNM continued to pursue efforts to promote a diverse microinsurance and microtakaful market. Taking into account both demand and supply perspectives, these efforts leveraged on foundational initiatives from previous years, such as the issuance of the *Perlindungan Tenang*[10] Policy Document, completion of a demand-side study[11] and the roll-out of the *Perlindungan Tenang* voucher programme.

On the demand-side, BNM, together with insurance and takaful operators (ITOs), increased promotional and educational activities to raise greater awareness on the availability of affordable insurance and takaful protection products. For example, outreach activities and educational talks on the importance of insurance and takaful protection to increase the financial resilience of consumers were conducted in conjunction with BNM's *Karnival Celik Kewangan*. Efforts to widen the accessibility of *Perlindungan Tenang* were also pursued. These include exploring strategic partnerships with Government agencies, e-hailing companies, e-wallet providers as well as the Employees Provident Fund (EPF). Through these engagements, BNM was able to gain deeper insights into protection gaps, risks faced by consumers and the behavioural patterns of the unserved and underserved segments.

Diagram 6: Key Performance Indicators of Agent Banks and Mobile Banks (under Bank Bergerak Initiative) in 2023



Source: Bank Negara Malaysia

[6] PFIs of Agent Banking Initiative are Bank Islam Malaysia Berhad (Bank Islam), Bank Rakyat, Agrobank, BSN , Malayan Banking Berhad (Maybank) and RHB Bank Berhad (RHB Bank).

[7] Opening of banking accounts via e-KYC protocols, undertake money services business, distribute microinsurance and microtakaful products and conduct e-money cash-in and cash-out activities.

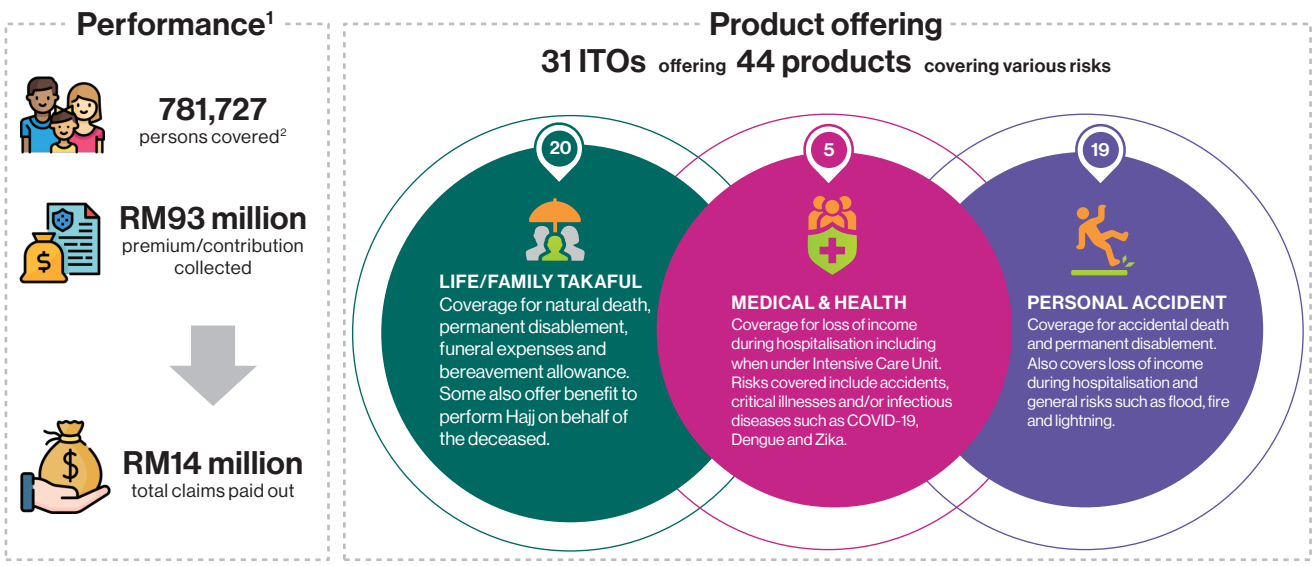
[8] PFIs of Bank Bergerak Initiative are Affin Bank Berhad, Agrobank, Bank Muamalat Malaysia Berhad, Bank Rakyat, BSN, Maybank and RHB Bank.

[9] More information about FLM 2023 is available in the 'Engaging Malaysians' chapter.

[10] The *Perlindungan Tenang* initiative was launched by BNM in 2017. It aims to expand the availability of quality insurance and takaful solutions to meet the needs of the unserved and underserved segments. This is supported by provision of regulatory flexibility under the *Perlindungan Tenang* framework (which covers product design, distribution channel and the offering of value-added services) as well as Government initiatives and support, such as the introduction of the *Perlindungan Tenang* voucher by the Government under Budget 2021 and 2022, and provisions of stamp duty exemptions for purchase of *Perlindungan Tenang* products.

[11] A demand-side study that was jointly commissioned by BNM and the insurance and takaful industry. The study aimed to support the future growth of a sustainable microinsurance/microtakaful market.

Diagram 7: Perlindungan Tenang Performance Since Launch



[1] For full year 2023.
[2] Including individual and group policies/certificates.

Source: Bank Negara Malaysia

From the supply-side, BNM continued to engage with ITOs to expand the range of affordable and accessible product offerings to consumers as well as niche microinsurance players on strategies and initiatives to address specific protection gaps, such as agriculture risk. Discussions and workshops were also held with ITOs and the National Disaster Management Agency (NADMA) to build stronger financial resilience against natural disasters, especially floods. In addition, macro-level *mySalam* claims data was also shared with 19 ITOs to encourage the offering of products with comparable critical illness and hospitalisation income replacement benefits. Meanwhile, efforts are also underway to develop a blended social protection initiative for the vulnerable segments.

Ensuring inclusive and impactful financial education initiatives

Enhancing financial capability is essential to promote greater financial inclusion and encourage active participation of consumers in the financial system. In 2023, BNM together with members and partners of the Financial Education Network (FEN), continued to implement a range of financial education initiatives.[12] These efforts were strategically aimed at bridging the gaps identified through various surveys and findings.[13] Primarily targeting youth and micro-entrepreneurs, the focus is to empower them through enhanced digital financial literacy, fostering financial resilience and nurturing sustainable financial growth within the community.

FEN has established a set of Annual Key Performance Indicators (KPIs) in four focus areas (i.e. Solutions, Access, Awareness and Applications) in the FEN Programmatic Roadmap. This is to ensure inclusive and impactful financial education initiatives (Diagram 8).

Additionally, FEN has published the Financial Education Measurement and Evaluation (FEME) Framework[14] to assess the application of acquired knowledge (Diagram 9). This structured outcome-based framework

[12] As of 31 December 2023, 367 initiatives were reported across Strategic Priorities and Action Plans of the National Strategy with a total reach of about 61 million.
[13] Surveys by FEN members and partners include the Financial Capability and Inclusion Demand Side Survey 2021 by BNM, Youth Capital Market Survey by the Securities Commission Malaysia, Behavioural Studies on Savings and Insurance by Perbadanan Insurans Deposit Malaysia, Financial Literacy Survey 2022 by Employees Provident Fund, RinggitPlus Malaysian Financial Literacy Survey as well as insights from engagements with the public.
[14] Information on the Financial Education Measurement and Evaluation (FEME) Framework is available at https://www.fenetwork.my/wp-content/uploads/2024/01/FEME-Framework-Guidelines.pdf.

Diagram 8: FEN Annual Key Performance Indicators

FOCUS	OUTPUT	PROPOSED BASELINE FOR KPIs
SOLUTIONS	FE Tools, Resources and Platform	Relevant tools and resources • Different life stages • Changing circumstances • Capacity development
ACCESS	Measure and Increase Access to Solutions	Visits and usage: • FEN website and social media, tools and collaterals • FEN members' and partners' services • Average monthly visits to key finance topics
AWARENESS	Programme Delivery and Outreach	Diverse stakeholders' needs met via: • Participating organisations • Events attendance • Resources published • Delivery of FE sessions
APPLICATION	Innovative Projects to Change Consumer Behaviour	Surveys, social experiments and programme evaluations to measure improvements in knowledge, behaviour and attitude to: • Manage money and debt • Plan and save for future • Prevent and protect against fraud • Take-up financial products and services

IMPACT
(measured longer term >3 years)

A. OECD PISA students' financial literacy – improvement in comparison with other countries
1. Content – transactions, planning, risk, reward and landscape
2. Process – identify, analyse, evaluate and apply financial information
3. Contexts – education, work, home, family and society

B. Malaysia Financial Capability and Inclusion (FCI) Demand Side Survey – improvement from previous survey results

1. Knowledge
- Awareness
- Literacy and numeracy
- Financial concepts

2. Behaviour
- Money management
- Long-term planning
- Product decision-making

3. Attitude
- Self-control
- Attitude towards future
- Achievement oriented

4. Well-being
- Financial control
- Day-to-day financial life
- Fraud awareness

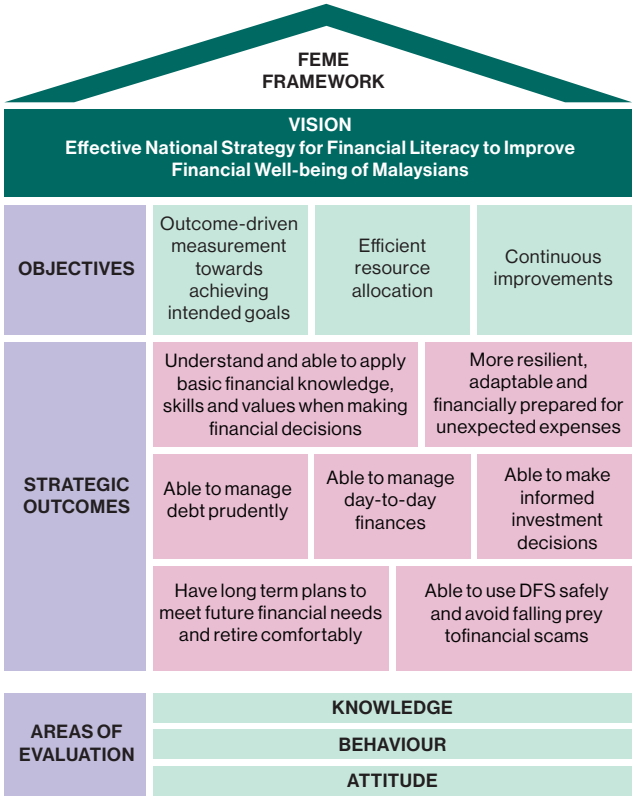
5. Access, Take-up and Usage
- Awareness
- Reasons for not taking up

6. Quality
- Satisfaction level
- Pain points

C. OECD/INFE International Survey of Adult Financial Literacy – improvement in scores
1. **Literacy Scores** – Knowledge, Behaviour and Attitude
2. **Resilience and Well-being** – Control, Expenditures, Financial Cushion, Coping with Shortfalls, Financial Planning and Fraud Awareness

Source: Financial Education Network

Diagram 9: FEME Framework at a Glance



Source: Financial Education Network

will measure and evaluate the impact of financial education initiatives on individuals and their financial well-being. FEME's strategic outcomes are for individuals to have and apply basic financial knowledge to make informed financial decisions. This is done by assessing how well one manages daily and long-term finances, deals with unexpected expenses, and usage of digital financial services.

Aligning financial education initiatives with FEME's strategic outcomes allow financial education providers to monitor progress and make meaningful changes. This alignment helps to track and assess the impact of these initiatives. FEN members and partners have begun integrating the FEME Framework into their financial education programmes. The results of these efforts will be collectively evaluated and measured. The findings will then be presented to the FEN High-Level Inter-Agency Steering Committee co-chaired by BNM and the Securities Commission Malaysia in the first quarter of 2025. By enhancing measurement, the efficacy of FEN's initiatives can be more effective. This allows prioritisation and design of financial literacy initiatives to achieve the intended outcomes.[15]

Deepening Financial Markets

BNM continued to drive financial market development initiatives through the Financial Markets Committee (FMC)[16] and close collaboration with the industry. In 2023, we directed our efforts towards enhancing accessibility and fostering market breadth and depth.

During the year, the FMC reviewed the progress on the adoption of the Malaysia Overnight Rate (MYOR), which was introduced in 2021 as a robust, transaction-based Alternative Reference Rate (ARR) to the Kuala Lumpur Interbank Offered Rate (KLIBOR). Members noted that the current multiple-rate approach, with the coexistence of KLIBOR alongside MYOR, does not help encourage the adoption of MYOR. The FMC will continue to further develop the MYOR and promote industry adoption, including exploring the publication of an industry transition timeline from KLIBOR to MYOR following a market-wide survey in 2024.

The FMC also established two working groups, alongside the existing Bond Market Subcommittee.

First, the Sustainability Working Group (SWG) serves as a platform for collaboration between financial market industry players to identify opportunities and gaps that will help inform appropriate plans and initiatives for the development of the domestic sustainability market. The SWG is currently identifying strategies to encourage the creation of environmental, social and governance (ESG) assets to satisfy domestic market demand. Second, the Principal Dealer Working Group (PDWG) serves as a platform to discuss Principal Dealer (PD) related matters and drive the development initiatives within the bond and repo markets. The PDWG is currently working on identifying an inter-Principal Dealer Electronic Trading Platform (ETP). The ETP is expected to enhance the PDs' market-making capacity by facilitating larger trade sizes and enhancing operational efficiency, thus improving overall bond market liquidity. Subsequently, the PDWG has urged commitments from PDs to the identified ETP to reduce the risk of market fragmentation.

In January 2023, BNM launched the Financial Markets Investor Portal (FMIP), a website for the public to access key financial market information, across the domestic money, bond and foreign exchange markets.

In January 2023, BNM launched the Financial Markets Investor Portal (FMIP), a website for the public to access key financial market information, across the domestic money, bond and foreign exchange markets. The portal aims to overcome limited and fragmented sources of financial market data available to the public. The introduction of the FMIP has improved transparency and public accessibility to key information on the domestic financial markets within a centralised location. This has facilitated in-depth assessments and more informed investment decision-making.

Information on BNM's initiatives to deepen Malaysia's Islamic financial market is available in Chapter 1.4 on 'Promoting a Progressive and Inclusive Islamic Financial System'.

[15] More information about FEN's financial education initiatives available in the 'Engaging Malaysians' chapter.
[16] The FMC was established in 2016 to broaden industry engagement with a focus on reviewing and formulating comprehensive strategies for the wholesale financial markets.

Advancing the Digitalisation of Financial Services

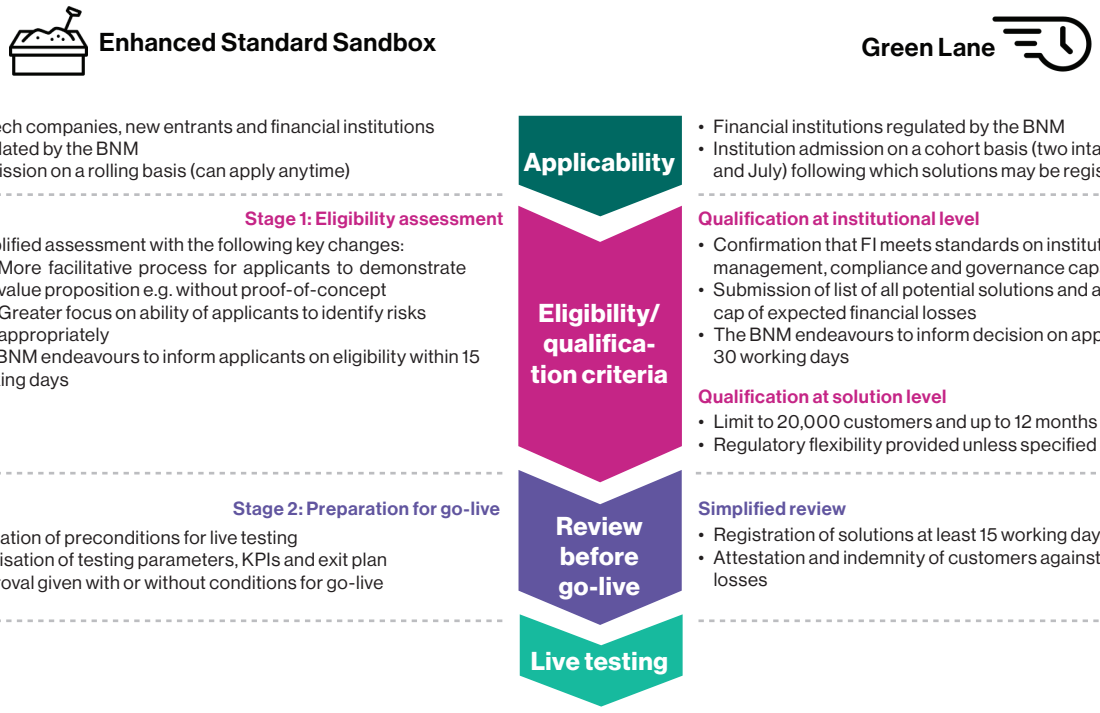
Enhancing critical enablers for innovation

BNM remains committed to provide a conducive environment for innovations, in tandem with the rapid emergence of new business models and solutions, such as credit underwriting using alternative credit models and insurance for electric vehicles (EVs). We recognise that a renewed approach to facilitate emerging trends is needed to allow innovations to be pursued in a timely and responsible manner. To this end, BNM has conducted a holistic review of our regulatory approach to explore areas in which we can provide further guidance and clarity to facilitate responsible innovation. This includes guidance on the adoption of cloud services for financial institutions and expectations around Buy Now Pay Later (BNPL) products.

In the same vein, BNM also directed its efforts in 2023 to refresh the Financial Technology Regulatory Sandbox (Sandbox) that was first introduced in 2016. The refresh aims to support and encourage innovation and delivery of financial services with genuine value propositions within a conducive regulatory environment. In 2023, the Sandbox supported four new live-testing solutions in the Insurtech and BNPL space. During the year, the Sandbox continued to be an important platform for active and open engagement to strengthen the collaboration between various stakeholders. Following various consultations with stakeholders on the Exposure Draft issued in 2023, the revised policy document on the Financial Technology Regulatory Sandbox Framework was published in February 2024. There are two key enhancements under this revised framework which now contains two distinct tracks (Diagram 10). First, the eligibility assessment for admission to the Sandbox has been simplified for all applicants, including for fintech companies. Second, a Green Lane has been introduced to enable financial institutions with a track record of strong risk management capabilities to test their innovations more quickly and flexibly.

As a broader range of financial services become increasingly digitalised, it is imperative that these innovations remain safe, secure and responsibly implemented. In recent years, end-to-end digital account opening has gained traction, requiring strong safeguards to be in place to minimise the risk of identity theft and fraud. Following the feedback received on the Exposure

Diagram 10: Overview of Sandbox Application and Assessment Process



Source: Bank Negara Malaysia

Draft in 2023, a revised electronic know-your-customer, or e-KYC policy document, will be issued in the first half of 2024 to enhance regulatory expectations towards achieving this outcome. Among other things, the revised policy document provides guidance on good practices to improve the overall performance standards of e-KYC solutions within the industry.

A survey conducted by BNM in 2023 on the adoption of AI and Machine Learning (ML) by financial service providers (FSPs) found that adoption in the financial industry is still in the early stages. We are monitoring developments closely and expect FSPs to ensure that the risk of AI and ML does not lead to consumer outcomes that are inconsistent with fair and ethical treatment. In this regard, FSPs are encouraged to establish industry standards and best practices in managing risks from AI and ML.

Facilitating market entry to promote dynamism

Newly licensed digital banks are required to undergo an operational readiness review prior to going live in the market. The review covers an assessment of the readiness of digital banks' infrastructure and systems as well as ensuring that critical operational processes are in place. The chapter on 'Promoting Financial Stability' provides more information on BNM's supervisory priorities and approach. This evaluation is a critical step to validate the capabilities of digital banks and the robustness of their governance structures, risk management and controls to deliver their value propositions and meet the needs of their customers. Currently, three digital banks – GXBank, Boost Bank and AEON Bank – have passed this review and begun operations.

The rollout of digital banking services will be gradual, starting with simple deposit and payment products, before venturing into other financial offerings including loans. Over time, the introduction of digital banks in the domestic financial system is expected to complement traditional banking services by improving access to financial services via innovative technology. In line with their commitments to financial inclusion outcomes, digital banks will focus on tailoring financial solutions for diverse groups, including gig workers, SMEs and the lower-income segments.

Similar to digital banks, new digital insurers and takaful operators (DITOs) are expected to increase the dynamism of the Malaysian financial landscape by complementing the existing services provided by ITOs. The entrance of these new players in the insurance ecosystem is expected to foster greater market competition, enhance efficiency and support financial inclusion. In 2023, BNM engaged its stakeholders widely on the proposals to the Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (DITO Framework). Valuable insights were gained and considered in relation to alternative business and operational models as well as on strategies for the operationalisation of the foundational phase. The DITO Framework is expected to be finalised in the first half of 2024. It will provide clarity on emerging and innovative business models such as embedded insurance and insurance-as-a-service to encourage wider participation from players in the insurance and takaful value chain.

Catalysing reforms in the insurance sector

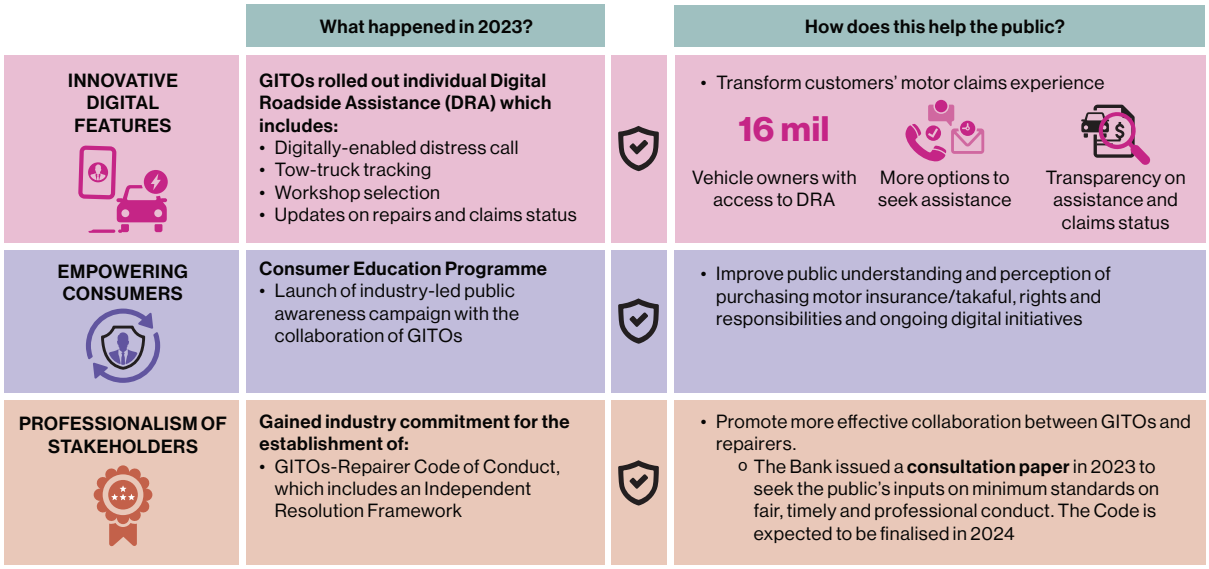
BNM continued to advocate for reforms in the motor insurance market. A notable progress was the commitment from 90% of general ITOs (GITOs) to roll out digital roadside assistance. With this, 16 million vehicle owners[17] will be able to select their workshops, track their tow truck's geo-location and check their claims status using their phones. These innovative digital features will improve consumers' motor claims experience by providing more options for them to seek immediate assistance and track the status of claims. With the introduction of 39 new motor products, there were discernible efforts by GITOs during the year to provide value-adding products and services to consumers, such as EVs cover and voluntary excess cover.[18] Overall, these enhancements are set to deliver a transformative customer experience by improving the transparency and timeliness of the claims process. These efforts were further supplemented by an industry-led consumer education campaign which will continue in 2024 to increase awareness on motor insurance/takaful products. This is important to ensure that the public has a better understanding of the initiatives, including their rights when it comes to these products.

During the year, BNM continued to advocate for higher standards among all stakeholders within the motor insurance ecosystem. Notably, GITOs and repair workshops have committed towards the establishment of the Repairer Code of Conduct and Independent Resolution Framework in 2024 (Diagram 11). Alongside these initiatives, GITOs have continued to implement risk-based pricing within a broader band to better capture underlying risks and promote responsible behaviour among policyholders.

[17] Based on GITOs' reporting to BNM as at end-2023.

[18] Voluntary excess cover refers to a motor insurance add-on product that allows the customer to voluntarily pay a specified amount when making an insurance claim, in return for a discounted premium.

Diagram 11: Updates on Reforms to the Motor Ecosystem



Source: Bank Negara Malaysia

In 2023, BNM also held conversations with a wide range of stakeholders, including key Government agencies, car manufacturers, workshops and repairers, loss adjusters and technological providers. Insights from these engagements have been and will continue to be valuable in helping us develop policies to realise our vision for an end-to-end digitalised motor ecosystem.

Medical and health insurance/takaful (MHIT) remains an important part of health financing in Malaysia. It provides consumers with wider healthcare access and enables consumers to be financially resilient when faced with unexpected health events. Over the years, escalating medical cost inflation[19] and rising utilisation of medical services and procedures (especially post-pandemic) have led to rising cost of claims for ITOs. Much of the increase in MHIT premiums have been attributed to higher cost of hospital supplies and services, which account for around two-thirds of hospital bills. As such, it is imperative that we find the right balance between managing rising cost of claims and ensuring the sustainability of MHIT coverage in the long run.

Against this backdrop, BNM continued efforts to pursue reforms to ensure that MHIT protection remains accessible and sustainable. These efforts are anchored on three key strategies, as reflected in the Policy Document on MHIT Business published in February 2024.[20] First, the policy aims to steer positive change in behaviour where all new individual medical reimbursement insurance/takaful products will have a cost-sharing feature.[21] Such products have been observed to promote more responsible usage with better claims experience and lower premiums when compared to similar products without this cost-sharing feature.

Second, the policy facilitates better transparency and management of claims cost through the establishment of a central medical claims data platform. With the platform, ITOs will be able to better identify and manage MHIT cost drivers, compare charges by different healthcare providers and monitor the industry's overall annual claims inflation. The platform will also pave the way towards publication of medical claims costs for common procedures to help consumers make informed decisions on treatment facilities and insurance purchases. The policy also aims to deliver a more positive consumer experience, through increased digitalisation of processes and services.

[19] According to the Global Medical Trend Rates Reports by Aon, medical cost in Malaysia has risen by 10% in 2022 and 12.6% in 2023, which is higher than the global average of 5% in 2022, and 5.6% in 2023. Among the key factors contributing to the rise in medical cost inflation are the increase in costs of hospital supplies and services, including drug prices, advancements in medical technologies and the increase in utilisation of health services following the resumption of elective medical procedures following the COVID-19 pandemic.

[20] The Policy Document on MHIT Business is available at (https://www.bnm.gov.my/documents/20124/938039/pd_mhit_feb2024.pdf).

[21] This feature aims to address the 'buffet syndrome' as described in the 'Managing Medical Claims Inflation' Box Article in BNM's Annual Report 2019.

BNM held a series of engagements to exchange ideas with key stakeholders on the future of the motor ecosystem.

Diagram 12: Illustration of Cost-Sharing Feature and its Benefits

ITOs are required to include cost-sharing feature[1] prospectively to new individual medical reimbursement insurance/takaful products beginning June 2024. Existing products without cost-sharing feature will remain available for purchase in the market as an option to consumers. Consumers can opt for products that suit their needs.

2 types of cost-sharing feature

1. **Deductible:** Fixed amount you have to pay before the rest of the bill is covered by insurance/takaful
2. **Co-insurance/Co-takaful:** Fixed percentage of a medical treatment bill that you have to pay

Assume the following:

RM2,000 medical bill

	You Pay[2]	Insurance/Takaful Pays
1 RM500 deductible	RM500	RM1,500
OR		
2 5% co-insurance/ co-takaful	RM100	RM1,900

Benefits of cost-sharing feature

1. Lower premium/contribution compared to product without cost-sharing feature
2. Empower consumers to take active decisions on how they consume health services, thus encouraging more responsible usage of healthcare
3. Reduces fraudulent claims which lowers overall cost and improves long-term sustainability of product

[1] Cost-sharing refers to the payment of medical bill that a policy owner/takaful participant must pay, with the remainder of the medical bill being covered by the ITO
[2] Subject to the relevant terms and limits of your medical reimbursement insurance/takaful product

Source: Bank Negara Malaysia

Third, the policy institutes higher standards on MHIT business conduct and sales practices among ITOs and its intermediaries. This includes improved disclosures and additional guidance to ensure fair and equitable repricing practices.

Going Forward

Our focus for 2024 is to accelerate efforts to realise the aspirations for the financial sector, as outlined in the FSBP. BNM will continue to facilitate greater adoption of digital financial services while maintaining confidence and safety. To narrow the protection gaps, particularly for the vulnerable and under-served segments, we will advance key financial inclusion initiatives as envisaged in the Financial Inclusion Framework 2023-26. We will also continue engagements with relevant stakeholders to scale social finance solutions, expand the range of microinsurance and microtakaful product offerings as well as intensify targeted consumer education efforts to narrow financial literacy gaps. On the insurance and takaful front, BNM will continue efforts to manage long-term accessibility and sustainability of MHIT products which include wider adoption of co-payment options and expanded medical savings solutions. We will also provide support to the Ministry of Health in the pursuit for broader healthcare reforms for the nation. For motor insurance, digital roadside assistance solutions will be fully rolled out this year to most customers. We will also pursue progress in other motor initiatives to enable end-to-end digital claims processes. We will engage closely with relevant stakeholders to continue solidifying the digital vision beyond motor claims and facilitate future digital innovations for the motor ecosystem.

iTEKAD: An Ecosystem Approach in Scaling Up Social Finance

'We will adopt a nurturing approach to support financial institutions' explorations to better integrate social finance within their businesses.' – Financial Sector Blueprint 2022–26

Mainstreaming social finance is a continuous journey

One of the visions under the Financial Sector Blueprint 2022–26 is for financial institutions to increasingly align its intermediation activities with positive social impact – aligned with the ESG principles. In 2023, we saw greater efforts by various stakeholders to integrate social finance into the financial system. Notable social finance programmes include iTEKAD, *myWakaf and myZakat*.

iTEKAD emerged as a key social finance initiative by the financial sector. At its inception in 2020, there were only 57 participants, but now, it has assisted over 6,000 participants in 17 business sub-sectors across the country. iTEKAD programmes by financial institutions have supported low-income microentrepreneurs in generating sustainable earnings (Diagram 1).

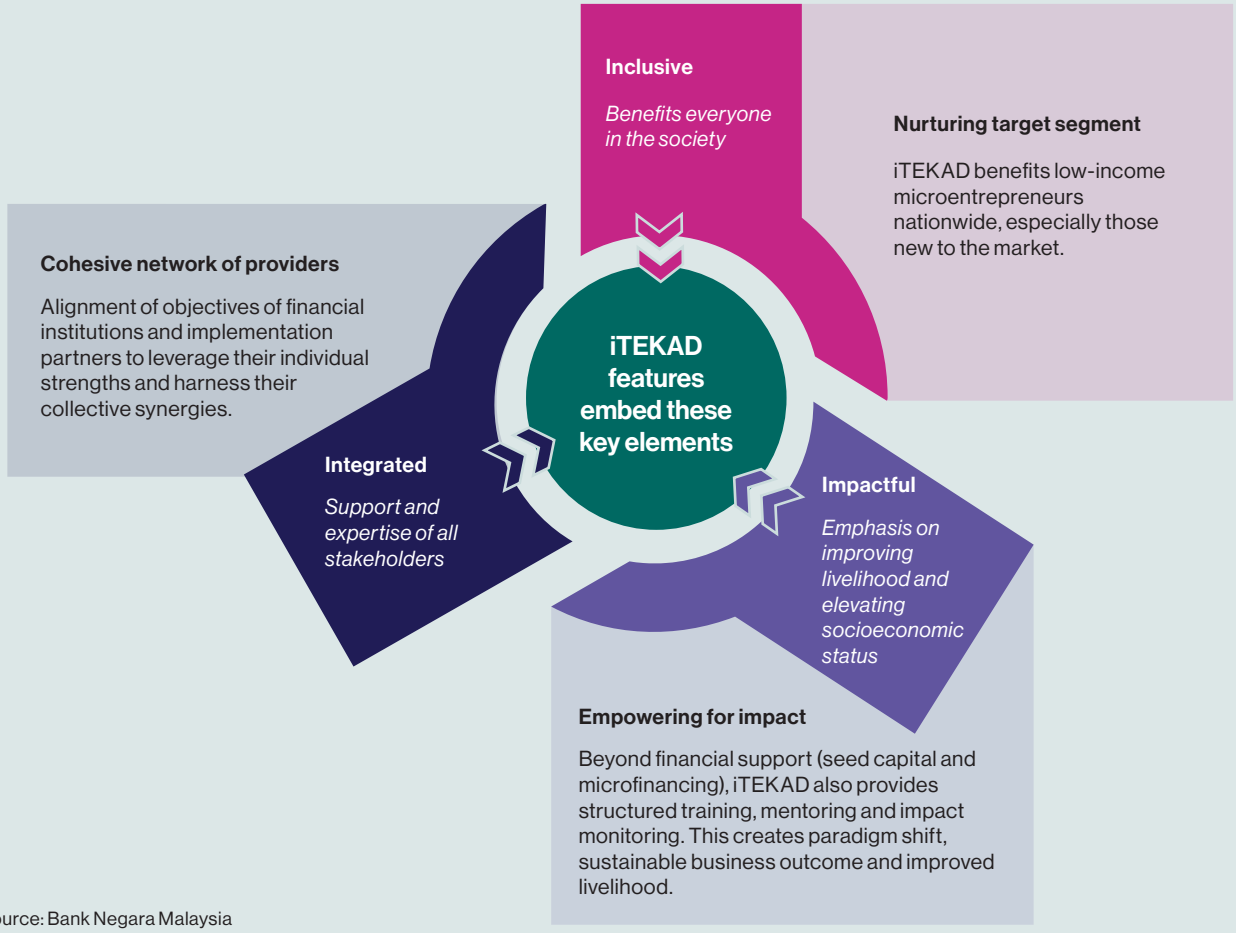
'... the three elements of a successful social finance system can be summarised as follows – it should be inclusive, impactful and integrated.'

Governor Abdul Rasheed Ghaffour at *Majlis Jalinan Kerjasama* iTEKAD, 22 August 2023

Prime Minister YAB Dato' Seri Anwar Ibrahim and Governor Abdul Rasheed Ghaffour on stage with iTEKAD financial institutions and implementation partners during Majlis Jalinan Kerjasama iTEKAD.

Prime Minister YAB Dato' Seri Anwar Ibrahim, Deputy Finance Minister I YB Datuk Seri Ahmad Maslan and Governor Abdul Rasheed Ghaffour visited kiosks of iTEKAD microentrepreneurs.

Diagram 1: Elements of a Successful Social Finance System and its Application in iTEKAD



Source: Bank Negara Malaysia

Creating an enabling ecosystem to grow iTEKAD

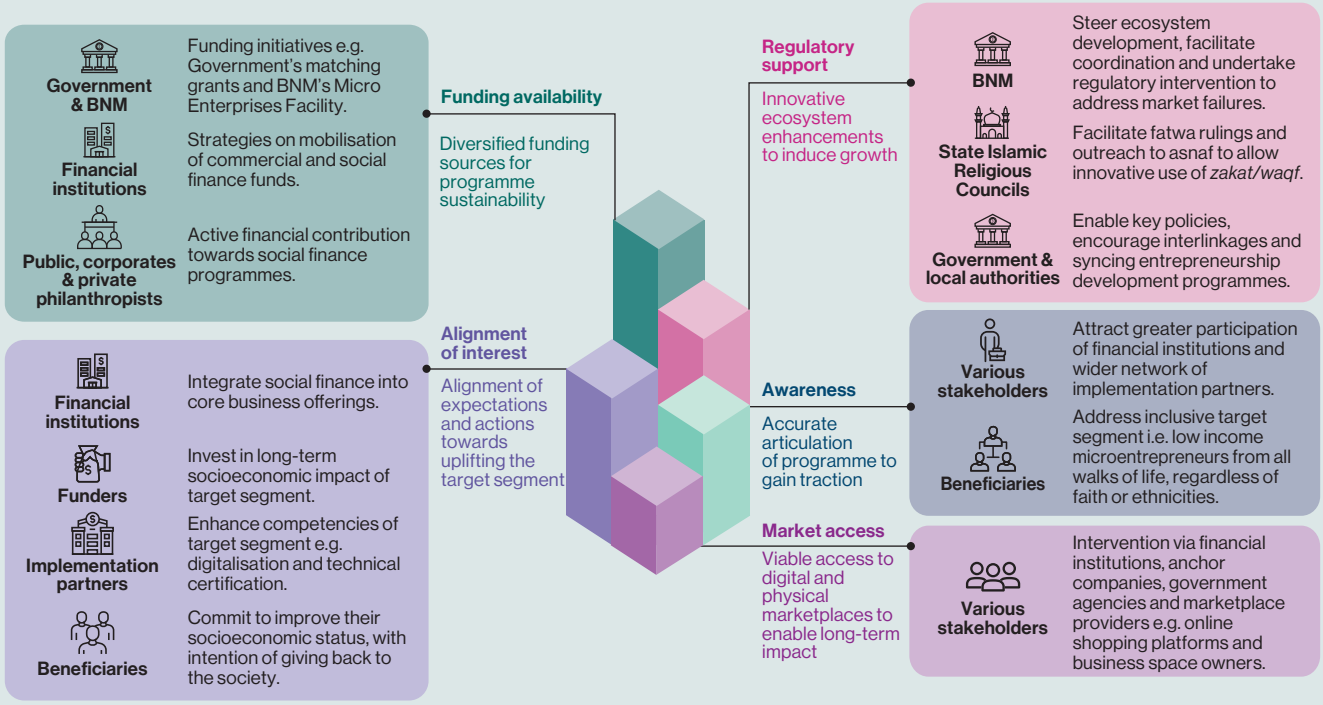
Availability of a blended funding structure, regulatory support, wider awareness on iTEKAD, enable better market access and alignment of objectives by stakeholders' interest form the critical building blocks to successfully scale up iTEKAD (Diagram 2). These building blocks address the needs of microentrepreneurs in their business journey.

iTEKAD is currently offered by 13[1] financial institutions with over 70 implementation partners.[2] This wide network of partners allows each iTEKAD programme to grow within the ecosystem. For example, low-income microentrepreneurs may have risk profiles that limit them from getting financing under traditional credit scoring method. Working with implementation partners allows financial institutions to consider alternative data when assessing eligibility of participants[3] into iTEKAD programmes.

Bank Negara Malaysia (BNM) advocates an ecosystem that is flexible for financial institutions to choose implementation partners and run iTEKAD programmes efficiently. They can support iTEKAD's growth by offering different value propositions based on each partner's capacity and strength. This includes fintech solutions as a tool to track business transactions, end-to-end assistance in setting up pre-franchise businesses and leveraging *waqf* land for agricultural activities. These partnerships are also prelude towards social finance collaborations in other sectors including supporting housing solutions, healthcare and education to those who need it.

1 Data as at February 2024.
2 Implementation partners refer to any organisations and/or institutions that work with financial institutions to roll out iTEKAD programmes. These include, but not limited to State Islamic Religious Councils (SIRCs), fintech solution providers and NGOs.
3 Potential participants of iTEKAD programmes are low-income individuals who aspire to become microenterpreneurs and/or already have existing businesses. According to SME Corp. Malaysia, microenterprises have sales turnover of less than RM300,000 or less than 5 full-time employees. To date, iTEKAD participants are selected based on recommendation by SIRCs and members/communities of the implementation partners.

Diagram 2: Building Blocks Supporting the iTEKAD Ecosystem



Source: Bank Negara Malaysia

Support from all stakeholders remain key

Stakeholders' involvement within the building blocks of the iTEKAD ecosystem is crucial to further scale up iTEKAD. While financial institutions and implementation partners coordinate iTEKAD at programme-level, equally important is the support from others in the ecosystem. These include government agencies, State Islamic Religous Councils (SIRCs), corporates, non-governmental organisations (NGOs), fintech providers, social enterprises and foundations.

These parties have played a key role in making it easier and cheaper to onboard more B40 or asnaf microentrepreneurs into iTEKAD. For example, SIRCs, government agencies and other implementation partners work together with financial institutions to identify potential participants. Financial institutions also work with fintech providers, NGOs and corporates to come out with new and innovative solutions and effectively channel social finance funds.

Moving forward, financial institutions together with relevant stakeholders can further support the ecosystem in scaling up the programmes. This could be done through various approaches including the following:

i. **Embed financial education and protection**
iTEKAD can also provide training on financial education. This builds good financial management skills and habits among the participants. Takaful or insurance coverage can also provide the protection needs of iTEKAD participants.

ii. **Promote greater integration within the ecosystem**
Developing a shared infrastructure to link up diverse platforms in the ecosystem can reduce barriers to introducing new iTEKAD programmes and facilitate expansion of the existing ones. This will also improve process flow and information sharing through:
- a data repository to identify potential iTEKAD participants;
- effective crowdsourcing of funds based on programme needs; and
- transparent and timely updates of programme impact.

iii. Explore potential use of capital market instruments

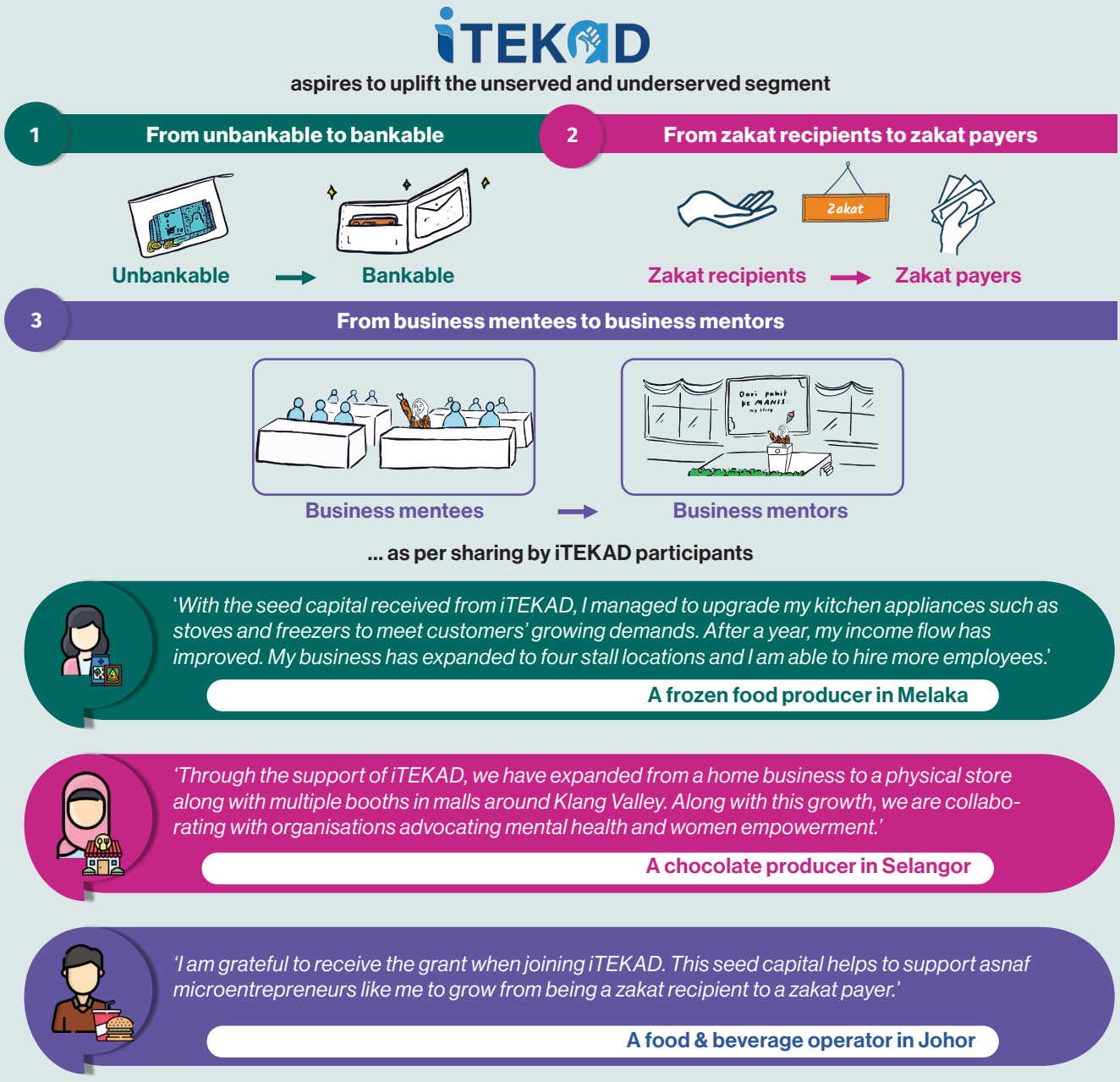
Issuance of sukuk and social impact bonds can support larger funding needs of iTEKAD and other social finance initiatives. This may include tapping on funds outside of Malaysia.

iv. Instil the mindset of giving back to the community

Successful microentrepreneurs who benefitted from iTEKAD can continue the virtuous cycle by helping others. These include creating job opportunities and inspiring other participants through sharing business know-hows. BNM, financial institutions and implementation partners can facilitate this exchange by featuring these successful microentrepreneurs at various platforms (Diagram 3).

Aligned with the ecosystem approach, active contributions from various stakeholders are key to enhance these four dimensions and scale up social finance.

Diagram 3: Reinforcing the Virtuous Cycle of Social Finance



Source: Bank Negara Malaysia, financial institutions and Bank Negara Malaysia's video 'Three (3) Things You Should Know About iTEKAD', which can be viewed at https://youtu.be/Rq1369wQjgQ

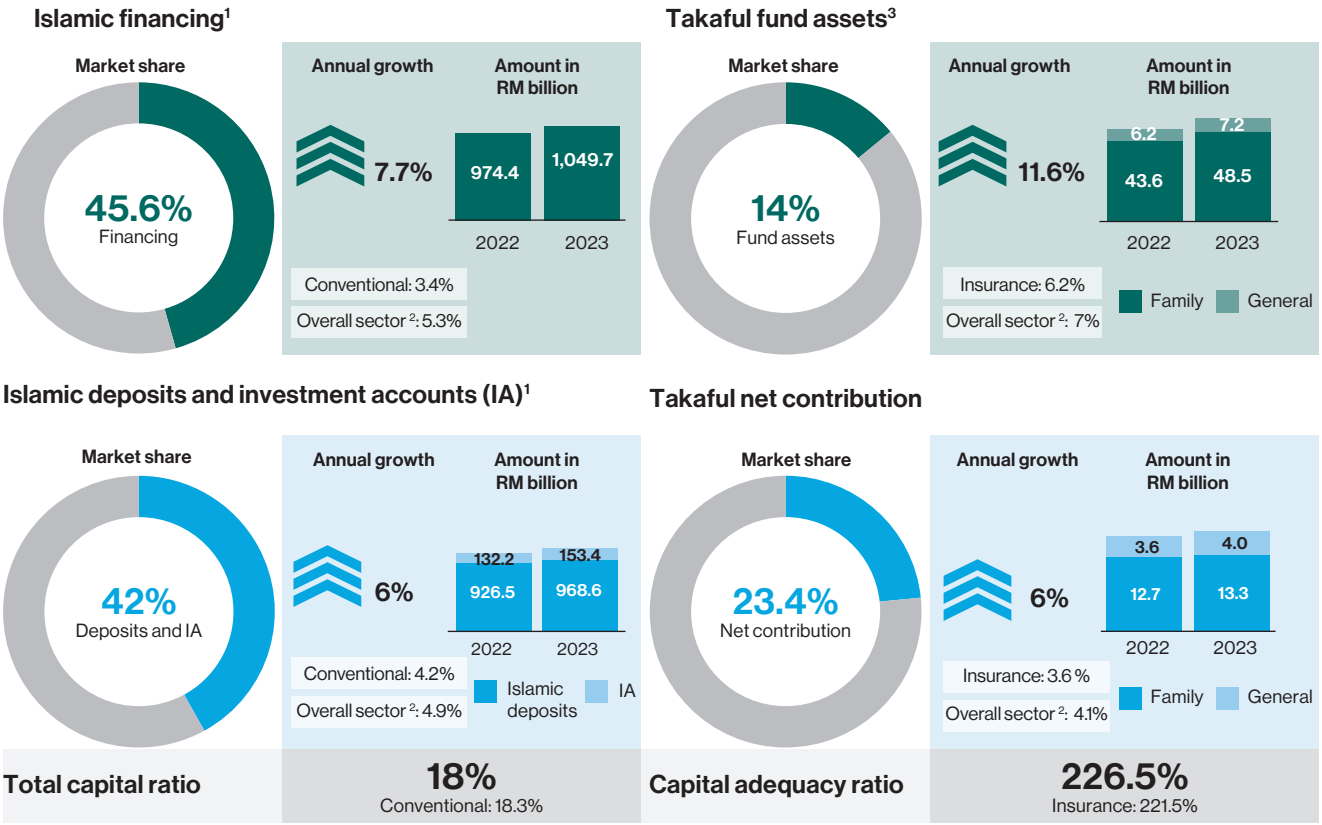
Promoting a Progressive and Inclusive Islamic Financial System

During the year, we focused on strengthening the Islamic finance ecosystem to further support a sustainable, inclusive and diversified economy.

In 2023, Bank Negara Malaysia (BNM) continued efforts to enhance the role and contribution of Islamic finance in supporting socio-economic developments in Malaysia. We collaborated with the Islamic finance industry to increase the adoption of value-based finance to meet the financial needs of consumers and businesses. Specific initiatives were implemented to spur innovative solutions through industry-led pilot projects and regulatory facilitation. In addition, we continued to pursue strategies towards advancing Malaysia as an international gateway for Islamic finance. This includes deepening Malaysia's Islamic financial markets and international linkages.

The Islamic banking and takaful industries continued to grow in 2023. The Islamic banking industry's share of total financing in the financial system increased from 44.5% in 2022 to 45.6% in 2023 whilst the takaful industry's share of total net contribution increased from 23% in 2022 to 23.4% in 2023. Islamic banking and takaful institutions also remained resilient and well-capitalised (Diagram 1).

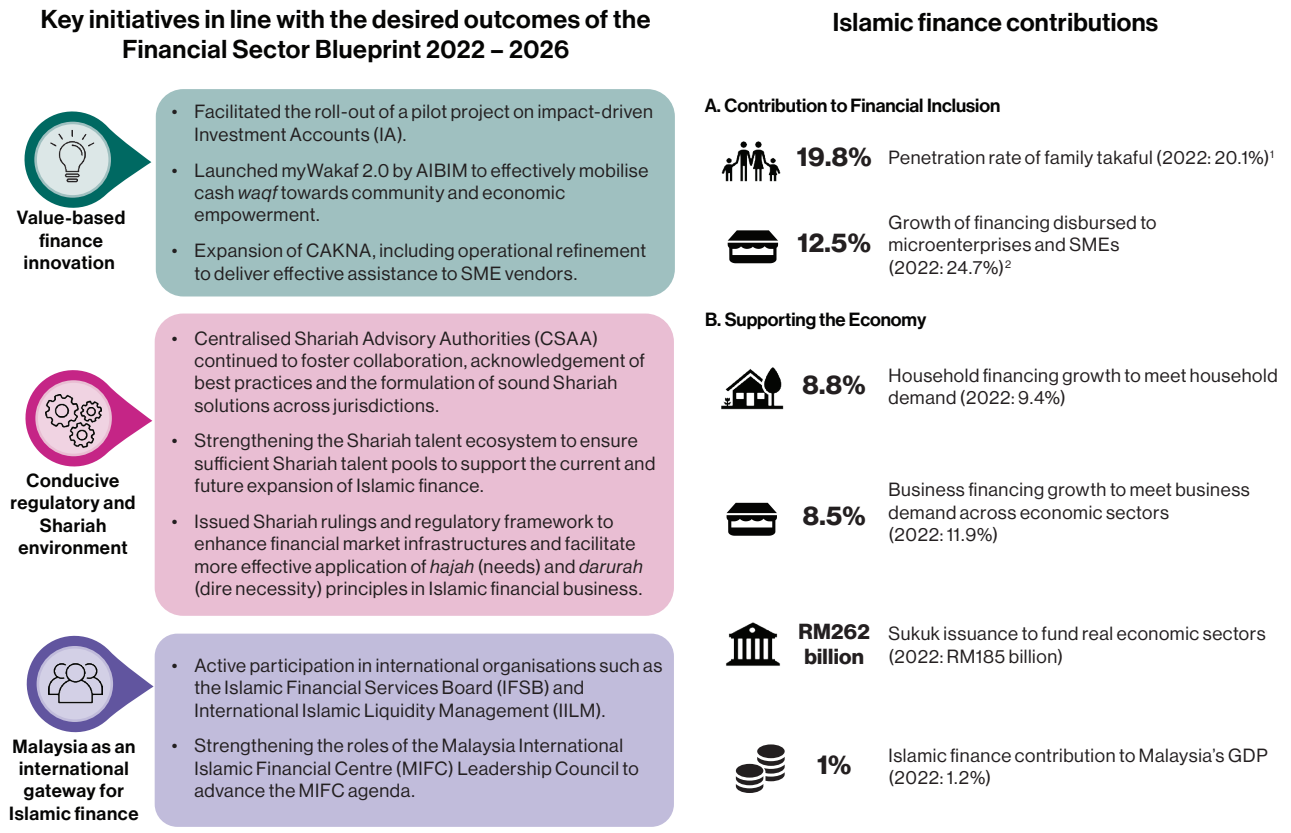
Diagram 1: Growth of Islamic Banking and Takaful Industry in 2023



Notes: [1] Includes development financial institutions.
[2] Annual growth for overall sector refers to combination of Islamic and conventional sectors.
[3] Not inclusive of the shareholders' fund assets.

Source: Bank Negara Malaysia

Diagram 2: Islamic Finance Key Initiatives and Contributions in 2023



Notes: [1] Family takaful penetration moderated due to lower new business growth as well as increased number of terminated and surrendered certificates.
[2] Growth in 2022 was higher due to the base effects following the COVID-19 pandemic.

Source: Bank Negara Malaysia, Department of Statistics Malaysia and Association of Islamic Banking and Financial Institutions Malaysia (AIBIM)

This has enabled the industry to continue to accommodate the financing needs of businesses, including small and medium enterprises (SMEs) and households, as well as provide protection coverage (Diagram 2).

Fostering Inclusivity, Sustainability and Positive Social Impact

Impact-driven Investment Accounts

As outlined in the Financial Sector Blueprint 2022-2026, BNM continues to facilitate the development of impact-driven Investment Accounts (IA) for value-based financing. In 2023, a pilot project by an Islamic bank was rolled out to fund investments in Sustainable Development Goals (SDG)-aligned assets in areas such as renewable energy, clean transportation and waste management. This pilot project included a social reinvestment feature where a portion of the investment returns would be channelled to social impact projects, including iTEKAD. More information on iTEKAD can be found in the chapter on 'Promoting a Progressive and Inclusive Financial System'. To further promote impact-driven IA, BNM will be reviewing the Policy Document on Investment Accounts in 2024. This review aims to further harness the potential of IA to support value-based financing flows, while preserving an appropriate risk-proportionate regulatory environment.

Enhance SMEs' access to financing facilities through CAKNA

In 2023, CAKNA[1] continued to support SMEs that have delivered their government procurement contracts to manage their cash flow. During the year, non-debt funding facilities amounting to RM413.7 million were provided, benefiting 64 SME vendors across ten participating ministries. Ongoing efforts are being made to improve the efficiency of the scheme (i.e. reduce the time needed to process disbursements) and expand the scope and instruments for this facility. This builds on positive feedback received on the scheme. Participating vendors surveyed by BNM have reaffirmed that they have benefitted from competitive rates and the program has helped them with business cash flow management.

[1] CAKNA is a non-debt funding facility to assist the cashflow position of companies, specifically SME vendors. Further information on CAKNA is available at https://www.bnm.gov.my/skim-cakna.

To assist small contractors in meeting their financing needs at an early stage of a contract, the government has expanded the CAKNA's funding structure to cover pre-project delivery funding starting in 2024. Named CAKNA II, projects with value up to RM1.5 million will have access to contract financing facility[2] to provide sufficient cash flows to complete the government projects in a timely manner. Diagram 3 summarises these enhancements as well as testimonials from end users of CAKNA.

Diagram 3: Enhancements for CAKNA in 2024 – Expansion and Operational Refinements to Continue Delivering Effective Assistance to SMEs

Expansion in Business Scope and Instrument Type

- Expansion to all ministries and state-level agencies
- Expansion to pre-delivery funding solution, known as CAKNA II

Operational Enhancements

- **Invoice verification** – Enhanced flexibility in invoice verification channel to expedite verification process by government agencies
- **Procurement systems** – Inclusion of contracts beyond those issued from the 'ePerolehan' procurement system

Enabling Environment

- **Tax incentive** – Extension of nominal stamp duty treatment
- **Pricing** – Removal of price cap to enable market-based, competitive pricing
- **Awareness** – Heightened awareness campaign to encourage participation of SME vendors and financial institutions

Testimonials from End Users of CAKNA

'CAKNA helps me to prioritise timely payroll payments'

I always prioritise payroll expense payments, and CAKNA made it possible for me to manage them effectively. I particularly appreciate the reasonable pricing offered by CAKNA and the speed of delivery – we received our funds from the financial institution within two weeks of applying. We have been in the business for 16 years, we started using CAKNA last year and all our ongoing and upcoming government contracts will now use CAKNA.

Business owner provider to MOH[1] and MOE[2], security and surveillance service

'CAKNA's high liquidity margin is useful for government vendors'

CAKNA eases our month-to-month cash rollover, enabling timely payment of business expenses such as staff salaries. I mostly find CAKNA's liquidity margin to be attractive, in comparison to other providers. We have operated for more than 30 years, we started using CAKNA last year and we are never turning back.

Business owner, food supply and cleaning service providers to MOE[2] for schools

'CAKNA does not impact my gearing and requires no collateral'

CAKNA is useful for us in maintaining smooth cash flow. We utilised CAKNA for both OPEX and CAPEX amidst our planned overseas business expansion in Saudi Arabia. CAKNA does not impact gearing and requires no collateral. Our company has operated since 2002, we started using CAKNA last year and I encourage other SME vendors to take advantage of the same opportunity.

Operator, IT system development and maintenance to MOHA[3]

[1] Ministry of Health Malaysia
[2] Ministry of Education Malaysia
[3] Ministry of Home Affairs

Source: Bank Negara Malaysia, interviews with selected SME vendors

[2] Participating financial institutions have an option to tap into the RM200 million All Economic Sector (AES) facility allocated by BNM under BNM's Fund for SMEs to provide CAKNA II facility to eligible small contractors.

Implementation of Value-based Intermediation

BNM continues to support the industry's effort towards value-based finance initiatives. Most significantly, the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) working group issued the third cohort of the VBIAF Sectoral Guides for public consultation in May 2023. These documents offer detailed guidance on how to conduct impact-based assessments to manage Environmental, Social and Governance (ESG) risks in various economic sectors. As ESG is incorporated into financing and investment decisions, it provides funding access for SMEs that support sustainable and responsible business practices. It also offers opportunities for SMEs to obtain technical assistance in improving their environmental and social performance. We also continued to build the capacity of the industry for impact reporting through collaboration with experts from international financial institutions.

The feature article on 'Realising Value-based Intermediation (VBI) Vision: Five Years After Introduction' delves deeper into the implementation progress of VBI since its introduction.

Advancing halal trade and business

Islamic financial institutions continue to support halal businesses in Malaysia. To date, nine Islamic financial institutions have established dedicated halal trade programmes in collaboration with the Halal Development Corporation (HDC). These programmes offer technical and financial assistance to support local halal businesses in becoming competitive global or regional players, especially those in Halal Industry Masterplan 2.0 (HIMP 2.0) priority sectors.[3] In 2023, the number of participating Islamic banks in HDC's Halal Integrated Platform[4] grew from five to ten Islamic banks.[5] Notably, five of these banks collectively pledged additional funding of RM2.67 billion to support the development of the halal industry in Malaysia.[6] Further, a dedicated protection solution was also launched for halal-certified businesses in September 2023. This protection solution aims to protect halal-certified businesses from the risk of sudden or unforeseen withdrawal of halal certification[7] by the relevant authorities.[8]

Mobilisation of cash *waqf* through myWakaf 2.0

Since the roll-out of myWakaf in 2017, the platform has collected over RM8.4 million[9] of cash *waqf* funds, and directed financing towards projects in health, education and community empowerment. An enhanced myWakaf 2.0 was launched during the Kuala Lumpur Islamic Finance Forum (KLIFF) on 20 September 2023. The platform's enhanced scope and objectives place stronger emphasis on community and economic empowerment. The enhanced platform also establishes a more cohesive monitoring system to track the progress of the projects. These improvements support further scaling up of the myWakaf initiative through a multi-bank arrangement. The construction of 14 solar dome dryers for fishermen and farmers was selected as the first multi-bank project to be implemented throughout Malaysia. More projects will be announced by AIBIM in the near future.

Governor Abdul Rasheed Ghaffour together with AIBIM members during the launch of myWakaf 2.0

[3] Food and beverages, pharmaceuticals, cosmetics and personal care, ingredients, modest fashion, medical tourism, medical devices, Muslim-friendly hospitality, logistic services and Islamic finance.

[4] Halal Integrated Platform is a one-stop centre housed under HDC which offers a wide range of solutions (financial solutions, technical assistance and market access) to halal-certified SMEs. See BNM Annual Report 2021 (Diagram 12: Illustration of Halal Integrated Platforms Mechanism). Islamic financial institutions offering dedicated halal trade programmes are not necessarily listed in HDC's Halal Integrated Platform.

[5] Bank Islam Malaysia Berhad, Standard Chartered Saadiq Berhad, Alliance Islamic Bank Berhad, Hong Leong Islamic Bank Berhad, HSBC Amanah Malaysia Berhad, Public Islamic Bank Berhad, CIMB Islamic Bank Berhad, OCBC Al-Amin Bank Berhad, Bank Muamalat Malaysia Berhad and Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank).

[6] A pledge by the five Islamic banks was announced at the World Halal Business Conference held in December 2023.

[7] This includes legal costs, third party liability, product liability and the cost of a product recall.

[8] Department of Islamic Development Malaysia, State Islamic Religious Councils (SIRCs) and State Islamic Religious Departments.

[9] There are nine participating Islamic banks in collaboration with 11 SIRCs supporting this initiative.

Conducive Shariah Framework and Ecosystem Enablers

The role of the Shariah Advisory Council of Bank Negara Malaysia (SAC) is to issue Shariah rulings and deliberate contemporary issues in Islamic finance

The SAC plays a critical role in the development of Islamic finance in Malaysia. The issuance of Shariah rulings and deliberations on contemporary issues in Islamic finance by the SAC provides certainty in the conduct of Islamic financial business. This, in turn, supports financial stability and public confidence in the system. In 2023, the SAC continued to address a range of issues relevant to Shariah applications. Rulings issued during the year provided clarity on the permissibility of several new Islamic financial transactions and arrangements (Diagram 4), helping to secure certainty and encourage continuous innovation in the development of Islamic financing solutions.

Diagram 4: Summary of Shariah Deliberations by the SAC

Product Innovation

Payment for the purchase of gold and silver via Buy Now Pay Later (BNPL) platform
- Gold and silver in the form of jewellery are not subject to currency exchange (*bai` al-sarf*) requirements.
- Both are categorised as commodities and can be transacted on a deferred payment basis.

Alternative structure of credit card-i based on *bai` al-dayn*
- The proposed structure was not accepted by the SAC because it does not meet the key requirements for the sale of debt (*bai` al-dayn*).

Market Infrastructure

Dematerialisation of global certificates for sukuk and unlisted debt securities in Malaysia
- SAC approved the proposal to replace the physical global certificates with an electronic format.

New mechanism for Intraday Credit Facility (ICF) based on sale and buy back agreement (SBBA)
- The settlement of ICF can be either on the same day or extended to the next RENTAS business day.

New mechanism for Funding Facility for Retail Payment Settlement (FRPS)
- SAC approved the mechanism for ownership transfer and constructive possession in sale and purchase transactions under the FRPS.

Transaction of switch auction for Malaysian Government Investment Issue (MGII)
- SAC approved the mechanism for MGII switch auction to assist the government in restructuring its debt profile and creating more liquidity in the market.

Research on fundamentals of money from modern economy and Shariah perspectives
- Aims to support the Shariah assessment on Central Bank Digital Currency (CBDC) proof-of-concept and implementation.

Industry Practices

Review of industry application of *tawarruq*
- Landscape review of the *tawarruq* application by Islamic financial institutions.
- Aims to address concerns about its nature and re-align it with the intended objective of cash facilitation.

Ceding out of takaful risk to insurance companies
- Takaful/retakaful operators are not allowed to cede out their risks to insurance/reinsurance companies except due to *hajah* (needs).

Issuance of Policy Document on *Hajah* and *Darurah*
- Issued on 3 January 2024, it outlines the requirements and expectations of BNM on the application of *hajah* (needs) and *darurah* (dire necessity).

Practices of anticipatory hedging and its general parameters
- Anticipatory hedging can be practiced to manage risk when there is a high probability that the actual exposure will materialise In the future.

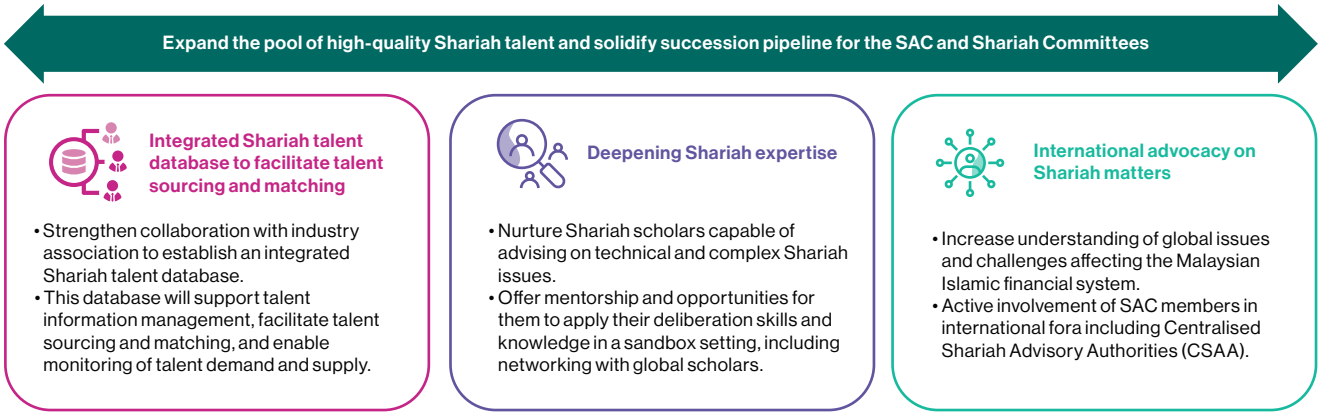
Shariah Non-Compliance (SNC)

Rectification plan for SNC incident – ceding out of takaful risk to insurance/reinsurance company
- SAC acknowledged BNM's authority in taking the necessary punitive enforcement and supervisory actions to address SNC event.

SNC incident – financing of asset under construction based on sale of rights for *bai` `inah* (sale and buy back) contract
- The application of the sale of rights in the incident is considered a serious SNC as customers do not possess absolute rights over the asset during the transaction.

Source: Bank Negara Malaysia

Diagram 5: Strategies to Strengthen Shariah Talent Ecosystem from 2023 Onwards



Source: Bank Negara Malaysia

Strengthening Shariah talent ecosystem

In 2023, BNM collaborated with key stakeholders to develop strategies to strengthen the Shariah talent ecosystem. These strategies aim to widen the talent pool and solidify the succession pipeline for the SAC and Shariah committees (see Diagram 5). This is to ensure that the SAC and the Shariah fraternity are able to keep pace with the developments, innovations and emerging trends in the Malaysian economy and financial system. A deep understanding of these issues is essential to enable them to apply Shariah principles more effectively.

Strengthening Malaysia's Position as an International Gateway to Islamic Finance

Malaysia continues to be recognised as one of the leading markets in Islamic finance[10] globally. During the year, we pursued efforts to deepen Islamic financial markets and strengthen international collaboration in Islamic finance.

Deepening Malaysia's Islamic financial markets

In 2023, BNM continued to drive the deepening of Malaysia's Islamic financial markets with a focus directed towards developing the collateralised funding and derivatives markets.

In October 2023, BNM published the Exposure Draft on Islamic Collateralised Funding to seek feedback from the industry on the proposed rules and requirements in relation to Islamic financial instruments used in the Islamic Interbank Money Market (IIMM). These include sell and buyback (SBBA) and collateralised commodity *murabahah* (CCM) transactions used to source and provide funding for liquidity management in the IIMM. The proposed rules and requirements aim to promote sound risk management and compliance with Shariah principles by Islamic banks when engaging in such transactions. The policy document will be issued in 2024.

In December 2023, the collateralised *murabahah*, an Islamic funding instrument secured by collateral,[11] was accorded statutory recognition for its close-out netting mechanism under the relevant laws.[12] This recognition provides legal certainty on the applicability of the close-out netting mechanism, which is vital for managing risks in collateralised *murabahah* transactions. On Islamic derivatives, the issuance of the SAC ruling on the permissibility of anticipatory hedging subject to specified parameters is expected to spur the development and market liquidity of the Islamic derivatives market. These efforts aim to further increase Shariah-compliant transactions, which will further deepen Malaysia's Islamic financial market.

[10] Malaysia retained its first place in the overall ranking, for the 11th consecutive year based on the ICD-LSEG Islamic Finance Development Indicator (IFDI) Report 2023. Malaysia also ranked first in four sub-categories, namely, financial performance, governance, awareness and sustainability.

[11] A Shariah-compliant financing secured by assets in which the financier has the right to sell the asset should the client fail to repay the financing - https://www.bnm.gov.my/-/introduction-of-collateralised-murabahah.

[12] Central Bank of Malaysia Act 2009, Financial Services Act 2013, Islamic Financial Services Act 2013 and Netting of Financial Agreements Act 2015.

Centralised Shariah Advisory Authorities continue to strengthen global connectivity and foster mutual recognition in Shariah

BNM established the Centralised Shariah Advisory Authorities (CSAA) forum[13] in 2018 to foster greater connectivity and mutual recognition in Shariah. Since then, the CSAA forum has grown to be an important platform for central Shariah boards. The platform facilitates networking, collaboration and the sharing of best practices among central Shariah boards. This helps to strengthen their capacity to address emerging issues in Islamic finance. To date, there are 20 countries with central Shariah boards (2022: 18 countries; 2018: 7 countries) with varying institutional structures. The Shariah resolutions discussed during CSAA also serve as a reference for international standard-setting bodies and international organisations on current and emerging Shariah issues.

In September 2023, the fifth CSAA meeting was jointly hosted by BNM and the Participation Banks Association of Türkiye (Türkiye Katılım Bankaları Birliği, TKBB) in Istanbul, Türkiye. The meeting discussed key developments in Shariah governance as well as rulings (*fatwa*) on emerging issues. The meeting agreed to strengthen CSAA's governance to better meet its objectives and secure wider participation from countries across the globe. The meeting also discussed the importance of including VBI and sustainability considerations, i.e. impact on the economy, environment and people, in ascertaining Shariah rulings (*ijtihad*).

The meeting which was co-chaired by Prof. Dr. Ashraf Md. Hashim, Chairman of BNM SAC and Prof. Dr. Abdullah Kahraman, Board Member of TKBB Central Advisory (Shariah) Board, recorded the highest participation since the first CSAA meeting with more than 50 delegates from 15 participating countries.

BNM's SAC members, Datuk Prof. Dr. Akram Laldin and Dr. Ahmad Basri Ibrahim, presented two main papers on BNM's 'Shariah Decision-making Framework' and 'Takaful Operational Framework' respectively, which received positive feedback from the audience on the comprehensiveness and rigorousness of the framework coverage.

[13] CSAA is a forum established to strengthen global connectivity and foster mutual respect on Shariah views across jurisdictions.

Active participation at key international events and platforms

Being part of the global Islamic finance community, BNM continued to participate in international and regional forums such as the Islamic Financial Services Board (IFSB), the International Islamic Liquidity Management Corporation (IILM) and the OIC-COMCEC Central Banks Forum. This included active participation in strategy and technical committees that aim to shape the development of international standards for Islamic finance. BNM also continued to share our knowledge and expertise to build the capacity of regulatory bodies in other partner jurisdictions (see Diagram 6).

Fostering industry leadership of the Malaysia International Islamic Financial Centre (MIFC) agenda

The MIFC Leadership Council (MLC) was established in 2022 to lead efforts in solidifying MIFC's propositions as an international gateway for Islamic finance. This includes improving the competitiveness of Malaysia's Islamic finance industry, deepening financial linkages and delivering more impactful financial innovation.

In 2023, the MLC focused its efforts on starting work to identify strategic priorities and innovations to pursue by engaging with industry associations and players, ministries, government agencies and strategic partners that form part of the MIFC ecosystem stakeholders. A dedicated secretariat has been established to support the roles of MLC and work is underway to incorporate the MLC Secretariat as an independent legal entity to exercise its mandate with greater flexibility and independence. The MLC will be outlining its priorities and the corresponding strategies in a Position Paper that will be published in the second quarter of 2024. Identification of MLC Impact Projects that will spur new innovation and further demonstrate the contribution of Islamic finance to the economy will be finalised this year for execution.

On the international front, MLC also pursued global advocacy and engagements to build greater linkages between Malaysia and other jurisdictions. In 2023, the MLC focused on engaging ecosystem players in the United Kingdom, Türkiye and the United Arab Emirates.

Diagram 6: Key International Collaboration and Participation in 2023

Continuous commitment towards global Islamic finance regulatory development

- Member of IFSB Council, Deputy Chairperson of Executive Committee (until August 2023) and Member of Technical Committee. For more details on BNM's participation at the IFSB, see the chapter on 'International Engagements'.
- Member of the IILM Governing Board, Member of Board Executive Committee, Chairperson of Board Audit Committee and Member of Board Risk Management Committee.
  - BNM, along with other members, has intensified efforts to identify potential solutions that could expand IILM's business operations in issuing high-quality Shariah-compliant liquidity instruments.

Active participation at key international events and platforms

- Co-hosted with the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), a workshop on 'Promoting Islamic Social Finance and Accelerating the Growth of Halal Value Chain Ecosystem' in Kuala Lumpur. The workshop is funded by the COMCEC Project Funding, in collaboration with Bank Indonesia, the Saudi Central Bank (SAMA) and the Central Bank of the Republic of Türkiye (CBRT). The event was attended by delegates from 15 countries.
- Participated in two international discussions:
  - 5th Meeting of the OIC-COMCEC Central Banks Forum.
  - 19th Meeting of the Standing Committee for Economic and Commercial Cooperation (COMCEC) Financial Cooperation Working Group.
- Promoted the role of Islamic finance in advancing sustainable finance at Joint Committee on Climate Change (JC3) conference and international sustainability event i.e. COP28.

Capacity building and knowledge sharing

Continued engagement to assist industry participants and regulatory bodies in other jurisdictions as part of our continuous efforts to promote knowledge sharing and capacity building in Islamic finance. Among jurisdictions engaged in 2023 include Kazakhstan, Türkiye, Russia and Uzbekistan.

2024 highlight

BNM in collaboration with the Ministry of Finance, government agencies, other regulatory authorities and multilateral organisations will organise the Global Forum on Islamic Economics and Finance (GFIEF) on 28 – 29 May 2024 in Kuala Lumpur. GFIEF will gather renowned international and local speakers to discuss emerging issues in the current economics and socio-economics landscape for future Islamic economics growth.

Source: Bank Negara Malaysia

BNM co-hosted a workshop on 'Promoting Islamic Social Finance and Accelerating the Growth of Halal Value Chain Ecosystem' with SESRIC in Kuala Lumpur, which was participated by delegates from 15 countries.

Among others, the MLC pursued collaboration with strategic partners in these markets towards advancing Islamic finance including in areas such as sustainability, Islamic fintech, financial markets development and expertise sharing to foster stronger international cooperation.

Going Forward

Our priorities in 2024 are to build on Malaysia's strong Islamic finance ecosystem. As the Islamic financial system continues to mature, there is significant potential for the industry to support Malaysia's economic transformation and deliver impactful solutions that can address the current and future needs of the economy and society. To this end, we will continue to focus our efforts on three areas:

- Encouraging value-based finance innovation that embeds the fundamental values of Shariah. This will involve optimising Islamic finance to support the funding and risk protection needs of the economy and the region as we transition to a greener, more sustainable ecosystem.
- Providing a more conducive regulatory and Shariah environment to accelerate market development.
- Continuously strengthening Malaysia's proposition to tap global opportunities and deepen the domestic Islamic financial market.

Realising the Value-based Intermediation Vision: Five Years After Introduction

The Value-based Intermediation (VBI) strategy was initiated by Bank Negara Malaysia (BNM) in 2017.[1] It aims to strengthen the role and effectiveness of Islamic financial institutions in delivering the intended outcomes of Shariah, which is premised on balancing wealth creation and wealth circulation as well as promoting social justice, among others. This is achieved through practices, conduct and solutions that generate positive impact on the economy, community and environment, while maintaining returns for the shareholders of the Islamic financial institutions. VBI is different from Corporate Social Responsibility (CSR) programmes as CSR is carried out separately from business operations. VBI is a collaborative effort with the Islamic financial industry, driven by the VBI Community of Practitioners (CoP).[2]

Progress and Impact to Date

The integration of VBI into business strategies of Islamic banks has contributed positively to individuals, households and businesses, including micro-enterprises. Islamic banks intermediated RM433.8 billion in VBI-aligned initiatives between 2017 and 2022.[3] The Islamic banking industry remains committed to aligning their activities with the VBI strategic thrusts to further amplify the positive impacts (Diagram 1).[4]

Diagram 1: Evolution and Outcomes of VBI Journey Thus Far

Four phases of VBI implementation

Based on the VBI report 2022, most of the VBI CoP is moving from the 'Emerging' phase to the 'Engaged' phase

Initiating phase
- Visible commitment and advocacy towards VBI.
- Develop a specific VBI implementation roadmap.
- Enhance infrastructure and capacity building.

Emerging phase

Exhibit the integration of VBI into offerings and practices
i. Offering solutions consistent with VBI.
ii. Adoption of value-based banking practices in credit assessment.

Engaged phase
- Enhance transparency on the progression of VBI implementation strategies and impact reporting.
- Strategic partnerships with stakeholders beyond the banking industry.

Established phase
- Demonstrate total change in institutional behaviour and culture.
- Minimal regulatory intervention through alignment in business activities and needs of the community and economy.

Transition towards 'Engaged' phase is supported by developments in three areas:

1. Significant increase in VBI adopters

5 founder VBI CoP: Bank Islam, Agro Bank, HSBC Amanah, CIMB Islamic, Bank Muamalat

Increased to 16 VBI CoP: Bank Islam, Agro Bank, OCBC Al-Amin, Alliance Islamic Bank, Maybank Islamic, MBSB Bank, Al Rajhi Bank, Public Islamic Bank, HSBC Amanah, CIMB Islamic, AFFIN ISLAMIC, Bank Muamalat, BANKRAKYAT, saadiq, RHB Islamic, AmBank Islamic

2. Collective industry action to implement VBI

Integration of climate action in decision making
- 10 VBIAF sectoral guides
- Implementation group to develop CCPT related toolkit.
- Key membership in the JC3

Industry joint initiatives: myWakaf, iTEKAD
VBI green finance initiatives

3. Aligning offerings towards delivering VBI underpinning thrusts (Based on VBI Report 2022 data)

Entrepreneur mindset
RM2.8 billion to promote entrepreneurial endeavours and RM1.1 billion allocated for entrepreneurship support to *asnaf* communities.

Community empowerment
RM34.6 billion financial solutions intermediated with impact to economic development such as health, affordable housing and education.

Self-governance
Improve operations and practices through the issuance of frameworks and partnerships e.g. the ESG Partnership and the Triple Bottom Line (TBL) Framework.

Best conduct
Among others, continuously improve stakeholders' experiences, advocate for financial literacy and undertake employee well-being programmes.

Source: Bank Negara Malaysia, Implementation Guide for Value-based Intermediation and AIBIM (2021) Value-based Intermediation Full Report, (2022) Value-based Intermediation Report: Emerging to Engaging

[1] The Strategy Paper on 'Value-based Intermediation: Strengthening the Roles and Impact of Islamic Finance' was issued on 12 March 2018 following consultation with the industry.
[2] VBI CoP is a collaborative platform initiated by Islamic banks spearheading VBI industry initiatives. The founding members consist of Bank Islam Malaysia Berhad, CIMB Islamic Bank Berhad, Bank Muamalat Malaysia Berhad, HSBC Amanah Malaysia Berhad and Bank Pertanian Malaysia Berhad (Agrobank), and the CoP has grown to 16 members to date.
[3] The data collection by VBI CoP initiated earlier in 2017, when the founding members of VBI CoP were established and the concept paper for VBI was at the consultation stage.
[4] VBI-aligned initiatives refer to deposits and investment accounts, financing, investment and social finance activities.

VBI encourages Islamic banks to offer more innovative products and services that are impact-driven. This is evident in three areas:

- First, greater focus on net zero and green financing to ensure a sustainable path towards a high-value green economy. Based on the latest VBI report released during the Joint Committee on Climate Change (JC3) conference in October 2023, Islamic banks have disbursed a total of more than RM16.5 billion to net zero and green financing in 2022, a growth of over 2.3 times from 2021. The financing was disbursed, among others, to fund green buildings and renewable energy projects. Currently, it stands at 6.5% of total financing by Islamic banks and is expected to grow further given the rise in financing needs in these sectors.
- Second, more avenues have been explored to support financing needs for Small and Medium Enterprises (SMEs) and micro-SMEs (MSMEs). As of 2022, Islamic banks disbursed RM3.4 billion of net zero and green financing as well as RM24.1 billion of financing for socio-economic development[5] specifically for SMEs and MSMEs.
- Third, mobilisation of philanthropic and social finance funds (*zakat* and *waqf*), via blended finance solutions has been a growing focus. Social finance provides the opportunity to build financial resilience among the *asnaf* [6] and the poor. From 2017 to 2022, RM411.8 million was intermediated for various alms (*zakat*), donations (*sadaqah*) and charity programmes including iTEKAD and myWakaf initiatives. iTEKAD, for example, has assisted more than 6,000 low-income microentrepreneurs, comprising *asnaf* and B40 individuals.[7] Various programmes initiated by Islamic banks to empower microentrepreneurs include financial advisory, access to microfinance, training and business coaching as well as halal certification assistance.

Diagram 2: Examples of Impact-driven Offerings by VBI CoP

Financial solution anchored on creating positive impact

A growing number of Islamic banks are offering various solutions to generate sustainable impacts on the economy, community and environment while delivering financial returns.

An impact investment account invests in renewable energy, green financing, clean transportation, clean water and sanitation as well as other sectors that contribute to creating sustainable cities and communities. In addition, 2.5% of the investment return will be contributed to *zakat*.

A low carbon transition facility provides financial support for both capital expenses and operational funding to enforce sustainable practices for SMEs across various industries.

A financing facility for solar installation is offered to SMEs to facilitate the purchase and installation of solar on business premises.

Source: AIBIM (2022) Value-based Intermediation Report: Emerging to Engaging and Bank Islam Malaysia Berhad website

Progressive Efforts Undertaken by Industry Players

An important demonstration of VBI's collective effort is the issuance of the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides[8] to facilitate the implementation of an Environmental, Social and Governance (ESG) impact-based risk assessment. So far, three cohorts of sectoral guides have been issued to provide sector-specific guidelines that assess the impact of financing and investment activities on ten sectors.[9] These sectoral guides are also in line with BNM's Climate Change and Principle-based Taxonomy (CCPT). Effective implementation of VBI, complemented by a better understanding and measurement of climate and environment has the potential to address contemporary issues that the financial system and the world are facing.

[5] Refers to financing extended to sectors that will improve the impact on social aspects under this category, such as education, public infrastructure, MSMEs, etc.
[6] A group of people worthy of receiving zakat contribution such as the destitute and poor.
[7] For more information, please refer feature article on 'iTEKAD: An Ecosystem Approach in Scaling Up Social Finance'.
[8] VBIAF Sectoral Guides serve as an in-depth impact-based risk management toolkit to guide financial institutions in implementing VBIAF in the sectors.
[9] First cohort (palm oil, renewable energy and energy efficiency) and second cohort (oil and gas, construction and infrastructure and manufacturing) were issued in 2021 and 2022, respectively. The third cohort (agriculture, mining and quarrying, road transportation and waste management) were released for consultation in May 2023 and is pending finalised issuance in the first half of 2024.

VBI has also expanded its relevance to the takaful industry. The Malaysian Takaful Association (MTA) introduced the Value-based Intermediation for Takaful (VBIT) framework and roadmap in 2021 and 2022, respectively. VBIT carries the aspiration to achieve inclusive protection for the underserved and unserved segments of society. Efforts to improve the quality and value of offerings are already taking place, such as widening affordable coverage to the poor at a lower price and introducing the *sadaqah* feature as part of product design.

As part of its VBIT priorities, the takaful industry also aims to improve its impact measurement practices. For this, MTA is currently developing a Maqasid al-Shariah Scorecard (MSS). MSS will identify key performance indicators and outcomes in line with the intrinsic values of Islamic finance. The scorecard is expected to be piloted with several takaful operators in 2024.

VBI is also consistent with the global movement towards a more sustainable economy. The goals of inclusive economic development, environmental conservation and social advancement are part of Shariah principles. These goals are universal in nature, consistent with the UN Sustainable Development Goals 2030 and aligned with the 'Ekonomi MADANI' framework. New developments such as the introduction of the Maqasid Al-Shariah Guidance by the Securities Commission Malaysia in 2023 and the call among Islamic finance community to adopt the '*Tayyib* (good) concept' further reinforce the importance of increasing adoption of VBI within the financial sector. These developments provide a strong and clear impetus to accelerate its implementation.

Increasing Adoption of VBI Requires Enduring Industry Commitment

While these positive steps have been encouraging, challenges such as a lack of understanding of VBI principles and application among key stakeholders, the need for group-wide strategy alignment and data limitations to accurately measure impact still exist and may continue to impede further progress of VBI. As such, more efforts need to be made by the industry to address these challenges. Among others, this includes assessing the need for longer-term investment in shared infrastructure and technology, such as leveraging on fintech and artificial intelligence to make impact-driven data gathering or analysis easier and more effective. Increase in public disclosures in various reports will demonstrate the industry's leading role in serving the needs of society and the broader economy. Diagram 3 summarises the roles of shareholders in advancing VBI implementation.

BNM is committed to provide an enabling environment to support the growth of VBI. This includes developing a more conducive regulatory environment that will also facilitate the application of diverse Shariah contracts. At the same time, BNM will continue to facilitate the industry's efforts to innovate and develop new value-based business models, solutions and practices.

Diagram 3: Roles of the Stakeholders in Advancing VBI Implementation

Regulatory bodies

- Provide the appropriate regulatory facilitation for value-based finance implementation to better support innovations, such as the novel application of Shariah contracts.
- Facilitate improvements in the quality and usefulness of impact-based disclosures.

Institutional investors and shareholders

- Transition towards impact investing that creates positive environmental and social benefits.
- Explore VBI-aligned investment opportunities offered by financial institutions.

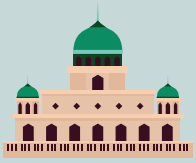
Financial institutions

- Integrate corporate value intent into Islamic financial institutions' business operations and practices.
- Improve comparability and quality of disclosures including exploring pertinent infrastructure and capacity building to improve impact-based reporting.
- Continue innovation efforts in developing new value-based business models, solutions and practices.

Implementation partners

(including professional services and talent entities)

- Enhance collaboration with financial institutions to provide training and financial assistance to vulnerable communities.
- Continuously enhance talent capabilities through upskilling and learning infrastructures.



Government and state agencies

- Leverage VBI-aligned products and services in realising national agenda and priorities to improve Malaysia's long-term economic prospects.

Source: Bank Negara Malaysia

Promoting Safe and Efficient Payment and Remittance Services

Bank Negara Malaysia (BNM) remains committed to ensuring a resilient and conducive payment ecosystem that meets the evolving needs of Malaysians.

In 2023, BNM continued to drive greater innovation and efficiency in Malaysia's payment systems and the money services business (MSB)[1] industry, while preserving the stability and public confidence in payment services. In doing so, we took steps to increase electronic payment (e-payment) adoption. These efforts have sustained the strong growth of e-payment adoption among households and businesses. We also devoted significant resources towards futureproofing key payment infrastructures and enhancing our regulatory and supervisory framework.

Sustaining Greater Digitalisation of Payment and MSB Services

E-payment adoption continued to increase among Malaysians, rising from 9.3 billion transactions in 2022 to 11.5 billion in 2023.

We are on track to achieve the Financial Sector Blueprint (Blueprint) target of more than 15% compounded annual growth of e-payment transaction per capita between 2022 and 2026. This is on the back of the 20% growth to 343 transactions per capita in 2023 (2022: 285). E-payment growth was supported by consumption activity as total value of selected retail e-payment transactions[2] grew by 17% to reach RM592 billion. This was complemented by collective public and private sector efforts to increase e-payment adoption.

Credit transfer[3] services form the largest share of e-payment transactions with a 43% share. Among the many credit transfer services, DuitNow Transfer continued to be the preferred option, sustaining a high annual growth rate of 32% (2022: 26%) and a 39% market share of credit transfer services.

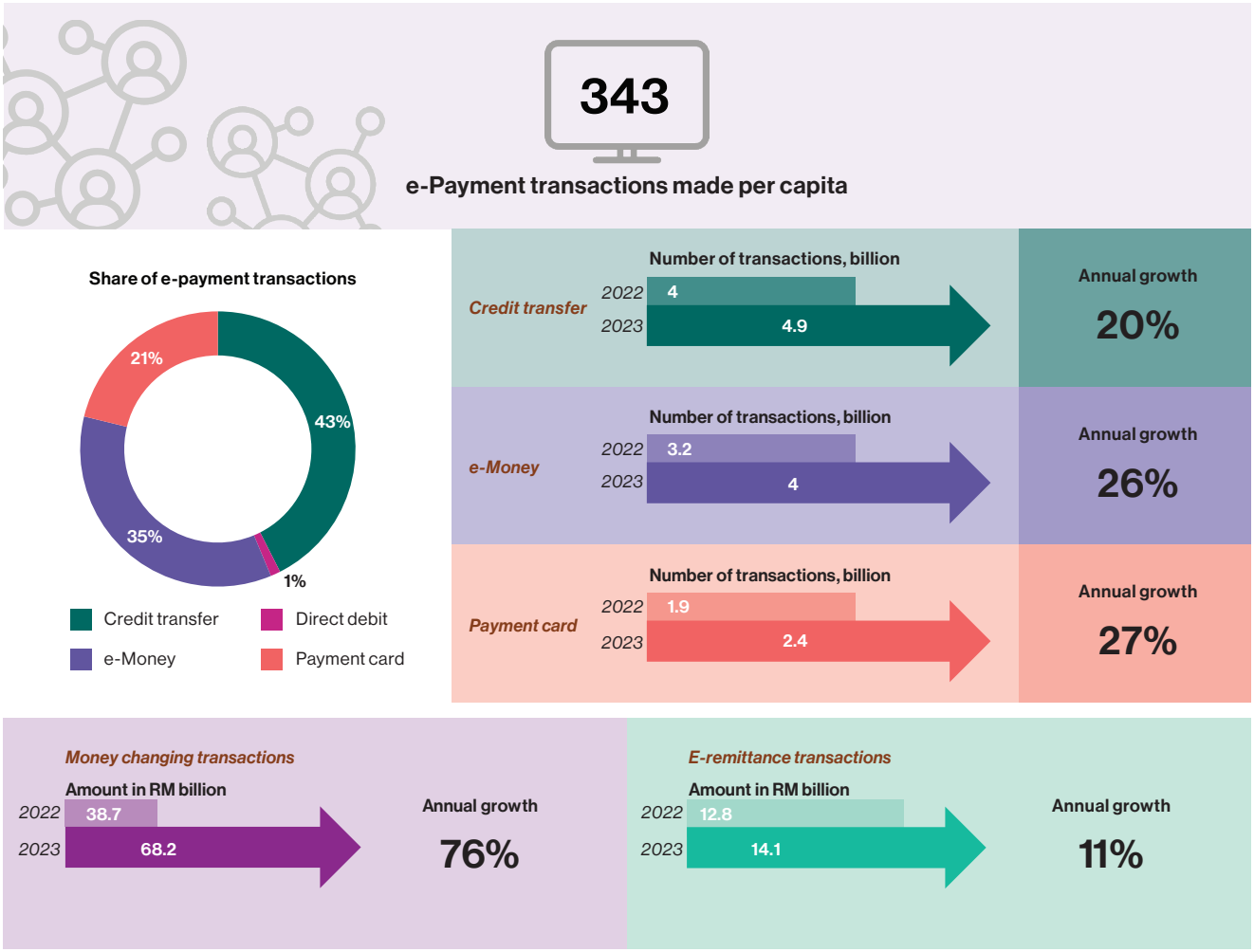
In 2023, electronic money (e-money) transactions increased by 26%, with 59% of transactions stemming from e-wallet usage, and the remainder from card-based e-money. In line with the wide use of e-money for small value toll or transit payments, the average size of e-money transactions remained low at around RM27.

Debit card transactions constitute 66% of the total payment card transactions after first surpassing the number of credit card transactions in 2020 during the pandemic. In 2023, debit card usage recorded a growth of 33%, which is double that of credit cards (15%). Contactless card adoption has also become further entrenched, with use of contactless payments more than doubling its share (77%) as compared to pre-pandemic levels (2019: 32%).

Acceptance of e-payment transactions among businesses, especially among small-sized enterprises, continued to gain traction. In particular, DuitNow QR transactions have seen significant take-up since its introduction. This may be driven by greater familiarity with the DuitNow QR service, popularity with customers due to its convenience and its lower cost for merchants relative to other e-payment alternatives (feature article on 'DuitNow QR: Fostering Inclusive Digital Payments').

[1] Namely remittance, money changing and wholesale currency.
[2] Includes e-payment transactions such as payment card and e-money purchase transactions as well as Financial Process Exchange (FPX) transactions. FPX is commonly used for e-commerce purchases.
[3] Credit transfer services refer to payment systems that facilitate fund transfers between accounts, such as DuitNow Transfer, Interbank GIRO, Real Time Electronic Transfer of Funds and Securities System (RENTAS) third-party transfer and intrabank transfer.

Diagram 1: Snapshot of e-Payment and Money Services Business



Source: Bank Negara Malaysia

In contrast, the use of cheques continues to decline with greater e-payment adoption. There are now almost 14 times more internet banking transactions made by business entities as compared to cheques issued. In 2023, 40.9 million cheques were issued as compared to 46.1 million in 2022. The predominant users of cheques continue to be large corporations, many of which are also increasingly migrating to e-payment alternatives for some, if not all their payments.

Money changing transactions continue to register strong growth (76%) for the third year since the pandemic. This is in line with the ongoing recovery in tourism, marked by the doubling of tourist arrivals in 2023. Based on a recent survey, we found that about 42% of licensed money changers have provided e-payment options over their counters. Several licensed money changers have also issued multicurrency cards as part of their product offerings. Similarly, overall outward remittances increased by 20% to RM34.2 billion, in line with the post-pandemic recovery in economic sectors such as construction and agriculture where more foreign workers are employed. E-remittance services offered by licensed non-bank remittance service providers (RSPs), continued to grow in 2023 by 11% to RM14.1 billion.

Priorities in 2023

To advance our payment ecosystem, BNM pursued three key priorities as summarised in Diagram 2.

Diagram 2: Priorities in 2023

Priorities in 2023

Expand the Reach of e-Payments	Futureproof Payment Infrastructures	Preserve Public Confidence
• Enhance domestic and cross-border payment efficiency • Support economic growth	• Enhance resiliency • Explore innovative solutions • Mitigate potential disruptions and risks	• Ensure effectiveness of risk management • Preserve integrity of payment and MSB players • Reduce fraud risks
Key initiatives and outcomes		
✓ 3 linkages with Singapore, Thailand and Indonesia ✓ Position QR payment as a viable option for small businesses	✓ Migration to ISO 20022 is well on-track ✓ Involvement in Project Mandala and central bank digital currency (CBDC) proof-of-concept	✓ Ongoing supervisory measures to ensure robustness of risk management controls of RENTAS and PayNet ✓ Regulatory enhancements (e.g. enhance operator's cyber security controls) ✓ Strengthened e-KYC requirements

Source: Bank Negara Malaysia

Expanding the Reach of e-Payments

Driving digital adoption

BNM continued to accelerate e-payment adoption in Malaysia through e-Duit initiatives. In total, there were more than 110 e-Duit related programmes organised nationwide. These were mostly in collaboration with Payments Network Malaysia Sdn. Bhd (PayNet) and the financial industry. In 2023, we focused on expanding this initiative to rural areas through the e-Duit Desa programme.

During the year, BNM supported public sector-led initiatives to drive greater digitalisation in the economy. This included providing technical advice and support in the roll-out of the Government's cash transfer programme via e-wallets (e-Madani initiative) and the open toll payment system. BNM also continued to support ongoing efforts to encourage greater adoption of e-payments among Federal and state-level government agencies. For instance, BNM worked with Lembaga Hasil Dalam Negeri Malaysia to remove surcharges on income tax payments using e-payment channels.

DuitNow QR has gained significant popularity among businesses. Within four years of introduction, the number of DuitNow QR registrations is now more than double the number of point-of-sales (POS) terminals (2023: 2 million QR code registration and 875,504 POS terminals). Recognising this strong demand, BNM will continue to ensure that the payment system is able to cater for the needs of different segments of merchants.

e-Duit programmes organised by the industry in collaboration with BNM

DuitNow QR: Fostering Inclusive Digital Payments

Imagine this scenario:

On a typical day at a local roadside stall, customers queue patiently for their favourite nasi campur. The mak cik who owns the small stall prepares each plate diligently for her customers. Suddenly, the mak cik encounters an anxious customer who realised that he forgot to bring his wallet to pay for his meal. Without hesitation, the mak cik points towards the iconic pink DuitNow QR code displayed on a stand. With a quick scan, the customer promptly settles the bill and enjoys his meal without further worry.

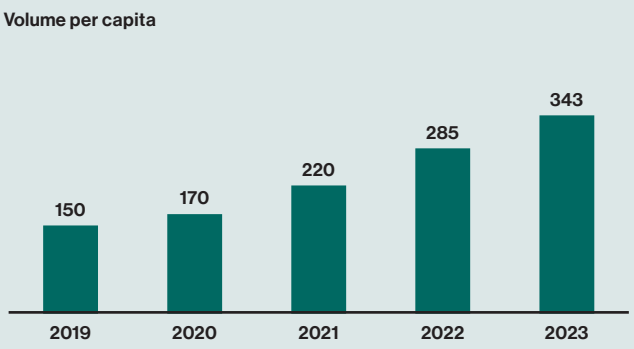
Source: PayNet

This is just one example of how digitalisation has become an integral part of economic activity here in Malaysia. Electronic payment (e-payment) services, like DuitNow QR, are accessible, affordable and easy-to-use. They allow the entire ecosystem, including micro and small businesses, to be more digitally ready to enable seamless business transactions. Importantly, it helps small business owners like the *mak cik*, to avoid the hassle and risks from handling cash. For the *mak cik*, with most of her customers paying via DuitNow QR, the amount of cash she must handle and carry around now is much less. This also reduces the times and risks of theft when she visits a bank branch or finds a cash deposit machine to deposit her cash earnings.

Significant uptake in DuitNow QR payment transactions in 2023

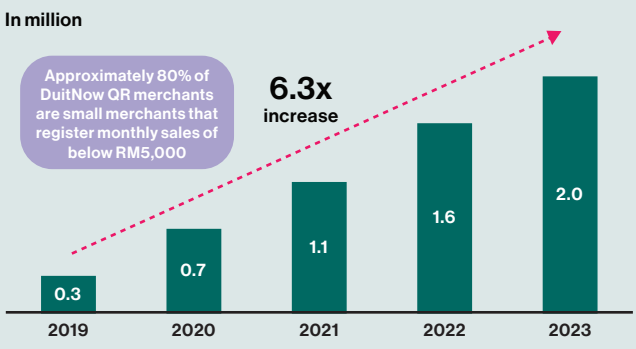
Since the launch of the DuitNow QR payment rail[1] in 2019 by Payments Network Malaysia Sdn. Bhd. (PayNet), it has continued to promote a more inclusive payment ecosystem with the diverse participation of 40 bank and non-bank players to serve different market segments. In 2023 alone, the year-on-year growth in DuitNow QR transactions has more than doubled to 360 million transactions valued at RM14.6 billion (2022: 125 million transactions valued at RM5.5 billion). The strong growth is supported by the high smartphone penetration rate of around 95%[2] and internet access of around 97%[3] among Malaysians. As a result, there has been a steady increase in the overall volume of e-payment per capita (Diagram 1) and DuitNow QR acceptance points by merchants across the nation (Diagram 2).

Diagram 1: e-Payment Transactions Made per Capita



Source: Bank Negara Malaysia

Diagram 2: Number of Registered DuitNow QR Codes



Source: PayNet

[1] DuitNow QR is part of a shared infrastructure for retail payments (i.e. Real-time Retail Payments Platform, RPP). The RPP allows industry players to pool resources and share costs for the development and maintenance of the infrastructure while also competing at product level to better serve end-users.

[2] Based on the Hand Phone Users Survey 2021 released by the Malaysian Communications and Multimedia Commission, the penetration rate for smartphone users in Malaysia for 2021 was at 94.8%. Meanwhile, 41% of respondents had used mobile payment applications as an alternative to traditional payment methods.

[3] Based on Pelan Jalinan Digital Negara (JENDELA) Phase 1 Concluding Report, 96.9% of populated areas in Malaysia have access to 4G network as of 31 December 2022.

Simple and cost-effective setup has facilitated wider adoption of DuitNow QR

DuitNow QR is designed to facilitate payment transactions across different e-wallets, issued by banks and non-banks. Such interoperability provides convenience and a wider choice to both merchants and consumers. It fosters competition amongst e-wallet providers to drive innovative product offerings that cater to various merchant segments. DuitNow QR is also designed to be a more cost-effective payment method, compared to other payment options such as cash or payment cards. As an example, the use of QR code payments removes the need for merchants to incur recurring rental costs for point-of-sale (POS) terminals[4] that are otherwise required for payment card acceptance. Collectively, these factors reduce the barriers to entry for e-payment acceptance among merchants, especially smaller merchants (Diagram 3). This in turn encourages wider use of e-payments by bridging the last mile in e-payment acceptance.

Diagram 3: Key Features of DuitNow QR

Key Feature	Description
Interoperability[5]	• Merchants can accept payments from customers using different e-wallet accounts through a unified QR code, i.e. DuitNow QR. *Example: A merchant with an account with e-wallet brand A can receive payment from their customer using e-wallet brand B.*
Cost efficiency	• Competitive DuitNow QR Merchant Discount Rate (MDR)[6] that is equivalent or lower than that of domestic debit card, MyDebit. • Merchants save on intrinsic costs associated with the handling of cash or payment cards.
Inclusivity	• All merchants regardless of size, have access to a variety of payment providers participating in the DuitNow QR ecosystem.

Source: Bank Negara Malaysia

Maintaining the reliability of the DuitNow QR infrastructure incurs cost and investment

For any payment infrastructure, ensuring the safety, soundness and reliability of the payment system is critical. This requires continuous investments, particularly for cybersecurity and fraud prevention controls. It is imperative that these controls are of high standards to provide protection against latest threats, whilst assuring efficient services for users.

During the initial stages of DuitNow QR implementation, as part of efforts to familiarise the public with DuitNow QR payments and encourage take-up, PayNet and the industry provided a temporary waiver on DuitNow QR transaction fees[7] for DuitNow QR service providers. This in turn translated to zero MDR charges for most merchants. The waiver, which was intended to be lifted in 2022, was extended for another year to provide support to merchants during the post-pandemic recovery period.

With the normalisation of economic activities, the industry in consultation with BNM, has introduced a more sustainable model to recoup costs associated with providing the DuitNow QR payment service. This will ensure the payment ecosystem remains secure and reliable for users through continuous investments needed to maintain the payment infrastructure, including investments in measures to deal with the evolving cybersecurity threats and fraud. The long-term commercial model for DuitNow QR balances this need with preserving access to DuitNow QR services at the lowest possible cost for smaller merchants.

[4] This applies to merchants that adopt static QR codes, i.e. a fixed QR code displayed by a merchant for their customers to scan and make payments. The DuitNow QR solution also offers dynamic QR codes which enables merchants to automatically generate QR codes that are integrated with sales and inventory management systems of businesses for easier tracking of transactions. The dynamic DuitNow QR solution requires a POS terminal to operate and is mainly used by larger merchants.

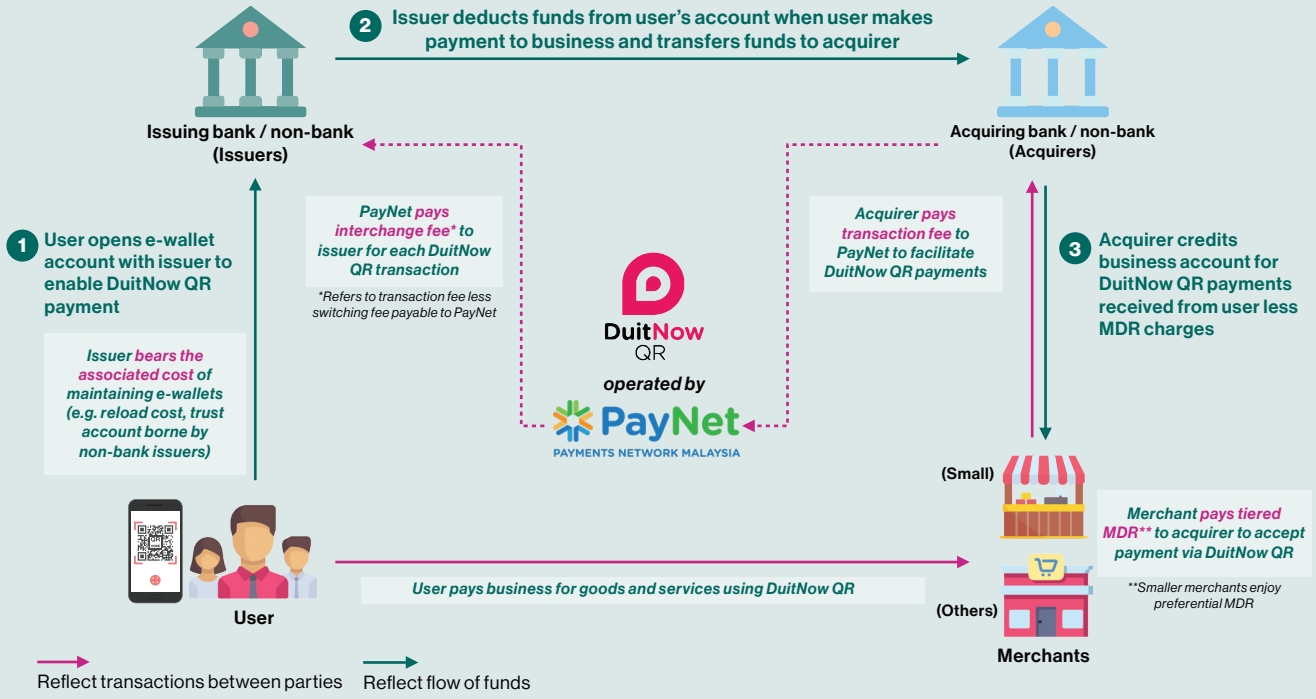
[5] Under the Interoperable Credit Transfer Framework, banks and non-banks are mandated to participate directly or indirectly in a shared payment infrastructure (i.e. RPP) to enable greater accessibility to e-payment services.

[6] MDR is a common fee associated with the provision of e-payment services and is charged based on the transaction value of the e-payment transaction. The MDR is intended to cover costs and investments needed by the industry for the upkeep of their payment systems, in order to maintain high service and security standards for e-payment services.

[7] Refer to the interchange fee and switching fee payable by acquirers to issuers and PayNet, respectively in the DuitNow QR ecosystem.

Pricing model will be periodically reviewed to ensure the longer-term sustainability of the DuitNow QR ecosystem

Diagram 4: Cost-sharing Arrangement Adopted in the DuitNow QR Ecosystem



Source: Bank Negara Malaysia

The model illustrated in Diagram 4 adopts a tiered approach to DuitNow QR transaction fees. Under this arrangement, larger merchants which often have greater financial capacity would incur some costs in the form of MDR for access to DuitNow QR services. Such merchants have economies of scale to absorb these costs and the ability to better negotiate pricing terms with payment providers. Smaller merchants would enjoy a preferential MDR that would be maintained at a low level, thus ensuring that all merchants, big and small, will continue to have affordable access to DuitNow QR payments. Importantly, DuitNow QR payments will remain a lower cost payment option compared to other e-payment alternatives. Consumers will also continue to pay the same price for their goods and services regardless of whether they pay via cash or DuitNow QR.

This arrangement is consistent with the goal of supporting the widespread adoption of e-payments in Malaysia through a vibrant, secure and inclusive payment ecosystem that is also sustainable in the long run.

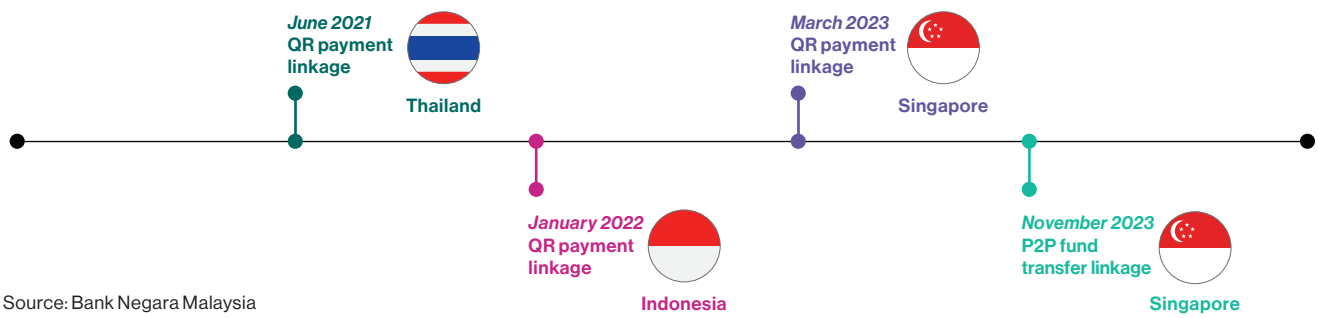
Faster, cheaper and more convenient cross-border payments

In 2023, BNM intensified efforts to bring about faster, cheaper and more convenient cross-border payments. These initiatives align with global targets set under the Group of 20 (G20) Roadmap for Enhancing Cross-border Payments.[4] Notable progress has been made to link Malaysia's instant payment system (IPS) with other IPS in the region (Diagram 3).

The cross-border real-time payment connectivity with Singapore, covering QR payments and person-to-person (P2P) fund transfers, went live in March 2023 and November 2023 respectively. This connectivity complements our existing payment links with Thailand and Indonesia for QR payments, which went live earlier in 2021 and early 2022 respectively. The three linkages enable customers of participating banks and non-banks travelling to these countries to pay merchants that accept QR code payments. Meanwhile, visitors from these countries to Malaysia can benefit from most of the 2 million DuitNow QR acceptance points registered in Malaysia. In 2023, about 674,000 transactions worth RM59 million flowed through these linkages. Users also benefit from competitive exchange rates as well as a seamless and familiar user experience as these linkages mirror the domestic payment experience.

Another major initiative to enhance the efficiency of cross-border payments has been the development of a scalable multilateral payment connectivity model[5] under Project Nexus. In 2023, BNM partnered with the Bank

Diagram 3: Bilateral Linkages with Malaysia



Source: Bank Negara Malaysia

Launch of the cross-border real-time P2P fund transfer linkage between Malaysia and Singapore at the Singapore Fintech Festival 2023

[4] The G20 Roadmap is part of the initiative by the Financial Stability Board (FSB) to identify areas where further work is needed to improve cross-border payment systems and remove unnecessary barriers.

[5] For more details, refer to our box article 'Cross-Border Payment Linkages – Project Nexus and the Push for a Multilateral Approach'.

QR4Food festival hosted by BNM during the Sasana Symposium 2023

for International Settlements Innovation Hub (BISIH) Singapore Centre and central banks from Indonesia, Philippines, Singapore and Thailand, to embark on the transition phase of Project Nexus (Phase 3) which will bring the solution closer to implementation. Phase 3 will deliver a clear and detailed implementation roadmap to operationalise Nexus. This roadmap will include the appropriate governance arrangement, business model, technical specifications of the Nexus gateway and joint oversight arrangement to ensure the multilateral linkage remains safe and resilient. The next phase of Project Nexus (Phase 4) to operationalise these arrangements is on track to commence in 2024.

Futureproofing Key Payment Infrastructures

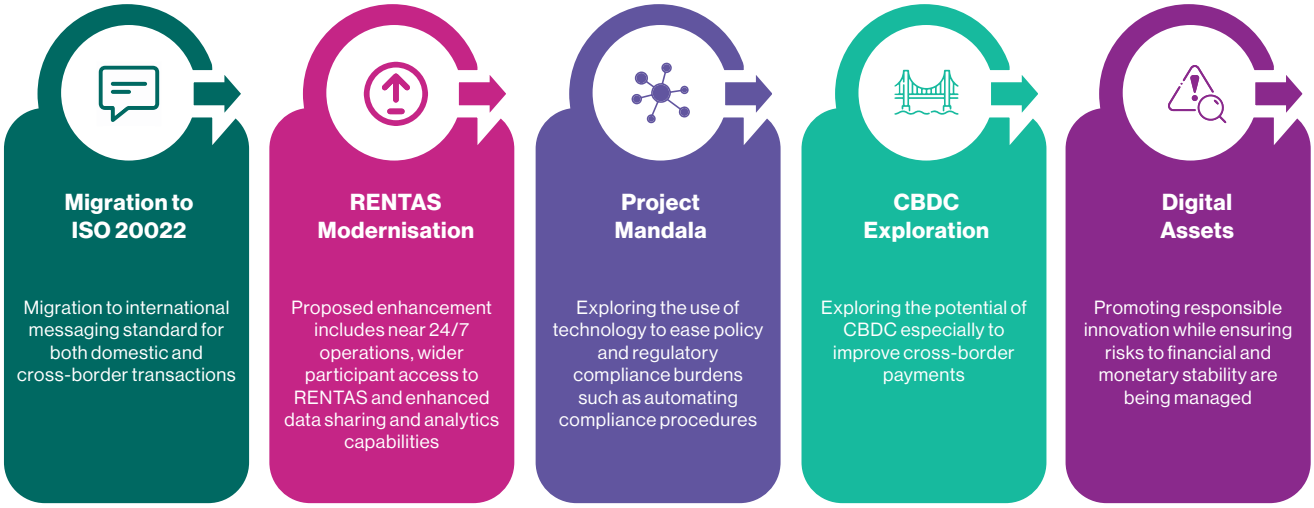
BNM is carrying out multiple initiatives to modernise Malaysia's payment infrastructure and to keep pace with latest developments (Diagram 4).

Adoption of the internationally recognised messaging standard, ISO 20022, among financial sector participants will have many benefits. For the ecosystem, it will enhance the efficiency of the payment infrastructure. For market participants, it will strengthen their risk management capability. For the consumer, it will allow customers to benefit from value-added services such as more transparent transaction details and advanced cash management tools that can now be offered by players with ISO 20022 implementation. To date, the financial industry remains on track for full adoption of the new ISO 20022 messaging standard[6] for both domestic and cross-border payments (Diagram 5).

In 2023, we continued our plans to modernise RENTAS. To this end, we have identified several key focus areas to seek industry feedback in a discussion paper. Key areas that we intend to pursue include supporting near 24/7 operations and wider participant access to RENTAS, enhancing data sharing and analytics capabilities as well as more effective liquidity management tools in RENTAS.

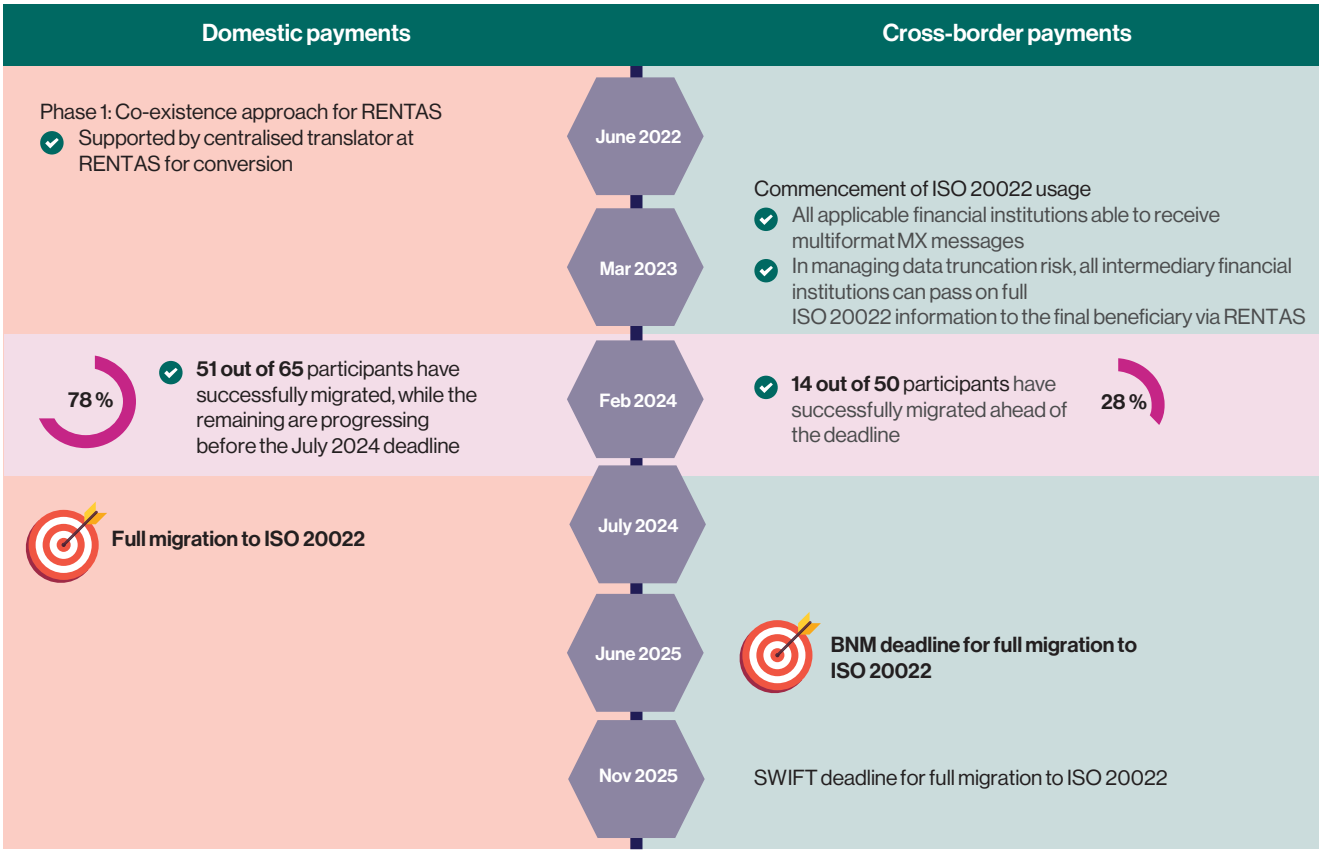
[6] ISO 20022 is an internationally recognised messaging standard for the financial industry with enhanced data content and structured messaging format. For more information please refer to Bank Negara Malaysia Annual Report 2020 and introductory video at https://www.iso20022.org/about-iso-20022.

Diagram 4: Key Initiatives to Modernise Malaysia's Payment Infrastructures



Source: Bank Negara Malaysia

Diagram 5: Progress of ISO 20022 Migration



Source: Bank Negara Malaysia

Shaping the future of payment infrastructures

BNM is also actively involved in Project Mandala. The project explores technology enablers that can ease financial institutions' compliance with policy and regulatory requirements such as foreign exchange requirements. This may be done by automating compliance procedures, providing real-time transaction monitoring and increasing transparency around country-specific policies. This project is led by BISIH Singapore Centre alongside BNM, including central bank and financial institution partners from Australia, Republic of Korea and Singapore.

The first use case of Project Mandala explores the potential to simplify the compliance process around cross-border lending from an entity located in Singapore to an entity located in Malaysia by encoding the compliance policies and regulatory requirements into a common protocol. The project team developed solutions that enable concurrent sanction screenings and compliance checks against capital flow management measures prior to loan disbursement.

Facilitating responsible innovation while managing emerging risks

Digital assets have grown in popularity as an asset class. To this end, BNM's Digital Currency Research Hub closely monitors developments in this space and in 2023, directed its focus on two key areas. First, monitoring developments to assess the impact to our financial and monetary stability mandates and strengthening key surveillance capabilities. Second, promoting responsible innovation through our engagements and participation in CBDC projects.

Our assessment indicates that the impact of digital assets to the financial system remains limited. We have also enhanced our surveillance capabilities, working closely with the Securities Commission Malaysia (SC) to identify and address any potential risks to financial stability arising from digital asset market activities. This included ongoing work to strengthen data sharing arrangements between both institutions. Given the cross-border nature of digital assets, BNM continued to contribute to bilateral and international cooperation efforts to better understand and monitor global developments surrounding digital asset activities.

In 2023, we continued to explore the potential of CBDC, especially to improve cross-border payments. Exploratory work on domestic wholesale CBDC is ongoing and is expected to further intensify in 2024. We continue to explore a range of potential use cases for digital assets and tokenisation. As digital assets gain traction, we are also committed to ensure that the involvement of Malaysian financial sector in digital asset activities is managed responsibly, with a clear understanding of how such activities can reduce or increase operational and financial risks. Although financial institutions have indicated openness to explore the potential of digital asset related activities and distributed ledger technology (DLT), their current focus remains limited to providing traditional services to digital asset players such as payments, deposit and trust accounts.

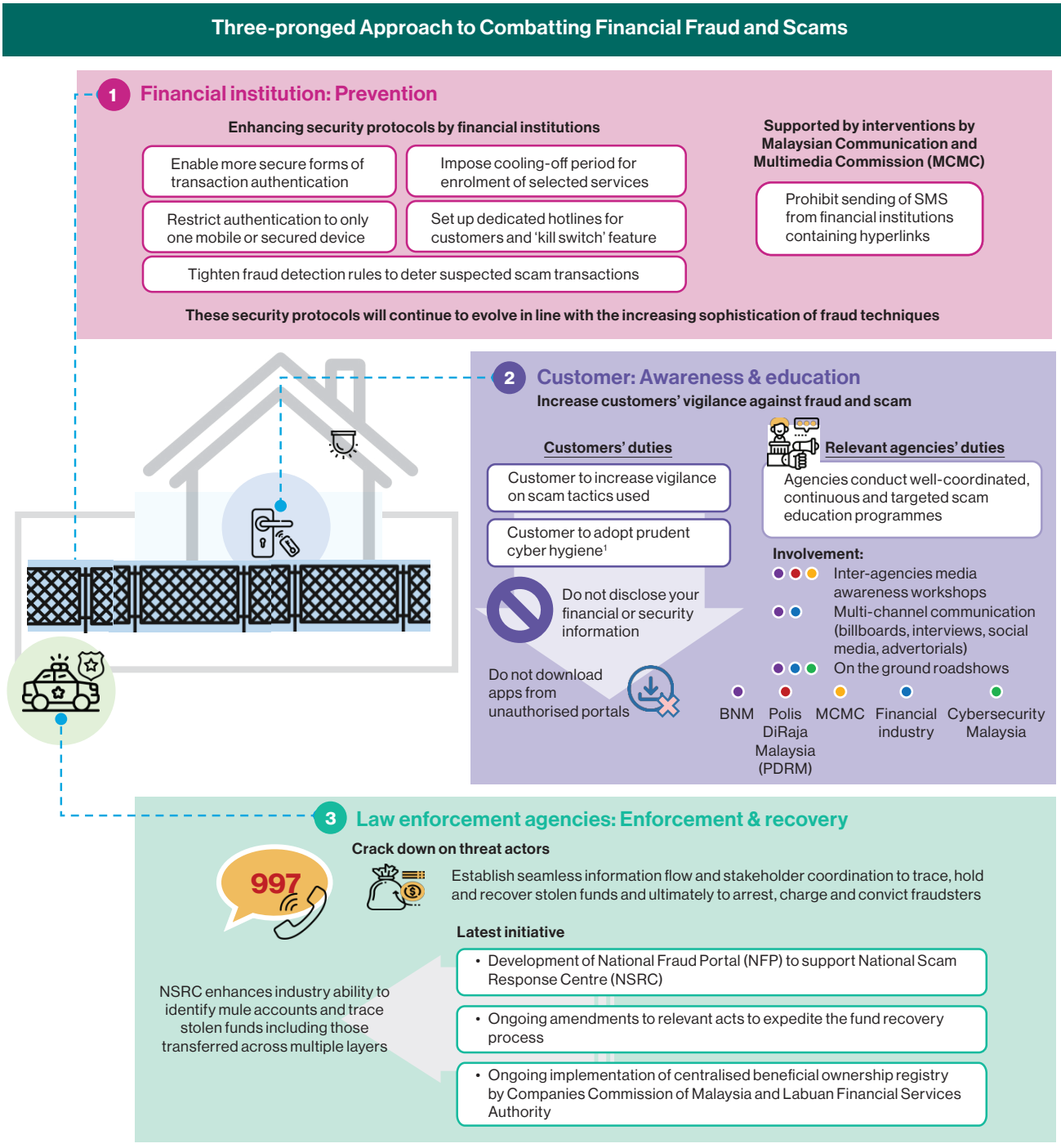
Preserving the Resilience and the Integrity of the Payment Systems

We remain focused on promoting sound risk management practices and safeguarding the resilience of critical payment system infrastructures, such as RENTAS and the retail payment systems. In 2023, RENTAS and the major retail payment systems remained resilient. As part of ongoing efforts to ensure resiliency of key payment infrastructures, supervisory efforts were focused on several key areas. These include RENTAS' risk management controls and governance arrangements and the effectiveness of PayNet's data management practices. In response to BNM supervisory reviews, enhancements were implemented to further strengthen these areas.

Additionally, we continue to take measures to protect the integrity of payment services from being abused for illicit purposes. This includes ongoing engagements with payment service providers to strengthen risk management practices. We also strengthened the requirements on electronic Know-Your-Customer (e-KYC) processes to improve the quality and effectiveness of e-KYC solutions. To support risk monitoring of non-bank e-money issuers and MSB licensees, we enhanced our supervisory capabilities by expanding the use of data analytics tools. By leveraging on machine learning and artificial intelligence, we can better identify potential vulnerabilities and detect anomalies at the entity level.

BNM remains fully committed to combat the threat of online fraud and scams and ensure the security controls

Diagram 6: Three-pronged Approach to Combatting Financial Fraud and Scams



[1] See 'Let's Go Digital Confidently' feature article, Annual Report 2022 for further details on prudent cyber hygiene measures.

Source: Bank Negara Malaysia

of financial institutions remain robust. As all parties in the ecosystem play a critical role in combating fraud and scam crime, we have undertaken a holistic approach to support this work in recent years. These initiatives have focused on prevention, enforcement and recovery as well as greater customer awareness (Diagram 6).

In 2023, we initiated a review of existing policies to strengthen industry practices in fraud case management to ensure victims are treated fairly. This is achieved by ensuring the fraud investigation process is transparent, robust and completed within a reasonable timeline. The industry also initiated work on establishing a protocol for reporting and handling mule accounts. The protocol outlines procedures and criteria for financial institutions to categorise mule accounts to facilitate sharing of information on mules across financial institutions.

Going Forward

In 2024, BNM will continue to work on ensuring that payment and MSB services in Malaysia remain safe, efficient and reliable in support of the needs of the economy. To this end, we continue to proactively identify and address emerging risks, as well as to support greater use of e-payments. We will also work closely with stakeholders from the public and private sector to safeguard public confidence and promote responsible innovation.

BNM also remains dedicated to futureproofing the domestic payment infrastructures in line with aspirations in our Blueprint. This is to ensure that the payment system is responsive to the evolving needs of the financial system and broader economy. This includes intensifying exploratory work on CBDC and asset tokenisation as well as adopting emerging technologies such as DLT in the financial system.

Issuing Currency

BNM is the sole issuer of ringgit banknotes and coins, which are the only legal tender[1] in Malaysia.

Our mandate is to ensure that there is sufficient supply of ringgit banknotes and coins to meet public demand at all times as well as to maintain the quality and integrity of currency in circulation (CIC). This involves managing the currency cycle in Malaysia (Diagram 1), from pre-issuance processes to end-of-life management of notes and coins. In 2023, BNM focused its efforts in ensuring more sustainable use of currency in circulation, while preserving the quality and integrity of ringgit banknotes and coins.

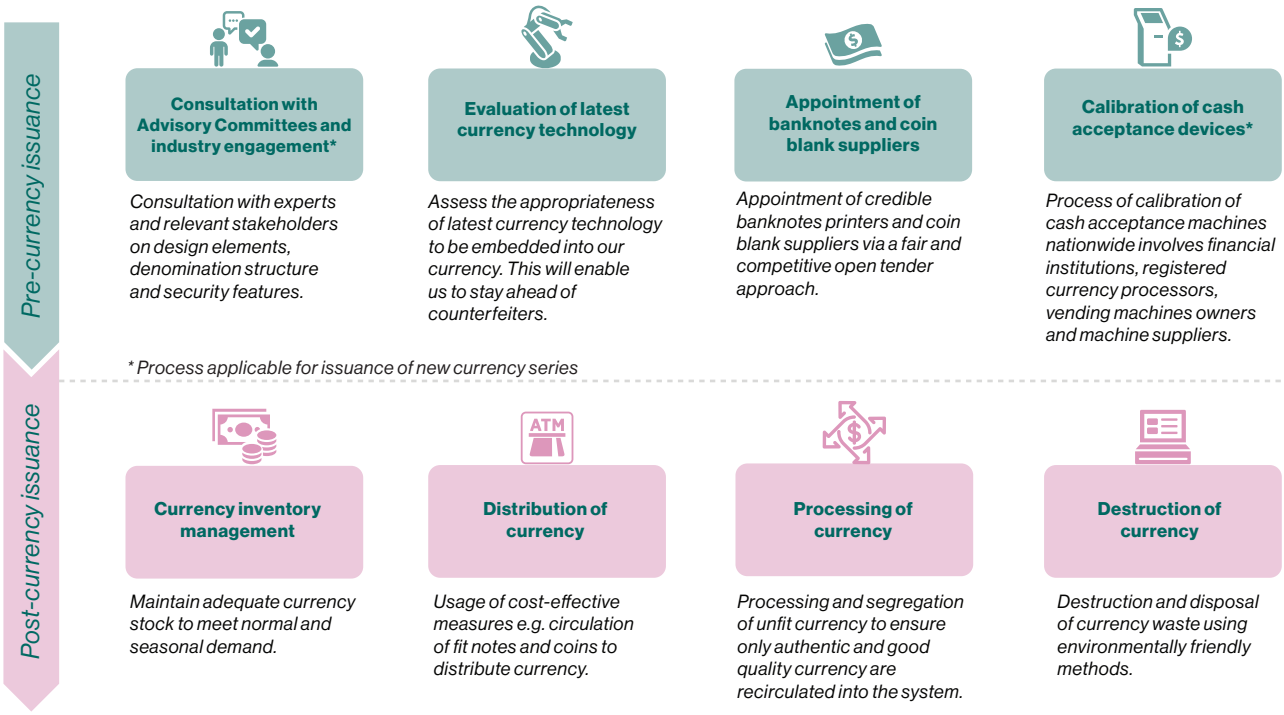
Currency in Circulation

Despite significant progress in the adoption of digital payments in Malaysia, cash remains an important means of payment in our economy. CIC has moderately declined by 0.2% to RM161.8 billion in 2023 (2022: 8%; RM162.1 billion) for the first time since 2001. Meanwhile, the total value of cash stood at 8.9% of Gross Domestic Product in 2023 (2022: 9.1%).

Currency Operations

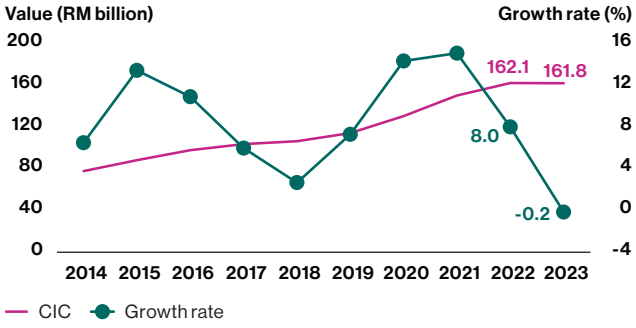
As the sole issuer of currency, BNM has a duty to ensure sufficient supply of notes and coins to meet public demand at all times, including during festive seasons when demand for cash is higher. We ensure this by keeping appropriate levels of stock through timely delivery of new notes from

Diagram 1: Overview of Bank Negara Malaysia's Management of the Currency Cycle



[1] Only currency notes and coins issued by BNM are legally recognised money in Malaysia.

Chart 1: Annual CIC value and growth



Source: Bank Negara Malaysia

banknote printers as well as fit notes generated from currency processing. These new and fit notes are then supplied to the public and retailers via financial institutions.

An important priority is also to preserve the quality and integrity of notes and coins in circulation. In September 2023, BNM issued a policy document on Quality and Integrity of Currency to enhance the standards that financial institutions, money services businesses and registered currency processors[2] need to adhere to while processing and handling notes and coins. These include requirements to ensure that currency in circulation is kept clean and fit for use, as well as procedures to follow when counterfeit currency is suspected.

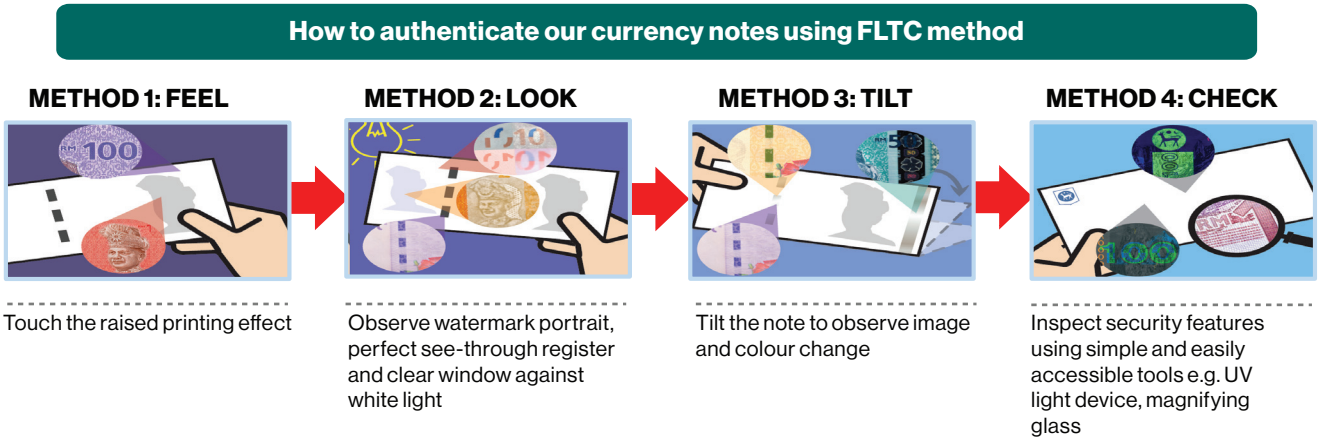
The ability to easily authenticate notes and coins is key to reducing counterfeiting and securing public confidence. In 2023, we observed a marginal increase in Malaysia's counterfeit index to 1.6 parts per million (ppm) (2022: 0.3 ppm) contributed mainly by a single incident involving 3,868 pieces of counterfeit currency notes.[3] Despite the increase, our counterfeit index remains lower than benchmarked countries.

Counterfeit notes discovered in Malaysia are mostly poor reproductions of genuine currency, which can be easily recognised using the Feel, Look, Tilt and Check (FLTC) method (Diagram 2). In addition, counterfeiters tend to target conditions in low-light areas with frequent and quick retail transactions, such as night markets. To build better awareness, BNM carried out a total of 53 currency education programmes nationwide in 2023 involving small traders, retailers and financial institutions. The use of social media was also instrumental for BNM to effectively spread awareness, including encouraging members of the public and business owners to migrate to e-payment channels such as DuitNow QR.

Sustainability of the currency ecosystem

In line with Malaysia's commitment to achieve net zero carbon emissions as early as 2050, we proactively undertake measures to minimise carbon emissions

Diagram 2: FLTC Method is an Effective Way To Help Members of the Public to Determine the Authenticity of Malaysian Currency Notes



Source: Bank Negara Malaysia

[2] Registered currency processors are business entities registered with BNM under Currency Act 2020 to carry out currency processing business.

[3] The incident involved a counterfeit scam, where the victim dealt with an individual scammer that offered favourable exchange rates on social media. The victim ended up exchanging genuine foreign currency with the scammer and received counterfeit Malaysian currency notes.

BNM staff assesses defaced notes received from members of the public through financial institutions

Currency awareness engagements with local traders and consumers

Pasar Umum Sandakan, Sabah

Pasar Pagi Kamunting, Perak

Pasar Sibu Jaya, Sibu, Sarawak

arising from currency management operations. We have put in place the following initiatives to promote sustainability within the currency ecosystem and ensure optimal use of our resources:

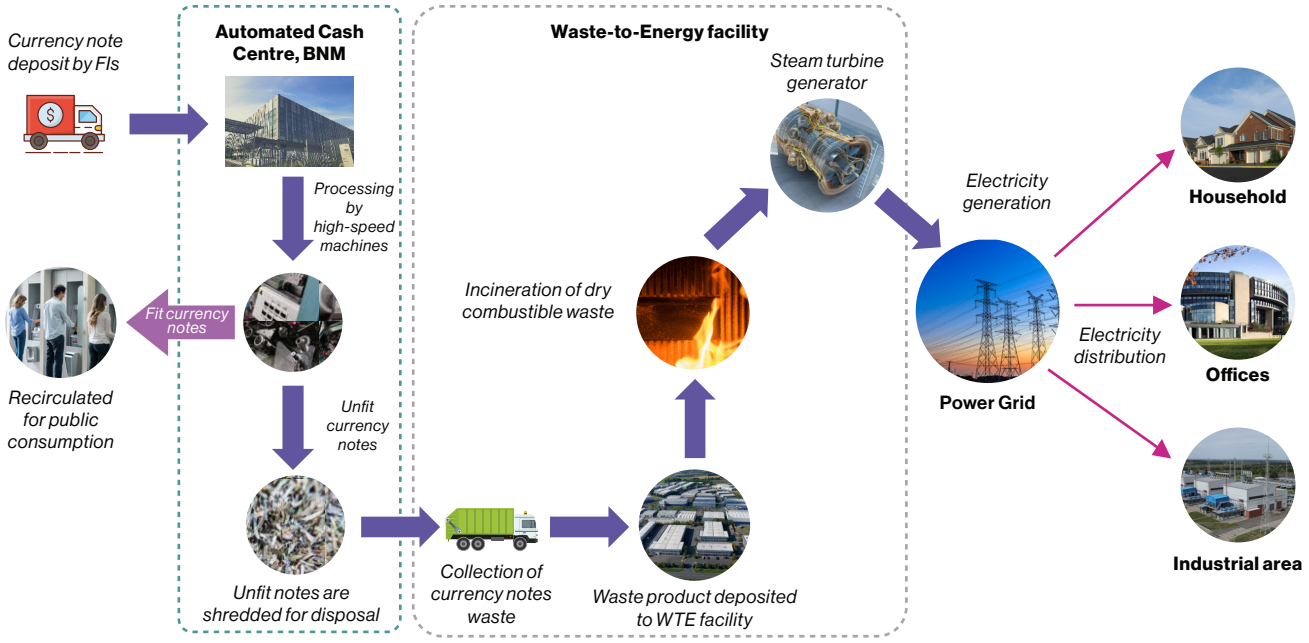
- Sustainable disposal of currency waste through the waste-to-energy method. This method converts shredded notes waste into combustion material that is then used for electricity generation;
- Embarked on the recycling of polymer note waste by converting them into pellets. These pellets can be used to create plastic products, giving the material a new lease on life; and
- Prioritise the distribution of fit notes to cater to public demand including during festive seasons.[4] This is to reduce the temporary spike in demand for new notes during these periods to avoid adding to BNM's carbon footprint.

Numismatic activity

BNM issues commemorative coins in conjunction with significant international, national and state occasions as well as landmark achievements, guided by the established issuance criteria. In 2023, we issued commemorative coins in conjunction with the 75th Anniversary of Jabatan Pendaftaran Negara (JPN75) on 25 October 2023, followed by the 50th Anniversary of Lembaga Pertubuhan Peladang (LPP50) and 150th Anniversary of Jabatan Kerja Raya (JKR150) on 11 November and 5 December 2023, respectively.

We provide fair opportunity for members of the public to collect commemorative coins through a balloting procedure. BNM also conducts auctions of banknotes with unique serial numbers, which is open to all members

Diagram 3: Sustainable Conversion of Note Waste Into Combustion Material for Generation of Electricity



Source: Bank Negara Malaysia

[4] BNM has reduced about 12,300 tonnes of CO_2 equivalent emissions in 2023 through prioritised recirculation of fit notes.

Obverse (left) and reverse (right) design of the JPN75 commemorative coin. It is minted on Nordic Gold and silver with illustrations of the digitalisation of JPN services

The design of LPP50 commemorative coins exemplifies LPP's contribution towards the modernisation of Malaysia's agriculture sector

JKR150 silver coin is the first hexagon-shaped commemorative coin issued by BNM

of the public, most recently the 16th Auction of Banknotes with Special Serial Numbers which attracted a total of 283 bidders and collected a total of RM2.3 million.[5]

Malaysia Mint

BNM's new mint was launched on 19 October 2023. The previous Kilang Wang BNM had also been officially renamed Malaysia Mint (MyMint), with the name reflecting the position of this facility as the country's only national mint which was first operational in 1971.

MyMint is a smart coin operation facility that uses state-of-the-art Industry 4.0[6] elements to automate processes. Coin minting involves highly skilled processes, from coin design and testing the mintability of coin alloys, to production of dies, sculpeys and internal tooling. The new facility allows us to be agile in adapting our processes to emerging technologies and demand. Operations which previously required manual labour are now performed by automated machines (Automated Storage and Retrieval Systems, Automated Guided Vehicles and Robotic Arm) that are integrated to cybersecurity infrastructure. This enables BNM to manage, monitor and conduct coin production, storage, and distribution with high precision and efficiency.

The MyMint building also features sustainable design elements. These include features such as rainwater harvesting, energy-efficient building equipment and

Set of notes bearing serial numbers CS1111111-CS9999999 excluding CS5555555 and CS8888888, garnered the highest bid of RM47,000

[5] All income generated from auctions will be channelled to BNM's currency corporate social responsibility (CSR) initiatives and improvement of cash industry ecosystem. For example, BNM produced and distributed currency measurement devices to aid visually impaired persons to identify individual denominations of currency.

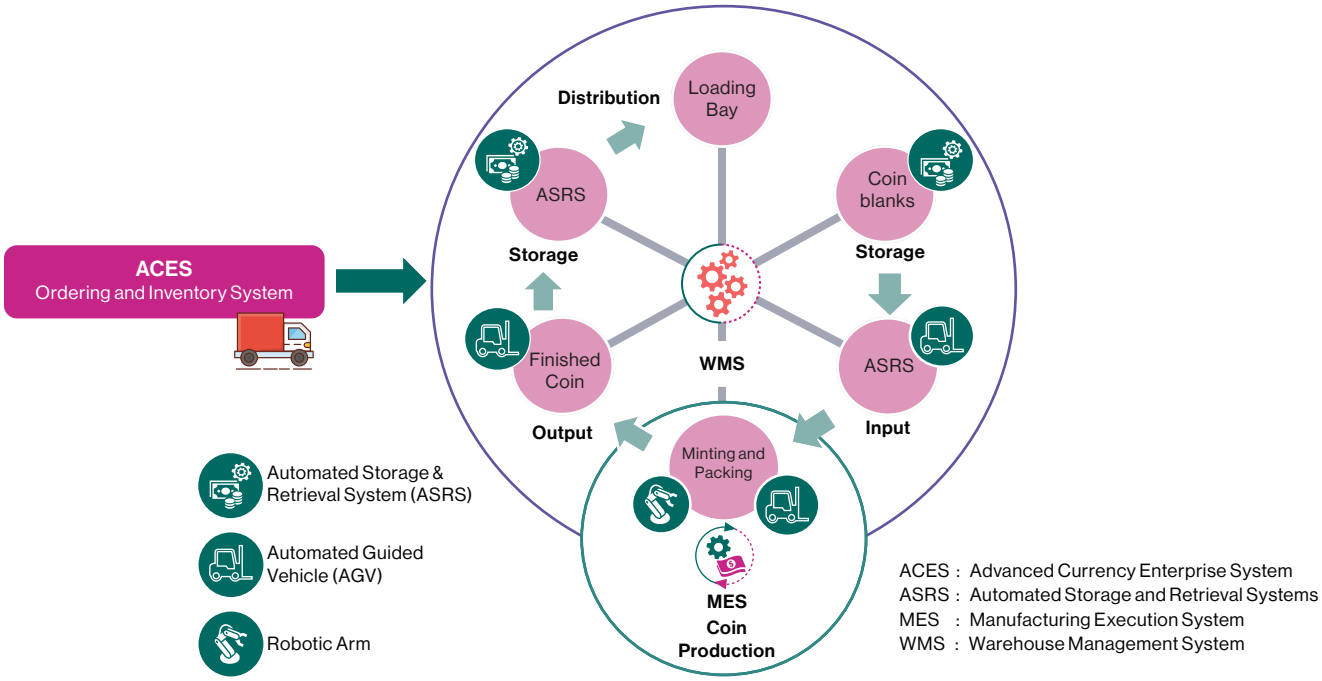
[6] Industry 4.0 is the integration of digital technology into the manufacturing process to enhance productivity.

Governor Rasheed officiating the launch of MyMint (left); BNM's senior management and board of directors inside MyMint production area (right)

Diagram 4: Key Outcomes of the Mint Modernisation Project

Source: Bank Negara Malaysia

Diagram 5: MyMint's Smart Coin Operation Facility



Source: Bank Negara Malaysia

Tools (left) and dies (right) prepared by MyMint for coin production

MyMint designer prepares to transfer the coin design to the coin die using sculpey, a type of polymer clay

BNM Industrial Grade Conveyancing Unit, affectionately referred to as BICU, can lift and tilt coin blank drums weighing up to 2.3 tonnes

MyMint ASRS boasts a capacity of 5,205 pallet locations, connected to dedicated material handling systems i.e. conveyor and Automated Guided Vehicles

systems, and low-solar-emission glass facades to reduce our carbon footprint and environmental waste. To further support more sustainable practices, members of the public can also play a role by depositing coins to FIs over the counter or via coin deposit machines. This will boost recirculation of coins and reduce the quantity of new coins that BNM issues into circulation.

The commencement of MyMint operation in 2023 marked another milestone in BNM's efforts to modernise currency operations in Malaysia, following the successful operationalisation of the Automated Cash Centre in 2016.

Going Forward

BNM will continue to ensure the quality, integrity and availability of notes and coins as they remain a relevant medium of exchange in Malaysia. Any potential enhancements to meet the quality and integrity needs of our notes and coins will carefully consider the associated costs and developments in technology. In 2024, BNM will focus on strengthening our collaboration with industry players to improve the overall value chain of the currency ecosystem. This includes optimising our currency operations nationwide and promoting recirculation of cash among financial institutions, in line with the move towards sustainable practices.

Maintaining Financial Integrity

Bank Negara Malaysia (BNM) continues to strengthen collaborative efforts and improve AML/CFT coordination to better prevent, detect, disrupt and dismantle financial crimes.

BNM's Role

As the competent authority, BNM administers the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA 2001). This includes our role as the country's financial intelligence unit (FIU) and the anti-money laundering, and countering financing of terrorism (AML/CFT) supervisory authority for reporting institutions.[1] BNM collaborates with various stakeholders in ensuring a holistic and robust AML/CFT framework is in place. In doing so, we leverage on the National Coordination Committee to Combat Money Laundering (NCC), a national inter-agency platform[2] that is responsible for the coordination, implementation and monitoring of Malaysia's AML/CFT initiatives.

The NCC Roadmap 2021-2023 (NCC Roadmap) was developed to ensure cohesive implementation of targeted measures to uphold the integrity of our national AML/CFT regime, and to ensure compliance with international standards set by the Financial Action Task Force (FATF). As most of the action plans are nearing completion, the NCC is developing a new set of strategic plans. This will chart the way forward to further strengthen AML/CFT initiatives and to enhance the countering proliferation financing (CPF) regime in Malaysia. The new Roadmap is expected to be implemented in the second half of 2024.

As a member of the FATF and the Asia/Pacific Group on Money Laundering (APG), Malaysia undergoes Mutual Evaluation (ME) on a periodic basis. The previous ME for Malaysia was conducted in 2015.[3] The ME is a peer review assessment process[4] by member countries, covering core areas such as legal and institutional frameworks, preventive measures and enforcement actions taken. Results of ME reports are important reference points for the international financial community in the evaluation of a country's efforts to enhance its AML/CFT regime in line with global standards, as well as ensuring consistency of applying the standards across jurisdictions to enhance overall effectiveness in combating financial crimes. The upcoming ME of Malaysia in 2024–25 will focus on assessing compliance and effectiveness in complying with the revised FATF Standards[5], including the measures taken to address the gaps identified in Malaysia's 2015 ME report.

As the ME process requires a whole-of-nation approach, an ME Taskforce, comprising of representatives from NCC members, was established in February 2023 to ensure the coordination and readiness of stakeholders[6] in undergoing this process. The Taskforce directed much of its focus during the year to assess the gaps and formulate action plans to ensure Malaysia's compliance with FATF Standards. The Taskforce also facilitated identification of appropriate resources among NCC members to implement necessary reforms and enhancements to regulatory and supervisory measures.

1 Reporting institutions are defined in the First Schedule of AMLA 2001. It includes financial institutions, Non-Bank Financial Institutions (NBFIs) and Designated Non-Financial Businesses and Professions (DNFBPs).

2 Members include the Attorney General's Chambers, Companies Commission of Malaysia, Immigration Department of Malaysia, Inland Revenue Board of Malaysia, Labuan Financial Services Authority, Malaysian Anti-Corruption Commission, Ministry of Domestic Trade and Consumer Affairs, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Home Affairs, Ministry of International Trade and Industry, National Anti-Financial Crime Centre, Registrar of Societies, Royal Malaysia Police, Royal Malaysian Customs Department, Securities Commission Malaysia and BNM.

3 Publication of Malaysia's 2015 ME report can be accessed via https://www.fatf-gafi.org/en/publications/Mutualevaluations/Mer-malaysia-2015.html

4 The FATF and APG conduct ME to assess member countries' compliance with international standards for combating ML/TF. These evaluations involve peer reviews, where member countries review each other's AML/CFT framework.

5 The FATF Standards are internationally endorsed global standards against money laundering and terrorist financing.

6 Includes financial institutions and DNFBPs.

Strengthening International Relationships

Given the evolving and cross-border nature of financial crimes, BNM continued to strengthen our partnerships with other agencies to ensure greater cross-border coordination. In February 2023, we entered into an enhanced MoU with the Australian Transaction Reports and Analysis Centre (AUSTRAC). Building on the agreement of the MOU in 2003, the enhancements included expansion of its coverage to allow closer cooperation on security challenges facing the region under the Comprehensive Strategic Partnership (CSP) framework between Malaysia and Australia. We also engaged with the Financial Follow-Up Unit, State of Palestine to finalise an MOU to facilitate the exchange of financial intelligence. This MOU was signed on the sidelines of the Egmont[7] Plenary meetings in January 2024.

AML/CFT capacity-building initiatives led by BNM

Technical assistance programmes held for the Qatar Financial Information Unit in May and August 2023.

FATF Standards Training Course for APG members in November 2023.

[7] The Egmont Group of Financial Intelligence Units (FIUs) provides a platform for the secure exchange of expertise and financial intelligence to combat ML/TF, whilst fostering better communication of FIUs.

BNM also continued to represent Malaysia as the co-chair of the Financial Intelligence Consultative Group (FICG).[8] We successfully hosted the virtual AML/CFT Hackathon from June to July 2023, in partnership with FICG. The hackathon provided an avenue to showcase innovative ideas to combat financial crimes and design thinking to promote collaboration between the private and public sectors. BNM also continued to collaborate with other FICG members such as Singapore, Indonesia, Philippines and Australia to combat transnational financial crimes under the Multi-Jurisdictional Anti-Fraud Project and the Regional Information Sharing Platform.[9]

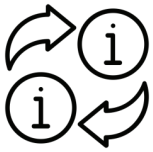
AML/CFT Regional Collaboration Efforts on Digitalisation: Conclusion of the AML/CFT Hackathon 2023

With the theme 'Outsmarting Financial Crime with Innovative Solutions', the aim of the virtual AML/CFT Hackathon was to encourage innovative approaches to combat financial crimes using cutting-edge digital technology.

Over 660 individuals from over 20 countries from the Asia and Pacific region participated in the hackathon. Participation came from various segments of society, including regulatory bodies and law enforcement agencies (LEAs), financial institutions, the fintech community and academia.

Three winning prototypes were selected from 43 shortlisted submissions. The three prototypes showcased the potential for advanced capabilities to synthesise and stay ahead of sophisticated financial crimes by leveraging digital tools. Details on the three winning prototypes are set out in Diagram 1. As society becomes increasingly digitalised, BNM will continue to promote the adoption of technology to advance AML/CFT prevention and enforcement efforts.

Diagram 1: Winning Teams' Prototypes



	Verifier (Australia)	RMATES (Malaysia)	KoderX (Singapore/Malaysia)
Description	A secure platform for banks to share insights on customer's financial crime risks with privacy protection	A tool that detects patterns and alerts anomalies in mobile device digital footprints for real-time identification of suspicious activities	A defence mechanism against malware and impersonation fraud, with a secure end-to-end encryption
Key benefit	Insightful platform for intelligence agencies	Preventing risk of financial losses for consumers	Enhancing bank-client communication
Tech feature	Safe and secure data-sharing using non-sensitive personal data	Anomaly analyser powered by machine learning models	An app protected by a secure encryption algorithm

Source: Bank Negara Malaysia

[8] FICG, a collective regional body, consisting of heads and senior representatives of Financial Intelligence Units (FIUs) from ASEAN, New Zealand and Australia.

[9] Further reading on BNM's international and regional AML/CFT initiatives can be found in Chapter 2.5 International Engagements.

AML/CFT Supervision to Elevate Compliance Culture

BNM adopts a risk-based approach in supervising AML/CFT compliance for over approximately 30,000 reporting institutions across various sectors. We apply our supervisory focus and resources based on assessment of the materiality and risk of the sectors and institutions.

The effectiveness of AML/CFT compliance is anchored on strong supervision and clear expectations set on the reporting institutions that are aligned to the international standards set by FATF. During the year, BNM revised the AML/CFT and Targeted Financial Sanctions (TFS) for Financial Institutions (FIs), as well as the Designated Non-Financial Businesses and Professions (DNFBPs) and Non-Bank Financial Institutions (NBFIs) policy documents in line with the revised FATF Standards. Seven industry engagements were conducted with FIs and DNFBPs to socialise the key amendments articulated in the revised policy documents. These policy documents have been issued in February 2024.

BNM continued with its efforts to increase awareness across the private and public sectors to uphold a culture of integrity, transparency and accountability. Industry conferences on AML/CFT are one of the means for BNM to advance this agenda. One such instance is BNM's collaboration with the Asian Institute of Chartered Bankers (AICB) to organise the International Conference on Financial Crime and Terrorism Financing (IFCTF). We also provided technical expertise for *Suruhanjaya Syarikat Malaysia*'s (SSM) National Conference. These events provided an avenue for key players from the private and public sectors to discuss the latest trends in financial crimes and AML/CFT compliance matters with a range of diverse experts and experienced practitioners.

BNM continues to adopt a multi-channel strategy to strengthen the awareness of the DNFBP sectors on the latest AML/CFT initiatives. This includes issuing periodic newsletters, which are accessible by DNFBP reporting institutions through the designated 'E-Platform channel'. The E-Platform, which was launched in 2022, now has been fully subscribed by a majority of the DNFBP sectors (approximately 28,000 registered users). Our outreach programmes are also complemented with industry-led initiatives, such as the sharing of best practices to support the industry's compliance with supervisory and regulatory expectations.

BNM uses various supervisory tools to effectively carry out risk-based supervision of DNFBPs and NBFIs. We focused our onsite and off-site supervisory reviews on reporting institutions in higher risk sectors, resulting in 161 supervisory engagements conducted in 2023, more than a two-fold increase from the previous year. The reviews evaluated the effectiveness of board and senior management to implement sound and robust internal risk and compliance measures to address AML/CFT risks. We also assessed the overall compliance level of the reporting institutions against our regulatory standards. Sector specific targeted assessments were also carried out, such as on the quality and adequacy of Suspicious Transaction Report (STR) submissions. As a result of the reviews, enforcement actions were taken on DNFBPs, with the issuance of directive orders and monetary penalties against non-compliances.

BNM continued to advance the deployment of supervisory technology (Suptech) solutions in supporting our supervisory activities. In 2023, automated assessments on the implementation of TFS by reporting institutions were successfully operationalised. Suptech solutions also enabled supervisors to maintain an updated profile of reporting institutions in the DNFBP sector.

In enhancing oversight, BNM collaborates with other regulatory and supervisory authorities of DNFBPs to promote better alignment and coordination on initiatives. In 2023, BNM embarked on an inaugural joint supervision of accountants with the Malaysian Institute of Accountants (MIA) to assess and enhance AML/CFT compliance within the accounting fraternity.

Sharing of Financial Intelligence and Supporting Law Enforcement

BNM remains committed to effectively share financial intelligence through its FIU, to support the detection and deterrence of financial crimes. As such, the FIU works closely with domestic LEAs and where relevant, foreign FIUs to support financial investigations on money laundering and terrorism financing (ML/TF) activities.

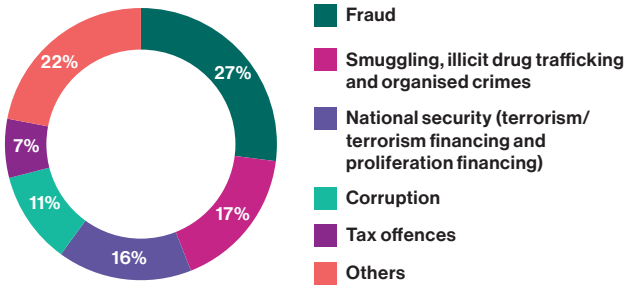
In 2023, reporting institutions submitted 317,435 STRs, a 31% increase from the previous year. Fraud remained the top reported suspected offence, accounting for 23% of the total STRs reported. The other reported offences were mainly on suspected money laundering, tax offences and organised crimes. The number of STRs

received in 2023 has more than doubled since 2020. To process and analyse the large number of STRs received, we continue to leverage on technology, including data analytics capabilities. BNM has been collaborating closely with supervisory authorities and engaging with reporting institutions regularly to improve STR reporting mechanisms and quality. This is undertaken through individual or industry-wide engagement sessions – one of which was the AML/CFT Compliance Workshop 2023 organised by BNM for the insurance and takaful sector. Such sessions aim to improve awareness on the expected standards of suspicious transaction reporting, as well as sharing of emerging risks and *modus operandi* of prevalent high-risk crimes.

The FIU actively shared financial intelligence with domestic LEAs and more than 50 foreign FIU counterparts in 2023 to support cross-border investigations. Approximately 71% of the disclosures made to domestic LEAs and foreign FIUs during the year relate to high-risk crimes[10] (Chart 1).

The disclosures and continuous close engagement between the FIU and LEAs have supported ongoing investigations on major crimes such as drugs trafficking, smuggling, corruption, organised crimes and fraud. These investigations resulted in the arrests of more than 100 individuals, seizure of criminal proceeds and revenue recovery of above RM290 million. The disclosures also supported the monitoring and investigation of cases related to national security[11] matters.

Chart 1: Financial Intelligence Disclosures by Serious Offences in 2023



Note: 'Others' include offences related to environmental crimes, human trafficking and migrant smuggling, illegal remittance, etc.

Source: Bank Negara Malaysia

The National Scam Response Centre (NSRC),[12] established in 2022, continued to ensure swift responses to online financial scams and a more coordinated approach to aid the recovery of stolen funds. Diagram 2 provides more details on the NSRC's key outcomes.

Building on the efforts of the NSRC, the National Fraud Portal (NFP) is being developed to further strengthen Malaysia's defences against financial fraud. The NFP will be rolled out by mid-2024 and aims to elevate the capability of NSRC to respond to scams, beyond traditional enforcement approaches. Payments Network Malaysia Sdn. Bhd. (PayNet), which operates as a shared payment infrastructure in Malaysia, will be playing a central role in the NFP.

Diagram 2: NSRC's Key Outcomes in 2023

NSRC Key Outcomes in 2023
Opened 8,754 investigation papers involving cheating and freeze orders on targeted collection accounts amounting to RM69 million
Identified and distrupted 59,684 suspected mule accounts to prevent multiple layering of transactions to conceal the origin of stolen funds
Attended to 66,997 calls on online financial scams from the public, of which 25,991 calls were from scammed victims

Source: Data from NSRC as at December 2023

[10] High-risk crimes include fraud, corruption, organised crimes, smuggling, drugs trafficking, as identified under the National ML/TF Risk Assessment (NRA) 2020, as well as terrorism/terrorism financing and proliferation financing.

[11] National security covers areas such as terrorism, terrorism financing and proliferation financing.

[12] The NSRC is a joint effort between the National Anti-Financial Crime Centre (NFCC), Polis Diraja Malaysia (PDRM), BNM, and the Malaysian Communications and Multimedia Commission (MCMC), as well as financial institutions and telecommunication companies.

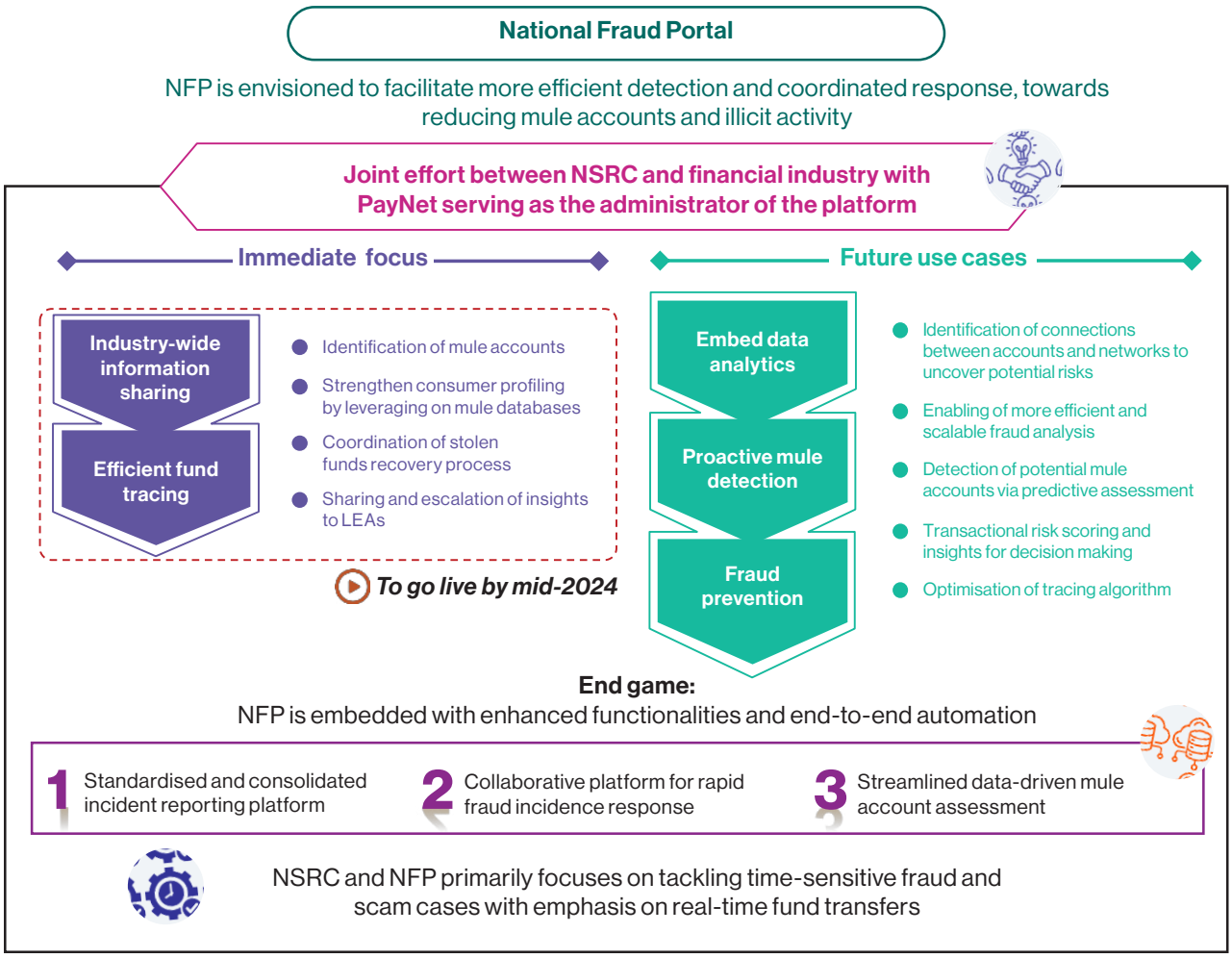
The NFP is expected to be equipped with tools to support analyses before and after the detection of fraud. These tools will in turn expedite the tracing of stolen funds and facilitate prompt actions to be taken on fraudsters and scammers. The NFP is designed with the primary capabilities to -

- Increase greater automation of the tracing process to improve recovery of stolen funds. Key to this is access to credible data and information within the payment ecosystem. On this, the NFP facilitates the integration of transaction data from various sources. It also facilitates greater information sharing among financial institutions to allow stolen funds in suspected accounts to be quickly blocked, pending further investigations.

- Support data-driven assessments and identification of mule accountholders.[13] The NFP will promote greater standardisation on the classification of mule accounts by financial institutions and will serve as a comprehensive database on mule accounts. With access to a wider set of reliable information, this feature within the NFP is expected to improve how financial institutions identify mule accounts and inform their next course of actions. This may include blocking and restricting access to the account, as well as conducting enhanced monitoring on the mule accounts.

In the future, the NFP may include other functionalities that provide predictive analytics to facilitate pre-emptive actions to combat fraud. This may include detecting and halting transactions that are suspected to be fraudulent to reduce fraud losses. These functionalities will also enable quicker escalation of fraud cases to PDRM and faster initiation of legal actions.

Diagram 3: National Fraud Portal (NFP)



Source: Bank Negara Malaysia

[13] Mule accountholders are individuals who allow their accounts to be used by another person to deposit fraudulent funds.

Going Forward

We are committed to uphold the integrity of the Malaysian financial system. In 2024, focus will be directed to implementing the strategies and action plans outlined in the NCC Roadmap. Collectively, this will elevate and strengthen Malaysia's AML/CFT/CPF regime, and the fight against financial crimes.

BNM's Enforcement Approach and Disclosures of Enforcement Actions

In discharging its mandate, BNM exercises its powers to take supervisory and enforcement actions against financial institutions and other parties that contravene the laws administered by us. This is important to promote financial stability, protect consumers and preserve the integrity of our financial system. BNM discloses enforcement actions taken to serve as an important deterrent against future misconduct and irresponsible behaviour.

Role of the Enforcement Committee at BNM

The Enforcement Committee (EC) is responsible for deliberating and deciding on enforcement actions to be imposed on financial institutions for breaches of applicable laws and regulatory requirements (Diagram 1). Operating through the power delegated by the Governor under the respective laws, it acts to ensure objective, fair and consistent decisions on proposed enforcement actions. Members of the EC comprise BNM's Deputy Governors and the relevant Assistant Governors in charge of regulation, supervision and enforcement matters.

Diagram 1: Laws Currently Administered by Bank Negara Malaysia

- Central Bank of Malaysia Act 2009
- Financial Services Act 2013
- Islamic Financial Services Act 2013
- Development Financial Institutions Act 2002
- Money Services Business Act 2011
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001
- Currency Act 2020

Source: Bank Negara Malaysia

BNM's enforcement and penalty framework

Enforcement decisions by BNM are guided by the Enforcement and Penalty (EP) Framework. The EP Framework outlines the enforcement tools[1] provided under the laws administered by BNM also provides specific guidance on the determination of appropriate enforcement actions, including the computation of monetary penalties. A key consideration that goes into these decisions is the severity of the breach. The determination of severity is made by evaluating many factors, including any adverse impact to third parties or broader public interest arising from the breach, and whether the breach points to a more serious breakdown in governance and controls within financial institutions.

Where monetary penalties are considered, BNM's relevant laws stipulate the maximum penalty that can be imposed. Within these limits, the EC arrives at an appropriate and proportionate penalty after taking into account aggravating and mitigating factors such as the severity of the breach, the extent of care and due diligence taken to mitigate the breach, and effectiveness of actions taken to prevent future misconduct. Additionally, the EC also considers the deterrent effect of enforcement actions to reinforce a strong compliance culture. Diagram 2 outlines the typical process for enforcement actions undertaken by the EC.

[1] Enforcement tools include administrative monetary penalty (AMP), instruction to remedy breach, and public or private reprimand.

Diagram 2: Overview of Bank Negara Malaysia's Enforcement Process

1

Detection of Breach

Breach may be discovered via multiple sources such as:

- surveillance and supervisory activities;
- information and report from domestic or foreign counterparts;
- public sources including complaints from public or media reports; and/or
- self-reporting by the wrongdoer.

2

Assessment on Breach

BNM:

- gathers evidence to assess the breach;
- establishes facts of the case; and
- recommends actions to be pursued.

3

Decision-making by the Enforcement Committee (EC)

The EC:

- deliberates the facts of the case;
- determines the type of action to be taken; and
- decides the amount of monetary penalty to be imposed

guided by BNM's enforcement objectives and EP Framework.

4

Communication on BNM's decision

BNM communicates the decision (including providing an opportunity to make written representation, if relevant) to the wrongdoer.

5

Appeal

Wrongdoer may appeal against BNM's decision involving imposition of Administrative Monetary Penalty (AMP) or pecuniary remedy to the Monetary Penalty Review Committee.

6

Publication

BNM publishes the enforcement action taken against the wrongdoer.

Source: Bank Negara Malaysia

Disclosure of enforcement actions

Since 2019, enforcement actions are published by BNM on its website. The publication notices set out details of the breach, including the relevant provisions of legislation that were breached, a description of the nature of the offences and the enforcement actions taken. Where the offender is a regulatee of BNM, information is also provided on any actions required or taken to remedy the breach. We also disclose aggregate information on our supervisory and enforcement actions in our annual reports.

Taking steps to disclose our enforcement actions is how we ensure accountability for enforcement actions taken by BNM and promote public confidence in BNM's role as a regulator and supervisor of the financial system. As earlier noted, the disclosures also serve to provide a credible deterrent against future breaches and misconduct, as well as provide learning points to the other players in the industry.

Managing Bank Negara Malaysia

People 96

Towards a Greener Financial System 102

Feature Article: Supporting SMEs Trasition to Greener Practices 113

Risk Management and Internal Controls 119

Engaging Malaysians 125

International Engagements 134

Managing Bank Negara Malaysia

Managing Bank Negara Malaysia

People

Bank Negara Malaysia (BNM) continued to nurture and develop our people to ensure we deliver our mandates with high standards of excellence and professionalism.

Introduction

At BNM, we strive to create a conducive environment for high-performance. To that end, we continuously seek to explore new ways of working and adapt to evolving norms, while upholding our longstanding traditions of integrity, professionalism, and excellence. In 2023, our people management priorities were aimed at improving staff engagement and productivity in an increasingly digitalised world and aligning workplace culture for organisational effectiveness. We also placed strong emphasis on career development initiatives to secure a sustainable talent pipeline for the future. Throughout the year, enhancements were also made to strengthen our organisational agility through more optimal use of our resources.

Improving People's Engagement and Productivity in the Digital Era

During the year, we focused on improving engagements and creating an optimal working environment for our people as important strategies for staff recruitment and retention. We continued to adopt a flexible approach to working arrangements but with greater emphasis on encouraging more in-person interactions. While we believe that face-to-face interactions are crucial to build trust and camaraderie among staff, we provide staff with the option to work remotely two days a week. In doing so, we also seek to realise the benefits from the use of technology, which enables greater collaboration and efficiency in certain areas of work.

Leveraging our internal social networking platform, we fostered engagement among staff and facilitated the formation of communities around various topics, extending beyond work-related matters to include lifestyle and charitable endeavours. Further, we continue to uphold our tradition of celebrating key festivals with all staff, sports events and the annual treasure hunt, in which we extend the invite to our retirees via the established Alumni society. Recognising their invaluable expertise, we actively encourage their return to BNM to share insights and experiences with current staff. In 2023, we invited former assistant governors and deputy directors to participate in our Sembang Alumni series. Additionally, we continue to disseminate key developments within BNM, empowering our retirees to serve as brand ambassadors, enhancing public education and awareness efforts.

Celebrating key festivals with BNM Alumni in 2023

BNM held numerous activities during Feel Good-Tober event in 2023

In 2023, we continued to invest in adopting technologies that facilitate more seamless real-time collaboration and drive process improvements across teams within BNM. Apart from the expansion of productivity tools available to our people, a few workstreams were established through our Innovation Lab to explore potential use cases of generative artificial intelligence that can help optimise the workflow and increase productivity across different functions in BNM.

Throughout 2023, the well-being of our people remained a key focus. We continued to provide access to counseling services, broadened our coverage of medical benefits for staff and stepped-up efforts to raise awareness on mental and physical health. Persatuan Kakitangan BNM remained an important channel for staff to raise welfare-related issues to improve their well-being. We also introduced more effective training programmes on stress management to help staff manage personal and work challenges.

Aligning Workplace Culture for Organisational Effectiveness

Organisational culture continued to be a core focus during the year. This builds on a concerted set of initiatives that were set in motion since 2021, aimed at fostering and strengthening candour, collaboration, and accountability among our people – all of which are critical to enable us to discharge our mandates more effectively.

In 2023, we made inroads on several key fronts. Having established a common language for our desired culture (Diagram 1), bank-wide socialisation efforts were carried out to all our employees. This included incorporating it into our on-boarding programme for new hires and regular pulse checks with staff, including skip-level engagements led by Senior Management. Additionally, an internal Culture Portal was launched as a one-stop centre for staff to keep abreast with the ongoing culture transformation initiatives. The portal also provides access to a digital-focused recognition tool to encourage staff to actively show appreciation to others who have demonstrated the cultural beliefs in carrying out their responsibilities at work.

In discharging our mandates, we continued to ensure that our staff are familiar with and abide strictly by our Code of Conduct (COC) in performing their duties. One of the ways we do this is by requiring all staff to annually refresh themselves on the code through online education and assessment tools. This is to ensure that our staff embody the highest standards of excellence, integrity, and professionalism as established in our employee COC.

Diagram 1: Our Cultural Beliefs

Source: Bank Negara Malaysia

Talent and Career Development

At BNM, we seek to maintain a sustainable talent pipeline and timely interventions for mission critical positions. Central to our organisational philosophy is the cultivation of talent through strategic succession planning. Decentralised platforms via the Mini Talent Councils (mTCs) continue to be effective channels for the identification of emerging leaders at sectoral level, that feed into the broader pool of high potential talent across BNM. This decentralised approach complements our existing framework for handling Bank-wide critical functions and senior positions, which are deliberated at the Management Committee level.

Investing in emerging leaders is paramount for BNM's organisational sustainability. In 2023, we introduced the Future Leaders Development Programme (FUEL) to nurture emerging talent within BNM. FUEL has a strong focus on cultivating BNM's cultural beliefs for effective leadership skills. The programme aims to inculcate a habit of continuous learning, adaptability and forward thinking in dealing with scenarios and challenges that are unique to central banks. Ultimately, it reinforces critical leadership competencies, including stakeholder management and fostering a collaborative workplace culture.

In addition to FUEL, executive coaching plays a pivotal role in nurturing our emerging leaders. At BNM, we deploy a tailored approach to executive coaching that offers a supportive environment for emerging leaders to explore their strengths, address development areas, and refine their leadership style. Coaching sessions are conducted by seasoned professionals with extensive leadership experience, providing invaluable mentorship and guidance to our future leaders. This is further supplemented by mentoring sessions and skip level engagements with the board and senior management of BNM who provide practical insights in addressing leadership challenges. This multifaceted approach offers our emerging leaders unique opportunities for continuous learning throughout the organisation, with the goal of expediting their preparedness for future leadership positions.

Alongside the continuous investments in our people, our ability to attract and retain high-quality staff is crucial to our mission. To this end, we finalised a comprehensive rewards review during the year to ensure that our salary structure and benefits remain competitive relative to market trends. Our rewards philosophy is performance-based, and places emphasis on achieving the expected leadership and technical competencies.

Nor Emilia Ilyana binti Che Kamarudin
Senior Analyst, Jabatan Antarabangsa

In reflecting on my upbringing and values, I've found alignment with the inclusive culture at BNM over my 13-year tenure. Witnessing its commitment to fostering a safe, supportive, and value-driven workplace has been deeply gratifying. The emphasis on open communication and inclusivity has empowered staff, fostering a dynamic and responsive environment. Personally, having my input recognised by senior leadership has been invigorating, highlighting BNM's merit-based approach over traditional hierarchies. This shift has led to increased openness, humility, and collaboration, driving excellence across the organisation. Embracing the diversity of our workforce, BNM ensures that all voices are heard and valued, creating a culture of trust and collaboration that I am proud to be a part of.

During the year, we continued to encourage our staff to pursue professional certifications across a broad range of disciplines. Currently, 634 staff members hold memberships from various professional bodies and possess relevant credentials. Additionally, we continue to provide staff scholarships in emerging and future areas such as fintech and sustainability. This investment in professional development not only enhances individual competencies but also enriches our collective expertise, enabling us to meet the evolving demands of our dynamic environment and deliver our mandates effectively. While face-to-face learning for core programmes have regained momentum since the pandemic, we continued to encourage virtual and self-paced learning initiatives.

As we embrace new ways of working and technology adoption, traditional roles especially administrative functions, continues to undergo redefinition. In dealing with this challenge, we are committed to upskilling and reskilling our administrative staff. Key training areas include digital fluency, office management, communication, and stakeholder relationships. So far, this has yielded tangible results with new process improvements introduced by our administrative staff, including spearheading the digitalisation of workflows.

Raja Mohamad Shahadan Raja Mohamed
Manager, Jabatan Audit Dalam

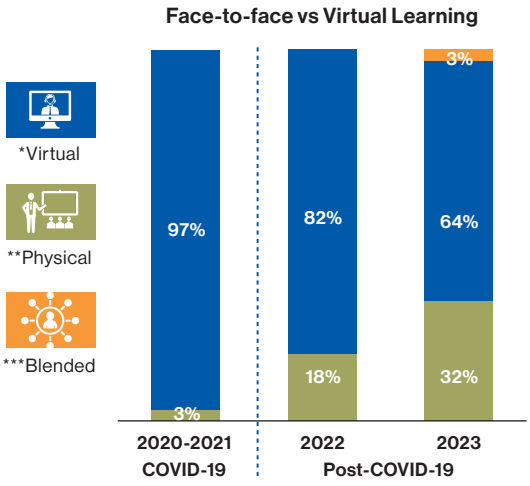
I express immense gratitude to BNM for granting me a scholarship over a decade ago, marking the beginning of a transformative journey. Having contributed to nation-building across diverse departments such as risk management, finance, and auditing, each experience has been profoundly rewarding. Moreover, participating in the inaugural Future Leaders Empowerment Programme (FUEL) has been a pivotal milestone. Through FUEL, I've gained invaluable insights and forged meaningful connections with colleagues, fostering a supportive network for future endeavors. Ultimately, the program has equipped me with enhanced self-awareness and strengthened leadership skills, positioning me to drive team performance and contribute to the success of BNM and our nation.

Diagram 2: Continuous Development for Staff, Through Various Channels

Total staff trained in 2023: 2463 staff

Learning and development (L&D) investment over gross salary:
6.6%
3-year average pre-pandemic (2017-2019):6.9%

Average learning hours per executive:
2023: 56.3 hours
2022: 50 hours



* Mix between instructor-led and self-paced learning.
** In class workshop and seminars.
*** Incorporated both style throughout the duration of the program.

Source: Bank Negara Malaysia

Enhancing Organisational Agility

BNM continued to make our people operations and processes more efficient and effective throughout the year. This is to ensure that our staff can respond and adapt to issues and changes in the domestic and global environment.

One thrust was to further streamline department functions and institute clearer lines of oversight. In 2023, a strategy office was established in the People Department to better align people-related practices with BNM's vision, mission, and strategic objectives. The functions within the Currency Department were also streamlined in step with the modernisation efforts for currency management and operations.
We also continued to reap the benefits from adopting more agile resourcing approaches across BNM. With a talent marketplace approach, we are able to draw expertise from across departments to deliver key projects and policy initiatives. An example is the work on exploring use cases for AI and projects within the financial development sector. In 2023, the financial stability sector also made more concerted efforts to pilot this agile approach. This included introduction of short-term attachments for staff to learn and build their expertise in a complementary area within the sector.

Attracting the Right Talent

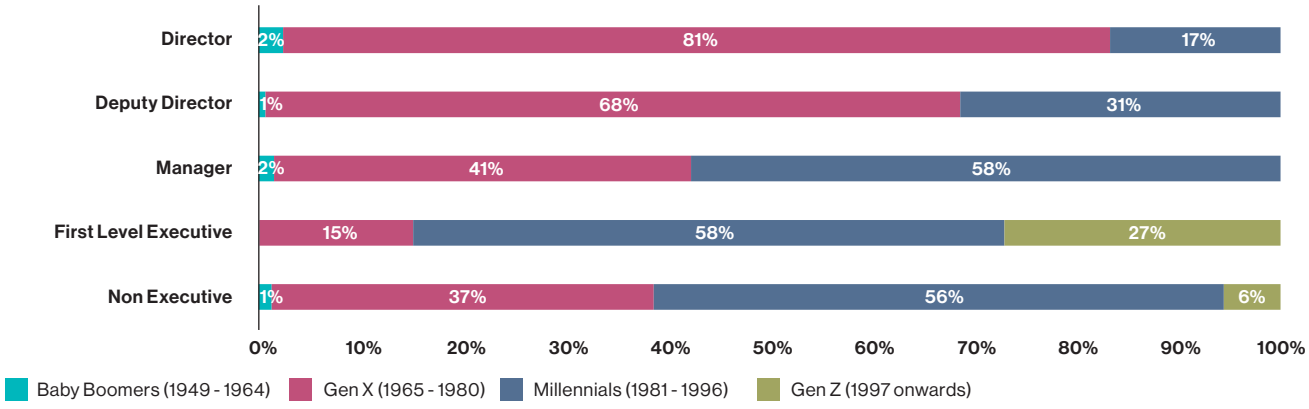
During the year, we directed our focus on attracting talent across diverse backgrounds. Our workforce cuts across a wide age group, with millennials making up more than half the workforce. With a staff strength of 3,352, we maintained a fairly balanced distribution between the genders across the different job levels (see Chart 1).

We also made further progress in diversifying our talent sourcing strategies (see Chart 2 on our sources of talent). In 2023, we recruited 117 young talents through our entry level Kijang Graduate Programme (KGP) that was recognised as one of Malaysia's Top Management Programmes by GRADUAN. Rotational placements across monetary and financial stability, as well as the corporate management sectors, provided opportunities for these young talents to gain deeper understanding of the functions within BNM. The KGP complements our long-standing scholarship programme for high potential students. Currently, a total of 165 students are pursuing their studies in relevant subjects such as economics, accounting and finance.

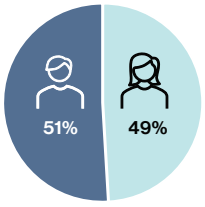
As part of our resource optimisation strategy, we also completed the manpower audit exercise for the

Chart 1: Gender Balanced and Multi-Generational Workforce

Millennials make up the largest segment, at 56% of the Bank Negara Malaysia's workforce



Headcount 3352



Male Female

Job Level	Gender Composition	
Senior Management	57%	43%
Managers	44%	56%
First Level Executive	46%	54%
Non-Executive	63%[1]	37%

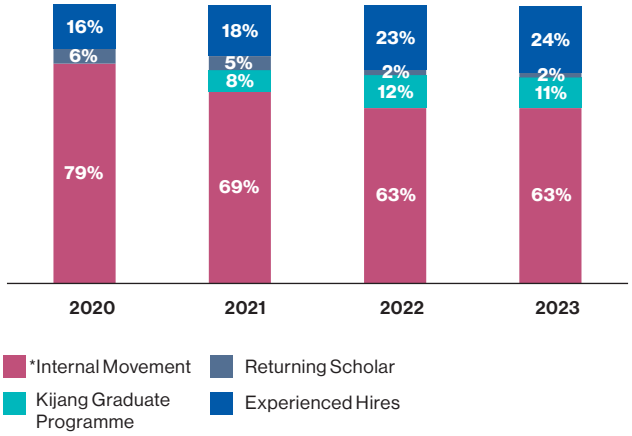
Note: Data as at 31 Dec 2023.
[1] Higher percentage of male non-executive staff is attributed to our Auxiliary Police.

Source: Bank Negara Malaysia

Teo Guan Aik
Associate Supervisor, Jabatan Penyeliaan Konglomerate Kewangan

Having joined BNM through the Kijang Graduate Programme in April 2022, I've gained invaluable experience and collaborated across various departments, honing technical and interpersonal skills while fostering friendships and diverse perspectives. Despite being relatively new to BNM, I've been impressed by the organisation's culture, characterised by a flat hierarchy, openness to ideas, and emphasis on teamwork and individual contributions. Departments actively promote cultural beliefs, such as 'Speaking Out' and 'Excel Together,' through inclusive practices like dedicating time for sharing opinions in meetings and tailoring team-building activities accordingly. Through my rotations, I've witnessed departments where teamwork thrives and individuals are empowered, reflecting BNM's commitment to cultural transformation. As we continue this journey, the positive impact of these efforts will undoubtedly contribute to creating a workplace that supports its employees while serving the nation effectively.

Chart 2: Our Source of Talent



Note: Data as of 31 Dec 2023.
* Vacancies filled through promotion and transfer within departments.

Source: Bank Negara Malaysia

financial stability and digital technology functions in BNM to reflect changes in demands on the bank and the way we work, while reiterating the need for continued process improvements.

Going Forward

The backbone of BNM is its people and we strive to ensure that our people can be at their best. This includes providing the necessary support in terms of resources and development. In this regard, one of the major priorities for 2024 is to finalise the manpower audit for the remaining departments to ensure optimal staffing levels. In addition, focus will also be directed to further digitalise our operations through the implementation of a digital operating platform. This will help BNM to make better use of our resources as our people can better leverage on data-driven insights for more informed decision-making.

Towards a Greener Financial System

Financial sector demonstrated increased commitment and responses in building climate resilience, and in supporting transition and green efforts of customers. Specific focus was accorded to developing practical support for SMEs to build climate resilience and capacity to transition.

Introduction

In 2023, BNM continued its efforts to put in place the key pillars that will enhance climate resilience and manage climate-related risks within the financial sector. Our efforts aim to support financial institutions and the real sector transition to a greener economy. We remain committed to ensuring that our initiatives and that of the financial sector are aligned to national policies and strategies. Within BNM, we progressed further in greening our own operations. This was supported by continuous efforts to build internal capability and expertise.

Since we began our climate journey in 2019, financial institutions have shown encouraging progress in catalysing the transition to a greener economy. Frameworks and tools that have been developed are being progressively put into practice. These include the transition taxonomy for classifying economic activities in alignment with climate-related outcomes, implementation of regulatory standards and clearer supervisory expectations on managing climate risks. Following issuance of the climate risk management standards[1] at end-2022, we actively engaged with the industry to assess their readiness in operationalising the requirements. Financial institutions have also advanced preparations to comply with the annual climate-related disclosure standards[2] which will take effect from the financial year beginning 2024. In supporting meaningful disclosures with credible data, efforts were intensified to improve availability of and access to crucial data needs of the industry. This covers data on vehicle emissions, floods, and renewable and non-renewable energy components. Financial institutions have committed more than RM240 billion in financing for environment, social and governance (ESG) initiatives up to 2027. This is an increase of about RM130 billion as compared to the previous year. We expect more to be allocated in the coming years in line with greater policy clarity on sectoral transition pathways. Overall, financial institutions are including climate considerations into their risk management, strategies, internal operations, business decisions and product offerings (Diagram 1).

Climate Risk Considerations Embedded Across BNM

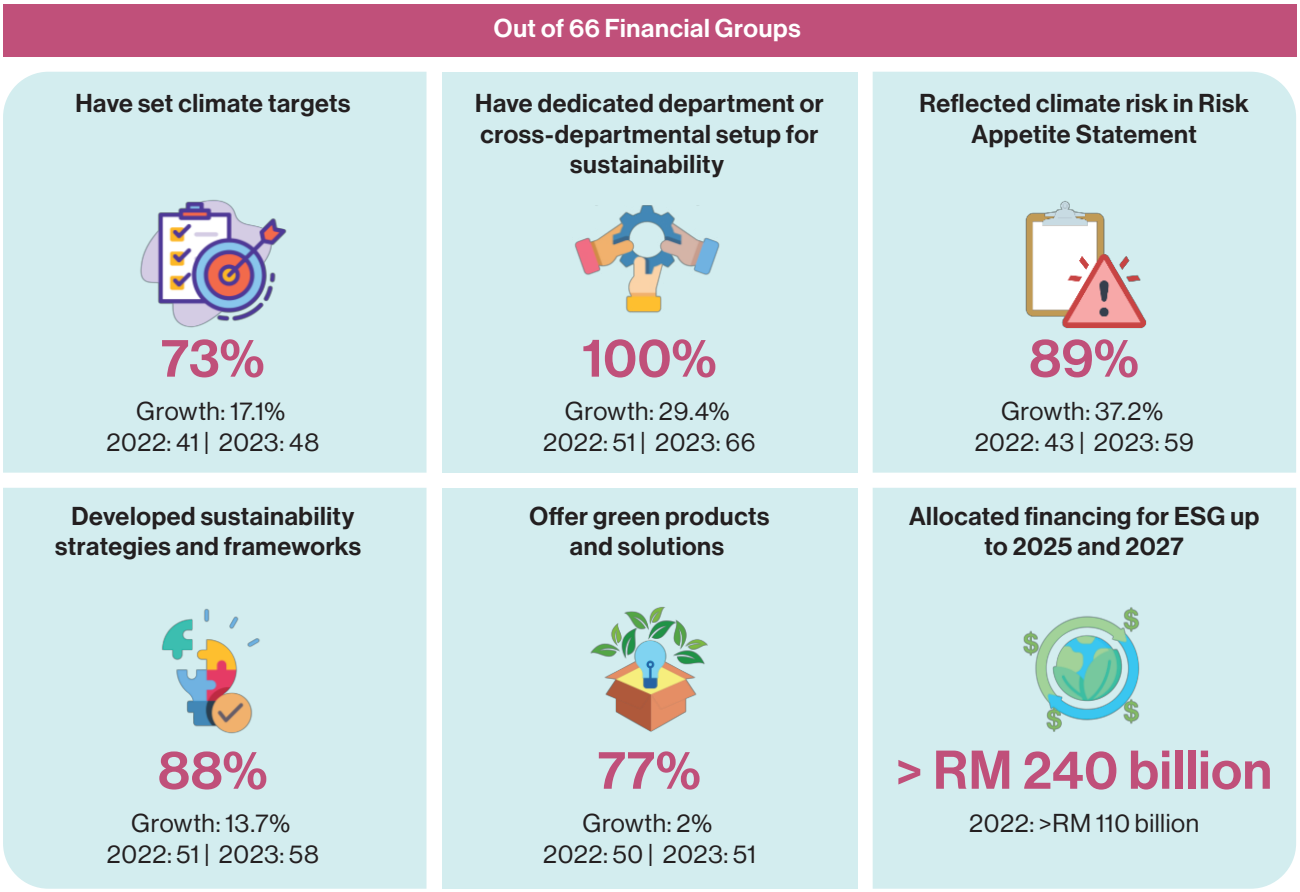
BNM acknowledges climate risk as one of the key challenges that it needs to address in pursuing its mandates. This is now reflected in our enterprise risk appetite statement. Our board and senior management provide direction on BNM's key focus areas and priorities to address climate-related risks within its mandates. These include policy development, research and analysis, advocacy as advisor to the Government, regional collaboration and adoption of sustainability practices within our own operations. Regular updates are provided to the board and senior management on the progress of climate-related initiatives across BNM and the financial sector.

The Sustainability Unit serves as a dedicated function that coordinates and drives BNM's climate initiatives. The Unit works closely with departments within BNM in delivering coordinated climate outcomes. Climate considerations are increasingly embedded across all aspects of our work and operations as knowledge and understanding improve.

[1] Policy document on Climate Risk Management and Scenario Analysis, CRMSA.

[2] The climate-related disclosures, aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), are to be published together with annual financial reports.

Diagram 1: Progress Observed in the Financial Industry in 2023



Note: 66 financial groups comprise banks (conventional and Islamic), investment banks, development financial institutions, insurance and takaful operators.

Source: Bank Negara Malaysia

Steady Progress in Advancing Climate Agenda

In 2023, BNM continued to make steady progress in integrating climate-related risk considerations in our core functions (Diagram 2). Our priorities centred on preparing financial institutions for upcoming regulatory initiatives such as the industry-wide climate risk stress testing. For this, we periodically engaged financial institutions to provide clarity on our expectations. We leveraged such engagements to be better informed of challenges and issues facing the industry. We also continued to deepen our understanding and approaches to assess the impact from climate-related events on our economy and financial sector. An example is the research we conducted together with the World Bank to analyse how businesses can be impacted by floods, and role of the financial sector in supporting businesses to manage flood risks.[3]

Internally, we ramped up efforts to better manage emissions arising from our operations. In 2023, we subscribed to the Green Electricity Tariff (GET) for our main premises which offset our scope 2[4] electricity emissions by about 35% between August to December. This is done alongside an energy management programme to directly reduce our emissions. During the year, we further enhanced the way we approach and measure our emissions. We refined our internal dashboard that tracks sustainability metrics, such as for our electricity use, water use, and plastic waste. We also intensified work on developing a more robust emission measurement, monitoring as well as reporting framework. This is part of our current efforts to develop a roadmap for our physical operations to guide our actions towards achieving our climate goals.

[3] Key findings are published in the report entitled 'Managing Flood Risks: Leveraging Finance for Business Resilience in Malaysia' and featured in the box article on (Flood and Finance: Building Resilience of Malaysian Businesses) in BNM's Financial Stability Report 2H 2023.

[4] Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

Diagram 2: Progress and Outcomes of BNM's Climate Initiatives in 2023

Financial Regulation and Supervision

Building a facilitative regulatory landscape and enhancing climate resilience in the financial sector

- Engaged with financial institutions to support implementation of the Policy Document on Climate Risk Management and Scenario Analysis (CRMSA)[1].
- Engaged with financial institutions to build capacity and accelerate preparations for the upcoming industry-wide climate risk stress testing.
- Continued initiatives to improve credibility, consistency and applicability of Climate Change and Principle-based Taxonomy (CCPT) reporting.

Macroeconomic & Monetary Policy

Enhancing macroeconomic surveillance and forecasting

- Developing country-level modelling tools to support holistic assessments of the impact of climate change on the macroeconomy.
- Research on flood risks, decarbonising the Malaysian economy, and impacts of climate risk transmission channels in the Malaysian context.

Investment

Factoring sustainability

- Continued to adopt pragmatic approach for sustainability investing, incorporating various ESG metrics such as ESG score and Paris-aligned GHG emissions targets into investments of international reserves.
- Increased exposures in ESG-label fixed income assets (as recognised by International Capital Market Association), in line with broad market developments.
- Involvement in forums organised by regional central banks and Network for Greening the Financial System (NGFS) on aspects of ESG integration within reserve portfolios.

Financial Development

Green finance and investment

- Supported development of the green financial market through successful implementation of green bonds/sukuk identifier in January 2024 in the Fully Automated System for Issuance/Tendering (FAST). This enhancement enables identification of sustainable bonds at the issuance stage of bonds/sukuk in FAST, aligned with various classification systems including the Sustainable and Responsible Investment (SRI) Framework, ASEAN Sustainable Bonds/Sukuk and Climate Change and Principle-based Taxonomy (CCPT).
- Formed a Sustainability Working Group (SWG) within the Financial Markets Committee as a platform for collaboration between financial market industry players to identify opportunities and gaps for the development of domestic sustainability market.

Corporate Sustainability

Reducing BNM's carbon footprint

- Refined internal dashboard to track sustainability metrics of BNM's operations.
- Updated BNM's greenhouse gas emissions profile.
- Continued work on developing long-term target and roadmap for BNM.
- Lower increase of electricity usage to 3.5% compared to 2022 (10%), mainly contributed by energy efficiency projects implemented in BNM premises.
- Subscribed to Green Electricity Tariff (GET) for HQ and Sasana Kijang starting August until December 2023.
- Installed Energy Management Systems at Recovery Centre and Data Centre and Upgrading of Building Management System at Sasana Kijang, Recovery Centre, Data Centre Cyberjaya and Lanai Kijang for optimisation of building operations.
- Retrofitting and replacement to LED lights and High-Efficient Chillers for main premises.
- Initiated energy management programmes for main premises.
- Recycled over 130kg of electronic waste.
- Minimised GHG emissions from currency operations by promoting digital payments, recirculating fit banknotes, implementing Waste-to-Energy[2] method for disposal of currency, and prioritising recycling practices.

Capacity Building

Increasing internal technical expertise

- Climate Risks and Sustainable Finance Training Programme in collaboration with SOAS University of London, and specialised workshops in collaboration with Carbon Trust UK, that were attended by nearly 300 BNM staff across multiple sectors. Topics include carbon accounting, setting climate targets, climate stress test and scenario analysis, and climate-related financial disclosures.
- Climate change e-module training rolled out in stages for staff.
- Continuous publication of newsletters, podcasts and forum posts.
- Linking NGFS SKILL (Sustainability and Knowledge Information Learning Library) with internal learning management system.

[1] Details on BNM's assessment of the CRMSA implementation plans submitted by financial institutions are in the box article on 'Climate Risk Management and Scenario Analysis' in BNM's Financial Stability Report 2H 2023.
[2] Waste-to-Energy (WTE) method converts solid waste into usable forms of energy, such as heat and electricity. Details on WTE and issuance of fit banknotes are in the Chapter 1.6 on Issuing Currency of Bank Negara Malaysia's Annual Report 2023.

Source: Bank Negara Malaysia

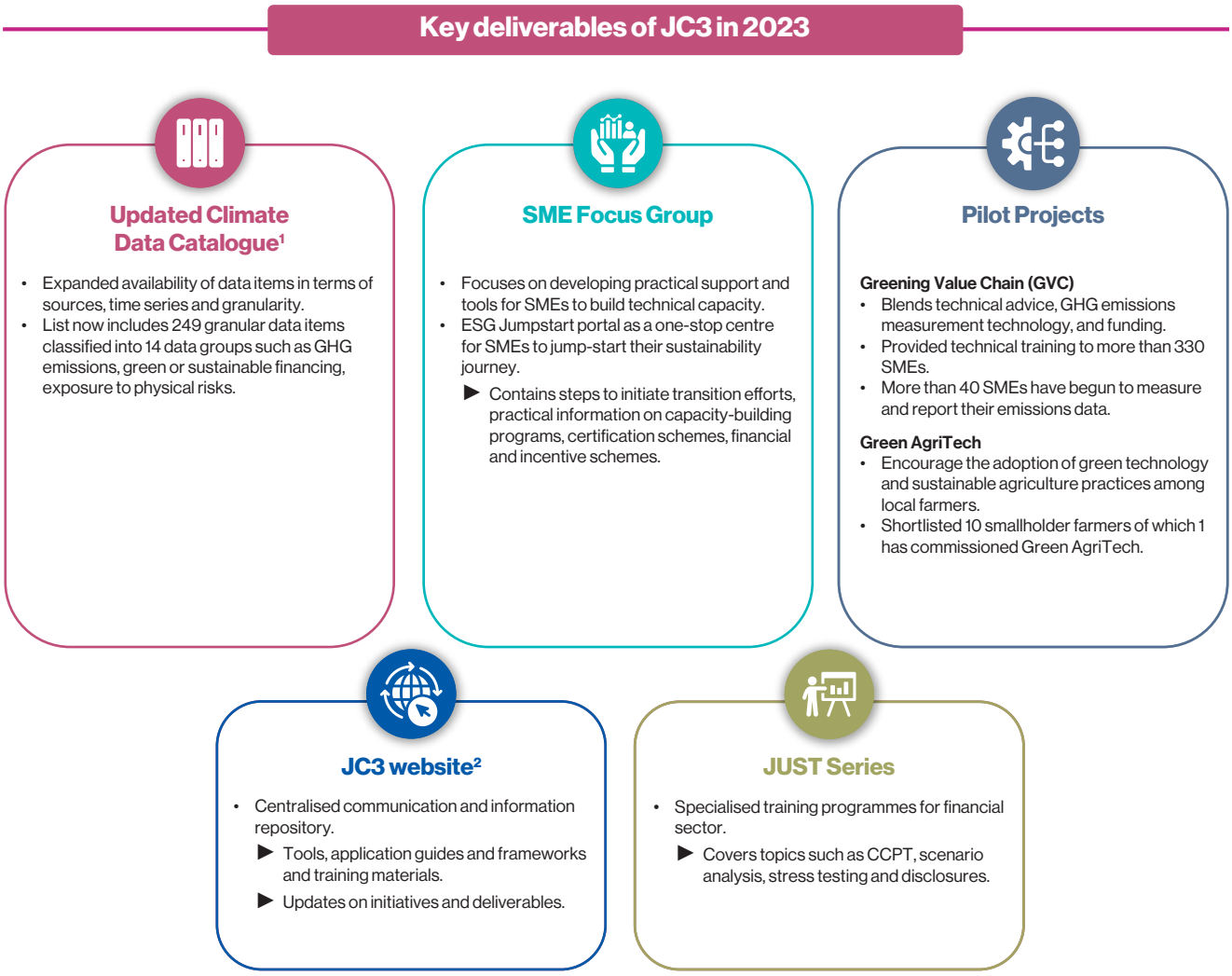
Leveraging Synergies through the Joint Committee on Climate Change (JC3)

The JC3 continues to serve as a key focal point in supporting the financial sector's response to and preparedness for climate change.

In 2023, the JC3 continued to focus on credible implementation of the Climate Change and Principle-based Taxonomy (CCPT). The JC3 introduced a standard due diligence questionnaire to facilitate financial institutions in obtaining information from their customers for appropriate assessment and classifications.

In supporting transition efforts, the JC3 served as the platform to coordinate initiatives between BNM, Securities Commission Malaysia (SC), the industry and relevant Government ministries and agencies to develop and implement pilot projects to scale up climate finance. This includes piloting public-private partnerships to seed transition and adaptation financing solutions for small and medium enterprises (SMEs) to green their operations and build climate resilience. The Greening Value Chain (GVC) and Green AgriTech pilot projects were successfully implemented and the JC3 is in the midst of embarking on a new pilot project to green industrial parks. Improving access to financing for SMEs was also actively pursued with relevant organisations such as development financial institutions and Credit Guarantee Corporation Malaysia Berhad (CGC).

Diagram 3: Key deliverables of JC3 in 2023



[1] https://www.jc3malaysia.com/data-catalogue
[2] https://www.jc3malaysia.com/

Source: Bank Negara Malaysia

CGC in partnership with 18 participating banks are now offering a RM1 billion portfolio guarantee scheme for ESG financing for SMEs.

Building technical expertise in climate risk and sustainability remains an important agenda for JC3. The JC3 led capacity building efforts for the industry on key technical areas covering topics such as social sustainability, transition plans and nature-related disclosures. The JC3 also increased engagements with the wider industry via the JC3 Outreach Sessions conducted in June and November. The sessions aim to create more awareness on JC3 and its initiatives, as well as share key updates on domestic and global climate-related initiatives. The biennial JC3 Journey to Zero Conference was held in October, focusing on practical applications of climate and nature finance. The Conference attracted more than 650 physical attendees and more than 4,000 virtual attendees across the three days.

Governor Abdul Rasheed Ghaffour delivering keynote remarks at JC3 Journey to Zero Conference.

Deputy Governor Jessica Chew as a panellist at the JC3 Journey to Zero Conference.

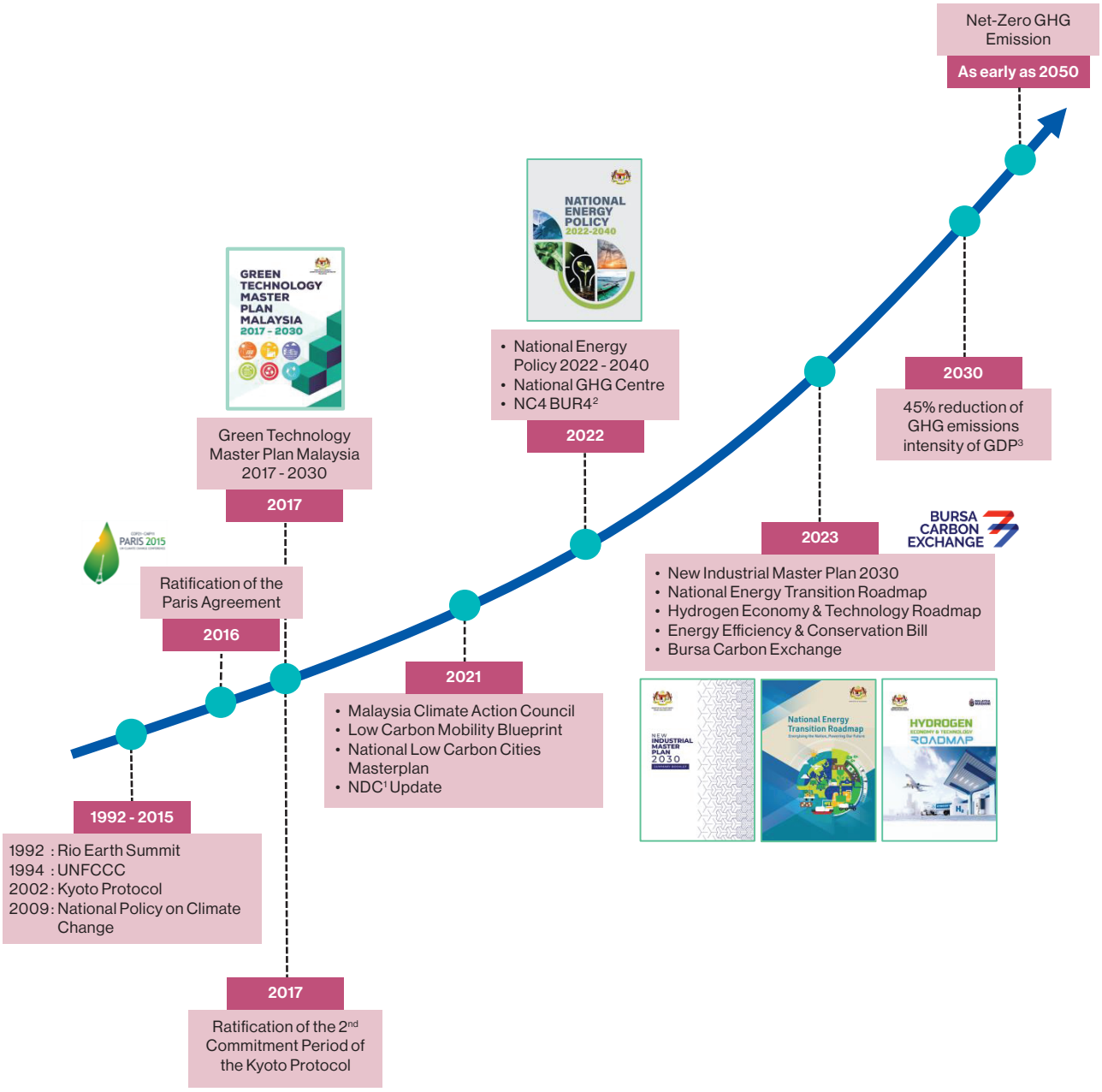
The JC3 also works in partnership with the Value-Based Intermediation Community of Practitioners (VBI CoP). This has led to the issuance of Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) sectoral guides in 2021 and 2022. Following consultations with the JC3, the VBI CoP is currently finalising the VBIAF sectoral guides on agriculture, forestry and fishing, waste management, road transportation, mining and quarrying. These are in addition to the sectoral guides on oil and gas, manufacturing, and construction and infrastructure issued in 2022, as well as on palm oil, renewable energy and energy efficiency issued in 2021. The sectoral guides complement the CCPT by providing sector or transaction level guidance.

Playing Our Part in the 'Whole-of-Nation' Response to Climate

We continued to forge closer ties with many Government ministries and agencies in 2023. This helped to inform national policy while ensuring alignment in the financial sector's climate response.

Policy responses at the national level gained traction during the year, providing critical policy clarity for businesses and the financial sector. Key policies include the National Energy Transition Roadmap (NETR), the Hydrogen Economy and Technology Roadmap (HETR) and New Industrial Masterplan (NIMP). For many of these national policies, BNM was involved to provide financial sector perspectives. BNM is a member of steering committees for the NETR and NIMP, as well as the National Steering Committee on Climate Change, and National OGSE Sustainability Roadmap (NOS-R). BNM is also an observer in the Electric Vehicle Taskforce.

Diagram 4: Malaysia's Decarbonisation Journey



[1] NDC = Nationally Determined Contribution
[2] NC4 BUR4 = 4th National Communication & 4th Biennial Update Report
[3] Achievement of Malaysia's Emissions Reduction Commitments under the NDC

Source: Bank Negara Malaysia

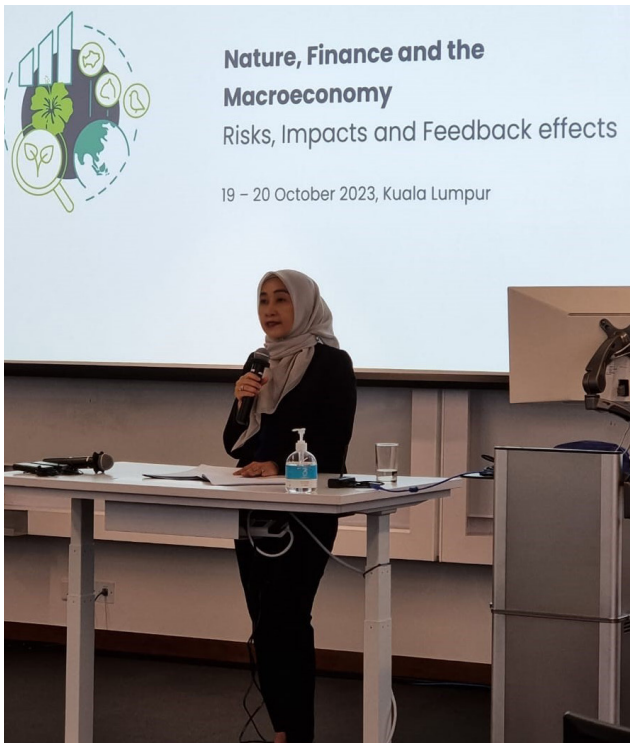
Increasing Awareness through Communication

We continued to actively share our initiatives and views on the important role that the financial sector plays in facilitating an orderly and just economic transition.

The JC3 and BNM were part of Malaysia's delegation at the 28th United Nations Climate Change Conference (COP28) in November to December 2023 in Dubai, United Arab Emirates. We explored opportunities for developing potential partnerships to scale up transition finance in Malaysia. We spoke in several sessions,

covering topics such as climate finance, nature and biodiversity, and energy transition. We also shared our regulatory approach in strengthening financial institutions' readiness to build climate resilience and to support transition. These efforts aimed to showcase Malaysia's transition and green initiatives while also generating interest for partnerships with domestic financial institutions.

Deputy Governor Jessica Chew delivering keynote address at the Institute of International Finance-Maybank Transition Finance Workshop.



Assistant Governor Dr. Norhana Endut delivering keynote address at the Nature, Finance and the Macroeconomy Conference.

Governor Abdul Rasheed Ghaffour offering remarks at Malaysia's Climate Finance Day at COP28.

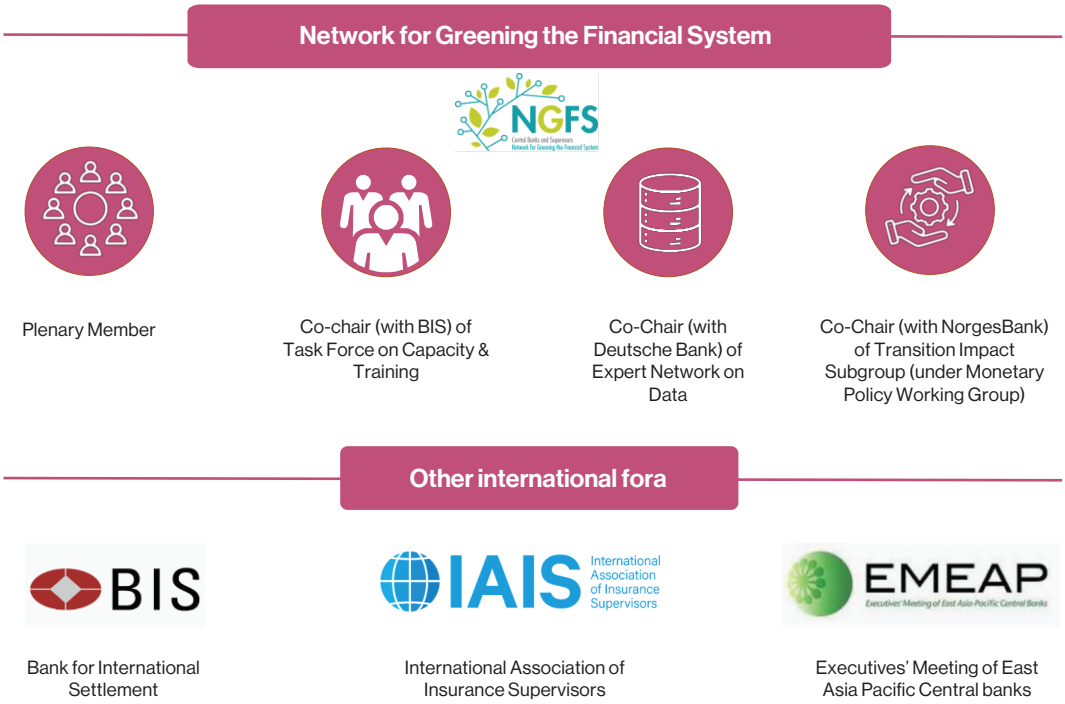
Madelena Mohamed (Sustainability Director) as speaker at the Leaders Dialogue on Accelerating SMEs' Resilience in A World of Growing Climate Risks at the Italian Pavilion at COP28.

Contributing to Regional and International Thought Leadership

BNM continues to advocate for global collective action to improve climate equity and avoid a disorderly transition. This is done through our participation in international bodies such as the Central Banks and Supervisors Network for Greening the Financial System (NGFS) and other fora. In these platforms, we provide an important perspective on transition challenges for emerging market economies (EMEs). Some of the key challenges include the large financial investments, knowledge, and technological advancements required to tackle the unequal effects of climate change. Greater appreciation of issues facing EMEs has contributed towards bridging gaps in the work of the international bodies and fora to support a more credible global response to the climate challenge.

The ASEAN Taxonomy Board, of which BNM is a founding member, published an updated version of the ASEAN Taxonomy for Sustainable Finance Version 2[5] in February 2024. The updated version sets out the final set of Technical Screening Criteria (TSC) for electricity, gas, steam and air conditioning supply sector (energy sector). During the year, BNM led the development of thresholds for the construction and real estate focus sector (Diagram 6). This builds on earlier experience in developing the TSC for the energy sector. The release of the TSC for the construction and real estate is scheduled in the first quarter of 2024, alongside the TSC for transport and storage.

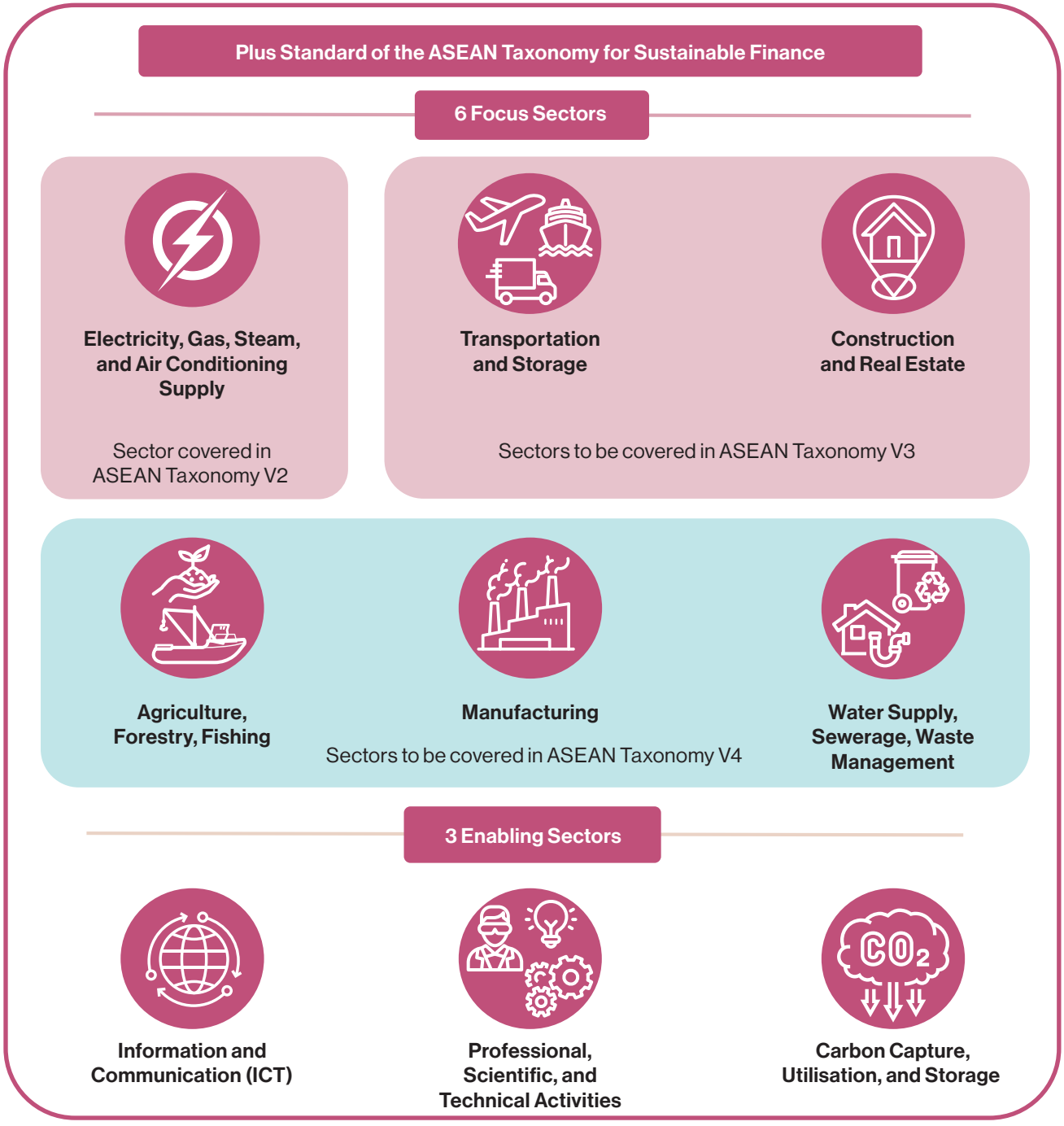
Diagram 5: Bank Negara Malaysia's Participation in NGFS and Other International Fora



Source: Bank Negara Malaysia

[5] The ASEAN Taxonomy for Sustainable Finance serves as a guide for businesses and investors in pursuing green and transition activities. In addition, it supports the flow of inclusive transition finance to the region. It adopts a multi-tiered approach comprising the Foundation Framework and the Plus Standard to cater to the diversity of ASEAN Members States. Further information can be found via https://asean.org/book/asean-taxonomy-for-sustainable-finance/.

Diagram 6: Plus Standard and Focus Sectors of the ASEAN Taxonomy for Sustainable Finance



Source: Bank Negara Malaysia

Addressing Nature-related Financial Risks

Nature-related risks pose a significant threat to the economy and society. Climate- and nature-related risks are interconnected. Climate change is one of the five primary drivers[6] of biodiversity loss, leading to weaker ecosystems in terms of structure, functioning, and resilience. At the same time, forests, mangroves, and peatlands are natural carbon sinks, capturing and storing carbon dioxide while also providing protection from extreme weather events.

As with climate change, nature-related risks can lead to financial and economic losses. Nature-related risks can also worsen the effects of climate change. Since 2022, BNM has begun to look at nature-related risks. To better understand the relationship between the financial sector and nature, BNM together with the World Bank conducted a joint study[7] to assess the financial sector's exposures to nature. The study also looked at the financial sector's exposures to businesses that are reliant on nature. The report contributes to BNM's approach in managing climate and nature-related risks and pursuing opportunities related to climate and nature. This includes the untapped potential of nature-based solutions (NbS) in addressing climate change and environmental-related issues in Malaysia.[8] Given the close interactions between climate- and nature-related risks, it is crucial for financial institutions to leverage work to deepen their understanding, knowledge and responses to climate change to also cover nature-related aspects. This will expedite financial institutions' responses in building their resilience against environmental issues alongside climate change.

Taking the earlier work done with the World Bank further, BNM announced its collaboration with the Taskforce on Nature-related Financial Disclosures (TNFD) and the World Bank to develop a financial risks assessment guide for nature for financial institutions at COP28. This will leverage the LEAP (Locate, Evaluate, Assess, Prepare) framework by the TNFD. This can help financial institutions to also explore scaling up private capital mobilisation for nature-based solutions. Working with the World Bank, BNM will also be commencing a study to explore nature-based solutions and financing options most suited for Malaysia.

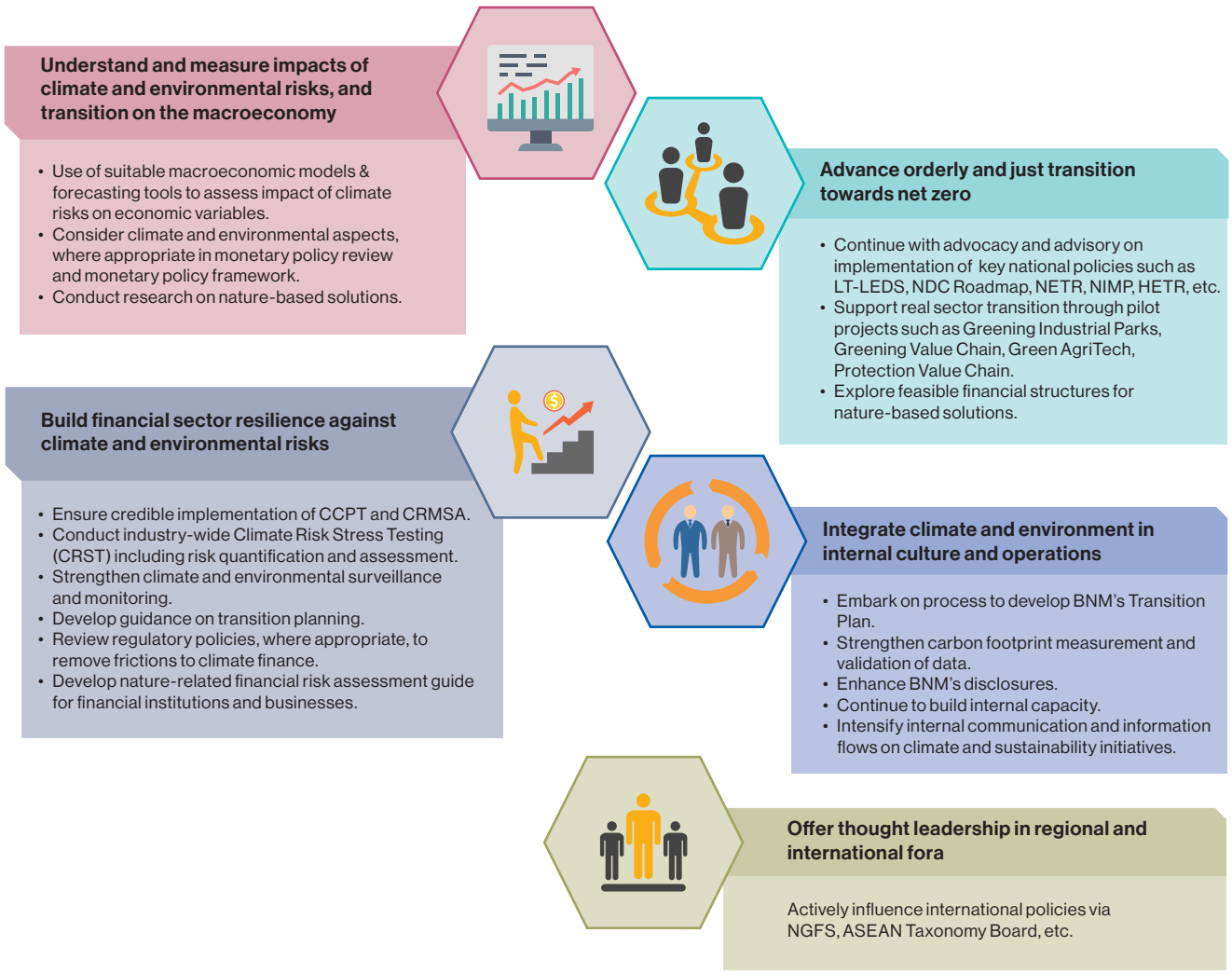
Going Forward

Malaysia is at a turning point in its climate journey. It is important to chart the right course of action to meet its net zero target as early as 2050. For the financial sector, it is time to shift gears to the implementation phase, with key building blocks, national policies and roadmaps that are now in place. The financial sector has a key role to play in facilitating the execution of national policies and roadmaps by developing innovative products and solutions to channel finance to climate friendly activities or activities that support green transition. Blended finance mechanisms are an avenue to fund high risk transition and adaptation activities using both public and private sector monies.

For BNM, the focus remains on ensuring that the financial sector's response to climate challenge is compatible with monetary and financial stability, economic growth and inclusion outcomes. This includes refining our regulatory and supervisory approach and extending our scope to include nature-related financial risks. We aim to provide a policy environment that is facilitative for the industry to advance financial innovations and explore novel financial structures to meet the significant financing needs for climate risk mitigation and adaptation. We will also continue to advance our research work and strengthen internal competence and awareness to build a green culture within our own operations.

[6] Land use changes, overexploitation of natural resources, climate change, pollution, and invasive spaces.
[7] Findings are published in the report on 'An Exploration on Nature-related Financial Risk' in March 2022.
[8] More information on nature-based solutions (NbS) on the JC3 website (www.jc3malaysia.com).

Diagram 7: Bank Negara Malaysia's Key Focus Areas for 2024



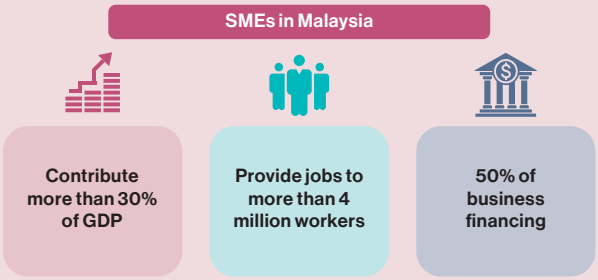
Sumber: Bank Negara Malaysia

Supporting SMEs Transition to Greener Practices

In many countries, SMEs are the critical contributors to economic growth. This is true for Malaysia as well, with SMEs accounting for 97%[1] of all business establishments. SMEs provide employment to around 48%[1] of the Malaysian workforce, making them the backbone of the domestic economy (Diagram 1). As key players in the global and domestic supply chain, SMEs are crucial to achieve an orderly transition for Malaysia to a low carbon economy in line with the Paris Agreement goal[2] to mitigate the harmful effects of global warming.

This article outlines the risks and opportunities for SMEs arising from the effects of climate change, ways SMEs can embrace sustainability practices and the support provided by BNM and the financial sector.

Diagram 1: Significance of SMEs in Malaysia



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

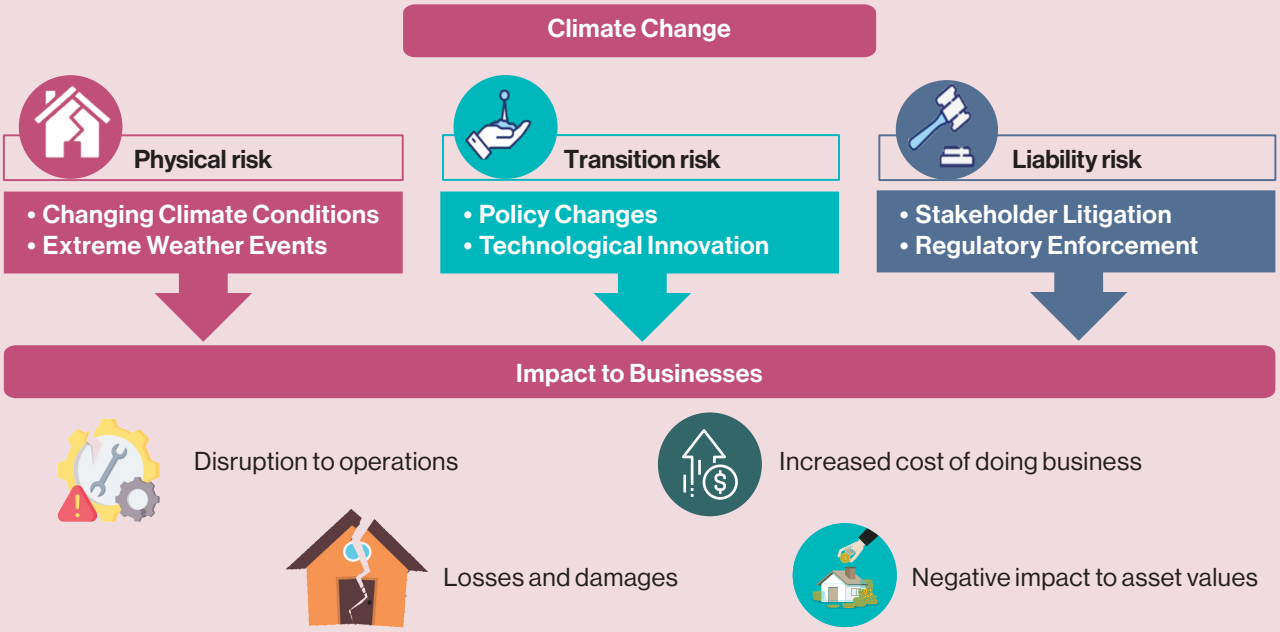
Risks and opportunities

The direct impacts of climate change on the operations of SMEs do not only come from extreme weather events (Diagram 2). SMEs that are part of supply chains can be affected by green and sustainability-related policies of other economies, especially key trading partners as well as domestic producers. For example, mandatory climate-related disclosures have been implemented in more than 15 countries around the world while the European Union Carbon Border Adjustment Mechanism compels businesses, including SMEs, to demonstrate evidence of green and sustainable practices. Large domestic producers are also reducing their carbon footprint and expect suppliers to meet higher standards of sustainable practices. Failure to adopt sustainable practices could therefore put businesses at a significant disadvantage.

Climate change does not only pose risks to businesses. It also presents huge business opportunities from embracing sustainable practices and focusing on green activities (Diagram 3). A survey by UN Global Compact Network Malaysia & Brunei and SME Corporation highlights that 89% of SMEs adopting greener practices are experiencing average cost savings of 39%, with 11% achieving more than 50% cost savings.

[1] Data as at December 2022.
[2] The Paris Agreement is an international treaty under the United Nation Framework Convention on Climate Change (UNFCCC). It aims to limit global temperature rise to well below 2°C above pre-industrial levels.

Diagram 2: Impact of Climate Change on Businesses



Source: Bank Negara Malaysia

Diagram 3: Benefits of Adopting Green and Sustainable Practices

Cost savings and efficiency over the medium to long term – SMEs can reduce operational expenses and increase efficiency by implementing energy efficient technologies and embracing circular economy practices.

Reduce regulatory compliance risks – ESG regulation has surged by 155% over the past decade, reflecting the growth of sustainability-based policy interventions. Anticipating and adhering to evolving regulations will help reduce regulatory risk for SMEs.

Market demands – Improve brand reputation and attract larger customer base as consumers are increasingly environmentally conscious.

Supply chain resilience – Strengthens resilience and reduces vulnerabilities to disruptions caused by climate change.

Access to finance – Capital and investment decisions increasingly consider sustainability factors.

Elevate morale of employees – Shared values foster a sense of purpose and satisfaction.

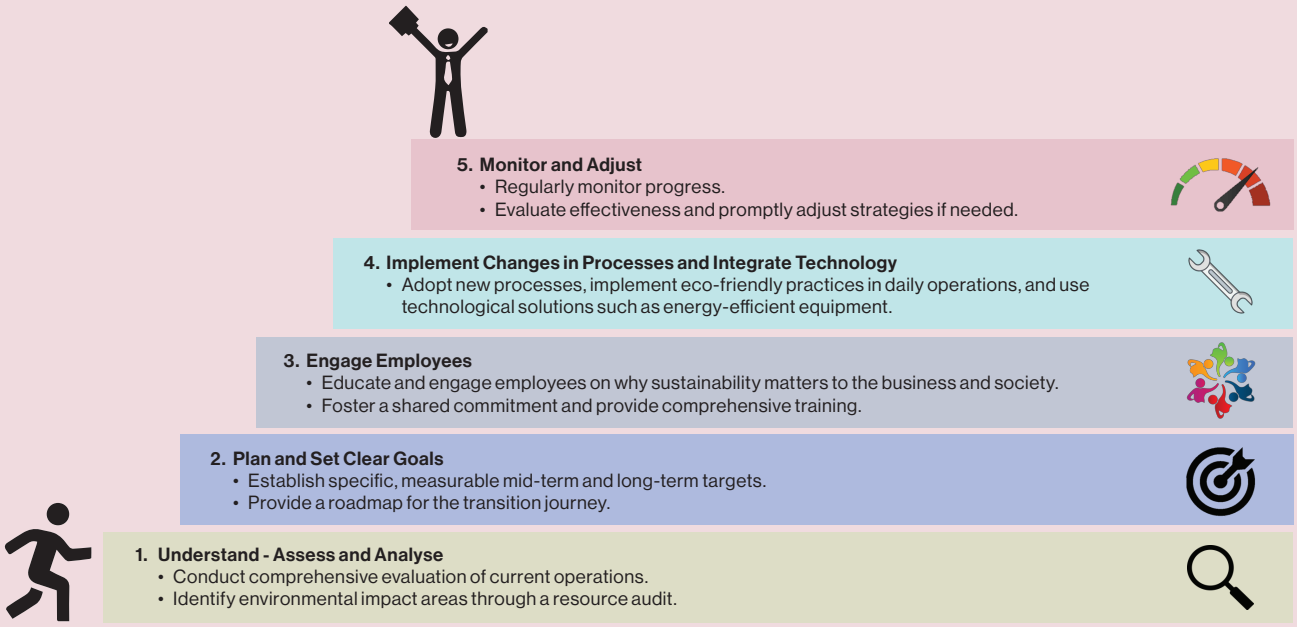
Source: Bank Negara Malaysia

Kickstarting the green transition journey

Knowing where and how to start is crucial. This allows SMEs to begin on the right footing and optimise the amount they spend and invest, and use of resources. A study conducted by BNM and the World Bank[3] found that even Malaysian SMEs who understand the importance of transition are often unclear on where and how to begin. Diagram 4 outlines five key steps an SME can take to initiate the process.

[3] Managing Flood Risks: Leveraging Finance for Business Resilience in Malaysia.

Diagram 4: Essential Steps to Initiate the Transition Journey



Source: Bank Negara Malaysia

To support Malaysian SMEs on this front, the JC3 ESG Jumpstart portal, a one-stop portal to guide SMEs in transition was launched by the Joint Committee on Climate Change (JC3) in October 2023. This portal houses various resources and tools, including guidance for SMEs to initiate their transition journey.

Initiatives and toolkits to support SMEs transition

The financial sector plays a pivotal role in supporting businesses especially SMEs in their transition. Towards this end, BNM and the financial sector have introduced several initiatives to help SMEs build their technical capability and improve access to finance, as shown in Diagram 5.

Financing approved by BNM's Low Carbon Transition Facility (LCTF)[4] and High Tech and Green Facility (HTG)[5] increased further in 2023 to more than RM1.2 billion in financing approved to date. Both facilities have enabled more than 550 SMEs to start their transition journey. The Greening Value Chain (GVC) pilot programme introduced last year has also supported more than 330 SMEs that are part of domestic supply chains. Under the GVC pilot programme, SMEs have access to technical training and tools to measure and report their GHG emissions, in addition to financing under LCTF. The cost of training and tools is borne by the participating anchor corporate or the financier. SMEs under the programme have begun to measure their GHG emissions, of which more than 40 have begun reporting emissions.

[4] Launched in January 2022. Total size of RM 2.0 billion equally funded by BNM and participating financial institutions.
[5] Launched in December 2020. Total size of RM 1.1 billion.

Diagram 5: Initiatives and Tools to Support SMEs in their Business Transition

Tools to support SMEs transition

- **JC3 ESG Jumpstart Portal**
  - One-stop portal that contains simple and practical reference guides for SMEs.
  - Suggested actions that SMEs can take to build up basic ESG knowledge & capability, and identify and respond to key ESG issues, risks & opportunities.
- **Simplified ESG Disclosure Guide (SEDG)**
  - A guide to help SMEs decide what ESG disclosures to track and report.

Financial solutions

Financing facilities

- **Low Carbon Transition Facility (LCTF)**
  - RM2 billion fund (matching basis with participating FIs) to support SMEs in adopting sustainable and low carbon practices.
  - Open to SMEs in all sectors that are committed to transform their business operations towards low carbon operations.
  - Up to RM10 million per SME at maximum financing rate of 5% p.a. inclusive of guarantee (if any).
- **High Tech & Green Facility (HTG)**
  - RM1.1 billion fund supporting SMEs in strategic sectors and technology fields.
  - Financing rates capped at 5% p.a., fostering business growth and innovation.
- **Portfolio Guarantee Scheme by CGC**
  - RM1 billion portfolio guarantee scheme in partnership with participating banks to support wider access to financing for SMEs.

Blended finance programs

- **GVC Programme**
  - Supports SMEs in measuring, tracking, and reporting GHG emissions.
  - Blends financing with technical training, on-site review, and access to GHG emissions measurement software.
- **Green Agritech**
  - Combines financing with technical training for local farmers adopting green technology and sustainable agriculture practices.

Products & solutions by FIs

- **General financing for purchase of technology or working capital**
  - Sustainability-linked corporate trade loan, green CAPEX financing and renewable energy financing.
- **Climate advisory**
  - Advisory and climate diagnostic tools for SMEs to measure business emissions.
  - Support businesses in identifying climate-related exposures.
  - Provide risk management expertise to help businesses mitigate environmental challenges.
  - Standardised due diligence template that can help SMEs identify transition risks and opportunities.
- **Protection**
  - Insurance/takaful protection against physical climate risks.

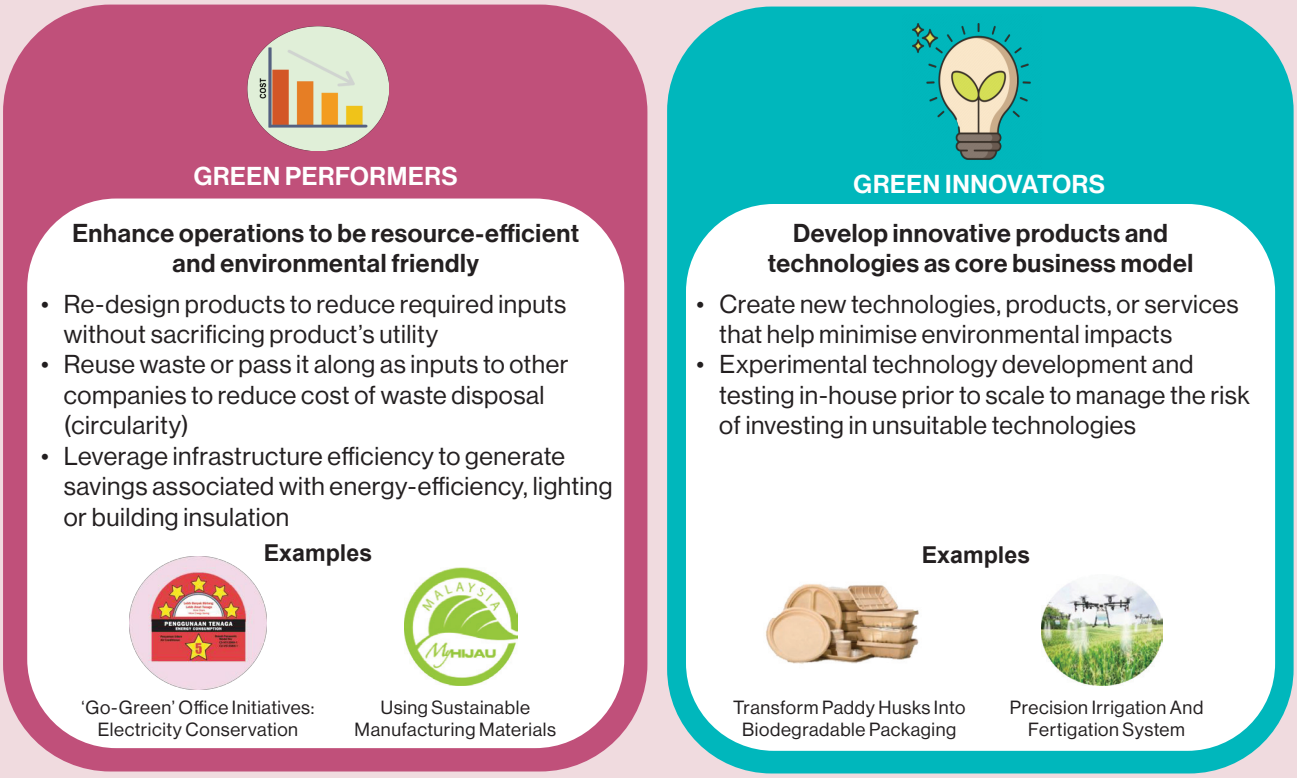
Source: Bank Negara Malaysia, JC3 and Financial Institutions' Websites

Start Small, Start Now, Do Our Part

There are at least two ways Malaysian SMEs can think about their role along this journey (Diagram 6). First, SMEs can be *green performers*. This means seeking to optimise the way they operate. This is achieved through resource efficiency and practices that are environmentally friendly to enhance business competitiveness. Second, SMEs can be *green innovators*. This means focusing on pioneering innovative green technologies. Both green performers and green innovators have a critical role to support a successful transition.

Greater cooperation and collaboration among SMEs can also contribute to the success of the transition efforts. Platforms and avenues for SMEs to share best practices, pool resources and collectively tackle challenges through networks and partnerships will accelerate the learning of many SMEs.

Diagram 6: Green Performers and Innovators



Source: Adapted from OECD and other sources

Different SMEs will be at different stages in their level of awareness and adoption of sustainability practices. This is natural and to be expected. What is more critical is that SMEs start to take important first steps and progressively intensify their efforts to meet aspirations for higher standards in sustainable practices. SMEs should kickstart their green transition journey now, utilising the available toolkits and solutions provided by the financial sector. Strategies by financial institutions to support the greening of SMEs must also be mainstreamed to secure an orderly and just transition of the economy where businesses regardless of size thrive, whilst contributing to a more sustainable and resilient future.

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Risk Management and Internal Controls

Bank Negara Malaysia (BNM) is exposed to various risks arising from its daily activities and operations. Risk events, should they occur, may impact BNM's reputation, lead to financial setbacks, business disruptions or impede BNM from achieving its policy objectives. To address this, BNM has implemented the Enterprise Risk Management (ERM) Framework.

The ERM Framework facilitates the systematic identification, assessment, monitoring, and management of these risks. It sets up the necessary oversight, control, and discipline to foster a robust risk culture (Diagram 1). The ERM Framework also serves to align BNM's risk management policies, processes and systems across the organisation. In 2023, we updated our ERM Framework as part of a regular review exercise. The objective of the review was to ensure that the ERM Framework continues to support effective management of BNM's risk exposures and reflects current developments in leading risk management practices.

We also updated other risk management frameworks and policies to ensure that they are aligned with the ERM Framework and remain effective in surfacing key risks. Frameworks and policies which were updated included the Financial Risk Management Framework, Cyber Resilience Framework, Operational Risk Management Framework and Operational Risk Management Policy. We also established a Technology Risk Management Framework to enhance our technology risk management practices and strategy. Additionally, we introduced a model risk guide for managing risks associated with the development and usage of quantitative models.

Risk Governance and Oversight

Our risk governance structure (Diagram 2) reflects a shared responsibility for managing risks between line departments, independent risk management and control functions, as well as internal audit.

BNM's Board of Directors, supported by the Board Risk Committee (BRC), oversees our risk management frameworks and practices. The Board of Directors also sets the 'tone from the top' in promoting the desired risk culture across the organisation.

The accountability for implementing sound risk management rests with BNM's Senior Management. This is operationalised through the Risk Management Committee (RMC) and Reserve Management Committee (ReMC). The RMC is the main forum for focused and regular deliberation on enterprise risk issues, while the ReMC oversees financial and operational risks relating to management of BNM's international reserves.

The RMC is supported by the Financial Risk Management Committee (FRMC), Operational Risk Management Committee (ORMC) and Crisis Management Team (CMT). The FRMC and ORMC are responsible for the management of non-reserves related financial and operational risks, respectively. Meanwhile, the CMT provides oversight on business continuity management by ensuring crisis preparedness. CMT also coordinates BNM's response to operational disruptions.

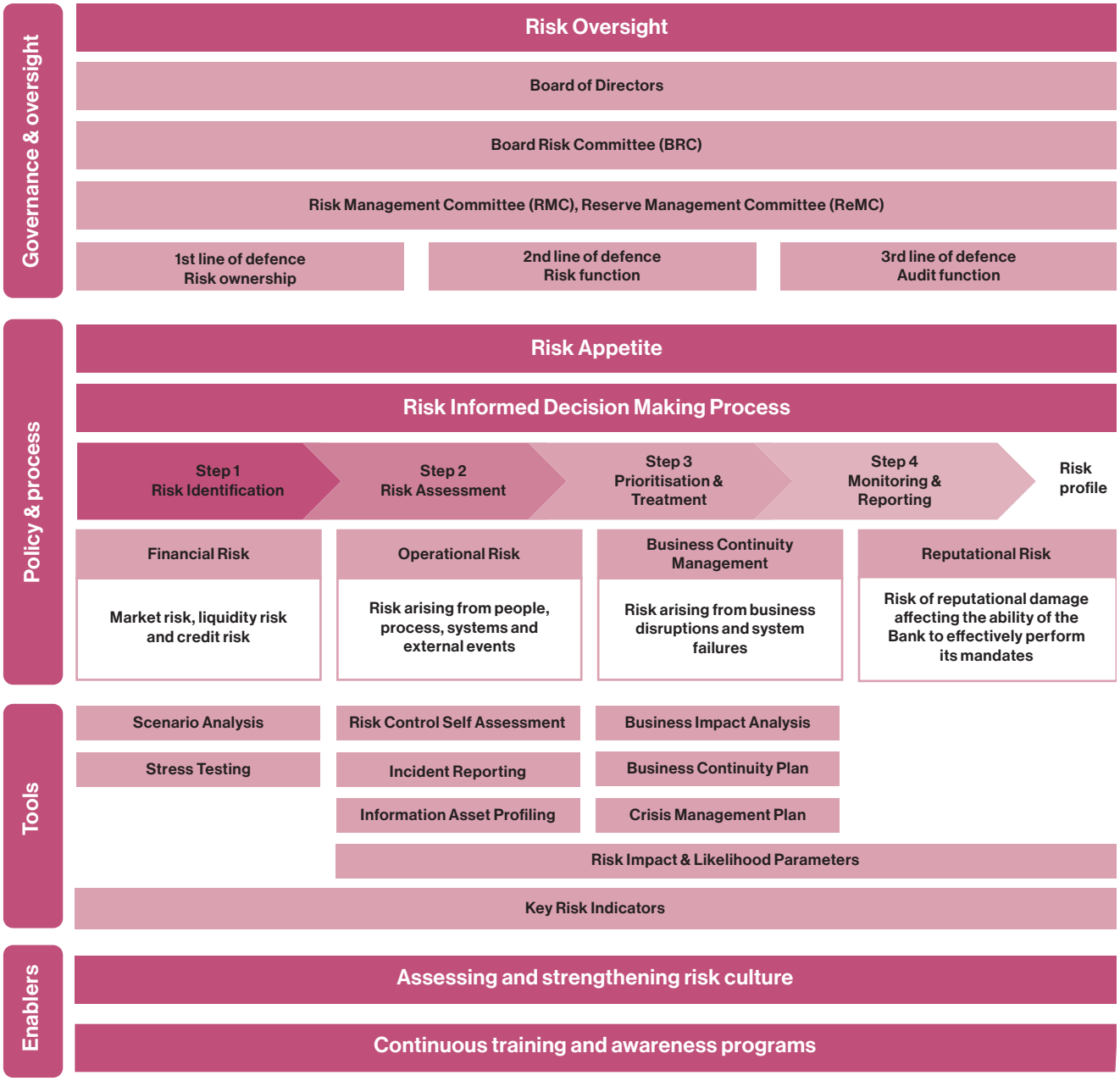
In supporting the Board of Directors and Management Committee in discharging their duties, BNM adopts the 'three lines of defence' model (Diagram 3):

- Business units are the 'first line' of defence. They are responsible for evaluating the risk environment, establishing controls and ensuring that these controls are implemented effectively.
- The 'second line' function is carried out by the Risk Management Department. For reserves management, this function is carried out by the

Treasury Risk Management Section within the Investment Operations and Financial Market Department. They facilitate the adoption of sound risk management practices by business units through appropriate frameworks, policies and tools. The Risk Management Department also supports Senior Management and the Board of Directors in monitoring risk developments and issues at an organisation level.

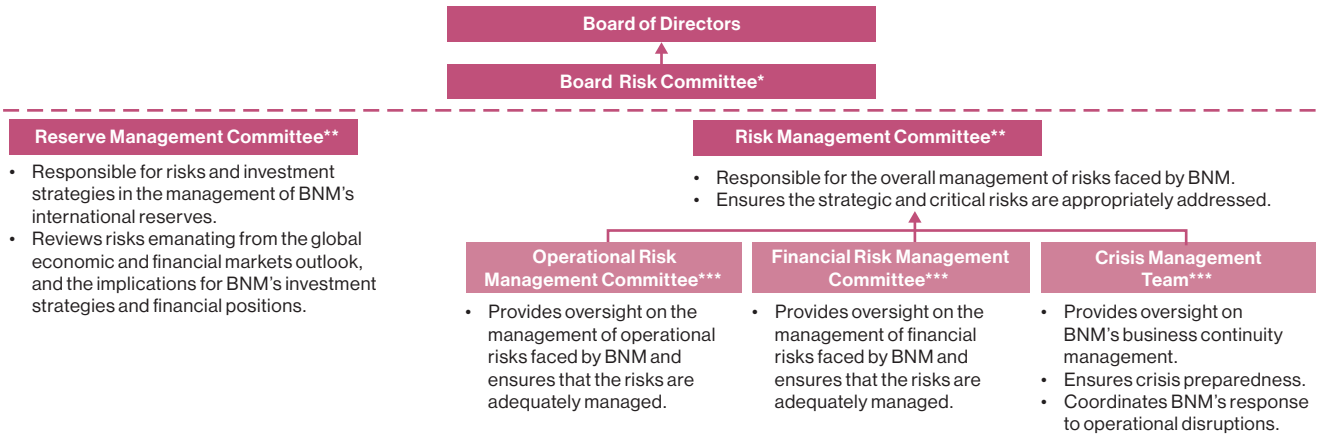
- The 'third line' of defence – the Internal Audit Department – provides independent assurance of the effectiveness of risk management policies and measures.

Diagram 1: Bank Negara Malaysia's Enterprise Risk Management Framework



Source: Bank Negara Malaysia

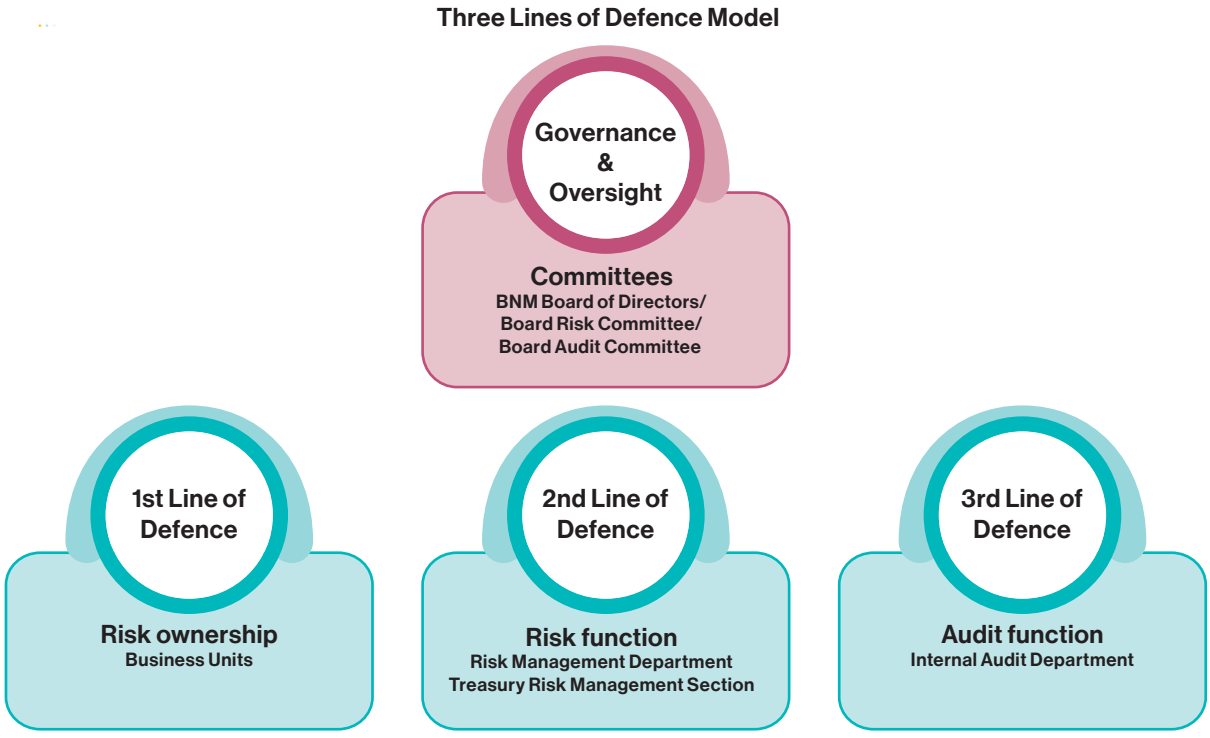
Diagram 2: Risk Management Governance Structure



* Chaired by an Independent Non-Executive Director of BNM
** Chaired by Governor
*** Chaired by Deputy Governor

Source: Bank Negara Malaysia

Diagram 3: Three Lines of Defence Model



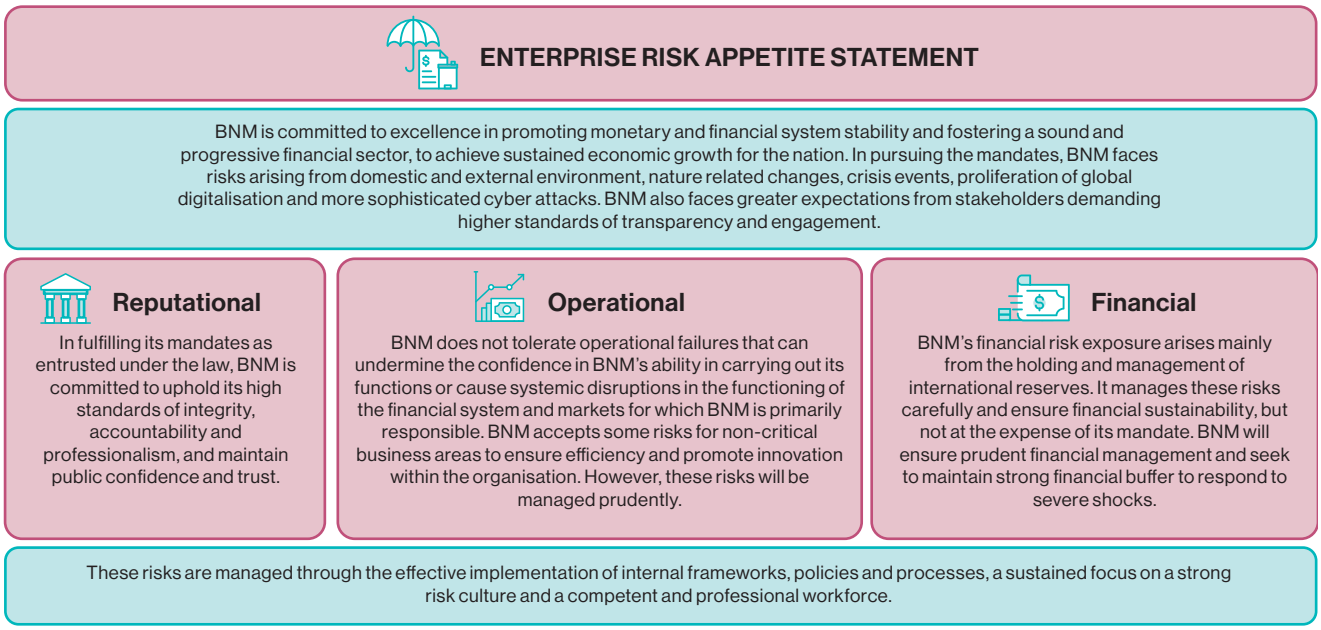
Source: Bank Negara Malaysia

Bank Negara Malaysia's Enterprise Risk Appetite Statements

BNM's risk management is guided by a set of enterprise risk appetite statements (Diagram 4), which specify the level and types of risk that BNM is willing to accept to achieve its business objectives.

The statements are subject to ongoing reviews to ensure that they remain relevant in light of the changing risk landscape. Continuous training, engagements and process enhancements are undertaken at various levels across the organisation's functions. These initiatives aim to integrate and align our operational processes and culture with BNM's risk appetite statements.

Diagram 4: Bank Negara Malaysia's Risk Appetite Statements



Source: Bank Negara Malaysia

Proportionate consequence management actions in the event of breaches to the risk appetite also plays an important role in instilling a risk-aware culture. This promotes compliance and ensures accountability at all levels of the organisation.

To help business units assess compliance against the updated statements, we expanded existing key risk indicators to further improve our ability to identify and evaluate BNM's risk exposures, including information and reputational risks.

Key Organisational Risks

Throughout 2023, BNM continued to adopt a comprehensive approach to risk management – covering policy, reputational, financial, operational risk, and business continuity management.

In managing policy risks, we are committed to sound policymaking practices, guided by our Policy Development Framework. The Framework establishes a well-defined governance structure and process for developing, reviewing and approving regulatory policies issued by BNM. Policy proposals are subjected to cross-functional deliberations within the organisation, as well as external consultations. Regulatory policies are approved by the Management Committee, the Financial Stability Committee or the Financial Development Committee, while monetary policy decisions reside with the Monetary Policy Committee.

Our policy responses can expose us to reputational risk that directly affects policy outcomes or BNM's credibility. In 2023, amid a highly challenging environment of higher costs of living, exchange rate volatility, and an increase in financial scams, we ramped up efforts to better communicate and explain our policy responses through targeted engagements. We developed content for public consumption in different formats and across more channels to improve engagement with the general public. This included infographics such as the 'Monetary Policy Statement snapshots' and 'BNM Explains'. To improve financial scam awareness and empower individuals to better protect themselves, we shared scam awareness tips on the Amaran Scam Facebook.[1]

On treasury related financial risks, BNM is exposed to market, credit and liquidity risks. These risks are closely monitored and managed against the investment benchmark and risk controls approved by the Board of Directors. In 2023, we updated the investment benchmark for international reserves, which defines the appetite for long-term risk and returns. This is

[1] More information on BNM's public engagements and effort in combating financial scams throughout the year can be found in the 'Engaging Malaysians' chapter of this report.

reviewed every three to five years to reflect significant changes in the global investment landscape. We also implemented additional risk management tools – Pre-Emptive De-Risking Mechanism (PRISM) and Credit Value-at-Risk (CVAR). These tools were designed to limit market volatility during potential periods of prolonged market stress and include forward-looking assessments of potential losses from credit events. It enables a more precise quantification of credit risk, thereby keeping credit exposures within acceptable levels.

Risks from other non-treasury financial operations, including budgeting, procurement, and payments, are controlled through strictly enforced policies and procedures for procurements and payments to ensure transparency, accountability, and compliance with relevant regulations. We adhere to a robust budgeting and management accounting process that is underpinned by forward planning, forecasting and spend analysis. The budget is closely monitored by BNM's Board of Directors. On the procurement front, measures were taken to improve the efficiency of our procurement processes while preserving strong controls. In 2023, we established a Centralised Procurement Department. This aimed to strengthen BNM's capabilities in procurement management. We also completed a comprehensive review of our procurement management policies, which incorporated process improvements that leveraged on technology. These measures aim to deliver greater efficiencies, while continuing to ensure a high level of transparency and integrity in BNM's procurement operations.

In 2023, we remained focused on addressing BNM's exposure to technology and cyber risks, as well as risks from data breaches.

In an environment marked by heightened risks of cyber attacks, we implemented several initiatives and frameworks. This included the adoption of the Technology Risk Management Framework and Cyber Resilience Framework. We also improved our network resilience, technology architecture and implemented continuous cyber monitoring. The Cyber security Management Assessment Program (CMAP) was also accelerated to enhance our cyber security maturity. Additionally, we conducted mandatory training sessions on cyber security and information security management to help staff stay ahead of cyber and information security threats. We also reinforced our third-party security risk management. This is to ensure that the use of third-party service providers does not compromise the security of BNM's data, systems, or networks.

Business Continuity Management

Ensuring the continuity of critical business functions remains a top priority for BNM. In 2023, we continued to strengthen our operational resilience. We conduct regular crisis simulation exercises to test and improve our ability to respond and recover from disruptions. We continue to increase the frequency and coverage of these exercises to identify opportunities to further strengthen our crisis response and to familiarise staff with recovery and response procedures. Additionally, we continuously update our business impact analysis to capture emerging risk scenarios, such as floods and cyber attacks.

BNM's whole-of-bank approach in strengthening the organisation's resilience received international recognition, notably the Risk Manager Award from Central Banking Publications in March 2023.

The Risk Management Department and Cyber Security Department team, responsible for strengthening BNM's resilience in Information Security (from left: Ong Jit Seng, Tan Chai Heng, Noor Syafinaz Mohammad Zain, Wong Jing Yi, Beh Cheng Hoon, Laily Sahari).

Internal Audit

The Board Audit Committee (BAC) oversees the effectiveness of BNM's internal controls and financial reporting process. The BAC also provides oversight on BNM's adherence to legal and regulatory standards. In discharging its responsibilities, the BAC directs audit plans and activities carried out by the Internal Audit Department (IAD) to obtain assurance on matters overseen by the BAC.

The IAD provides independent and objective assurance on the adequacy and effectiveness of BNM's governance and risk controls. IAD also provides an independent assessment on BNM's international reserves management to the Minister of Finance. This ensures that international reserves are managed in accordance with approved policies and guidelines.

Audit priorities for 2023 were aligned with BNM's key organisational risks (including emerging risks) and strategic goals (Diagram 5). In formulating its priorities, the IAD incorporated insights gained from engagements with key stakeholders including business units, Risk Management Department, Senior Management and the Board Audit Committee.

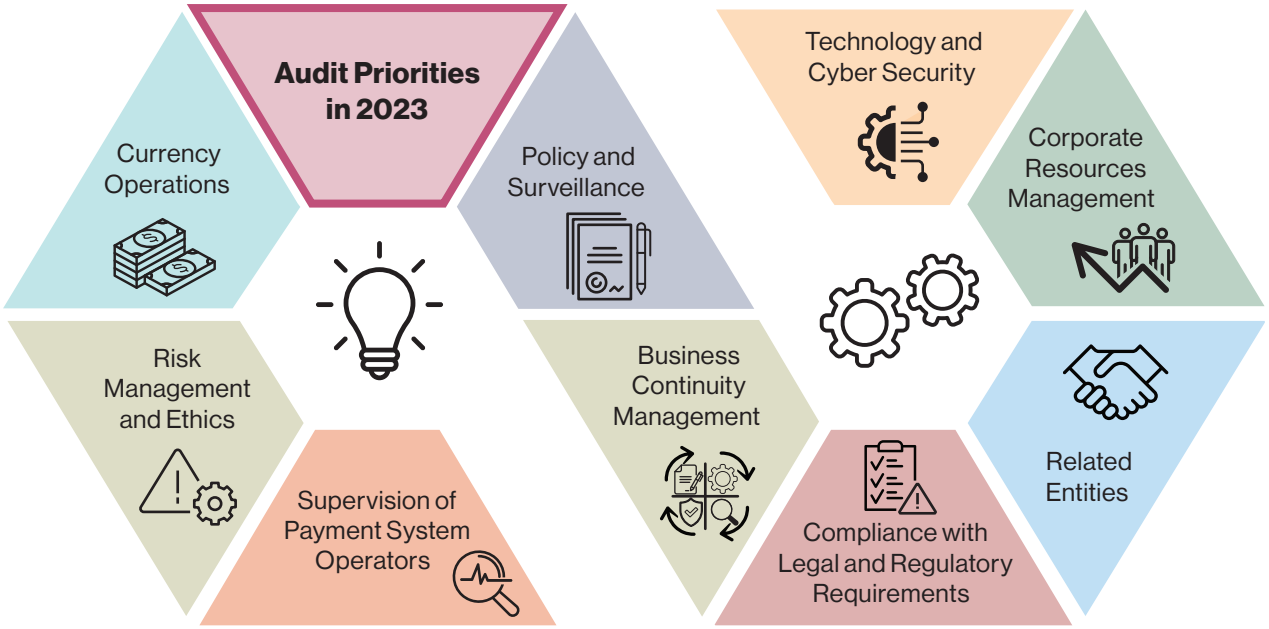
One of the main priorities for IAD in 2023 was to provide assurance and value-adding control improvements on BNM's management of information security, cyber security, and technology risks. This is crucial to mitigate potential vulnerabilities in BNM's operations and enhance organisational resilience.

In providing holistic assurance to the Board of Directors and Management Committee, IAD continuously advocates for higher awareness on risk culture and sound control practices amongst staff. This is done through off-cycle engagements with business functions and regular dissemination of audit insights across the organisation to elevate risk visibility and awareness at all levels of the organisation.

The advancement of audit management software and data analytics employed by BNM has enabled a more efficient audit process and risk assessments. IAD also engages leading audit practitioners to drive continuous improvements in its digital initiatives and audit practices as part of ongoing efforts to harness forward-looking insights and provide value-added assurance on internal controls for the achievement of BNM's strategic objectives.

Moving forward, IAD will embark on adopting generative artificial intelligence tools as part of its continuous auditing approach. This will be complemented by the upskilling of staff in data science and analytics capabilities.

Diagram 5: Focus & Coverage of Audits Conducted in 2023



Source: Bank Negara Malaysia

Engaging Malaysians

Our policies and actions affect individuals and businesses in Malaysia. Therefore, the goal of our engagements with stakeholders is to enhance their understanding of our roles and policies

Introduction

Throughout 2023, we intensified our efforts to engage our diverse stakeholders. The topics of monetary policy, ringgit, financial scams and financial literacy were central in our engagements. We also explored new platforms and experimented with novel ways to explain these issues. These efforts are aimed at improving public understanding of our roles and policy decisions, and thus, strengthen the public's trust in BNM.

Explaining Our Policies

Our policies and initiatives affect a broad range of stakeholders – including the Government, lawmakers, media, analysts and the general public. Communication and engagements are key in explaining our policies as well as gaining feedback. In addition, the increasing complexities of issues within our economy and financial system have necessitated us to adopt a multifaceted and targeted approach in conveying information and explaining our actions.

Deputy Governor Adnan Zaylani Mohamad Zahid and Assistant Governor Fraziali Ismail sharing insights with analysts during our 2Q 2023 GDP announcement

Our communications take the form of presentations to public sector stakeholders, such as the Parliamentary Select Committee on Finance and the Economy, sessions with editors, media workshops, and engagement sessions with various associations and groups. The focus of these engagements was mainly on ringgit, inflation and how we conduct our monetary policy. We also conducted analyst briefings following the release of quarterly GDP figures and Monetary Policy Statements[1]. Importantly, these diverse forms of engagements are also an opportunity for BNM to listen to concerns and understand the views of our stakeholders. This in turn allows us to improve our communications on policy and support more effective education and outreach efforts.

Beyond engagements, we also employ different communication tools to cater to the different audiences. As elaborated further in this chapter, this includes on-the-ground outreach, curated exhibitions as well as tailoring our social media content. The goal is for our policy actions and advocacy to be well understood, so that they can achieve their intended outcomes.

In October 2023, Deputy Governor Jessica Chew and Assistant Governor Dr. Norhana Endut shared our risk assessment and outlook for domestic financial stability during the launch of the Financial Stability Review 1H 2023 report

[1] More information on BNM's Monetary Policy communications can be found in the 'Promoting Monetary Stability' chapter.

Sasana Symposium 2023

The inaugural Sasana Symposium, with the theme 'Structural Reforms for a Stronger Malaysia', was held in June 2023. Building on the publication of BNM's Annual Report, the Economic and Monetary Review and the biannual Financial Stability Review, the Symposium offered an additional avenue for the public to engage in discussions on the work of BNM. Participants included industry leaders and experts, who engaged on wide-ranging discussions on contemporary issues related to monetary policy, ringgit, digitalisation, social safety nets, Islamic finance, and sustainability.

Governor Nor Shamsiah Mohd Yunus with representatives from the payment system operators and central banks of Malaysia, Thailand, Indonesia, and Singapore after launching the cross-border QR payment linkages

Assistant Governor Suhaimi Ali sharing how financial institutions and authorities can manage risks associated with digital payments during the 'Going Digital with Confidence in an Innovative Landscape'

Assistant Governor (now Deputy Governor) Adnan Zaylani Mohamad Zahid participating in the panel session on 'Ringgit and Financial Markets Development'

The QRPay4Food area provided an immersive area for attendees to experience making cross-border QR payments to vendors from Indonesia, Singapore, and Thailand

Combating Financial Scams

One of BNM's key priorities in 2023 is to combat financial scams. We took concrete steps to bring the media, law enforcement agencies and the financial industry together to address the financial scams issues holistically. The law enforcement agencies including BNM bring useful insights on the latest scam tactics and countermeasures, alongside efforts on recovery of stolen funds. Given the pivotal role of the media in shaping public awareness on financial scams, it is critical for law enforcement agencies to engage with them – be it on legal and regulatory enhancements, or enforcement efforts – so that accurate information can be disseminated swiftly.

To strengthen the first line of defence against scammers, we continue to focus our efforts on curating scam awareness content to be shared across all six of BNM's social media platforms, as well as the dedicated Amaran Scam Facebook page, every Friday. We also ran more targeted and relevant scam awareness campaigns during festive seasons to continue to pique the interests of the public on this matter (Diagram 1).

Meanwhile, our Siri Seram Scam campaign during Ramadan and Hari Raya Aidilfitri garnered over 25 million views on social media.

Deputy Governor Marzunisham Omar giving his opening remarks at BNM's media workshop on scams prevention

Diagram 1: Bank Negara Malaysia's Scam Awareness Campaign on Social Media

Our festivity-themed scam awareness campaign

Our scam awareness campaign during the month of Ramadan recorded high engagement rate

Banks also played their part by scaling up scam awareness campaigns. In October, the banking industry launched the campaign #JanganKenaScam, followed by coordinated scam awareness postings by the industry, as well as the #JanganKenaScam Fest, an immersive scam education roadshow.

BNM also conducted its flagship Train-the-Trainer (TTT) programmes nationwide to upskill over 500 officers from the financial industry and equip them with the requisite knowledge to identify scams and maintain basic security hygiene. In 2023, over 30,000 Malaysians across the country have benefitted from participating in scam awareness sessions conducted by the participants of the TTT programmes.

Governor Abdul Rasheed Ghaffour launched the Karnival Celik Kewangan, that offered the public with free access to financial advisory services

Raising Awareness on Enforcement Actions

BNM publishes details of its enforcement actions against regulatees and non-regulatees on our website. This is in line with our commitment to transparency and public accountability in discharging our mandates. It also acts as a credible deterrent against future misconduct. In 2023, we enhanced the Enforcement Action page (bnm.gov.my/enforcement-actions) on our website to allow the public easier access to information on the administrative and legal actions that have been taken against regulated and non-regulated entities. (For further details, please refer to our feature article on 'BNM's Enforcement Approach and Its Disclosures of Enforcement Actions')

The public can also find information in the Financial Consumer Alert List (bnm.gov.my/fca) on the names of individuals, entities or schemes that the public should be careful with in their dealings, as they may have been wrongly perceived or represented as being licensed or regulated by BNM.

Deputy Finance Minister I, YB Datuk Seri Ahmad Maslan (middle), together with Deputy Governor Adnan Zaylani Mohamad Zahid (right) visited one of the booths during Karnival Celik Kewangan in Kulaijaya, Johor

Outreach to the Public

Our outreach efforts remain key to advance important outcomes such as financial inclusion and elevating financial literacy. These efforts range from large-scale events such as the Karnival Celik Kewangan (KCK) (Diagram 2), to smaller engagements in more rural and underserved areas. Through KCK, the public can access wide-ranging information on financial products and services, along with financial advisory and education

Empowering the community with financial management as they transition into a cashless society

services. Meanwhile, the smaller outreach events allow us to be more targeted in our engagements. For example, our e-Duit initiative-related programmes are specifically meant to promote e-payments and enhancing digital financial literacy. In 2023, more than 110 e-Duit-related programmes were conducted, with the programme being expanded to benefit rural communities such as those in Serikin and Siniawan in Sarawak, Langkawi in Kedah and Bagan Nakhoda Omar in Selangor.

Diagram 2: Karnival Celik Kewangan

KCK Kelantan 16 – 17 June 2023	KCK Johor 27 – 29 October 2023
18,000 visitors 23,000 reach via FB live	25,000 visitors 57,000 reach via FB live
16 forum and pocket talks	13 forum and pocket talks
500 participated in Takaful4All Fun Run	750 participated in Takaful4All Fun Run
1,200 financial advisory >RM420,000 financial transactions*	14,786 financial advisory >RM14 million financial transactions*

* Total amount of deposit, financing and insurance/takaful.

Source: Bank Negara Malaysia

A key target group for our public outreach efforts is the youths. In total, we engaged more than 1,800 youths across Malaysia. One of our main aims is to help them develop a deeper understanding of the economy and on BNM's mandates and policies. We also focused on improving their capability and awareness on contemporary topics such as financial scams and financial literacy. On this, FEN launched a pilot financial education programme, FEN PROAKTIF, that aims to equip youths at local universities with financial management skills.

Our engagement with youth at UNIMAS, Kuching, Sarawak

Assistant Governor Dr. Norhana Endut delivered the welcoming remarks to an audience of 400 students based in Malaysia and abroad at the AMEU Economics Summit 2023

We invited youth groups to BNM Sasana Symposium to engage on issues of public interest

Given the need for a holistic approach to elevate financial literacy, we partnered with other institutions such as the Securities Commission Malaysia and other Government agencies and Ministries through FEN. Through various events, roadshows dialogues, FEN engages with wide-ranging stakeholders to raise awareness and promote conversations on financial literacy. In 2023, the four focus areas for FEN were on:

a) Personal Financial Management: Strengthening capability to manage finances prudently amid challenging economic conditions.
b) Digital Financial Literacy: Supporting vulnerable groups across diverse life stages while advocating the secure usage of digital financial services.
c) Spurring Sustainable Growth: Empowering Malaysians to leverage financial products and services effectively to capitalise on growth opportunities.
d) Safeguarding Wealth: Preserving financial well-being through insurance and takaful, and enhancing awareness of potential risks and scams to prevent costly mistakes.

In 2023, FEN's flagship event, the Financial Literacy Month (FLM) reached more than 6.3 million Malaysians, a significant increase from 2022 (Diagram 3). This increase came from the greater reach of FEN's content on social media platforms and the larger scale of educational programmes (Diagram 4).

Diagram 3: Key Financial Education Initiatives and Engagements During FLM 2023

1 ROADSHOW & EXHIBITIONS — >350K Reach
- Minggu Saham Amanah Malaysia: 30 Sept. – 8 Oct. 2023
- FLM 2023 Roadshow, covering 71 locations, including 14 universities and 10 TVET institutions
- Bank Bergerak Inisiatif with participating financial institutions (PFIs)
- Karnival Celik Kewangan: 27 – 29 Oct. 2023

2 FORUM, DIALOGUES & WEBINARS — >960K Reach
- Forum Perdana Hal Ehwal Islam – 'Jerat Derita Akaun Bernyawa'
- 3 SME dialogues across the country
- Financial literacy seminars/webinars conducted by FEN members and partners

3 SYMPOSIUM, RESEARCH & SURVEYS — >7K Participated
- National Financial Literacy Symposium
- FEN Community of Practice
- Financial literacy surveys by Ministry of Education and RinggitPlus

4 OTHER PROGRAMMES — 1.6M Reach
- FinFit Challenge 2023
- Pendidikan Kewangan KPM

5 SOCIAL MEDIA PLATFORMS — 3.4M Reach
Facebook, Instagram and TikTok

Source: Financial Education Network

Diagram 4: FLM 2023 Nationwide Roadshow at 71 Locations

FLM 2023 Nationwide Roadshow
Financial Literacy Month 2023 | 29 September - 26 October 2023

71 locations

> 31K rakyat engaged (2022: 20K)

11 financial education programmes led by PFIs via Bank Bergerak Inisiatif mainly in rural Sabah and Sarawak (9,300 reach)

Customised content to meet the needs of the target audience, with emphasis on cyber hygiene

Integrated knowledge with a call-to-action, with opportunities for consumers to swiftly apply their newfound knowledge through personal consultation with AKPK (debt), EPF (retirement) and MTA (Perlindungan Tenang) and PERKESO (social protection)

Source: Financial Education Network

The FLM 2023 roadshow combined both theory with practical steps, providing consumers with quick access to financial advisory and services

Enhancing Our Digital Outreach

Over the last few years, we have strengthened our use of social media to widen our reach to the general public. Social media is a particularly powerful tool of communication as it allows us to convey customised messages to different segments of society. Specifically, animated explainers and short videos have allowed for more bespoke content to facilitate easier understanding of monetary policy, economic analysis, financial literacy, and combatting financial scams.

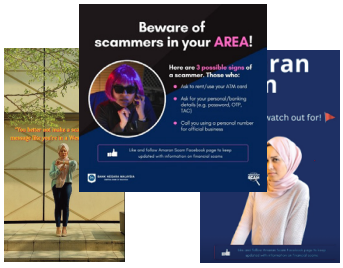
In 2023, we continued to leverage on social media as a platform to engage the general public. Our social media presence is anchored by seven signature monthly series (Diagram 5). During the year, we added a new 'Anda Tanya, BNM Jawab' series to explain technical topics, trending issues and policies. With that, we introduced a new persona – Sherry, our well-informed, up-to-date, and financially-literate neighbour – to our social media followers. Sherry helped dissect complex issues such as our enforcement actions and illegal investment schemes. She also explained our scope in regulating investment or trading in gold, silver, and precious metals.

Beyond offering more content, we also diversified and tailored the format of delivery to be more effective. We produced both short-form videos of around one-minute duration, and longer ones to cater for the different needs of our audience. Where suitable, we showcased our staff more prominently, such as in our recruitment posts, to give jobseekers a sense of what it means to work at the central bank.

Besides the metrics of follower growth and impressions, we pay close attention to engagement rates to gauge the impact of our outreach. The engagement rates help to inform which topics and types of postings are more interesting to our audience. This, in turn, helped us further tailor our communication strategy. In 2023, our social media platforms recorded an average follower growth of 22.8%, (2022: 25%), with Instagram being our fastest-growing platform.

Diagram 5: Our Signature Monthly Series on Social Media

Anda Tanya, BNM Jawab: Explainer videos on trending issues



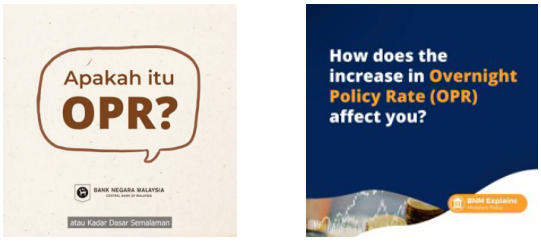
Amaran Scam Series: Sharing of scam prevention tips

Quote Series: Snippets of speeches by BNM's Management Committee

Did You Know: Bite-sized fun facts on our policies and initiatives

Financial Bites: Nuggets of financial literacy tips

Time Travel: Nostalgic stroll through BNM's history



BNM Explains: Simplifying complex issues without technical jargons

Notably, our digital communication efforts to improve the public's understanding of our roles and mandates have garnered the Communications Initiative Award in March 2024 by Central Banking, a global independent publisher on central banking matters.

Infusing Finance with the Arts

Through its curated exhibitions and educational programmes, BNM Museum and Art Gallery (BNM MAG) aims to showcase the intersection of finance, arts and culture to the public. In 2023, the number of visitors to BNM MAG increased by 158% as it continues to be a popular destination for families, art enthusiasts and tourists. Temporary exhibitions on special themes complements our permanent exhibits.

BNM MAG is a popular destination for families, students, and tourists

Diagram 6: Bank Negara Malaysia MAG Exhibitions and Activities in 2023

Financial LATeracy in Kuching

- The exhibition, in collaboration with Jabatan Muzium Sarawak, featured distinctive caricatures by Datuk Lat from 1999 to 2012. It is inspired by the Buku Wang Saku series published by BNM to inculcate prudent money management from an early age.

The Sarawak Premier accompanied by Deputy Governor Marzunisham Omar and Datuk Lat touring the Financial LATeracy exhibition after the launch

Gerak Bayang: The Art of Storytelling

- This exhibition presented works of art by 39 artists around the theme of wayang kulit, which showcases the distinctive and unique traditional art form of shadow puppets, as well as puppets for observation and appreciation.

Guests were treated to a wayang kulit performance after the launch by Governor Abdul Rasheed Ghaffour

International Museum Day 2023 at Borneo Cultures Museum

- BNM MAG's exhibition 'Finance Fit Gym,' was designed as a mini gymnasium to educate the public on prudent financial management, the history of Sarawak's currency, financial scams and sustainability.

BNM MAG's booth at the International Museum Day 2023 was awarded 'The Most Popular Exhibition' and 'The Most Creative Exhibition' by Jabatan Muzium Malaysia and International Council of Museums Malaysia (ICOMMAL)

Art Bazaar 2023

- The Art Bazaar 2023, themed 'Apa Khabar?,' was aimed at celebrating and highlighting the talents of emerging homegrown artists. A key thrust was to promote the accessibility of art to the public.

Assistant Governor Abd. Rahman Abu Bakar checking out the bazaar

International Committee for Money and Banking Museum (ICOMON) Conference

- Professionals, experts and enthusiasts on money and banking museums worldwide came together to discuss the evolving role of museums in the digital age and innovative approaches to enhance public education and engagements.

Deputy Governor Marzunisham Omar officiated the ICOMON Conference 2023

Children's Festival @ MAG 2023

- With the theme of 'L.O.V.E & K.A.S.I.H,' the festival aimed at nurturing the well-being of children, with a central focus on physical and mental health. There were also programmes to raise awareness on the importance of financial literacy.

Children attending the festival were treated to financial literacy workshop and martial art session

Source: Bank Negara Malaysia

Going Forward

Upholding public trust is important to us. We care not only about what we communicate but also how we communicate. In the upcoming year, we will continue to be purposeful in our engagements to effectively discharge our mandate in the best interest of the nation. We will continue to build awareness to the public on our policy actions and contemporary issues such as financial scams, financial literacy and economic issues related to our roles and mandates.

International Engagements

In 2023, Bank Negara Malaysia (BNM) engaged actively with the international community, through our participation in global discourse, regional integration and cooperation platforms, as well as bilateral engagements with our counterparts. International engagements continued to be an important avenue in supporting the delivery of BNM's mandates and advancing our interests in strategic priority areas. These areas include enhancing Malaysia's financial safety nets, improving cross-border payments, and managing climate related risks in the financial sector.

Enhancing our voice at the international stage on central banking issues

Through our participation in international platforms, we continued our strategic collaboration and constructive policy dialogue with our counterparts. BNM's involvement contributed to the acknowledgement of the perspectives of emerging markets economies (EMEs) in international discourse.

The priority focus in 2023 was on spillovers from the tight monetary policy in advanced economies; inflation; and geopolitical conflict. At the International Monetary Fund (IMF), we highlighted challenges faced by EMEs and emphasised the need for international financial institutions to account for policy priorities and country characteristics when dispensing policy advice. At the regional level, BNM supported deeper financial cooperation at the Association of Southeast Asian Nations (ASEAN) and the ASEAN+3, which also includes China, Japan and Korea. Key topics at these forums included financial integration, financial safety nets and sustainability.

During the year, central bank platforms such as the Bank for International Settlements (BIS) and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) remained important in strengthening cooperation on monetary and financial stability related issues. Under the ambit of the Asian Consultative Council of the BIS, BNM worked with 12 other Asian central banks to examine policy responses to various macrofinancial shocks faced during 2022 and lessons learnt. This resulted in the publication of a report on Inflation, external financial conditions and macro-financial stability frameworks in Asia-Pacific.[1] The report provided insights on the important considerations in the formulation of appropriate policy responses, depending on country-specific circumstances.

At the Alliance for Financial Inclusion (AFI) Global Policy Forum 2023, we advocated focusing on long-run positive outcomes of international regulations on financial inclusion arising from improved stability and transparency for the financial system. In line with the theme of the Forum, AFI launched a research initiative on the interplay between monetary stability, financial stability and financial inclusion in EMEs. This aims to solidify the importance of inclusion to the mandate of central banks.

Supporting sustainability initiatives

BNM continued to advocate for a just and orderly transition towards a greener economy across major platforms such as ASEAN, EMEAP and the Network for Greening the Financial System. At global platforms, we advanced EME perspectives on the importance of incorporating developmental priorities and funding requirements in charting out the transition and managing climate risks.

At COP28,[2] BNM and the World Bank announced several initiatives to encourage sustainability in the financial

[1] The full report can be found at https://www.bis.org/publ/othp78.htm
[2] The 28th Annual Meeting of the Conference of the Parties of the United Nations Framework Convention on Climate Change

sector in managing nature-related risks. The first was a financial risk assessment guide which will assist financial institutions and businesses to assess nature-related risks and impacts. The second was an initiative to encourage mobilisation of private capital towards nature-positive outcomes by creating enabling regulations and piloting new innovative financial structures. These initiatives will facilitate the integration of nature-related considerations into decision-making while aligning financial flows with sustainable solutions.

We further advanced sustainable finance in ASEAN. As a member of the ASEAN Taxonomy Board, we contributed towards the publication of Version 2 of the ASEAN Taxonomy for Sustainable Finance. Building on the concepts in Version 1, Version 2 provides detailed qualitative methods to assess transition and sustainable activities; and the Technical Screening Criteria for the energy sector.[3] Version 2 demonstrates ASEAN's commitment in providing stakeholders with a common framework that is science-based, while being inclusive of the different development stages of its members.

Leveraging Malaysia's leadership in Islamic finance

In line with our aspiration of positioning Malaysia as an international gateway for Islamic finance, BNM was active in sharing Malaysia's expertise and experience, while also learning from the insights of our partners. This includes through active participation and advocacy at the OIC–COMCEC and MLC platforms.[4]

In collaboration with our international counterparts,[5] BNM organised a workshop on Promoting Islamic Social Finance and Accelerating the Growth of Halal Value Chain Ecosystem. The workshop brought together to Kuala Lumpur 44 high-level participants from 15 member countries of the OIC. BNM shared our efforts in optimising social finance funds to support small businesses. We also shared on how Malaysia's dual financial system model enables a resilient and comprehensive ecosystem to support Islamic finance development, innovation and financial inclusion. The workshop highlighted common challenges faced by countries in implementing Islamic social finance and provided insights on how these challenges could be addressed based on others' experience.

BNM advocated for the alignment of prudential standards within the Islamic financial services industry through our membership at the Islamic Financial Services Board (IFSB). We actively contributed to thought leadership by sharing Malaysia's experiences in developing and implementing similar standards domestically. In 2023, these contributed to the IFSB's issuances of standards on liquidity risk management tools, corporate governance and supervision in relation to Shariah compliant financial services.

Preventing and combating money laundering and terrorism financing

BNM participated actively in global initiatives to implement anti-money laundering (AML) controls and counter the financing of terrorism (CFT). The rise of transnational financial crimes has elevated the importance of our international engagements in building domestic resilience.

With this in mind, BNM hosted a Standards Training Course in collaboration with the Financial Action Taskforce (FATF) and the Asia/Pacific Group on Money Laundering. It aimed to enhance understanding on FATF Standards and their implementation. BNM also contributed to joint publications such as the Egmont Group[6] Typologies Report on Misuse of Corporate Structures and Illicit Financial Flows from Cyber-Enabled Fraud.[7] These publications set out the key risk indicators for authorities to monitor and emphasised the need for multilateral cooperation. Within the Asia-Pacific region, we continued to co-lead the ongoing Multi-Jurisdictional Anti-Fraud Project and the Regional Information Sharing Platform. Both projects aim to improve AML/CFT operations by allowing for real-time information sharing.[8]

Strengthening external financial safety nets

We continued to strengthen our resilience against external shocks by enhancing our financial safety net arrangements. Focus was accorded to expand the number of channels available to us, while improving the accessibility and usability of existing channels.

[3] The Technical Screening Criteria will apply to five other sectors, namely agriculture, forestry and fishing; manufacturing; transportation and storage; water supply, sewerage and waste management; and construction and real estate.

[4] For more details on BNM's participation at the Organisation of Islamic Cooperation (OIC) – Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) and the Malaysia International Islamic Financial Centre (MIFC) Leadership Council (MLC), see Chapter 1.4: Promoting a Progressive and Inclusive Islamic Financial System.

[5] The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), and central banks of Indonesia, Saudi Arabia and Turkiye.

[6] The Egmont Group is a united body of 170 Financial Intelligence Units (FIUs) and provides a platform for the secure exchange of expertise and financial intelligence for AML/CFT.

[7] The full publication report can be found at https://www.fatf-gafi.org/en/publications/Methodsandtrends/illicit-financial-flows-cyber-enabled-fraud.html

[8] This is further detailed in Chapter 1.7: Maintaining Financial Integrity.

BNM Senior Management met with their counterparts at the Bank of Thailand during a bilateral meeting on 4 February 2023 in Bangkok, Thailand. Both central banks exchanged insights on key emerging issues and strengthened financial cooperation via the signing of a bilateral swap arrangement.

In February 2023, we established a bilateral swap with the Bank of Thailand (BOT). This allows both parties to access up to USD3 billion (or the equivalent amount in local currencies) to address short-term liquidity or balance of payments difficulties. Similarly, BNM also renewed the USD3 billion bilateral swap with Japan[9] on improved terms. Specifically, this renewal introduced a precautionary line for crisis prevention as well as the option to obtain Japanese yen in addition to US dollars. Parties are now also able to access 40% of the swap without IMF conditionality.

On the regional front, together with other ASEAN+3 countries, BNM continued to advocate for enhancements to the Chiang Mai Initiative Multilateralisation (CMIM).[10] Our advocacy aimed to ensure the CMIM continues to reflect the needs of the region. One of the crucial improvements is the reduction in the cost of borrowing, which will reduce the burden on potential borrowers during a crisis. BNM also supported the creation of a new rapid financing facility, which will ensure the quick disbursement of funds without attaching conditionalities. The new facility aims to address urgent balance of payments difficulties stemming from exogenous shocks such as natural disasters or pandemics.

On the global front, BNM supported a pragmatic and timely resolution to the IMF's 16th General Review of Quotas, following an impasse during the last review. The IMF quota reflects the relative position of each member in the world economy. It determines, among others, the amount each member contributes to the IMF, voting power and eligible financing. The outcome was favourable, seeing a 50% increase in quotas and a commitment to reduced reliance on the IMF's borrowed resources.[11] This ensured the adequacy of IMF resources to lend to its members while enhancing the primary role of quotas.

Deepening integration for trade and investment

In support of our national strategy, BNM made strides in advancing integration in trade, investments and payments in 2023. International trade and investment agreements are important to reduce barriers to integration. For the Malaysian financial sector, this means greater opportunities for businesses, and more access to products and services for consumers. To this end, BNM led financial services negotiations to spearhead progressive liberalisation, facilitate key developmental agendas and advance strategic interests for Malaysia through these agreements. 2023 witnessed the conclusion of the United Kingdom's accession to the CPTPP.[12] This marks the first time both countries have entered into a trade agreement with each other. ASEAN had also elevated our partnerships with Australia and

[9] The agreement was signed with Bank of Japan, acting as an agent of the Japan Ministry of Finance.

[10] The CMIM is a multilateral currency swap arrangement for liquidity support among ASEAN+3 members. Its core objectives are to address balance of payment and/or short-term liquidity difficulties in the ASEAN+3 region, and supplement existing international financial arrangements.

[11] Quotas are the IMF's first line of defence. Borrowed resources include the New Arrangements to Borrow (NAB) and Bilateral Borrowing Arrangements (BBA), which are the IMF's second and third lines of defence respectively. Borrowed resources are less representative of IMF membership (not all members contribute), take longer to activate, and are less reliable than quotas (they need to be renewed, compared to quotas which are permanent).

[12] Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

New Zealand through the conclusion of the review of the AANZFTA.[13] The IPEF's[14] Clean Economy and Fair Economy Agreements will also improve inclusivity through the adoption of sustainable and fair trade practices.

BNM was also active in promoting the use of local currency to settle trade and investment as well as encourage currency diversification. This will help prevent reliance on major currencies and reduce foreign exchange risks for Malaysian investors and businesses. BNM expanded and refined our frameworks with BOT and Bank Indonesia (BI) in August to include more eligible cross-border transactions and provide an efficient infrastructure for the use of local currencies. In 2023, USD2.4 billion (18.6%) of our bilateral trade with Thailand was settled in local currencies, while USD1.3 billion (7.6%) settlement in local currencies was undertaken with Indonesia. BNM has also pursued local currency initiatives with China, Malaysia's largest trading partner. In 2023, USD12.7 billion (24.4%) of our trade settlements with China were denominated in ringgit and renminbi.[15] With these initiatives making it easier for businesses to transact in local currencies, we expect their usage to increase further.

Going beyond bilateral arrangements, together with other ASEAN central banks, an agreement was reached on the high-level principles for the establishment and implementation of the ASEAN Local Currency Transactions Framework. The Framework will cover all economic and financial transactions and interlink with cross-border payment initiatives within ASEAN.

BNM also strengthened bilateral cross-border payment linkages with other central banks. Notably, 2023 witnessed our payment systems with Indonesia and Singapore becoming more interconnected. Users from Indonesia and Malaysia can now make instant retail payments in either country by scanning QR codes of participating financial institutions. Meanwhile, in addition to scanning QR codes, users in Singapore and Malaysia can make real-time cross-border peer-to-peer fund transfers by simply referencing a mobile number. These efforts will help to improve the cost, speed, and accessibility of cross-border payments. This will further enhance trade and investment flows.[16]

Strengthened cooperation in relevant areas of central banking

As Malaysia and other economies become increasingly interconnected, the financial and monetary stability of the region becomes a shared goal. Given this objective, BNM worked closely with our peers to exchange insights, as well as collectively strengthen our technical capacity and expertise. Our cooperation has expanded our proficiency and will continue to support our policy making alongside other central banks.

In 2023, BNM conducted 35 capacity building programmes for partner central banks on a wide range of areas. The focus of these programmes was on digitalisation, surveillance and Takaful regulatory frameworks. BNM leveraged our relations with other central banks to gain knowledge and build expertise on strategic areas such as climate change and crisis preparedness. In 2023, we strengthened our cooperation with Bank of the Lao PDR through a Memorandum of Understanding where we agreed to cooperate on areas of mutual interest such as financial innovation.

Governor with Dr. Bounleua Sinxayvoravong, Governor of Bank of the Lao PDR at the signing of the Memorandum of Understanding to cooperate in areas of mutual interest.

[13] ASEAN-Australia-New Zealand Free Trade Agreement
[14] Indo-Pacific Economic Framework for Prosperity
[15] For more details on BNM's efforts in promoting local currency settlements, please see feature article 'Promoting Cross-border Local Currency Settlement (LCS)'.
[16] This is further detailed in Chapter 1.5: Promoting Safe and Efficient Payments and Remittance Services.

Going Forward

Our international engagements have been essential in enhancing mutual understanding on global economic and financial developments. These insights have also informed our policymaking capabilities in executing our mandates of safeguarding macroeconomic and financial stability. Going forward, BNM will continue to strengthen our partnerships to deepen integration and further advance our collective strategic interests.

Governance

Board of Directors, Senior Management and Statutory Committees of Bank Negara Malaysia 142

Governance

Governance

Bank Negara Malaysia (BNM) is responsible for promoting monetary and financial stability conducive to the sustainable growth of the Malaysian economy. Our governance arrangements ensure that we continue to discharge our mandates effectively as a credible and independent institution. These arrangements are set out by statute – in the Central Bank of Malaysia Act 2009 and other laws that BNM administers – as well as internal policies developed over the years. Our governance framework continues to be aligned with global best practices and promotes accountability and high standards of integrity in discharging our duties and conducting our operations.

Board of Directors

As set out in the Central Bank of Malaysia Act 2009, the Board is responsible for overseeing the management and operations of BNM. This is to ensure that we deliver our mandates and remain financially and operationally sound, and that our resources are utilised effectively and efficiently.

The Board comprises the Governor who is the Chairperson, three Deputy Governors, the Secretary General of the Treasury, as well as Independent Non-Executive Members who form the majority of the Board. His Majesty the Yang di-Pertuan Agong appoints all members of the Board, except the Deputy Governors, who are appointed by the Minister of Finance. The Governor serves a five-year renewable term whilst the Deputy Governors and Independent Non-Executive Members each serve a three-year renewable term. The Secretary General of the Treasury remains a member of the Board for as long as he/she holds office.

In 2023, the Board continued to provide oversight and advice on our operations and the delivery of our mandates, sharing invaluable perspectives amid challenging global and domestic economic developments. The Board oversaw the transition in our leadership with the appointment of Datuk Shaik Abdul Rasheed Abdul Ghaffour as the tenth Governor of BNM on 1 July 2023 following the end of term of Governor Tan Sri Nor Shamsiah Mohd Yunus. Subsequently, Encik Adnan Zaylani Mohamad Zahid was appointed as Deputy Governor on 1 September 2023.

In discharging its responsibilities, the Board engaged extensively with our senior management on key economic and financial developments during the year. The Board took active interest in the progress of the developmental priorities under the Financial Sector Blueprint, and in advancing climate agenda, as well as issues of public interest such as inflation, monetary policy, the ringgit exchange rate and scam-related awareness.

The Board reviewed the overall performance of BNM and discussed our financial performance indicators for 2023. The Board provided invaluable perspectives on our Business Plan's priorities and was highly supportive towards strengthening our organisational development. This included initiatives to accelerate our culture transformation journey from awareness into action, enhance our efforts to provide a secured IT and digital ecosystem, and adopt a competitive remuneration structure.

Board Committees

The Board is supported by three committees – the Board Governance Committee, the Board Audit Committee and the Board Risk Committee. These committees consist solely of Independent Non-Executive Members. Each committee is governed by its own Terms of Reference that is intended to support the Board and to provide internal checks and balances on the management and operations of BNM.

In 2023, the Board Committees discussed matters of importance including board succession and our governance arrangements, the effectiveness of our enterprise risk management and business continuity plans, our audit culture transformation and enhanced internal controls.

	Board Governance Committee (BGC)	Board Audit Committee (BAC)	Board Risk Committee (BRC)
Chairperson	**Tan Sri Mohamed Azman Yahya**	**Chin Suit Fang**	**Dato' Dr. Nirmala Menon a/p Y.B. Menon**
Members	• **Chin Suit Fang** • **Dato' Dr. Nirmala Menon a/p Y.B Menon**	• **Kamarulazman Muhamed** • **Dr. Nungsari Ahmad Radhi**	• **Tan Sri Mohamed Azman Yahya** • **Kamarulazman Muhamed** • **Dr. Nungsari Ahmad Radhi**
Roles and Responsibilities	Oversees the Bank's governance framework and practices. Reviews and recommends to the Board on the Bank's budget, business plan and remuneration policies. Recommends the appointment and reappointment of members of the Board and other legislated committees of the Bank such as: • Monetary Policy Committee • Financial Stability Executive Committee • Shariah Advisory Council • Monetary Penalty Review Committee	Oversees the integrity of the Bank's accounts and financial statements. Oversees the adequacy of the Bank's internal controls and compliance with legal requirements and internal policies. Reviews and approves the Bank's audit framework, audit charter, internal audit plan and reports, and oversees management actions to address material findings.	Oversees the implementation of the Bank's enterprise risk management framework. Oversees the Bank's management of financial, operational, reputational and IT and cybersecurity risks, including risk governance, structure and accountabilities in these areas.

The Board is statutorily required to meet at least once a month. In 2023, the Board recorded an attendance rate of 96.8% for Board meetings and 100% for Board Committee meetings, as illustrated in the following table:

Designation	Members	Board *	BGC	BAC	BRC
Chairperson	Tan Sri Nor Shamsiah Mohd Yunus[1]	7/7			
	Datuk Shaik Abdul Rasheed Abdul Ghaffour[2]	13/13			
Ex officio	Datuk Jessica Chew Cheng Lian	12/13**			
	Dato' Marzunisham Omar	13/13			
	Adnan Zaylani Mohamad Zahid[3]	4/4			
	Datuk Johan Mahmood Merican[4] *(Secretary General of the Treasury)*	8/11**			
Independent Non-Executive	Chin Suit Fang[5]	12/12	10/10	5/5	1/1^
	Dato' Dr. Nirmala Menon a/p Y.B. Menon	13/13	12/12	2/2#	4/4
	Tan Sri Mohamed Azman Yahya	13/13	12/12	1/1#	4/4
	Kamarulazman Muhamed	13/13	4/4^#	6/6	4/4
	Dr. Nungsari Ahmad Radhi[6]	12/12	2/2^	5/5	4/4

Note:
[1] Retired on 30 June 2023.
[2] Appointed as Governor on 1 July 2023.
[3] Appointed as Deputy Governor on 1 September 2023.
[4] Appointed as Secretary General of the Treasury on 27 February 2023.
[5] Tenure as member of the Board, BGC and Chairperson of BAC renewed on 15 February 2023.
[6] Appointed as member of the Board, BAC and BRC on 15 February 2023.
* 13 Board meetings were held in 2023.
** Absent due to unavoidable prior commitments.
^ Non-members attending by invitation, to inform and educate the non-members on specific matters under consideration by the Committees.
# Attended as interim Chairperson and/or members, pending appointment and reappointment process.

Note of Appreciation:
The Board of Directors wishes to extend its appreciation and gratitude to Tan Sri Nor Shamsiah Mohd Yunus for her invaluable contributions to BNM and the Board since 1 July 2018. Throughout her tenure as Governor, Tan Sri Nor Shamsiah Mohd Yunus successfully led and transformed BNM's culture of trust and openness which enabled constructive discourse amongst the Board members. Her unwavering commitment to achieve organisational excellence and development objectives will always be valued.

Board Induction and Development

The Independent Non-Executive Members comprise senior and experienced individuals from diverse professional backgrounds. These include economics, accounting and finance, banking and insurance, information technology and cybersecurity, risk management and audit. BNM benefits from the collective wisdom and insights of the Board members as well as their in-depth understanding of issues in the financial, business and public sectors.

Newly-appointed Independent Non-Executive Members undergo comprehensive on-boarding programmes. These encompass our mandates, policy priorities, governing frameworks and operations, to enable the members to perform their oversight role effectively.

Throughout the members' tenure, they also participated in education development programmes on contemporary themes and engaged in policy discourse with BNM's management and staff on core issues affecting central banks. These include macroeconomic developments, reserve management, regulatory policy and supervision, cybersecurity, digital technology and climate-related risks. During the year, the members also benefited from engagements with external organisations to exchange views on the application of artificial intelligence and data analytics in facilitating audit assessments and insights.

Board of Directors

Datuk Shaik Abdul Rasheed Abdul Ghaffour

Chairperson
Appointed to the Board: 16 July 2016

Qualifications
- Master of Business Administration, University of Oxford, United Kingdom
- Bachelor of Economics, University of Malaya, Malaysia
- Asian Institute of Chartered Bankers

Key Appointments and Directorships
- Chairperson, Board of Directors of The SEACEN Centre
- Member, Board of Governors of The SEACEN Centre
- Council Member, Islamic Financial Services Board
- Member, Board of Directors of Malaysia Deposit Insurance Corporation
- Member, Governing Board of International Islamic Liquidity Management Corporation

Past Experience
- Deputy Governor and member of Board of Directors, Bank Negara Malaysia
- Assistant Governor, Bank Negara Malaysia
- Alternate Executive Director, South East Asia Voting Group of the International Monetary Fund

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Datuk Jessica Chew Cheng Lian

Ex Officio Member
Appointed to the Board: 1 January 2018

Qualifications
- Bachelor of Commerce (Accounting and Finance), University of Melbourne, Australia
- Chartered Banker Institute (Scotland)
- Asian Institute of Chartered Bankers
- CPA Australia

Key Appointments and Directorships
- Chairperson, Board of Directors of Danamodal Nasional Berhad
- Alternate Member, Board of Directors of Malaysia Deposit Insurance Corporation

Past Experience
- Assistant Governor, Bank Negara Malaysia
- Advisor, Board of Directors of Malaysia Accounting Standard Board

Board of Directors

Dato' Marzunisham Omar

Ex Officio Member
Appointed to the Board: 15 June 2020

Qualifications

- Master of Arts (Economics), University of Cambridge, United Kingdom
- Bachelor of Arts (Economics), University of Cambridge, United Kingdom

Key Appointments and Directorships

- Member, Board of Directors of ASB Management Sdn Bhd
- Member, Board of Governors of Asia School of Business
- Member, Board of Directors of Malaysian Investment Development Authority and Chairperson of Board Audit Committee
- Member, Board of Directors of The SEACEN Centre
- Chairperson, National Coordination Committee to Counter Money Laundering
- Member, Advisory Board of National Anti-Financial Crime Centre

Past Experience

- Assistant Governor, Bank Negara Malaysia
- Executive Director, South East Asia Voting Group of the International Monetary Fund

Adnan Zaylani Mohamad Zahid

Ex Officio Member
Appointed to the Board: 1 September 2023

Qualifications

- Master of Public Policy, Blavatnik School of Government, University of Oxford, United Kingdom
- Master of Science in Global Market Economics, London School of Economics and Political Science, United Kingdom
- Bachelor of Science in Economics, London School of Economics and Political Science, United Kingdom

Key Appointments and Directorships

- Member, Executive Committee of Islamic Financial Services Board
- Member, Board Executive Committee of International Islamic Liquidity Management Corporation
- Member, Board of Directors of Retirement Fund (Incorporated)
- Member, Board of Directors of International Centre for Education in Islamic Finance (INCEIF) University
- Adjunct Professor, Universiti Malaysia Terengganu

Past Experience

- Assistant Governor, Bank Negara Malaysia
- Member, Investment Panel of Employees Provident Fund
- Member, Board of Directors of Credit Guarantee Corporation
- Authority Member, Labuan Financial Services Authority
- Member, Board of Directors of Maybank Venture Capital Company Sdn Bhd

Board of Directors

Datuk Johan Mahmood Merican

Ex Officio Member

Appointed to the Board: 27 February 2023

Secretary General of the Treasury, Ministry of Finance

Qualifications

- Bachelor of Arts (Economics), University of Cambridge, United Kingdom
- Associate Chartered Accountant, Institute of Chartered Accountants in England and Wales

Key Appointments and Directorships

- Chairperson, Board of Directors of Inland Revenue Board of Malaysia
- Chairperson, Board of Directors of Retirement Fund (Incorporated)
- Chairperson, Board of Directors of Public Sector Home Financing Board
- Chairperson, MySalam
- Member, Board of Directors of Petroliam Nasional Berhad (PETRONAS)
- Member, Board of Directors of Permodalan Nasional Berhad
- Member, Board of Directors of Malaysia Deposit Insurance Corporation

Past Experience

- Deputy Secretary General of Treasury (Policy), Ministry of Finance
- Director of National Budget Office, Ministry of Finance
- Chief Executive Officer, Talent Corporation Malaysia Berhad (TalentCorp)
- Principal Private Secretary to the Minister in the Ministry of Finance and Economic Planning Unit
- Deputy Director General (Human Capital), Economic Planning Unit
- Head, Civil Service Delivery Unit

Chin Suit Fang

Independent Non-Executive Member

Appointed to the Board: 1 November 2019

Qualifications

- Malaysian Institute of Accountants
- Malaysian Institute of Certified Public Accountants

Key Appointments and Directorships

- Member, Monetary Penalty Review Committee

Past Experience

- Partner, PwC Malaysia
- Markets Leader for PwC Malaysia and PwCMYVN (Malaysia & Vietnam)
- Corporate Responsibility and Diversity & Inclusion Leader, PwC Malaysia
- Member, PwC Global Gender Advisory Council
- Mentor for Women in Leadership Malaysia by ICAEW & TalentCorp Malaysia

Board of Directors

Dato' Dr. Nirmala Menon a/p Y.B. Menon

Independant Non-Executive Member

Appointed to the Board: 16 March 2020

Qualifications

- Postgraduate qualifications in Insurance Medicine
- Bachelor in Medicine, University of Mysore, India

Key Appointments and Directorships

- Member, Board of Directors of Sime Darby Berhad
- Member, Board of Directors of Aviva Singlife Holdings Private Limited (Singapore)
- Member, Board of Directors of Amanat Lebuhraya Rakyat Berhad
- Member, Board of Directors of Sistem Penyuraian Trafik KL Barat Sdn Bhd
- Member, Board of Directors of Lingkaran Trans Kota Sdn Bhd

Past Experience

- Member, Board of Directors of AXA Affin General Insurance Berhad
- Member, Board of Directors of Khazanah Nasional Berhad
- Member, Board of Directors of Avicennia Capital Sdn Bhd
- President and Chief Executive Officer, ING Malaysia Berhad
- Executive Vice President, Head of Designated Markets & Health Asia, Metlife Asia Pacific Limited
- Head of South Asia, ING Asia Pacific Limited
- Medical Officer, Hospital Kuala Lumpur

Tan Sri Mohamed Azman Yahya

Independent Non-Executive Member

Appointed to the Board: 1 June 2020

Qualifications

- Bachelor of Science (Economics), London School of Economics and Political Science, United Kingdom
- Institute of Bankers Malaysia
- Institute of Chartered Accountants in England and Wales
- Malaysian Institute of Accountants

Key Appointments and Directorships

- Chairperson, Board of Directors of Symphony House Sdn Bhd
- Chairperson, Board of Directors of Sepang International Circuit Berhad
- Member, Board of Directors of Beringin Band Sdn Bhd
- Member, Board of Directors of Azman and Sons Sdn Bhd

Past Experience

- Chairperson, Board of Directors of Ranhill Utilities Berhad
- Chairperson, Corporate Debt Restructuring Committee
- Chairperson, Board of Directors of Pengurusan Danaharta Nasional Berhad[1]
- Member, Board of Directors of Khazanah Nasional Berhad
- Member, Board of Directors of Sime Darby Berhad
- Member, Board of Directors of AIA Group Limited
- Member, Board of Directors of PLUS Expressways Berhad
- Member to PEMUDAH, Financial Reporting Foundation, Capital Market Advisory Group, Malaysia Special Economic Committee

[1] Also served as the Managing Director of Pengurusan Danaharta Nasional Berhad prior to his appointment as Chairperson.

Board of Directors

Kamarulazman Muhamed

Independent Non-Executive Member

Appointed to the Board: 1 January 2022

Qualifications

- Master of Science in Information System Management, Salford University, United Kingdom
- Association of Chartered Certified Accountants, Nottingham Trent University, United Kingdom

Key Appointments and Directorships

- Founder and Chief Executive Officer, Aerodyne Group
- Member, Board of Directors of Malaysia Aerospace Industry Association
- Member, Research Advisory Council, Universiti Teknologi PETRONAS
- Adjunct Professor, Universiti Islam Selangor, Universiti Malaysia Pahang and Edinburgh Business School of Heriot-Watt University Malaysia
- Professor of Practice, Putra Business School of Universiti Putra Malaysia

Past Experience

- Member, Economic Action Council
- Member, Majlis Ekonomi Digital dan 4IR
- Member, National Robotics Direction Plans Steering Committee
- Member, Malaysia National Aerospace Council
- President, New Entrepreneur Foundation
- Exco Member, Economic Planning Unit, Prime Minister's Department
- Business Exco, Majlis Amanah Rakyat
- Director and Country Manager, Computer Associates International

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Dr. Nungsari Ahmad Radhi

Independent Non-Executive Member

Appointed to the Board: 15 February 2023

Qualifications

- Doctor of Philosophy (Economics), Purdue University, United States of America
- Master of Science (Mathematics), Southern Illinois University, United States of America
- Bachelor of Arts (Economics and Mathematics), Southern Illinois University, United States of America

Key Appointments and Directorships

- Member, Advisory Committee to Finance Minister
- Director, Ratulin Sdn Bhd
- Director, Koperasi Tunas Muda Sungai Ara Berhad
- Member, Board of Trustees of Khazanah Research Institute
- Member, Board of Trustees of Yayasan Rahimah binti Yusof

Past Experience

- Executive Chairperson, Malaysia Aviation Commission
- Executive Director, Khazanah Research Institute
- Managing Director, Prokhas Sdn Bhd
- Principal Officer, Board of Directors of DanaInfra Nasional Berhad
- Principal Officer and Member, Board of Directors of Pengurusan Danaharta Nasional Berhad
- Principal Officer and Member, Board of Directors of Syarikat Jaminan Kredit Perumahan Berhad
- Member, Board of Directors of Commerce Tijari Bank/CIMB Islamic Bank Berhad
- Member, Board of Directors of Bank Pertanian Malaysia

Senior Management

As provided by the Central Bank of Malaysia Act 2009, the Governor is responsible for the management of BNM in discharging its mandates. In performing these duties, the Governor is assisted by a senior management team consisting of Deputy and Assistant Governors. BNM's organisation structure is designed to promote clear lines of reporting and accountability across its wide-ranging functions.

Various management committees are established to enable the senior management team and other senior officers to deliberate on BNM's business, and in particular those involving the organisation's strategy and top-most priorities. These management committees include policy committees such as the Financial Stability Committee and the Joint Policy Committee, a committee tasked to deliberate cross-cutting issues and coordinate policies that may have impact on the financial system and the broader economy. The management committees enable BNM to draw on diverse functional backgrounds and insights across the organisation to arrive at well-informed decisions through open and candid deliberations.

Supported by these structures, senior management sets internal policies and leads the operations of BNM to ensure that it gives effect to its objects, carries out its functions and uses its resources in a manner that is effective, prudent and consistent with the interests of BNM, for the benefit of the nation.

Management Committee

Front row (seated from left to right)

Abdul Rasheed Ghaffour
Governor

Jessica Chew Cheng Lian
Deputy Governor

Adnan Zaylani Mohamad Zahid
Deputy Governor

Back row (from left to right)

Marzunisham Omar
Deputy Governor

Fraziali Ismail
Assistant Governor

Abd. Rahman Abu Bakar
Assistant Governor

Suhaimi Ali
Assistant Governor

Dr. Norhana Endut
Assistant Governor

Aznan Abdul Aziz
Assistant Governor

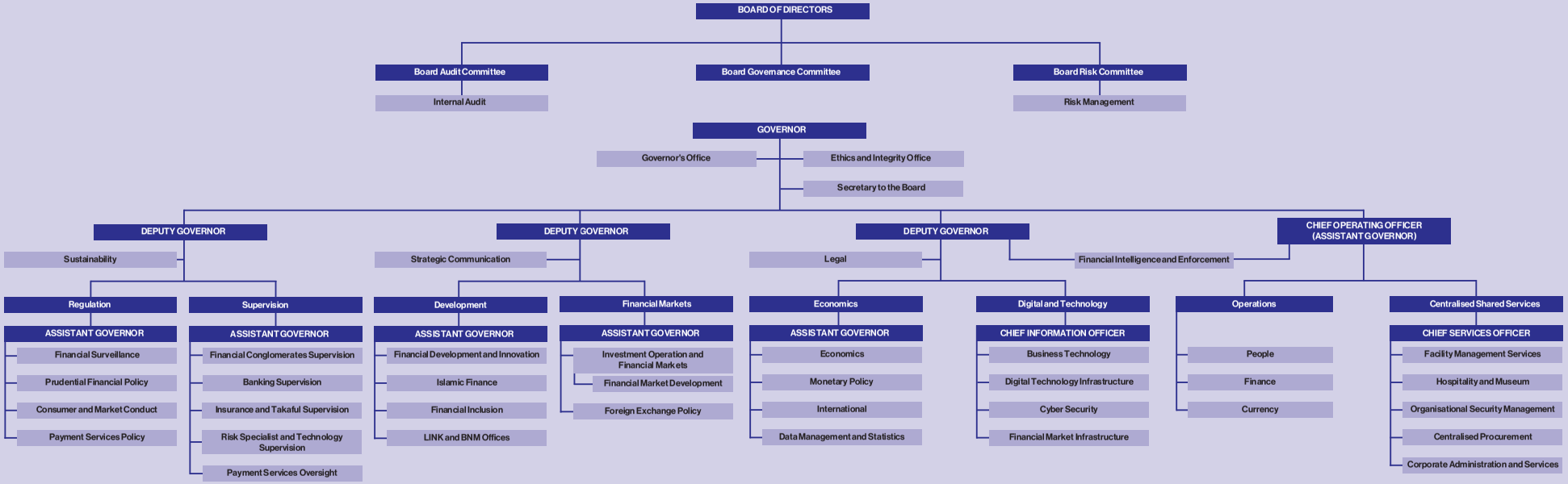
Senior Officers

Governor	Abdul Rasheed Ghaffour
Deputy Governor	Jessica Chew Cheng Lian
Deputy Governor	Marzunisham Omar
Deputy Governor	Adnan Zaylani Mohamad Zahid
Assistant Governor	Aznan Abdul Aziz
Assistant Governor	Fraziali Ismail
Assistant Governor	Dr. Norhana Endut
Assistant Governor	Abd. Rahman Abu Bakar
Assistant Governor	Suhaimi Ali
Assistant Governor	Abu Hassan Alshari Yahaya *(appointed as Head of the Consumer Credit Oversight Board Task Force)*
Secretary to the Board	Suhanna Omar
Governor's Office	Nurashiqin Asri
Internal Audit	Marina Abdul Kahar
Risk Management	Beh Cheng Hoon
Ethics and Integrity Office	Santamarie Shamni Arulanandam
Legal	—
Sustainability	Madelena Mohamed
Strategic Communications	Shasha Kartini Ridzam
Financial Intelligence and Enforcement	Mohd Fuad Arshad
Financial Surveillance	Daniel Chin Shen Li
Prudential Financial Policy	Cindy Siah Hooi Hoon
Consumer and Market Conduct	Lim Hsin Ying
Payment Services Policy	Qaiser Iskandar Anwarudin
Financial Conglomerates Supervision	Hong Chin Pheng
Banking Supervision	Mohd Zabidi Md Nor
Insurance and Takaful Supervision	Hoo Hon Shiong
Risk Specialist and Technology Supervision	Hew Ee-Lu
Payment Services Oversight	Zarifa Izan Zainol Abidin
Financial Development and Innovation	Lau Chin Ching
Islamic Finance	Nurul Izza Idris
Financial Inclusion	Nor Rafidz Nazri
LINK and BNM Offices	Thomas Tan Koon Peng

Investment Operations and Financial Markets	Mohamad Ali Iqbal Abdul Khalid
Foreign Exchange Policy	Albert See Choon Kwang
Economics	Idwan Suhardi Hakim
Monetary Policy	Dr. Mohamad Hasni Sha'ari
International	Ida Harniza Johar
Data Management and Statistics	Ong Li Ming
Chief Information Officer	Tay Gim Soon
Business Technology	Victor Khor Eng Swee
Digital Technology Infrastructure	Ahmad Affzan Mokhtar Anuar
Cyber Security	Aizuddin Mohd Ghazali
Financial Market Infrastructure	Noor Hazama Fadhilah Abdullah
People	Nurashikhin Md. Sharif
Currency	Mohamad Zaini Ab Jabbar
Finance	Toh Ying Ying
Chief Services Officer	Affendi Rashdi
Facility Management Services	Razman Samsudin
Hospitality and Museum	Noreen Zulkepli
Organisational Security Management	Ahmad Azaharudin Mohd Anuar
Centralised Procurement	—
Corporate Administration and Services	Hairi Adam
Beijing Representative Office	Soo Woan Chin
London Representative Office	Shahredza Minhat
New York Representative Office	Ahmad Abrar Shamsuddin
BNM Office Johor Bahru	Rosnani Mahamad Zain
BNM Office Pulau Pinang	Panimoli Kalidass
BNM Office Kuching	Mohd Irman Haji Mohd Din
BNM Office Kota Kinabalu	Adlis Khairil Sazli Mohd Zaini
BNM Office Kuala Terengganu	Zambre Ismail

BANK NEGARA MALAYSIA

Organisation Structure



Effective 1 April 2023

Statutory Committees

In certain areas, the responsibility for decision-making is placed beyond the direct remit of the Board or Management. These matters are reserved for specific organs created by statute.

Monetary Policy Committee

The primary objective of monetary policy in Malaysia is to maintain price stability while giving due regard to developments in the economy. Under the Central Bank of Malaysia Act 2009 (CBA 2009), the Monetary Policy Committee (MPC) of BNM is responsible for formulating monetary policy and the policies for the conduct of monetary policy operations.[1] The MPC decides on the policy interest rate, the Overnight Policy Rate (OPR), to influence other interest rates in the economy.

In carrying out this mandate, the MPC determines monetary policy based on its assessment of the balance of risks to the outlook for both domestic inflation and growth. The MPC also monitors risks of destabilising financial imbalances given their implications on economic prospects. The MPC meets at least six times a year to decide on the OPR and publishes the Monetary Policy Statement (MPS) after each meeting to explain its decisions.

The MPC comprises the Governor, the Deputy Governors, and not less than three but not more than seven other members. These include external members who are appointed by the Minister of Finance, as recommended by BNM's Board Governance Committee. The MPC currently has eight members, two of whom are external members. The membership of the MPC seeks to bring together a diversity of expertise and experience that is critical for sound monetary policy decision-making.

Members*

Abdul Rasheed Ghaffour (Chairperson)

Jessica Chew Cheng Lian

Marzunisham Omar

Adnan Zaylani Mohamad Zahid

Dr. Norhana Endut

Fraziali Ismail

Nor Zahidi Alias *(External Member)*

Lim Chee Sing *(External Member)*

[1] More information on the MPC and its decision-making processes can be found in the feature article titled 'Behind the Scenes of Bank Negara Malaysia's Monetary Policymaking' in this report.

* As at 20 March 2024.

Financial Stability Executive Committee

The Financial Stability Executive Committee (FSEC) was established in 2010 pursuant to Section 37 of the Central Bank of Malaysia Act 2009 (CBA 2009). The FSEC supports BNM's statutory mandate of preserving financial stability through its powers to decide on specific policy measures that may be taken by BNM to avert or reduce risks to financial stability.

In carrying out this mandate, the FSEC reviews, assesses and decides on proposals tabled by BNM to:

- Issue orders to a person or financial institution that is not regulated nor supervised by BNM to undertake specific measures in the interest of financial stability;
- Extend liquidity assistance to a financial institution that is not regulated nor supervised by BNM, or to the overseas operations of a licensed financial institution in Malaysia.
- Provide capital support to a licensed financial institution in Malaysia that has ceased to be viable or is likely to become non-viable.

This serves to ensure continuous and effective financial intermediation, including the orderly functioning of the money market and foreign exchange market, and preserve public confidence in the financial system.

The FSEC consists of seven members, a majority of whom are non-executive members who are independent of BNM's Management. Members are subject to the FSEC's Code of Ethics and Conflict of Interest, which serves to preserve the integrity of the FSEC's decisions. In 2023, the FSEC met twice to discuss developments and assessments on financial stability risks amid a global environment of tightening financial conditions and heightened inflationary pressures.

Members*

Datuk Abdul Rasheed Ghaffour (Chairperson)

Dato' Marzunisham Omar

Datuk Johan Mahmood Merican *(Independent non-executive member)*

Dato' Seri Dr. Awang Adek Hussin *(Independent non-executive member)*

Rafiz Azuan Abdullah *(Independent non-executive member)*

Dato' Abdul Rauf Rashid *(Independent non-executive member)*

Wong Chee Lin *(Independent non-executive member)*

* As at 20 March 2024.

Shariah Advisory Council

The Shariah Advisory Council (SAC) of Bank Negara Malaysia was established in May 1997 as the highest Shariah authority for Islamic financial institutions in Malaysia. The Central Bank of Malaysia Act 2009 (CBA 2009) reinforces the roles and functions of the SAC as the authority for the ascertainment of Islamic law for the purposes of Islamic financial business which are supervised and regulated by BNM.

The SAC performs an instrumental role in promoting Shariah certainty and sustaining public confidence in the Islamic financial system. The Shariah rulings by the SAC serve as a main reference for Islamic financial institutions to ensure end-to-end Shariah compliance in their implementation of Islamic financial products, business and activities. In addition, the CBA 2009 provides that Shariah matters brought to the court or raised in any arbitration proceeding must be referred to the SAC for clarity and certainty.

The SAC provides the Shariah basis for the development of a comprehensive Shariah contract-based regulatory framework for Islamic financial institutions in Malaysia. In this regard, the SAC specifies the essential features of the contracts taking into consideration the various Shariah views, research findings, as well as custom and market practices.

The SAC members are appointed by the Yang di-Pertuan Agong, based on the advice of the Minister of Finance after consultation with BNM. Currently, the SAC has nine members comprising Shariah scholars and practitioners with vast experience, domestically and abroad in the areas of Shariah, law, Islamic economics, and finance.

In 2023, the SAC met eight times to decide and issue rulings concering Shariah issues that shape the development and regulation of Islamic financial system in Malaysia.

Members*

Prof. Dr. Ashraf Md Hashim (Chairperson)

Dr. Engku Rabiah Adawiah Engku Ali (Deputy Chairperson)

Sahibus Samahah Dato' Setia Prof. Madya Dr. Haji Anhar Haji Opir

Tan Sri Mohd Zawawi Salleh

Datuk Prof. Dr. Mohamad Akram Laldin

Dr. Marjan Muhammad

Dr. Ahmad Basri Ibrahim

Burhanuddin Lukman

Zainal Abidin Jamal

* As at 20 March 2024.

Monetary Penalty Review Committee

The Monetary Penalty Review Committee (MPRC) is an independent committee legislated under section 238 of the Financial Services Act 2013 (FSA) and section 249 of the Islamic Financial Services Act 2013 (IFSA). The MPRC considers appeals from persons (individuals or institutions) against the administrative monetary penalties (AMPs) or pecuniary remedies imposed by BNM in exercising its administrative enforcement powers under the FSA, the IFSA the Development Financial Institutions Act 2002 and the Currency Act 2020 (CA).[1]

The MPRC provides an independent avenue for aggrieved parties to appeal against BNM's decisions. The MPRC may decide to either confirm BNM's decision or require BNM to reconsider and reach a decision in accordance with the findings of the MPRC. The members of MPRC are appointed by the Minister of Finance from among the Independent Non Executive Board Members of BNM or other external persons upon recommendation by BNM.

Members*

Tan Sri Hasan Lah (Chairperson)

Chin Suit Fang

Lillian Leong Bee Lian

[1] For the CA, the appeals would only be against the AMPs imposed by BNM.

* As at 20 March 2024

Our Finances

Statement of Financial Position as at 31 December 2023 169

Income Statement for the Year Ended 31 December 2023 170

Notes to the Financial Statements for the Year Ended 31 December 2023 171

Our Finances

Our Finances

Bank Negara Malaysia (BNM) is a statutory body and self-funds its day-to-day operations from income generated by investments of the country's international reserves and the financial market and other general operations of BNM. We manage our finances to ensure that we have the financial resources to discharge our mandates effectively. This involves us being responsible, prudent and disciplined in managing BNM's financial resources.

For the financial year ended 31 December 2023, BNM recorded a net profit after tax of RM7.16 billion (2022: RM6.99 billion) on the back of a higher total income of RM8.77 billion (2022: RM8.52 billion). Of this, RM4.31 billion (2022: RM4.24 billion) will be transferred to Risk Reserve,[1] which stood at RM150.06 billion as at 31 December 2023 (2022: RM116.61 billion). As our international reserves are in foreign currency, it is imperative for BNM to ensure that the Risk Reserve is adequate to cushion against financial market volatility and fluctuations in foreign exchange rates. The remaining RM2.85 billion (2022: RM2.75 billion) will be paid as dividend to the Government.

Total assets increased by 1.97% to RM631.26 billion (2022: RM619.04 billion) as at 31 December 2023. International Reserves continued to account for the bulk of our assets at 83% (2022: 81%).

Our liabilities were mainly from deposits by financial institutions and currency in circulation, which amounted to RM176.66 billion and RM161.82 billion respectively as at 31 December 2023 (2022: RM221.89 billion; RM162.07 billion).

[1] Risk Reserve are financial buffers comprising cumulative transfers of net profits, unrealised gains or losses on translation of foreign currency assets and liabilities and fair value changes from securities carried at fair value.

Note: Page numbers '3 to 23' in the Certificate of the Auditor General refer to pages 169 to 184 in this Report.

CERTIFICATE OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK NEGARA MALAYSIA FOR THE YEAR ENDED 31 DECEMBER 2023

Certificate on the Audit of the Financial Statements

Opinion

I have audited the Financial Statements of the Bank Negara Malaysia. The financial statements comprise the Statement of Financial Position as at 31 December 2023 of the Bank Negara Malaysia and the Income Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 3 to 23.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank Negara Malaysia as at 31 December 2023, and of its financial performance for the year then ended in accordance with the Malaysian Financial Reporting Standards (MFRS) and the Central Bank of Malaysia Act 2009 requirements to the extent that it is, in the opinion of the Board of Directors, appropriate to do so, having regard to the objects and functions of the Bank.

Basis for Opinion

The audit was conducted in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my certificate. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence and Other Ethical Responsibilities

I am independent of the Bank Negara Malaysia and I have fulfilled my other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

Information Other than the Financial Statements and Auditor's Certificate Thereon

The Board of Directors of the Bank Negara Malaysia is responsible for the other information in the Annual Report. My opinion on the Financial Statements of the Bank Negara Malaysia does not cover the other information than the financial statements and Auditor's Certificate thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of Financial Statements of the Bank Negara Malaysia that give a true and fair view in accordance with the Malaysian Financial Reporting Standards (MFRS) and the Central Bank of Malaysia Act 2009 requirements to the extent that it is, in the opinion of the Board of Directors, appropriate to do so, having regard to the objects and functions of the Bank. The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the Financial Statements of the Bank Negara Malaysia that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements of the Bank Negara Malaysia, the Board of Directors is responsible for assessing the Bank Negara Malaysia's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements of the Bank Negara Malaysia as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Certificate that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

a. identify and assess the risks of material misstatement of the Financial Statements of the Bank Negara Malaysia, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank Negara Malaysia's internal control;

c. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

d. conclude on the appropriateness of the Board of Directors's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank Negara Malaysia's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my Auditor's Certificate to the related disclosures in the Financial Statements of the Bank Negara Malaysia or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of Auditor's Certificate. However, future events or conditions may cause the Bank Negara Malaysia to cease to continue as a going concern; and

e. evaluate the overall presentation, structure and content of the Financial Statements of the Bank Negara Malaysia, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The Board of Directors has been informed regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I have identify during the audit.

I have also disclosed to the Board of Directors that I have complied with the ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on my independence, and if applicable, actions taken to eliminate threats or safeguards applied.

Other Matters

This certificate is made solely to the Board of Directors of the Bank Negara Malaysia in accordance with the Central Bank of Malaysia Act 2009 requirements, and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.

(DATUK WAN SURAYA BINTI WAN MOHD RADZI)
AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
14 MARCH 2024

BANK NEGARA MALAYSIA

STATEMENT BY DIRECTORS

We, Abdul Rasheed Ghaffour and Chin Suit Fang, being the Chairperson and one of the Directors of Bank Negara Malaysia, do hereby state that, in the opinion of the Directors, the financial statements are drawn up so as to give a true and fair view of the financial position of Bank Negara Malaysia as at 31 December 2023 and financial performance for the financial year then ended, in accordance with the Central Bank of Malaysia Act 2009 and the Malaysian Financial Reporting Standards (MFRS) to the extent that it is, in the opinion of the Directors, appropriate to do so, having regard to the objects and functions of BNM.

On behalf of the Board of Directors,

ABDUL RASHEED GHAFFOUR
CHAIRPERSON

26 FEBRUARY 2024
KUALA LUMPUR

CHIN SUIT FANG
DIRECTOR

26 FEBRUARY 2024
KUALA LUMPUR

BANK NEGARA MALAYSIA

DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF BANK NEGARA MALAYSIA

I, Toh Ying Ying, being the officer primarily responsible for the financial management of Bank Negara Malaysia, do solemnly and sincerely declare that the financial statements for the year ended 31 December 2023, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the abovenamed at Kuala Lumpur)
this 26 February 2024.)

Before me,

SURUHANJAYA SUMPAH
W 703
MOHD FITRY ABDUL GHANI
01/01/2022 - 31/12/2024
MALAYSIA
NO. 58A, JALAN BUKIT RAJA
TAMAN SEPUTEH, 58000 KUALA LUMPUR

BANK NEGARA MALAYSIA

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Note	2023 RM million	2022 RM million
ASSETS			
Gold and Foreign Financial Assets	3	487,960	471,957
International Monetary Fund Reserve Position	4	6,229	6,177
Holdings of Special Drawing Rights	4	26,676	25,197
Malaysian Government Papers	5	13,009	12,822
Deposits with Financial Institutions	6	1,202	2,937
Loans and Advances	7	24,234	23,694
Land and Buildings	8	4,128	4,142
Other Assets	9	67,822	72,112
Total Assets		**631,260**	**619,038**
LIABILITIES AND CAPITAL			
Currency in Circulation		161,816	162,074
Deposits from: Financial Institutions		176,659	221,886
Federal Government		3,526	5,220
Others	10	40,075	37,292
Bank Negara Papers	11	29,235	6,651
Allocation of Special Drawing Rights	4	29,738	28,213
Other Liabilities	12	3,268	4,399
Total Liabilities		444,317	465,735
Capital	13	100	100
General Reserve Fund	14	28,888	28,888
Risk Reserve	15	150,061	116,610
Land Revaluation Reserve	16	708	719
Unappropriated Profits	17	7,186	6,986
Total Capital		186,943	153,303
Total Liabilities and Capital		**631,260**	**619,038**

Notes on the following pages form part of these financial statements.

BANK NEGARA MALAYSIA

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 RM million	2022 RM million
Total Income	18	**8,772**	**8,515**
Less:			
Recurring Expenditure	19	(1,441)	(1,378)
Development Expenditure	20	(126)	(104)
Total Expenditure		**(1,567)**	**(1,482)**
Net Profit Before Tax		**7,205**	**7,033**
Less: Taxation	21	(43)	(47)
Net Profit After Tax		**7,162**	**6,986**

Notes on the following pages form part of these financial statements.

BANK NEGARA MALAYSIA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. **General Information**

Bank Negara Malaysia (BNM) is a statutory body established under the Central Bank of Malaysia Act 1958 which has been repealed by the Central Bank of Malaysia Act 2009. The principal place of business is located at Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur.

The principal objects of BNM are to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. In this regard, BNM's primary functions 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 BNM;

(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.

2. **Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies are consistently applied to both of the financial years presented, unless otherwise stated.

2.1 **Basis of Preparation of Financial Statements**

(a) These financial statements have been prepared in accordance with the Central Bank of Malaysia Act 2009 and the applicable Malaysian Financial Reporting Standards (MFRS). Section 10 of the Central Bank of Malaysia Act 2009 provides that BNM, in preparing its financial statements, shall comply with the applicable accounting standards to the extent that it is, in the opinion of the Directors, appropriate to do so, having regard to the objects and functions of BNM. The Directors, having considered BNM's responsibilities for the formulation and conduct of effective monetary policy and for promoting financial stability, are of the opinion that, it is appropriate to differ, in certain aspects, from the applicable accounting standards.

BANK NEGARA MALAYSIA

(b) The preparation of the financial statements on the basis stated in 2.1 (a) requires the management to make judgements, estimates and assumptions based on available information that may affect the application of accounting policies and the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial year. Although these estimates are based on the management's best knowledge of current events and actions, the actual results could differ from those estimates.

2.2 **Measurement Base and Accounting Basis**

The financial statements have been prepared on an accrual basis, using the historical cost convention, except as otherwise disclosed.

2.3 **Foreign Currency Translation**

(a) The financial statements have been prepared using Ringgit Malaysia, the currency of the primary economic environment in which BNM operates.

(b) Assets and liabilities in foreign currencies are translated into Ringgit Malaysia using the exchange rate prevailing as at the end of the financial year. Transactions in foreign currencies during the year are translated into Ringgit Malaysia using the exchange rate prevailing at the transaction dates.

(c) All foreign exchange gains or losses arising from the translation of foreign currency assets and liabilities are recognised in the Risk Reserve while realised gains or losses upon settlement on Other Assets and Other Liabilities are recognised in the Income Statement.

2.4 **Consolidation**

(a) **Subsidiaries**

Subsidiaries are all entities over which BNM has control. BNM controls an entity when BNM is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(b) **Associates**

Associates are all entities over which BNM has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

BNM does not consolidate the financial performance of its subsidiaries and associates as these entities were established for developmental and financial stability purposes. Investment in subsidiaries and associates are carried at cost and adjusted for any permanent impairment.

2.5 **Gold**

Gold is carried at fair value. Unrealised gains and losses from changes in the fair value on gold are recognised in the Risk Reserve. Realised gains or losses from the sale of gold are recognised in the Income Statement.

2.6 **Foreign Securities**

Foreign securities comprising fixed income securities and equities are stated at fair value. Fair value changes are recognised in the Risk Reserve or in the Income Statement. Upon derecognition, realised gains or losses are recognised in the Income Statement.

BANK NEGARA MALAYSIA

2.7 **Net Profit**

The net profit of BNM is appropriated in accordance with section 7 of the Central Bank of Malaysia Act 2009 and only realised gains are available for distribution to BNM's shareholder.

2.8 **Repurchase and Reverse Repurchase Agreements**

The amount under repurchase agreements is reported under Other Liabilities and the difference between the sale and repurchase price is recognised as interest expense in the Income Statement. Conversely, the amount under reverse repurchase agreements is reported under Other Assets and the difference between purchase and resale price is recognised as interest income in the Income Statement.

2.9 **Land and Buildings**

(a) BNM capitalises all its land while buildings are maintained at nominal cost of RM10 each.

(b) The amount of land capitalised at initial recognition is the purchase price along with any further costs incurred in bringing the land to its present condition.

(c) After initial recognition, land is stated at revalued amount. Professional valuations of BNM's land will be carried out once every 10 years with any surplus arising on revaluation to be recognised directly in the Land Revaluation Reserve.

(d) Freehold land is not depreciated while leasehold land is amortised over its remaining life. Land (freehold and leasehold) is revalued once in 10 years and fair value is determined from market based evidence undertaken by professionally qualified valuer. Buildings are not depreciated but revalued to a nominal value in the year of acquisition.

(e) Any gain or loss arising from the disposal of land is determined as the difference between the net disposal proceeds and the carrying amount of the land. Upon disposal of land, any surplus previously recorded in the Land Revaluation Reserve is transferred to Unappropriated Profit.

2.10 **Other Fixed Assets**

All other fixed assets are completely fully expensed in the year of acquisition.

2.11 **Impairment of Assets**

All assets are periodically assessed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such an indication exists, an impairment review is performed to assess whether the carrying amount of the asset is fully recoverable.

2.12 **Currency in Circulation**

Currency in circulation represents banknotes and coins that have been produced and issued by BNM for use in the economy. Banknotes and coins are recognised in the Statement of Financial Position at face value when they are placed into circulation and derecognised when they are withdrawn from circulation. Expenses incurred in the purchase and production of banknotes and coins are recognised in the Income Statement.

BANK NEGARA MALAYSIA

3. **Gold and Foreign Financial Assets**

	2023 RM million	2022 RM million
Gold	11,884	9,912
Foreign Securities	401,489	351,575
Foreign Deposits	898	2,775
Balances with Other Central Banks	60,634	95,988
Others	13,055	11,707
	487,960	471,957

4. **International Monetary Fund (IMF) Reserve Position, Holdings of Special Drawing Rights (SDR) and Allocation of Special Drawing Rights (SDR)**

The IMF objectives are to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. The IMF also provides advice and temporary funding to member countries in the event of balance of payments difficulties.

IMF Reserve Position

This consists of the reserve tranche position of Malaysia's quota, lending under the IMF's Financial Transaction Plan (FTP) and New Arrangements to Borrow (NAB). The IMF quota determines a member country's voting strength, the financial contributions to the IMF, the amount of financing the member can access in the event of balance of payment difficulties and the amount of SDRs allocated to the member. Both FTP and NAB programmes are used to provide loans to members.

Holdings of SDR

Holdings of SDR are an international reserve asset created by the IMF. SDR is periodically allocated to IMF member countries on the basis of the size of member countries' quota. A member may use SDR to obtain foreign exchange reserves from other members and to make international payments, including to the IMF.

Allocation of SDR

This liability to the IMF represents an equivalent amount of SDR received since its inception.

	2023 RM million	2022 RM million
IMF Reserve Position	6,229	6,177
Holdings of Special Drawing Rights	26,676	25,197
Allocation of Special Drawing Rights	(29,738)	(28,213)
Net position with IMF	3,167	3,161

5. **Malaysian Government Papers**

Malaysian Government Papers refer to holdings of Government debt instruments that are among the instruments that can be used in BNM's monetary policy operations.

BANK NEGARA MALAYSIA

	2023 RM million	2022 RM million
Malaysian Government Securities	11,177	11,364
Malaysian Government Investment Certificates	1,832	1,458
	13,009	12,822

6. **Deposits with Financial Institutions**
Deposits with financial institutions comprise deposits placed by BNM with financial institutions under section 75(i) and section 100 of the Central Bank of Malaysia Act 2009.

7. **Loans and Advances**
Loans and advances comprise advances extended by BNM to participating financial institutions under various schemes aimed at achieving greater financial inclusion, development of small and medium-sized enterprises (SME) and to support SMEs affected by COVID-19 pandemic. The extensions of these advances are provided under section 48, section 49 and section 100 of the Central Bank of Malaysia Act 2009.

	2023 RM million	2022 RM million
BNM's Fund for SMEs		
Fund to promote growth and development for SME	4,452	3,787
Special Relief Facility for SME affected by COVID-19	17,441	17,658
PENJANA Tourism and Automation & Digitalisation Financing for SME affected by COVID-19	1,030	941
Fund for Affordable Homes	1,000	1,000
Others	311	308
	24,234	23,694

8. **Land and Buildings**

	2023 RM million	2022 RM million
Land, at cost		
Freehold	3,318	3,318
Land, at revaluation		
Freehold	691	694
Leasehold	119	130
	4,128	4,142

BANK NEGARA MALAYSIA

	2023 RM million	2022 RM million
Leasehold land		
As at 1 January	130	150
Less: Sale during the year	(9)	(18)
Accumulated Amortisation	(2)	(2)
As at 31 December	119	130

	2023 RM	2022 RM
Buildings, at nominal value		
Freehold	1,890	2,240
Leasehold	960	1,360
	2,850	3,600

Freehold and leasehold land, at revaluation, were revalued by an independent valuer on 1 August 2014.

9. **Other Assets**
Included in Other Assets are securities purchased under reverse repurchase agreements and investments in shares and bonds acquired under section 48(1) and section 100 of the Central Bank of Malaysia Act 2009.

	2023 RM million	2022 RM million
Reverse Repurchase Agreements	62,149	65,511
Investments in Shares and Bonds	4,389	4,390
Others	1,284	2,211
	67,822	72,112

	2023 RM million	2022 RM million
Investment in Shares and Bonds		
Subsidiaries	4,257	4,257
Associates	37	38
Other Investments	95	95
	4,389	4,390

10. **Deposits from Others**
A substantial part of these deposits comprises deposits from national institutions, government agencies and public authorities.

BANK NEGARA MALAYSIA

11. **Bank Negara Papers**
Bank Negara Papers are papers issued by BNM as an additional monetary policy tool to manage liquidity in the domestic money market. It also includes Bank Negara Interbank Bills (BNIB) in foreign currency and this is part of BNM's market operations to manage foreign currency liquidity in the domestic money market.

12. **Other Liabilities**
Other Liabilities include securities sold under repurchase agreements of RM1,121 million (2022: RM2,316 million).

	2023 RM million	2022 RM million
Repurchase Agreements	1,121	2,316
Accruals	1,728	1,704
Others	419	379
	3,268	4,399

13. **Capital**
In accordance with section 6 of the Central Bank of Malaysia Act 2009, the capital of BNM is RM100,000,000 and owned by the Government of Malaysia.

14. **General Reserve Fund**

	2023 RM million	2022 RM million
As at 1 January	28,888	21,092
Amount approved and transferred to the General Reserve Fund during the year	-	7,796
As at 31 December	28,888	28,888

Appropriations of net profits to the General Reserve Fund and dividends to the Government are recognised upon the approval by the Board and the Minister as provided under section 7 of the Central Bank of Malaysia Act 2009.

There was no transfer to General Reserve Fund for the year ended 31 December 2022.

15. **Risk Reserve**
The Risk Reserve are financial buffers comprising cumulative transfers of net profits, unrealised gains or losses on translation of foreign currency assets and liabilities and fair value changes from securities carried at fair value.

A market risk measurement framework is used to estimate financial buffers required to cushion unexpected loss arising from unfavourable circumstances not within the control of BNM.

BANK NEGARA MALAYSIA

	2023 RM million	2022 RM million
As at 1 January	116,610	152,183
Movements during the year	33,451	(35,573)
As at 31 December	150,061	116,610

16. **Land Revaluation Reserve**

The Land Revaluation Reserve relates to unrealised surplus of land (freehold and leasehold) upon their revaluation. Upon disposal, the realised surplus relating to the realised asset is transferred to Unappropriated Profits.

17. **Unappropriated Profits**

	2023 RM million	2022 RM million
Balance 1 January	6,986	12,796
Less: Appropriations approved during the year		
Transfer to General Reserve Fund	-	(7,796)
Transfer to Risk Reserve	(4,236)	-
Dividend paid to the Government	(2,750)	(5,000)
	-	-
Current year	7,162	6,986
Add: Realised surplus from Land Revaluation Reserve	24	-
Balance 31 December	7,186	6,986

In accordance with section 7 of the Central Bank of Malaysia Act 2009, appropriations to the General Reserve Fund and the declaration of dividends to the Government are subject to the approval by the Board of Directors and the Minister, and if approved will be recognised in the next financial year ending 31 December 2024.

The dividend paid to the Government for the year ended 2022 amounted to RM2.75 billion was approved by the Minister on 17 March 2023.

For the year ended 31 December 2023, the Board of Directors approved the transfer to the Risk Reserve of RM4.34 billion and recommends dividend payable of RM2.85 billion to the Government.

BANK NEGARA MALAYSIA

18. **Total Income**

		2023 RM million	2022 RM million
Operating Income	(a)	8,472	8,303
Loans and Advances Income	(b)	34	43
Other Income	(c)	266	169
		8,772	8,515

(a) **Operating Income**
Operating income comprises of revenue from foreign reserves which includes interest and dividends, realised capital gains or losses and is stated at net of amortisation/accretion of premiums/discounts, provisions and monetary policy cost.

(b) **Loans and Advances Income**

	2023 RM million	2022 RM million
BNM's Fund for SMEs	17	26
Fund for Affordable Homes	10	10
Others	7	7
	34	43

(c) **Other Income**
Included in other income are incomes from currency processing charges, sales of commemorative banknotes and coins as well as other non-recurring income.

19. **Recurring Expenditure**

		2023 RM million	2022 RM million
Staff Costs	(a)	(771)	(708)
Currency Operations	(b)	(175)	(223)
Information Technology	(c)	(138)	(130)
Utilities and Maintenance	(d)	(122)	(108)
General and Administrative	(e)	(235)	(209)
		(1,441)	(1,378)

(a) **Staff Costs**
Staff costs include salaries, allowances, staff medical costs and employer statutory contributions.

(b) **Currency Operations**
Currency operations comprise of expenditure incurred directly and indirectly in issuing currency banknotes and coins.

BANK NEGARA MALAYSIA

(c) **Information Technology**
Information technology are expenditures incurred to maintain IT infrastructure and equipment including renewal of licences and purchase of IT consumables.

(d) **Utilities and Maintenance**
Included in utilities and maintenance are expenditures relating to the upkeep of BNM's office buildings and other premises.

(e) **General and Administrative**
General and administrative are expenditure incurred in the administration of BNM's day-to-day operations.

20. **Development Expenditure**
Development expenditure are expenses incurred mainly to finance developmental and long-term projects undertaken by BNM that are in line with its principal objects and functions.

21. **Taxation**
BNM is exempted from payment of income tax and supplementary income tax as set out in the Income Tax (Exemption) (No. 7) Order 1989. Tax expenses relates to unclaimable withholding taxes on dividend and interest income earned from the foreign investments and capital gains taxes on sale of foreign investments.

22. **Contingencies and Commitments**

22.1 **Contingent Assets**

Total contingent assets as at 31 December 2023 amounted to RM1,840 million. These comprise BNM's total funding to the International Centre for Leadership in Finance (ICLIF) Trust Fund of RM1,000 million and International Centre for Education in Islamic Finance (INCEIF) Trust Fund of RM840 million to finance activities related to training, research and development of human resource in banking and financial services managed by Asia School of Business (ASB) and INCEIF, respectively. It is provided in the Trust Deeds that the total funding will be returned to BNM when these Centres become self-sufficient in the future.

BANK NEGARA MALAYSIA

22.2 **Commitments**

Total commitments as at 31 December 2023 comprise the following:

	Note	2023 RM million	2022 RM million
Total Commitments			
Membership with International Monetary Fund (IMF)	(a)		
Unpaid Quota	(i)	16,409	15,179
New Arrangement to Borrow (NAB)	(ii)	4,183	3,954
Bilateral Borrowing Agreement (BBA)	(iii)	1,978	1,892
Investment with Bank for International Settlements (BIS)	(b)	74	71
Swap Arrangements	(c)		
Bilateral Currency Swap Arrangement with			
People's Bank of China	(i)(a)	76,390	76,143
Bank of Korea	(i)(b)	-	15,000
Bank Indonesia	(i)(c)	4,498	5,300
Bank of Japan	(i)(d)	13,770	13,170
Bank of Thailand	(i)(e)	13,770	-
Chiang Mai Initiative Multilateralisation	(ii)	41,787	39,967
Repurchase Agreement with EMEAP Members	(iii)	22,950	21,950
		195,809	192,626

(a) **Membership with IMF**

(i) BNM has an obligation to pay to IMF SDR2,664 million, equivalent to RM16,409 million (2022: SDR2,598 million, equivalent to RM15,179 million) or in other convertible currencies which represents the unpaid portion of Malaysia's quota in the IMF under the Articles of Agreement.

(ii) BNM has participated in the New Arrangements to Borrow (NAB), a multilateral credit arrangement between the IMF and its member countries to provide a supplementary source of financing to IMF for the purpose of safeguarding the stability of the international monetary system. As at 31 December 2023, the amount of undrawn credit under the NAB is SDR679 million, equivalent to RM4,183 million (2022: SDR677 million, equivalent to RM3,954 million).

(iii) BNM has participated in the Bilateral Borrowing Agreement (BBA), which involves bilateral contribution to the IMF for precautionary and financial crisis resolution purposes. BNM has pledged a USD431 million, equivalent to RM1,978 million (2022: USD431 million, equivalent to RM1,892 million) bilateral contribution to the IMF for precautionary and financial crisis resolution purposes effective 1 January 2021.

BANK NEGARA MALAYSIA

(b) **Investment with the Bank for International Settlements (BIS)**
BNM has a commitment of SDR12 million, equivalent to RM74 million (2022: SDR12 million, equivalent to RM71 million) in respect of the uncalled portion of the 3,220 units of shares in the BIS based on the nominal value of SDR5,000 each using the SDR rate at the date of the Statement of Financial Position.

(c) **Swap Arrangements**

(i) **Bilateral Swap Arrangement (BSA)**

(a) On 12 July 2021, BNM renewed the BSA agreement with the People's Bank of China (PBOC) with the objective of promoting and facilitating trade settlement and direct investment in local currency between the two countries, supporting domestic bank's liquidity management and short-term balance of payments. As at 31 December 2023, BNM's total outstanding commitment under the BSA is RM76.4 billion (2022: RM76.1 billion).

(b) On 2 February 2023, the BSA agreement with Bank of Korea (BOK) has lapsed. As at 31 December 2023, the BSA agreement has not been renewed (2022: RM15 billion).

(c) On 23 September 2022, BNM signed a local currency BSA agreement with Bank Indonesia (BI) with the objective of promoting bilateral trade and facilitating trade settlement in local currency between the two countries. As at 31 December 2023, BNM's total outstanding commitment under the local currency BSA was RM4.5 billion (2022: RM5.3 billion).

(d) On 18 September 2023, BNM renewed a BSA agreement with the Bank of Japan (BOJ) with the objective of providing balance of payment or short-term liquidity support. As at 31 December 2023, BNM's total outstanding commitment under the BSA was RM13.8 billion (2022: RM13.2 billion).

(e) On 4 February 2023, BNM signed a BSA agreement with the Bank of Thailand (BOT) with the objective of providing liquidity support for short term balance of payments and to facilitate bilateral trade and direct investment. As at 31 December 2023, BNM's total outstanding commitment under the BSA was RM13.8 billion (2022: nil).

(ii) **Chiang Mai Initiative Multilateralisation Arrangement**
BNM has participated in the Chiang Mai Initiative Multilateralisation (CMIM) arrangement to provide financial support in US dollar or selected local currencies to ASEAN+3 member countries facing balance of payments and short-term liquidity difficulties through swap arrangements against their respective local currencies. As at 31 December 2023, BNM's total outstanding commitment was RM41.8 billion (2022: RM40 billion)

(iii) **Repurchase Agreement with Central Banks and Monetary Authorities**
BNM entered into repurchase agreements with various central banks and monetary authorities under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) to provide liquidity assistance in times of emergency. As at 31 December 2023, BNM's total outstanding commitment was RM23 billion (2022: RM22 billion).

BANK NEGARA MALAYSIA

23. **Financial Risk Management**

The Reserve Management Committee oversees the assessment, measurement and the control of the investment risks in the management of reserves to be within acceptable levels to ensure that the objectives of capital preservation, liquidity and reasonable returns are met. In undertaking this function, the major risks of the investments fall into the following areas:

(a) **Market Risk**

Market risk is the exposure of the Bank's investments to adverse movements in market prices related to foreign exchange rates, interest rates and prices of bonds and equities. Market risk is assessed and monitored on a daily basis. A benchmark policy approved by the Board of Directors reflects the long-term objectives and acceptable risk-return profile of the investments. Investments may be made in instruments that are different from those in the benchmark. This deviation in investment is controlled through a set of risk management limits, governance arrangements and investment guidelines that are also approved by the Board of Directors. Sensitivity analysis and stress testing are undertaken to assess emerging risks and potential marked-to-market losses from adverse movements and volatility in the market, as well as liquidity conditions.

(b) **Credit Risk**

Credit risk is the risk of default of the issuer of the debt or failure of the counterparty to perform its contractual obligation to BNM resulting in BNM not receiving its principal and/or interest that has fallen due in a timely manner. A comprehensive credit risk framework governs the permissible investments and the risk appetite of BNM, thus ensuring investments in issuers and with counterparties of good credit standing. The framework, which is approved by the Board, also incorporates market-based credit indicators such as ratings implied from financial market prices, and internal credit assessment. This enhances the credit risk framework by providing a more dynamic and forward-looking credit assessment.

(c) **Operational Risk**

Operational risk is the risk of financial losses due to failed internal processes, inadequate controls and procedures, or any other internal or external events that impede operations. Operational risk is mitigated through a risk governance framework and effective implementation of risk controls and limits. A comprehensive operational risk surveillance mechanism is in place to support the identification of emerging risks in BNM's operations to allow for action to be taken in managing gaps and in mitigating financial losses.

24. **Bank Negara Malaysia Staff Welfare Account (Medical Fund) (termed as the 'Medical Fund Account')**

The Medical Fund Account was established on 21 June 2006 under section 15 (6) of the Central Bank of Malaysia Act 1958 and continue to exist under section 83 (4) and (5) of the Central Bank of Malaysia Act 2009.

The Medical Fund Account is governed under the Bank Negara Malaysia Staff Welfare Account (Medical Fund) Trust Directions 2006 and Supplementary Trust Directions 2017. The objective is to assist BNM to meet the medical expenses of eligible retirees and their dependents. As stipulated in the Bank Negara Malaysia Staff Welfare Account (Medical Fund) Trust Directions 2006, the Medical Fund shall be administered by a Medical Fund Committee. The Medical Fund Account is to be maintained separately and shall be audited in the same manner as BNM's Account.

BANK NEGARA MALAYSIA

25. **Related Party Transactions and Balances**

Government of Malaysia
BNM is related to the Government in terms of ownership. BNM funds its own operations and maintains organisational and functional independence from the Government. BNM also acts as financial adviser, banker and financial agent to the Government. In the normal course of its operations, BNM enters into transactions with related parties and significant balances are presented in these financial statements.

Significant Related Party Balances

	2023 RM million	2022 RM million
Shareholder		
Government of Malaysia		
Holdings of Malaysian Government Papers	13,009	12,822
Deposit placements from the Government	3,526	5,220

26. **Approval of Financial Statements**
The Board of Directors approved the annual financial statements on 26 February 2024.