chapter 7
Financial
Services

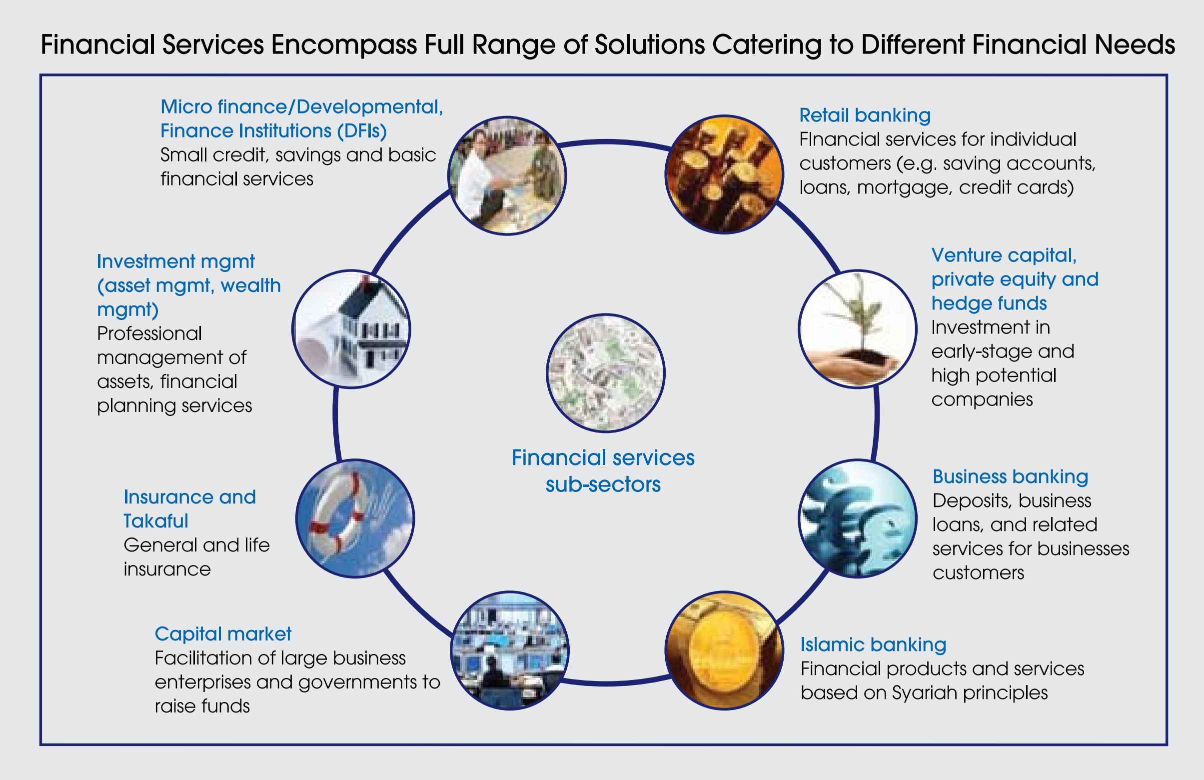
Chapter 7: Positioning Financial Services as the Bedrock of the High-income Economy

The financial services sector is the bedrock of any economy. It is a key enabler of the overall economy, providing capital (in various forms) to enable the growth of all other industries (as well as consumers) in the economy. All large successful economies require strong banks, vibrant capital markets and well-functioning financial infrastructure. The sector is also a core component of a services-based economy and a key growth engine in its own right. As demonstrated by the emergence of international financial services centres worldwide, sector growth comes from serving domestic businesses and consumers as well as tapping external markets and sources of funds.

DEFINITION OF THE FINANCIAL SERVICES NKEA

The financial services sector covers both financial institutions (banks, insurance companies, brokerages and investment management firms) and financial markets (debt and equity markets) and can be broadly divided into eight sub-sectors, as illustrated in *Exhibit 7-1*. The focus of the NKEA is on this formal financial services sector and does not include the informal financial services such as moneylenders, pawnbrokers, informal remittance channels and self-help groups.

Exhibit 7-1

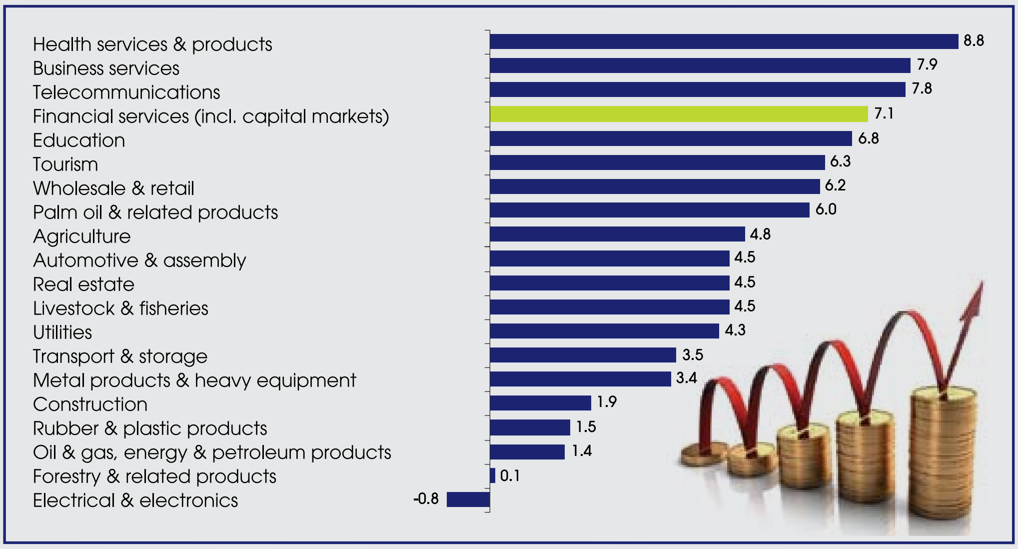


The importance of the financial services sector to the overall economy has been growing over the past decade, with the financial services sector's share of GDP growing from an average of 9.9 percent of GDP (measured in 2000 constant prices) between 2000 and 2005 to an average of 10.9 percent over the period 2006 to 2009. The financial services sector has also been one of the fastest growing sectors over the past decade *(Exhibit 7-2)*. In terms of jobs, the sector's workforce is small, accounting for around only 2 percent of national employment. However, the sector employs a pool of highly-skilled personnel. Financial services jobs have above-average wages and are inordinately valuable to an economy.

Exhibit 7-2

The Financial Services Sector has seen Robust Growth over the Past Decade

2000 - 2009 historical GDP growth rate by sector
Percent



Regulatory and supervisory oversight of the financial services sector falls with the Central Bank of Malaysia (*Bank Negara Malaysia* or BNM) and the Securities Commission (SC). BNM and SC are also entrusted with a development role to ensure the sustainable growth of the sector. The relatively healthy state of the financial services sector is largely the result of reforms spearheaded by these agencies following the Asian financial crisis in 1997 and 1998.

Pivotal to the developmental process of the financial sector were the Financial Sector Masterplan (FSMP) and Capital Markets Masterplan (CMP) issued by BNM and SC respectively in 2001. Together, the FSMP and CMP outlined a holistic set of measures that have resulted in the emergence of financial institutions that are more resilient, more competitive and better positioned to meaningfully support the economy. Both agencies are currently developing the masterplans (FSMP 2 and CMP 2) that will chart the next phase of development. The initiatives discussed in this chapter will serve as input for these masterplans and several initiatives will be further detailed in the FSMP 2 and CMP 2.

MARKET ASSESSMENT

There are many opportunities for Malaysia in the financial services sector, but also some key challenges to overcome.

Malaysia's Strengths

Following the Asian financial crisis of 1997 and 1998, Malaysia has focused on enhancing institutional capacity through consolidation and through strengthening the regulatory and supervisory framework. We have developed strong domestic institutions while progressively opening up the financial services sector to greater competition. In addition, we made concerted efforts to develop Malaysia's leadership position in Islamic finance globally.

These efforts have clearly paid off. The consolidation of 22 banks into 9 anchor banking groups has created sizeable and profitable institutions that have stayed strong throughout the recent global financial crisis.

The strong capital positions of banks, coupled with ample liquidity in the financial system, provided a buffer against the global downturn. The levels of non-performing loans held by commercial banks declined in 2009.

Debt market activities have remained strong, and Malaysia continues to be the third largest domestic currency bond market in Asia excluding Japan. In 2009, total corporate debt issuance increased 22 percent year-on-year to reach RM61 billion.

Of the total issuance volume, RM32 billion represented issuance of sukuks. In 2009, Malaysia had a dominant share in the global sukuk issuance market, accounting for 47 percent of the global market. Malaysia also has the largest Islamic fund management industry in the world in terms of number of funds, and is recognised as a centre for product innovation in the realm of Islamic finance. The growth of Islamic finance owes much to the strong legal and regulatory framework that has been established here.

Indeed, Malaysia has been recognised internationally for its regulatory environment. This coupled with other advantages such as our low-cost of living and pro-business environment, serve as strengths that we can build upon.

Overall, Malaysia's financial services sector has enhanced its domestic competitiveness and broadened its activities. However, some segments like banking are maturing. With a population of 28 million people, the domestic market lacks the necessary critical mass to further develop these segments. Going forward, there is a need to look externally for growth and to develop new engines of growth.

Challenges

Malaysia's financial services sector faces a few challenges.

Lack of scale. While the industry has gone through a phase of consolidation, some segments like investment banking and brokerage remain fragmented. Even in the commercial banking sector where consolidation has been most pronounced, many of our banks are still significantly smaller than regional powerhouses. On the capital markets side, Malaysia lacks the critical mass to attract significant levels of investment. To illustrate, Malaysia's total market capitalisation accounts for just 3.2 percent of the MSCI Asia excluding Japan index.

Lack of liquidity and diversity in the capital markets. From their heyday before the 1997 – 1998 Asian financial crises, Malaysia's capital markets have lost some of their vibrancy. Malaysia's liquidity ranking in Asia has dropped from 3rd in 1996 to 14th in 2010. There is also limited diversity in the market, be it in terms of investors, in terms of products or in terms of currency.

Low levels of financial literacy. The level of personal financial literacy today is low overall. With growing consumerism as well as changing customer expectations, there is a need to reinforce greater financial literacy to help the *Rakyat* to better manage their personal finances in line with our move to a high-income economy. Proper consumer education is needed if new growth engines, such as private pensions, wealth management and asset management, with their more complex and sophisticated products, are to take off.

Competition from other regional financial centres. We do not have to look far beyond our shores to find established financial centres that enjoy greater scale, visibility and liquidity, such as Singapore and Hong Kong. While Malaysia continues to face negative perception issues stemming from the capital control measures implemented during the Asian financial crisis, these financial centres have developed their reputations as being open and pro-business. They are magnets not only for capital but also for financial services sector talent, not least Malaysian financial services sector talent. Further, foreign investor interest is currently directed towards North Asia (although within Southeast Asia, Indonesia is beginning to attract more investor attention).

Taking the financial services sector forward will necessarily mean addressing each of these challenges. In addition, ongoing policy initiatives to address weaknesses in our economic infrastructure and to fundamentally transform how business is done will continue and in some cases be stepped up.

Opportunities

Despite these challenges, there are several demand growth drivers that represent opportunities for Malaysian financial institutions.

Rising affluence among Malaysians. As Malaysia develops into a high-income economy, the increasing affluence of its population will fuel demand for new and higher value financial activities.

Rising awareness of Islamic finance. Global Islamic financial assets currently only account for 2 percent of world GDP and are expected to continue growing at double digits for the next decade. With its leading position in Islamic finance, Malaysia is poised to benefit from increased awareness and interest in Islamic finance.

Rise of China and India. China and India are the growth engines of the world economy registering 10.5 percent and 8.2 percent real GDP growth respectively from 2005 to 2009. China and India also attracted the biggest foreign direct investment influx during the same period at RM1.99 billion (39 percent of Asia) and RM547 billion (11 percent of Asia). Malaysian companies are also investing there with Malaysian FDI in 2009 reaching RM900 million and RM237 million for China and India respectively. China is now Malaysia's second largest trading partner, while India is its twelfth largest.

Malaysian financial institutions stand to benefit from deeper business relationships between Malaysia and the two countries. Furthermore, as Chinese and Indian businesses and customers prosper, local demand for onshore and offshore financial services will provide additional expansion opportunities for financial institutions.

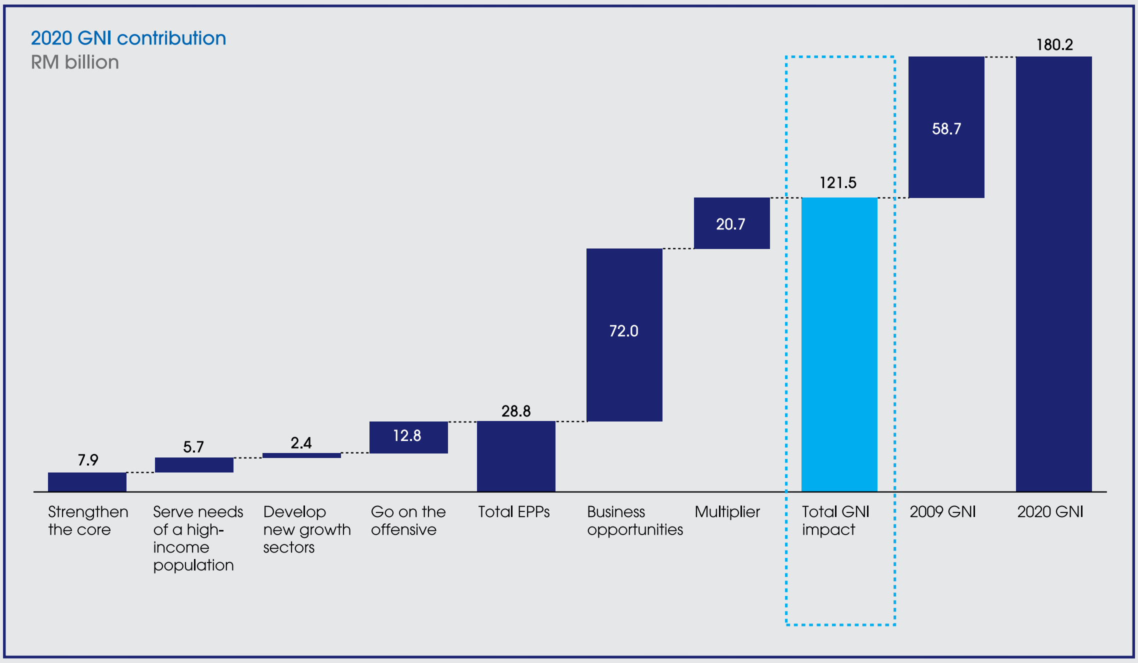
TARGETS AND ASPIRATIONS

Against this backdrop, we aim to evolve Malaysia's financial services sector to serve the needs of businesses and consumers in a high-income economy and to increase its depth and regional and global market shares in select niches.

The Financial Services NKEA is targetted to raise total GNI contribution by RM121.5 billion by 2020. Of this, RM28.8 billion is through 10 entry point projects (EPPs), RM72.0 billion from baseline growth and other initiatives and RM20.7 billion from the multiplier effect created by EPPs from other sectors. The largest source of the multiplier effect on the Financial Services NKEA is the Communications, Content and Infrastructure NKEA, which is estimated to contribute to 26 percent of the multiplier effect. This could be due, for example, to the boost in online financial transactions potentially being brought about by expansion of broadband access. In addition, through the EPPs, 45,000 jobs will be created, with 56 percent of them offering an average income of above RM4,000 per month. *(Exhibit 7-3)*. Business opportunities and baseline growth will result in a further 229,000 jobs created.

Exhibit 7-3

Ten EPPs, six business opportunities, baseline growth and multiplier effect will deliver RM180.2 billion GNI in 2020



10 EPPs Identified to Grow Incremental GNI by RM28.8 Billion

In order to achieve this vision, we have identified four strategic thrusts for the financial services sector. Aligned against each strategic thrust, we have identified a portfolio of EPPs to grow the financial services sector GNI contribution.

Strengthen the core

First and foremost, we need to ensure all facets of the industry, from our banks to our capital markets, remain healthy and vibrant and are able to effectively and efficiently support the needs of businesses and consumers.

- **EPP 1:** Revitalising Malaysia's capital markets;
- **EPP 2:** Deepening and broadening bond markets;
- **EPP 3:** Transforming or rationalising developmental finance institutions (DFIs); and
- **EPP 4:** Creating an integrated payment ecosystem.

Serve the needs of high-income population

Secondly, we must evolve the products and services that financial institutions offer to serve the changing needs of our citizens and residents as the nation migrates towards higher income status.

- **EPP 5:** Insuring most, if not all, of our population;
- **EPP 6:** Accelerating the growth of the private pension industry; and
- **EPP 7:** Spurring the growth of the nascent wealth management industry.

Develop new growth sectors

Thirdly, we need to seed new sectors for growth.

- **EPP 8:** Accelerating and sustaining a significant asset management industry.

Go on the offensive

Where we are strong, we must encourage our financial institutions to go on the offensive and tap external markets for their continued growth.

- **EPP 9:** Developing regional bank champions; and
- **EPP 10:** Becoming the indisputable global hub for Islamic finance.

Underlying all of these initiatives are industry-wide barriers that need to be addressed, some urgently and dramatically, or we will fail to deliver on any of these aspirations. These include ways to create an attractive business environment to attract international and long-term capital, the ability to attract, develop and retain talent, organising a more seamless regulatory environment, improving tax competitiveness and improving Malaysia's reputation or brand in financial services. These are discussed later in the chapter in the section titled Common Enablers for the financial services sector.

STRENGTHEN THE CORE

As a result of reforms implemented following the 1997 and 1998 Asian financial crisis, substantial progress in restructuring and strengthening the financial services industry has been made. Malaysia's financial services sector is well-regulated and well-regarded internationally and, in general, Malaysian companies and consumers are able to obtain the core financial services they need. To strengthen this core even further, we plan to increase the depth and breadth of key segments, including the capital markets, developmental finance institutions (DFI) and payments infrastructure. In each of these segments, we envision moving to a more advanced financial services industry that enables new and better ways of doing things, and raises our international competitiveness.

EPP 1: Revitalising Malaysia's Capital Markets

Rationale

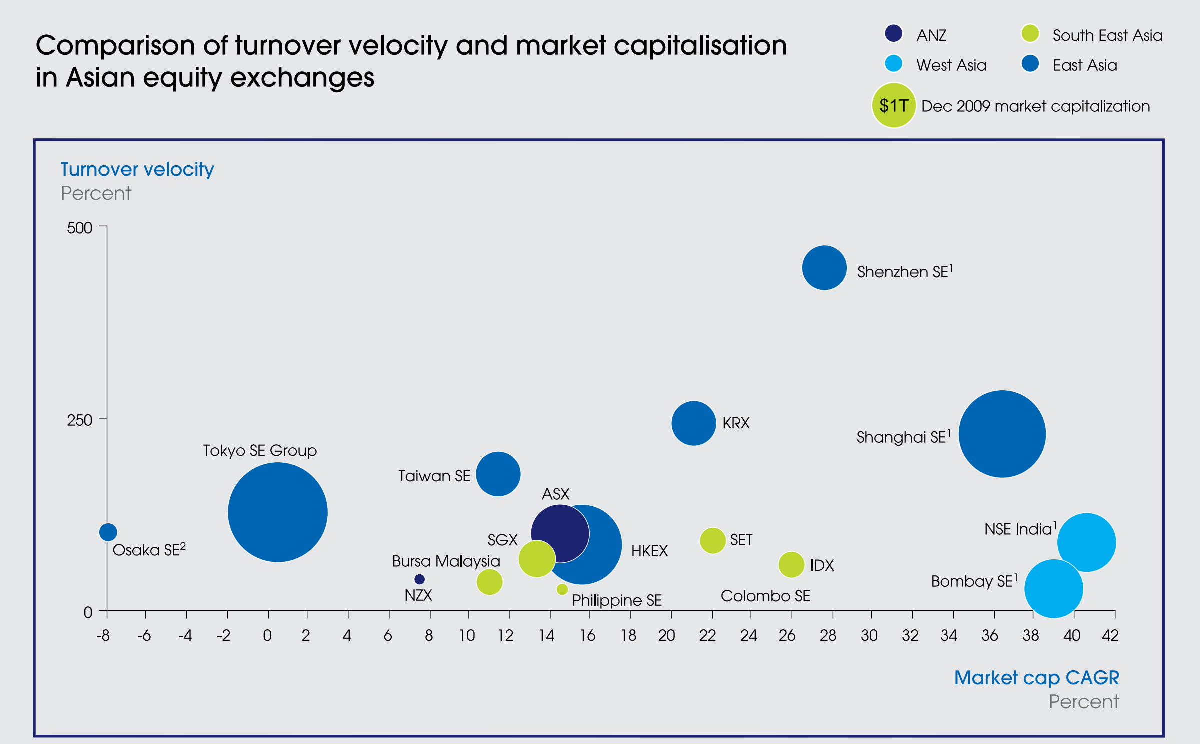
The capital market is a vital link in financial services infrastructure. A strong and vibrant capital market is needed to attract and mobilise capital, including international capital, to fund the growth of enterprises and stimulate new investment. It also has numerous spin-off benefits to other financial services segments, such as asset management, venture capital and private equity as well as ancillary services such as trust and custody services. With technology, issuers and investors are becoming increasingly global in their outlook, and exchanges are competing intensively to attract trading from one another. An exchange that fails to attract companies to list, which in turn loses investor attention, will fall into a downward spiral leading to irrelevance.

Over the last nine years, the total market capitalisation on Bursa Malaysia has grown at a rate of 10 percent per annum, while stock markets in neighbouring in Indonesia and Singapore have grown at 24 percent and 17 percent respectively. Malaysia's MSCI Asia excluding Japan weighting has shrunk to only 3.2 percent from 6 percent in 2000 *(Exhibit 7-4)*. At this scale, international fund managers can afford to disregard Bursa Malaysia.

In addition, Bursa Malaysia's liquidity has diminished, with its liquidity ranking in Asia dropping from 3rd in 1996 to 14th in 2010. Furthermore, the derivatives market is underdeveloped – only crude palm oil futures and equity futures are actively traded. Similarly, the ranges of investment instruments such as exchange traded funds (ETFs) and real estate investment trusts (REITs) (both important asset classes for a diversified investment portfolio) are quite underdeveloped with only 3 ETFs and 12 REITs listed in Malaysia as of June 2010.

Malaysia aspires to have a vibrant and liquid capital market that attracts quality listings and investors. By 2020, we expect the market capitalisation of Bursa to grow from RM1.0 trillion in 2010 to RM3.9 trillion by 2020, equivalent to a compound annual growth rate (CAGR) of 15 percent. In addition, liquidity will improve significantly, as measured by trading velocity, from 31 percent of total market capitalisation to 60 percent, in line with regional averages.

Exhibit 7-4



1 2002 - 09 CAGR
2 2005 - 09 CAGR
Note: Unless noted otherwise, Market cap CAGR is from 2000 - 09

SOURCE: WFE

Actions

Improve Bursa's scale and liquidity. The government will play a catalytic role to increase the scale of Bursa through managing its stakes in government-linked companies (GLCs). Firstly, the Ministry of Finance (MoF) will work with government-linked investment companies (GLICs) to partially sell down their stakes in listed companies (with clear targets and timelines) in order to improve the free float in the capital market. Secondly, we will take public key GLCs that remain privately held today. The listing of these strong flagship companies, particularly in oil and gas and plantations, would significantly expand the market capitalisation of Bursa and draw investor interest.

Simultaneously, GLICs will further diversify their portfolios to include greater exposure to other assets classes, such as mid-cap stocks, wider credit spectrum in fixed income securities and international investments where there are ample opportunities for value creation. This will help to catalyse trading activities while providing greater access to financing for key segments of the economy (e.g. small medium enterprises) and reducing concentration risks.

Both these measures will also promote greater discipline and transparency in the management of GLCs. In this way, GLCs will be motivated to continually enhance their core competencies and sharpen their competitive edge in venturing outside Malaysia.

Increase velocity in the market. Bursa's market velocity has decreased from 66 percent in 1996 to 31 percent in 2009 while regional averages are at approximately 60 percent. The central order book is not deep enough and large trades can incur substantial market impact costs. All this threatens the price discovery process and impairs market liquidity.

To address the imbalance between long-term and short-term players in the market, greater diversity will be encouraged such as attracting absolute return funds, liberalising day traders and encouraging stock lending. With greater diversity in trading activities, market liquidity should improve.

More volatility will be carefully allowed into the market. At 13 percent volatility, Bursa is the least volatile exchange in the region. Vibrant capital markets like Singapore, Hong Kong and Japan have volatility of 25 percent, 22 percent and 23 percent respectively. While Malaysia may have benefitted from low volatility during the global financial crisis, the current low-level volatility is resulting in low trading activities and low liquidity, impacting the overall attractiveness of the market.

Improve breadth and depth of product offerings. To attract and retain investor interest, we need to ensure a steady stream of attractive products. To provide a boost to the (REIT) industry, the MoF will work with the relevant GLCs to package their property holdings into REITs. Some of these GLCs together own over RM12 billion in properties, of which 20 to 30 percent are suitable for REITs.

We plan to appoint established professional REIT managers including tapping foreign expertise to upgrade Malaysia's professional capacity in REITs. Further, in order to boost the popularity of REITs with retail investors, we will grant individual investors a five-year exemption from withholding tax.

In addition, we will also expand the number of ETFs listed on the exchange to provide a variety of products (local and foreign, ringgit and non-ringgit) in the market. Valuecap will become a specialised regional ETF fund manager to seed the listing and cross listing of ETFs in Malaysia.

Finally, we will leverage on our commodities strength to offer more commodity derivatives, beyond crude palm oil futures and crude palm kernel oil futures, such as rubber.

Accelerate liberalisation of stock broking industry. Today, of the six capital market licensing categories (fund management, corporate finance, investment advisory, financial planning, futures broking and dealing in securities), dealing in securities is the only licence that has yet to be fully liberalised. Further liberalisation on stock broking is required to strengthen the intermediary base and allow market forces to create greater efficiencies and better returns.

Integrate with leading exchanges. Globalisation is a key trend around the world across many industries and capital markets is no exception. Organic growth alone cannot catapult Malaysia's capital market to become a leading exchange in the region. In fact the combined market capitalisation of the top four exchanges in Southeast Asia is only half of the Hong Kong Stock Exchange.

Thus, to further increase scale, visibility and liquidity, Bursa Malaysia will seek to integrate with other leading exchanges. The integration will allow Bursa Malaysia to get access to a larger demand pool as well as an intermediary base and open up a wider spectrum of product offerings. Integration efforts will leverage on existing initiatives to integrate ASEAN capital markets as envisaged in the ASEAN Economic Community Blueprint 2015 and mooted by the ASEAN Capital Markets Forum.

Actions

To support the increased vibrancy of the capital markets that will result from the above actions, a number of enablers are needed to create an environment that will ensure sustainability of the market.

Firstly, a systematic review of Bursa's IT strategy will be conducted. This strategy will include a clear path to create an end-to-end online equity market platform integrating trading, online account opening, etc. This IT strategy will also be in line with the exchange's plans to integrate with other exchanges.

Secondly, human capital will be upgraded through a greater focus on training. Special emphasis will be accorded for specialised areas such as risk management, product development and specialist traders. For these areas, we will also facilitate easier entry for foreign professionals.

Funding

This EPP will require private investments and funding of RM862.7 million.

Impact

This EPP is expected to create incremental GNI of RM3.3 billion and 9,000 additional jobs by 2020, out of which 2,000 are for managers and professionals (e.g. brokers, traders, investment bankers). There are also indirect benefits. For example, companies will have access to larger and more liquid pools of capital, risks will be diversified away from the banking sector, the growth of other industries will be spurred with exit channels for pre-IPO financing, and a more vibrant market will be created for the asset management, the wealth management and the pension fund industries.

EPP 2: Deepening and Broadening Bond Markets

Rationale

Bond markets (including sukuk) play a key role in developing the economy of any country, ensuring that companies have an alternative way to raise funds besides bank loans and equity financing.

Malaysia has one of the largest bond markets in Asia with a total outstanding bond value of around RM600 billion in 2009 compared to RM480 billion in Singapore. However, there are several issues that need to be addressed on both the demand and supply sides.

On the demand side, the market has a very narrow investor base that is highly risk averse. Most investors concentrate on high quality bonds with ratings of AA and AAA. This makes it difficult for a wider group of companies to raise funds and ultimately increases their cost of financing. In addition, there is also limited retail participation in the bond market. Finally, Malaysia's bond market is illiquid. The turnover ratio of Malaysia's private debt securities (PDS) in 2009 was only 0.24 times compared to 0.74 times for South Korea. On the supply side, there is limited participation from foreign issuers, particularly in foreign currency issuances. Issuance of high-demand long-term assets that are in high demand (especially by pension funds and insurance companies) is also limited.

Our aspiration for Malaysia to have a deep, broad and liquid bond market. We expect total outstanding (PDS) to grow from about RM270 billion in 2010 to about RM880 billion by 2020 with average yearly trading value increasing from RM64 billion in 2010 to RM618 billion by 2020 or CAGR of 23 percent.

Actions

Widen the credit spectrum of the bond market. Through the establishment of Danajamin, Malaysia's first financial guarantee insurer, in May 2009, companies with lower credit ratings have better access to the bond market. We will encourage GLICs to further diversify their portfolios by investing in A-rated fixed income instruments. In addition, we will attract and facilitate niche investors with higher risk appetites to invest in lower rated instruments.

Increase participation of foreign issuers and investors. A concerted promotional effort between SC and Malaysian Investment Banking Association will be made in order to attract Asian issuers and investors, who have already tapped the ringgit bond market, to further issue bonds or sukuk in Malaysia.

Strengthen retail participation. SC and Bursa will work with the industry to promote retail participation in the market. Currently, only high net worth individuals are able to invest directly in bonds due to a minimum transaction size of RM250,000. Developing exchange-traded bonds or lowering the threshold would allow for more participation with lower transaction sizes.

Enablers

To support these efforts, we will commit to a number of enabling measures that are pre-requisites to successfully executing on the action steps above. Firstly, in order to create a market for lower-rated bonds, MoF will review the investment mandates of GLICs to allow investment in A or BBB bonds. Secondly, for a retail-bond market, a framework and policy needs to be in place. Viable brokerage commission structures also need to be developed. Thirdly, to mitigate risks from the increased availability of lower-rated bonds, we need to strengthen the risk assessment capacity of institutional investors and CRAs through greater focus in training programmes.

Funding

This EPP will require private investments and funding of RM43.74 million.

Impact

The EPP is expected to create incremental GNI of RM183.2 million and an additional 1,400 jobs in bond markets, including 400 debt capital market bankers and bond traders and 1,000 settlement and support staff by 2020. In addition, the accessibility of funding to medium-sized companies will be improved, a broader range of investment instruments will be available and the risk assessment capability of the industry enhanced.

EPP 3: Transforming or Rationalising Developmental Finance Institutions

Rationale

DFIs were set up by government to develop certain priority sectors such as small- and medium-sized enterprises, infrastructure and agriculture as well as promote financial inclusion and achieve other developmental goals. Examples of DFIs in Malaysia are EXIM Bank, SME Bank and Bank Pembangunan Malaysia.

However, over time, the evolution of DFIs has resulted in overlaps in their activities, not only with other DFIs but also with commercial banks, which have evolved their business models to serve segments they did not previously focus on. Thus, it is now time to review the mandates and activities of DFIs with an eye to refocus and synergise or rationalise where possible, as well as to improve productivity and sustainability.

All DFIs will have clear and non-overlapping mandates and operations and carry out their developmental roles in a sustainable manner under an improved key performance indicator and performance management system. By 2020, we aspire to have non-performing loan levels lower than 6 percent and cost to income ratios of 40 percent.

Actions

Revisit DFI mandates and rationalise where possible. MoF in conjunction with the relevant ministries (e.g. Ministry of Agriculture, Ministry of International Trade and Industry and Ministry of Domestic Trade, Cooperatives and Consumerism) will review whether current operations and mandates of the DFIs are aligned to developmental needs. Where there are synergies or overlaps, every opportunity will be taken to rationalise in order to improve efficiency.

Improve operations and promote self-sustainability of DFIs. MoF will institute a performance based culture in the DFIs. Broad assessment criteria will measure DFIs on their developmental achievement, financial results, customer satisfaction and employee engagement. MoF will also continue to further strengthen management and corporate governance practices in the DFIs. In addition, governance and operations in key areas, such as risk management, product management, will be enhanced by drawing on industry best practices. Lastly, DFIs will gradually move to shared services and outsource middle and back office activities to improve productivity.

Provide value added services. DFIs will extend their offerings to include advisory or technical assistance, acting as partners to their customers. DFIs have intimate knowledge of their customers' businesses and are well-positioned to advise on key decisions. In this way, DFIs will play a role in ongoing capability development of the segments they serve.

Encourage DFIs to shift emphasis towards Islamic finance. In supporting our intent to become the global Islamic finance hub, DFIs will gradually shift towards "Islamic finance first" whenever possible. This policy will be implemented in a manner that will not prevent DFIs from fulfilling their developmental obligations.

Enhance performance management for other government developmental agencies. MoF will conduct a study on measures to enhance the operations and performance management systems of other developmental agencies such as the SME Corporation, Biotech Corporation, Multimedia Development Corporation, etc. This will promote greater accountability and improve their effectiveness.

Enablers

Executing on the above actions will require DFIs to strengthen their capabilities and capacity in risk management, industry-specific credit analysis and technical expertise or business advisory for specific industries. For this, DFIs will have to selectively attract high calibre talents and offer competitive compensation.

Funding

This EPP will require private investments and funding of RM72.0 million.

Impact

The EPP is expected to create incremental GNI of RM1.8 billion by 2020. In addition it will spur growth and job creation for other key industries through improved developmental activities.

EPP 4: Creating an Integrated Payment Ecosystem

Rationale

E-payment is a proven cheaper transaction method as compared to paper-based transactions like cheques and cash. As such, BNM together with private sectors, has launched a series of initiatives over the past 10 years to migrate towards e-payment, e.g. introduction of Internet banking, mobile banking, RENTAS system, mobile remittance, prepaid contactless micro payment card and ensuring government payment is non-cash whenever possible.

However, Malaysia today is still very much a cash-based society with 91 percent of transactions done using cash (compared to 60 percent in Hong Kong and the Netherlands). Cheques, e-money, credit cards and Internet banking account for another 1.3 percent, 4.7 percent, 1.8 percent and 0.6 percent of transactions (frequency) respectively. Other modes of payment, such as Interbank GIRO and debit cards, each account for less than 0.5 percent of transactions.

By 2020, we aspire to become a cheque-less economy and reduce dependence on cash transactions to 63 percent of transaction frequency. E-payment transactions will increase 10-fold from 1.2 billion to 12.0 billion transactions per year.

Actions

Expand merchant acceptance. BNM, in collaboration with MoF, MEPS, Touch and Go and merchant acquirers will develop a comprehensive strategy to expand merchant acceptance to achieve 1.3 million merchants by 2020. The strategy includes, but is not limited to sourcing cheaper POS terminals, providing a competitive merchant discount rate through tiered pricing and creating customer demand pull through loyalty programmes.

Drive adoption through education and selective forced adoption. Banks and payments industry players (e.g. MEPS) in collaboration with the government will step up consumer education on the benefits and safety of using e-payment to accelerate the migration process. E-payment awareness and education will be included as part of the National Financial Literacy curriculum. The government will also induce forced adoption in selective areas. For example, the MoF will credit tax returns directly into bank accounts.

Reduce usage of cheques and go cheque-less in 2020. Our vision is to become a cheque-less country by 2020. To achieve this, BNM and banks will start by educating customers on the cost of cheques to the economy (RM2.00 per transaction as compared to RM0.50 for e-payment).

MoF will gradually increase stamp duty for cheque transactions to reflect the actual cost to the economy and more importantly to discourage the use of cheques. The increase in government revenue will be used to invest in e-payment, e.g. for an e-payment education campaign and tax rebate for point-of-sale terminal investments. BNM will develop a roadmap to phase out cheques by 2020 taking into account feedback from consumers and businesses. This roadmap will be reviewed on an annual basis to incorporate refinements to specific milestones. MoF will lead the way by virtually eliminating the use of cheques for government-related payments by 2013.

Expand MEPS strategic partnership with key countries. MEPS will expand strategic partnerships with other countries. First, we will broaden the scope of existing ATM partnerships to point-of-sales and more advanced e-payment (e.g. mobile and Internet) transactions. Then, MEPS will connect with countries with a lot of cross-border inbound and outbound travellers, such as India, Australia, Philippines and Japan. Malaysians will benefit from cheaper transactions in partner countries.

Enablers

Firstly, BNM will encourage joint public and private efforts to improve awareness and education of the benefits of e-payment. Secondly, to support the expansion of merchant penetration, MoF will waive import duty and provide additional tax rebate for the importation and purchase of payment terminals and cards. Thirdly, key initiatives such as the construction of the National High Speed Broadband project to enable good and affordable telecommunication infrastructure, as well the development of a robust legal framework, will be intensified.

Funding

This EPP will require investments and funding of RM883.10 million, almost 90% percent of which will be from the private sector.

Impact

The EPP is expected to create incremental GNI of RM2.6 billion and an additional 8,000 jobs in the financial services sector including analytics, back-office processing, merchandising and clearing by 2020. Impact to the greater economy beyond the financial sector will be much larger and estimated at 1.0 to 1.5 percent of total GDP, mainly from productivity and efficiency gains. This is derived, for example, through reduced cash handling and increased mobile and internet transactions across all sectors.

SERVE THE NEEDS OF A HIGH-INCOME POPULATION

As the nation migrates towards a higher income status, the financial needs of the *Rakyat* will become more sophisticated. The *Rakyat* needs to become more financially savvy, develop good savings and investment habits, manage their debts and actively plan for their retirement needs while protecting themselves and their families from unforeseen risks. As such, it is important for our financial products and service offerings to evolve to ensure that our citizens and residents can achieve financial security for themselves and their families.

EPP 5: Insuring Most, If Not All, of Our Population

Rationale

The insurance industry plays a critical role in transferring risks away from consumers and businesses by distributing risks among large pools of customers.

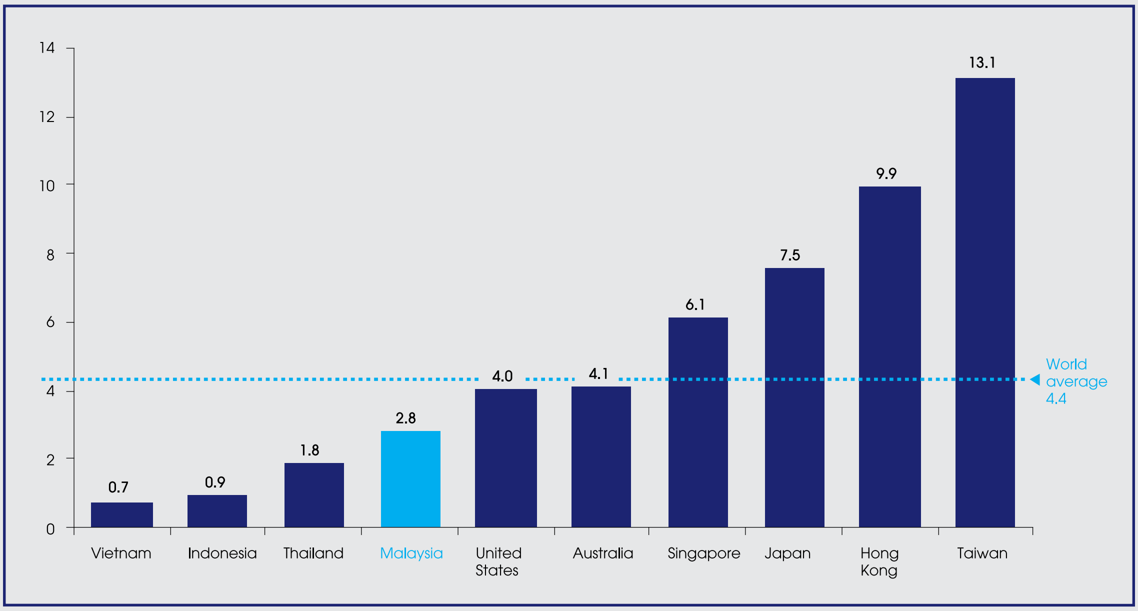
Although there is increasing acceptance of life insurance, at 2.8 percent of GDP, life insurance penetration in Malaysia is still low relative to other developed nations such as Singapore (6.1 percent) and Japan (7.5 percent) *(Exhibit 7-5)*. This is mainly attributed to a lack of disposable income among low-income earners to buy protection.

Everyone in a high-income economy deserves peace of mind from the financial security afforded by insurance. By 2020, Malaysia intends to increase its life insurance penetration to 4 percent of GDP or 75 percent of the population.

Exhibit 7-5

Insurance penetration in Malaysia of around 3% GDP remains low compared to more developed economies

Life insurance penetration
Percent of GDP



Note: Not all countries as represented in graph, but world average is based on total premiums of all countries

SOURCE: Insurance Information Institute Factbook 2010-2011

Actions

Create employee insurance scheme. An employee insurance scheme (EIS) will be launched for the benefit of low-income employees. EIS is a basic, low-premium term life insurance scheme. Enrolment in the EIS is automatic, but there will be a convenient opt-out option. Participants will also be able to opt into additional critical illness and hospitalisation benefit coverage. Premium payments will leverage on the existing infrastructure of agencies such as the Employees Provident Fund (EPF) and the Social Security Organisation (SOCSO). The key features of EIS will be clearly communicated upfront and extensive education efforts will be undertaken to educate the public on the importance of insurance.

Improve tax treatment for life insurance. Currently, a combined personal tax relief of RM6,000 is provided for EPF contributions and life insurance premiums. In addition, there is a RM3,000 relief for medical and education insurance and a RM1,000 relief for annuity products. However, for the upper middle- to high-income segments, EPF contributions often fully utilise the RM6,000 limit. Furthermore, certain segments of the population may not access the relief for medical and education insurance and annuity products.

Going forward, separate tax reliefs of RM6,000 each for EPF contributions and insurance premiums will be introduced (a net increase of RM2,000 in relief). This change provides greater flexibility for individuals to select insurance products to suit their needs. This relief covers both conventional insurance and takaful products.

Enablers

To ensure the two changes above have their desired effect, insurance awareness and understanding will be a core component of the planned National Financial Literacy Programme. BNM, EPF and industry organisations such as General Insurance Association of Malaysia (PIAM) and the Malaysian Insurance Institute will play a key role in developing the appropriate programmes.

Specific to the EIS, databases between the relevant agency appointed as the implementation vehicle and participating insurers will be integrated via a robust IT software and infrastructure to ensure seamless linkage and administration of EIS.

Funding

This EPP will require investments and funding of RM68.0 million, 65 percent of which will be from the private sector.

Impact

This EPP is expected to create incremental GNI of RM1.5 billion by 2020, along with 9,000 new jobs, including 6,000 insurance agents and 3,000 executive and managerial positions (such as actuaries, underwriters and claims experts). In addition this will enhance financial security for the population, especially with the reduced need for premature withdrawals from EPF savings for medical expenses, and strengthen the social safety net. More funds can also be pooled and invested into the capital markets.

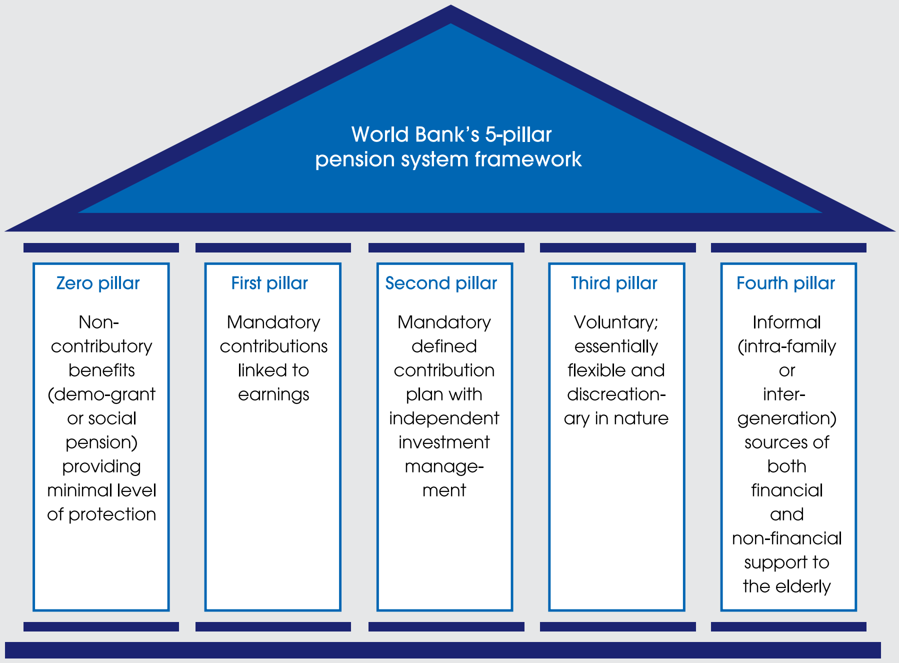
EPP 6: Accelerating the Growth of the Private Pension Industry

Rationale

The need to align pension systems with demographic and socioeconomic changes and reduce fiscal pressures is driving pension reforms across the world. Many countries are adopting the World Bank multi-pillar pension system framework, which includes a voluntary pillar based on private savings and pensions schemes *(Exhibit 7-6)*.

Exhibit 7-6

Pension systems are a critical tool to cater for retirement



SOURCE: World Bank

Malaysia's current pension system is based on a mandatory pillar, anchored on formal public pensions. The system, however, faces a number of challenges. More than 2 million working adults, including the self-employed, are not covered under EPF. Further, the majority of EPF contributors exhaust their savings within three to five years of retirement. At the same time, the ageing population is becoming a larger part of the entire population. Consequently, the need for individuals to save more for retirement has intensified.

Recognising this, a Government joint-agency task force comprising the MoF, BNM, SC and the Economic Planning Unit has been established to review the country's pension system. Efforts are underway to design the infrastructure required for the set-up of the private pension industry. These plans should be continued and, in fact, be accelerated.

Malaysia envisions having a model pension system and a vibrant private pension industry. By 2020, we expect the private pension industry to grow to RM73 billion, with more than 2.7 million participants.

Actions

Develop private pension funds to supplement public pensions. Private pension funds (PPFs) will supplement existing public pension schemes and offer non-EPF and self-employed people a way to save for retirement. Participation will be voluntary.

The value propositions of PPFs will be customised for different target segments. For working adults, the focus will be to build a desirable level of savings while for retirees, PPFs will offer protection against longevity and inflation risks and provide adequate returns during retirement. Fund participants can match their investments to their own risk preferences. Benefits such as insurance coverage or direct payment of pension income for retirement homes or nursing care will be incorporated to encourage higher participation.

The private pension fund industry will be open to high quality, well capitalised institutions, including insurance companies, asset management firms and banks. A robust legal and regulatory framework will be established to safeguard the interests of PPF participants and lay out the legal and regulatory rules that qualified PPFs must adhere to, including laws governing relationships between sponsors (employers), managers and funds. Clear guidelines on governance will cover fund governance, monitoring and reporting as well as performance disclosure and benchmarking. A modern and risk-based investment framework that will address asset allocation guidelines as well as investment restrictions such as portfolio ceilings and age-based limitations will also be put into place.

Provide incentives to rapidly build critical mass in the private pension industry. The experiences of other countries like Australia have demonstrated the use of tax incentives as a critical tool to encourage citizens to prioritise retirement savings. Similarly, we will introduce incentives to enable the new private pension industry to operate at a sustainable scale and grow into a vibrant industry.

The pension review committee is currently reviewing and finalising the proposed tax incentives. More details will be shared with the public before the end of the year, but will include tax exemption on private pension disbursements (currently applicable under approved public pension schemes such as EPF), additional tax reliefs for contributions to PPFs and tax deductibility for employer contributions to PPFs (just as EPF contributions are tax deductible for employers). The EPF Fund Management Institute framework currently applicable to unit trusts will also be expanded to allow investment in PPFs.

Improve education on importance of financial and retirement planning. A concerted, long-term financial education programme for the public will be implemented to create awareness and promote basic financial and retirement planning, as a critical element of the National Financial Literacy Programme. This will be a joint public-private sector effort involving SC, BNM and industry organisations and training providers such as Malaysian Association of Asset Managers (MAAM), LIAM, PIAM and Malaysian Insurance Institute. Key activities will include media campaigns, creation of a retirement planning handbook and tools and public training sessions or seminars on basic retirement planning.

Enablers

As highlighted above, a robust legal and regulatory framework is a critical pre-requisite to the growth of a sustainable private pension industry and will be in place by the end of 2011. The key trigger is the approval of the proposed tax incentives, which must happen within the next 12 months.

Separately, we will launch a review of the statutory retirement age. Relative to neighbouring countries and developed nations, our retirement age of 55 is low. Raising our retirement age would give our working population more time to save up for retirement while allowing them to continue contributing their services to the economy.

Funding

This EPP will require investments and funding of RM48.0 million, 50 percent of which will be from the private sector.

Impact

This EPP is expected to create incremental GNI of RM2.1 billion in the financial services sector and 2,200 jobs including fund managers, product development experts and fund operations personnel by 2020. In addition, this will contribute to the growth of the asset and wealth management industry and support a more vibrant capital market.

EPP 7: Spurring the Growth of the Nascent Wealth Management Industry

Rationale

The wealth management industry serves the mass affluent up to the ultra high net worth segments. As Malaysians become more affluent, wealth management represents an industry with excellent growth potential. However, Malaysia's wealth management industry today is at a nascent stage, and is limited mainly to mass affluent banking and financial planning. Industry growth is impeded by the lack of competitive products. For example, hedge funds, structured products and absolute return funds are not widely available. Further, there is room to reduce the time taken to approve retail investment products in Malaysia by streamlining requirements and upgrading submission standards to intermediaries. The limited talent base is also an issue. In the absence of a well-developed industry locally, Malaysians may take their wealth to be managed outside of Malaysia.

Malaysia will develop a wealth management industry that can attract back offshore Malaysian wealth as well as attract foreign wealth. The total assets under management (AuM) of the wealth management industry is expected to grow from RM17 billion to RM350 billion by 2020.

Actions

Increase range of wealth management products available. We will carefully liberalise wealth management products to allow a wider range, such as structured products, to be easily marketed in Malaysia. In addition, we will streamline the product approval process to significantly shorten time to market.

For the most sophisticated investors, we plan to move to a "register and issue" based product approval regime. This means that wealth management firms can market new products to sophisticated investors without having to get government approval for each new product. The criteria to be deemed a "sophisticated investor", currently RM3 million in total assets, has recently been put out for public consultation and the results are being reviewed by the SC. Future criteria could be based on investable assets rather than total assets.

Implement tiered returns for EPF balances above RM1 million. Today, 7,000 EPF members with balances above RM1 million have the option to withdraw the excess amount, but very few have done so to date. Moving forward, EPF will be restructured to a tiered return structure, whereby the dividends on amounts in excess of RM1 million will be capped at 2.5 percent. This will encourage wealthy individuals to withdraw the excess monies and we expect part of this will be channelled to wealth managers.

Attract top wealth management institutions. None of the global top 10 wealth management institutions have full-fledged wealth management operations in Malaysia. In order to attract them to set up operations in Malaysia and deepen the intermediary base, we must simplify licensing. As the location of operations often depends on quality of life factors, we will continue to focus on broader considerations (similar to those being undertaken by the Greater KL/KV NKEA) to make Malaysia an attractive place to work, live and play.

Carve a niche in Islamic wealth management. Syariah wealth management is a largely underserved market today that represents a unique opportunity for Malaysia, requiring specialised knowledge such as Syariah compliant wills and estate planning. To capture this opportunity, we will first build Syariah financial planning capability. Currently, Malaysia has less than 300 Syariah financial planners. This number will be increased through training and education, and the training curriculum will also be standardised. Secondly, wealth managers will exploit synergies with Islamic asset management firms to access new products.

Enablers

To support the above efforts to develop the wealth management industry, there is an urgent need to drive step-change improvement in human capital. There is a dearth of talent in the industry today even though many top private bankers in Singapore are Malaysians. The government will work with industry to train up wealth managers and product specialists. We will also ease the immigration process for the entry of foreign talent.

Funding

This EPP will require private investments and funding of RM495.5 million.

Impact

The EPP is expected to create incremental GNI of RM2.1 billion and an additional 6,000 jobs in financial services sector by 2020, out of which are 2,000 managers and professionals (including wealth managers, product specialists) and 4,000 clerical and salaried staffs.

DEVELOP NEW GROWTH SECTORS

EPP 8: Accelerating and Sustaining a Significant Asset Management Industry

Rationale

At roughly RM288 billion, Malaysia's asset management industry is relatively small. Further, only 3 percent of the funds under management are sourced from international investors. The industry is also concentrated, with the top five players accounting for over 55 percent of total AuM. However, Malaysia still has the opportunity to capture growing segments including local institutional investors, high net worth individuals and a growing niche in Islamic fund management.

The aspiration is for Malaysia to become a thriving regional asset management hub. AuM is expected to grow from current level of RM300 billion to RM1.7 trillion by 2020, representing a CAGR of 17 percent.

Actions

Stimulate the industry through outsourcing mandates. Having already established offices in regional hubs such as Singapore and Hong Kong, most leading global firms may not be planning further regional expansion. Still, it is critical to attract firms that can serve as catalysts for growth.

Currently, the GLICs are outsourcing to external fund managers at a relatively small scale compared to other major regional and global pension funds. Going forward, we will increase the total GLIC mandates to external fund managers from 5 percent to 15 percent of AuM. Each mandate must be sufficiently attractive, with RM1 to RM2 billion awarded to top fund management companies. These firms will be required to set up operations in Malaysia with at least six employees, including at least two portfolio managers, and to match foreign capital on a one-to-one basis within the first three years. Financial support may also be given, such as subsidising rents or salaries.

Further stimulate the retail market. EPF members are required to maintain a basic savings amount (ranging from RM1,000 to RM120,000 based on age). For any amount in excess, up to 20 percent can be withdrawn for investment in unit trusts. To further stimulate the retail market, members with more than RM120,000 in Account I, regardless of age, will be able to invest up to 50 percent of the excess in unit trusts. The excess can also be invested directly in ETFs.

Carve a niche in Islamic asset management. The global Islamic fund management industry is growing at 12 percent over the past six years to reach approximately RM166 billion AuM in 2009. Malaysia already has the largest number of Islamic funds in the world with 184 funds and the second largest AuM of RM18.2 billion. However, the industry still lacks scale as well as foreign investors.

Firstly, we will attract more leading funds to set up in Malaysia, leveraging on GLIC mandates. Secondly, growth of the wealth management industry will create demand. In the long run, Malaysia could be the global Islamic asset management product innovation hub, with our products sold globally through foreign banks and private banks.

Enablers

To support the efforts to accelerate the growth in the asset management industry, Malaysia will seek to become part of the Financial Action Task Force so that Malaysian fund managers are recognised globally. We will also encourage fund managers to attract foreign sourced money by exempting tax for investment income from foreign sourced funds. In addition, leveraging on Malaysia's strengths of being a resource-based economy, fund managers will be allowed to invest in commodities to broaden their asset classes. Finally, MAAM will play a greater role in driving a coordinated effort to train and develop talent.

Funding

This EPP will require private investments and funding of RM679.7 million.

Impact

The EPP is expected to create incremental GNI of RM2.4 billion and an additional 7,000 jobs by 2020, out of which 3,000 are managerial and professional positions (including fund managers, portfolio managers and analysts). In addition, this will allow for more avenues for investors to diversify risks, greater liquidity for capital markets and greater demand for ancillary services such as business process outsourcing and custodian service.

GO ON THE OFFENSIVE

EPP 9: Developing Regional Bank Champions

Rationale

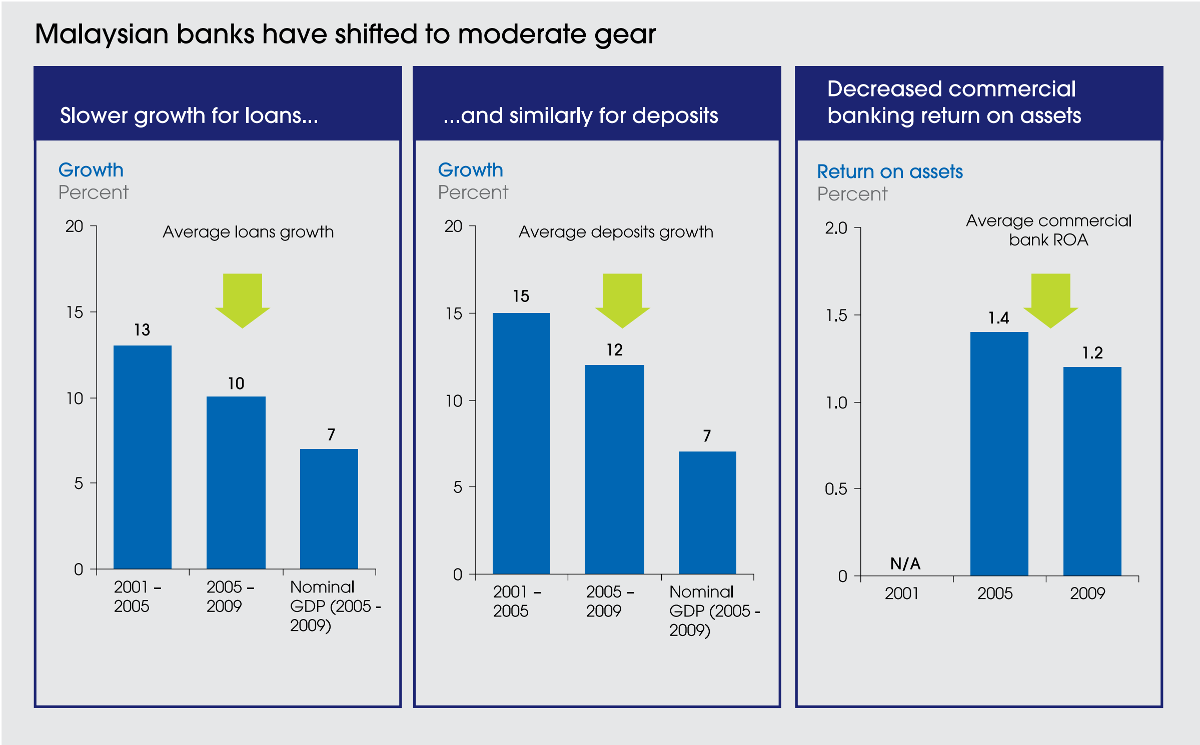
Malaysia's domestic banking sector has become a more mature market. Loan and deposit growth have slowed down from 13 percent and 15 percent respectively between 2001 and 2005 to 10 percent and 12 percent from 2005 to 2009. As a result, competition within the domestic market has intensified, contributing to a decline in ROA from 1.4 percent in 2005 to 1.2 percent in 2009 *(Exhibit 7-7)*.

In the past decade, BNM has prepared our banks and made them stronger, such as through consolidation. The number of domestic commercial banks dropped from 22 in 2000 to 9 in 2009, and the average assets per institution grew from RM16 billion to RM128 billion. In the same period, the number of foreign commercial banks increased from 12 to 15. These foreign banks have brought product innovation and knowledge to Malaysia's banking sector.

Today, Malaysian banks have begun international expansion to tap into higher growth markets, and overseas income currently accounts for 17 percent of total profits for Malaysian banks. Malaysian commercial banks have presence in 19 countries, but most of the overseas profits were derived from four key countries, i.e. Hong Kong, Indonesia, Singapore and Thailand.

Malaysian banks will increase the proportion of overseas income over total profits from 16 percent in 2009 to 27 percent by 2020 through more meaningful presence in ASEAN and international markets. Malaysian banks aspire to be among the top three banks in ASEAN by market capitalisation in 2020.

Exhibit 7-7



SOURCE: Bank Negara Malaysia

Actions

Expand internationally in a meaningful manner. The Government and BNM will assist strong Malaysian banks to establish meaningful presence in priority markets and become true regional champions, subject to prudent considerations. Banks with strong management capability and strong capital position that want to expand internationally can expect higher levels of support.

Expand beyond ASEAN. Outside of ASEAN, Greater China and South Asia are also experiencing strong growth in demand for financial services. Furthermore, a significant proportion of Malaysia outward FDI has also been invested in these markets. Expansion into these markets requires significant capital commitment. Our strong banks and GLICs will lead expansion outside ASEAN through the acquisition of banking assets when the opportunity arises.

Enablers

To support the intent to develop regional champions, the government and BNM will provide an accommodating environment, incentives and support to banks that successfully expand their international presence in a meaningful manner. Greater collaboration and best practice sharing among ASEAN regulators and financial institutions will remain on the agenda.

Funding

This EPP will require private investments and funding of RM26.4 billion.

Impact

The EPP is expected to create incremental GNI of RM5.6 billion in the financial services sector by 2020. In addition, the overall quality and innovation of products and services will increase and greater international trade and investment flows will be facilitated. There will however be a loss of some 8,500 jobs.

EPP 10: Becoming the Indisputable Global Hub for Islamic Finance

Actions

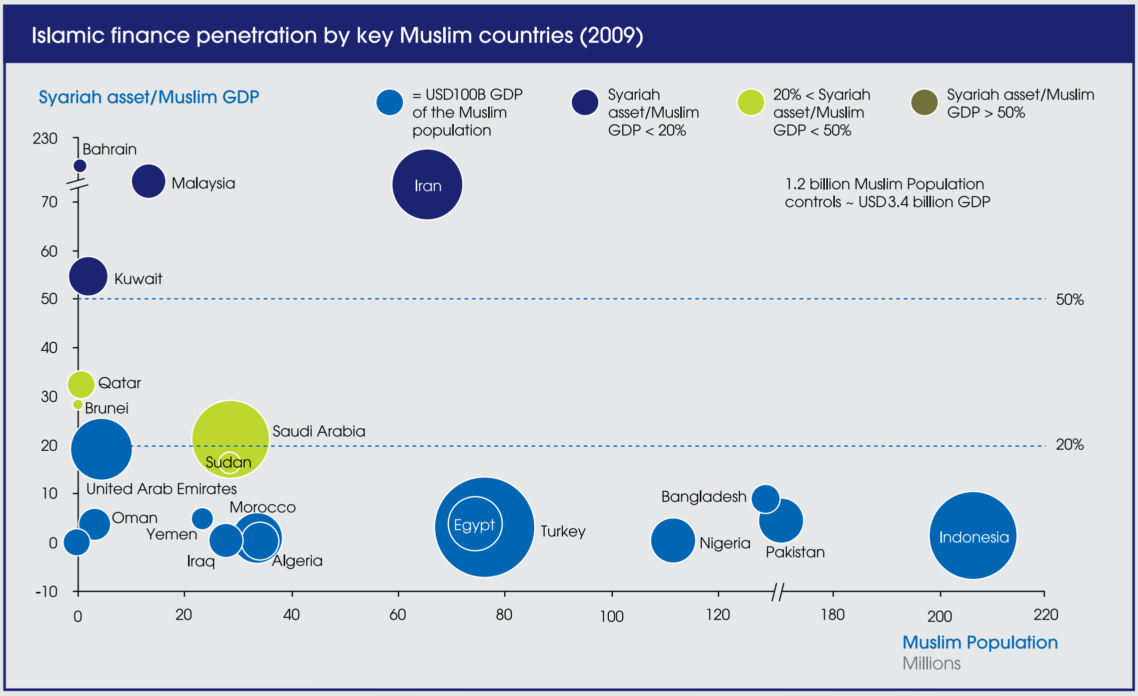
Islamic finance has emerged globally in the first decade of this century. Worldwide assets with Syariah compliance grew four times from 0.5 percent to 2.0 percent of the world economy and reached RM3.5 trillion in 2009.

Malaysia today is the world's third largest market for Syariah assets (Islamic banks, takaful, sukuk), but mostly through deep penetration in the domestic market. Many large Muslim countries (e.g. Indonesia, Pakistan, Bangladesh, Egypt) are still at an early stage of growth *(Exhibit 7-8)*. Unless Malaysia taps into these growth opportunities, Malaysia could risk losing its dominant position in Islamic finance. BNM and SC are actively championing Islamic finance and working to cement Malaysia's position.

We aspire to become the indisputable global hub for Islamic finance. Malaysia will be recognised as the intellectual centre and the capital centre for Islamic finance, and Malaysian Islamic financial institutions will have significant presence overseas. Global share of Islamic banking assets is targeted to increase from 8 percent in 2009 to 13 percent in 2020; global share of takaful contribution is targeted to increase from 11 percent in 2009 to 20 percent in 2020; and at least one Islamic financial institution is targeted to be among the global top 10 by asset size by 2020.

Exhibit 7-8

The growth trajectory is expected to continue as many large Muslim countries are still at early stages of Islamic Finance



Actions

Codify and standardise Syariah guidelines. BNM is already in the process of issuing Syariah parameters as standard documents to facilitate a comprehensive understanding of the principles and form the basis for Syariah contracts. Acceleration of this effort will help clarify understanding and ensure consistent interpretation of Syariah contracts in Malaysia, facilitate the formulation of policies and guidelines, promote innovation and enable faster product development and launch.

Drive global convergence and mutual recognition of standards. The full potential of Islamic finance will only be unleashed if global convergence and mutual recognition is achieved. Government and regulators will drive this process, including shaping the agenda of international bodies (e.g. IIFM, the Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI) to speed up their progress and expand their memberships to more countries.

Become a centre of excellence for Islamic finance research, development and education. The government, regulators, and private players have made significant investments to further Malaysia's aspirations to become a centre of intellectual excellent in Islamic finance. For example, several human capital development institutions including International Centre for Education in Islamic Finance, International Shari'ah Research Academy for Islamic Finance and the Asian Institute of Finance have already been established. We will continue to invest in cementing Malaysia's position as the centre of excellence for Islamic finance, research and education. Our priority areas going forward include:

- **Legal:** Study the potential to re-engineer the KL Regional Arbitration Centre into a competitive global arbitration centre with specific expertise in Islamic finance or to create a dedicated global Islamic finance arbitration centre and ensure our legal framework is expanded to accommodate more innovative Islamic products;

- **Human capital:** Islamic Banking and Finance Institute Malaysia will create globally recognised accreditation and certification programmes (e.g. Syariah Risk management certification); Malaysia International Islamic Financial Centre (MIFC) will expand the scholarship and research grants programme to attract international students and experts and Ministry of Education will increase the capacity and quality of Islamic finance higher education institutions with more focus on drawing foreign students; and

- **Research, development and innovation:** Leverage the International Shari'ah Research Academy for Islamic Finance ISRA to spearhead innovation in Islamic finance; Islamic financial institutions to increase their R&D budgets and MIFC to increase the prominence of awards programmes (hosted in Kuala Lumpur) to recognise innovation in Islamic finance.

Expand Islamic banking to priority markets. Malaysia's Islamic financial institutions will expand into key markets with high potential such as Indonesia, the Middle East, North Africa and the Indian sub-continent. The Government and BNM will continue to facilitate this expansion.

International expansion requires significant capital and capability. Having a Malaysian mega Islamic bank that will become a flagship will make international expansion more feasible. Furthermore, having a flagship in the global top 10 will strengthen Malaysia's claim to being the indisputedundisputed leader in Islamic finance.

Actively participate in the enhancement of global Islamic liquidity management. Malaysia will actively participate in efforts to enhance global Islamic liquidity management, which is currently impeding the growth of Islamic finance. Specific measures include:

- Bursa's Syariah compliant commodity trading platform, Bursa Suq Al Sila will tie up with platforms in key Muslim countries and extend its opening hours;

- MoF will increase use of foreign currency Islamic instruments to fund projects under the Tenth Malaysia Plan;

- Influencing the International Islamic Financial Market (IIFM) to include more countries and shape IIFM's agenda to speed up convergence in Islamic liquidity management; and

- Government to persuade other key Islamic countries to issue more foreign currency instruments to create cross-border liquidity.

Develop Islamic fund management. With RM18.2 billion AuM, Malaysia currently accounts for 10 percent of the global Islamic fund industry. However, most fund managers are still subscale with average AuM of under RM50 million. The plan to accelerate further development includes:

- Actively attracting leading international fund managers to build up operations in Malaysia by having GLICs give significantly large mandates;

- Growing the Islamic wealth management industry; and

- Positioning Malaysia as the Islamic product innovation hub with the distribution of products through reputable foreign financial institutions and private banks.

Expand takaful products overseas. Malaysia is currently the third largest takaful market globally with an 11 percent market share, most of which is domestic. Takaful is among the most undersold Islamic product accounting for only 3 percent of Islamic Syariah compliant assets globally. Malaysia will therefore transform takaful into an international business.

In the first phase, the industry will enhance the competency of the takaful workforce and develop innovative products. For example, local operators can ride on the rapid growth of medical tourism to offer medical and health takaful policies to Muslim health tourists.

In the second phase, takaful operators will focus on penetrating key untapped markets. The Government will facilitate entry into these markets through inter-governmental relationships and by offering Malaysia's expertise in the development of regulatory frameworks for takaful.

Finally, takaful operators will establish relationships with financial advisors, brokers and intermediaries to broaden distribution. For example, takaful products can be included in retirement and wealth management plans.

Strengthen Malaysian retakaful capacity. Retakaful is a vital part of the takaful industry, acting as a risk-mitigation mechanism for takaful operators by spreading risks across other institutions. As Malaysia develops to achieve global leadership in takaful, the retakaful industry must develop in tandem.

Today, local takaful operators are encouraged to protect their risk through retakaful. However, many takaful operators still depend heavily on conventional re-insurance due to limited capacity and lack of ability to provide additional technical expertise.

Efforts identified to strengthen the retakaful industry include establishing a retakaful syndicate among retakaful operators with Lloyd's of London and serving the growing needs for retakaful outside Malaysia.

Enablers

To support our ambitions to become the global Islamic finance hub, we need to ensure our leading position in human capital, infrastructure and legal framework is not eroded.

On human capital, we intend to ensure best-in-class processes to accommodate foreign talent and returning Malaysian experts, introduce standardised accreditation and certification and increase the proportion of foreign scholars on our Syariah councils and committees. On infrastructure and regulatory enablement, BNM and Islamic financial institutions will continue investing in technology and process improvements. End-to-end product approval time from idea generation until product launch will be shortened. On legal enablement, the Attorney General will allow foreign legal firms with expertise in Islamic finance to operate in Malaysia. International expertise can then be complemented with deep local expertise of Malaysian firms. Last but not the least, BNM and MIFC will continue promoting Malaysia an Islamic finance hub, highlighting our innovation and the robustness of our legal framework and infrastructure.

Funding

This EPP will require investments and funding of RM35.6 billion, almost all of it from the private sector.

Impact

The EPP is expected to create incremental GNI of RM7.2 billion and create 12,000 jobs mainly in Islamic banking activities (9,000 jobs) and retakaful (2,000 jobs) by 2020. In addition, this will raise Malaysia's standing in the international community and support the attraction of FDI.

BUSINESS OPPORTUNITIES

In addition to the 10 high impact EPPs, we also expect baseline growth via significant business opportunities in the financial services sector in the areas of commercial banking, investment banking, Islamic banking, insurance and takaful, asset management and wealth management as well as from other segments including DFIs. This will account for RM71.9 billion in incremental GNI by 2020. We also expect 229,000 additional jobs to be created by 2020, including 100,000 professional and technical positions. This growth is derived based on historical growth rates and an outlook for each segment while maintaining current margins. Funding and investments of around RM145.8 billion will be required, almost 95 percent of which will be borne by the private sector.

Business Opportunity 1: Commercial Banking

Over the next 10 years, the commercial banking segment is expected to maintain a moderate growth of 7 percent per annum. Most of the incremental GNI of RM29.6 billion in 2020 is anticipated to come from baseline growth with contribution from the following business opportunities:

- Innovation in the delivery of financial services including new business models to tap underserved segments and new branch formats including branchless banking;
- Increased financial inclusion via the national literacy programme;
- Commercial banks supporting the growth of SMEs, which will be strengthened as engines of growth and innovation under the Tenth Malaysia Plan; and
- Fast growing personal finance segment.

This business opportunity requires RM64.9 billion in funding, of which approximately RM61.2 billion will be sourced from the private sector.

Business Opportunity 2: Investment Banking

The outlook for investment banking is anticipated to remain positive with strong growth of 15 percent per annum throughout 2010 to 2015, slowing to 10 percent over 2016 to 2020. Incremental GNI impact is expected to be RM5.2 billion in 2020. Most of the GNI value is expected to be derived from baseline growth, with additional contribution from several business opportunities:

- Increase in IPOs due to a push for innovation under the Tenth Malaysia Plan;
- Integration of capital markets (e.g. exploiting the advantage of QDII status with China and mutual recognition agreements with Hong Kong and Dubai); and
- Increase in merger and acquisition activities due to expected consolidation in several key sectors.

This business opportunity requires RM10.2 billion in funding, of which approximately RM9.5 billion will be sourced from the private sector.

Business Opportunity 3: Islamic Banking

The Islamic banking segment is expected to contribute RM11.1 billion in incremental GNI for 2020. This will be supported by strong growth of 15 percent per annum from 2010 to 2015, slowing down to 12 percent over 2016 to 2020. Most of the GNI value is expected to be derived from baseline growth, with additional contribution from several business opportunities:

- Islamic pawn broking (ar-rahnu); and

- Migration of money lending business to conventional or Islamic banks following the proposed amendment to tighten the money lending business.

This business opportunity requires RM50.2 billion in funding, of which approximately RM46.9 billion will be sourced from the private sector.

Business Opportunity 4: Insurance and Takaful

This segment is expected to create incremental GNI of RM13.1 billion GNI in 2020. Industry growth for conventional insurance and reinsurance is expected to remain stable at 6 percent, whereas takaful and retakaful will register stronger growth at 20 percent over 2010 to 2014, slowing down to 15 percent over 2015 to 2020. Most of the GNI value is expected to be derived from baseline growth, with additional contributions from several business opportunities:

- Greater insurance take-up arising from Government's efforts to educate the public on financial planning and the importance of protection;

- Expected further consolidation and rationalisation will create strong institutions and platform for growth; and

- Micro insurance will become more viable with cheaper distribution models.

This business opportunity requires RM17.3 billion in funding, of which approximately RM16.5 billion will be sourced from the private sector.

Business Opportunity 5: Asset Management and Wealth Management

The asset management and wealth management (AMWM) segment is estimated to contribute RM1.9 billion in incremental GNI in 2020. This will be driven by an average 8 percent growth over 2010 to 2020. Whilst most of the GNI value is expected to be derived from baseline growth, several opportunities within the segment will be expected to give rise to GNI:

- Increase in access to funding for innovative start-ups arising from creation of a RM500 million Mudharabah Innovation Fund under the 10th Tenth Malaysian Plan;
- Outsourcing opportunities arising from the creation of the RM20 billion public-private partnership fund to support the 10th Tenth Malaysian Plan;
- Growing Malaysian wealth will require asset management and wealth management AMWM services;
- Increase in demand for unit trusts, mutual funds and wealth management services among foreign workers and returning Malaysians; and
- Growing awareness and critical mass for retail aggregators that can negotiate lower fees for unit trust products, e.g. FundSupermart.

This business opportunity requires RM1.3 billion in funding, of which approximately RM1.2 billion will be sourced from the private sector.

Business Opportunity 6: Other Segments Including DFIs

The remaining segments in the financial services sector, such as DFIs, private equity and venture capital businesses, are estimated to account for RM11.0 billion incremental GNI in 2020. Most of the GNI value is expected to be derived from baseline growth, with several business opportunities identified under the following 10th Tenth Malaysian Plan initiatives:

- Investment activities under 1Malaysia Development Berhad's RM100 million business development fund;
- Opportunities in private equity and venture capital for innovation and green financing, with a strong emphasis on projects in renewable energy, especially biofuels;
- Value chain impact to private equity and venture capital as the capital market becomes more vibrant and IPO becomes easier;
- Significant underground money lending and remittance business will move towards formal money lending and money transfer business as the economy evolves; and
- Back-office centralisation will enable financial institutions to focus on more productive and higher value-added activities.

This business opportunity requires RM1.9 billion in funding, of which approximately RM1.8 billion will be sourced from the private sector.

COMMON ENABLERS

We have identified eight enablers that will have to be put in place to ensure that the financial services sector can achieve its contribution towards propelling Malaysia to become a high-income nation.

Ensure Adequate Supply of Qualified Human Capital

Overview

Human capital is an essential enabler for the financial services sector as the industry requires highly qualified people to continue innovating and raising standards. The sector currently employs 290,000 people (2 percent of total workforce). In order to meet our aspirations, we will need 275,000 more workers.

However, there is inadequate supply of quality human capital, particularly in advanced areas like fund management, investment banking and derivative trading. Malaysian financial sector talents are wooed by higher salaries and better career prospects in regional and global financial centres. Finally, there is wide variation in the quality of workforce in the financial sector.

The relevant ministries, agencies and regulators (BNM and SC) have made marked improvements on addressing human capital issues. Most recently, the Tenth Malaysia Plan announced the creation of Malaysia Talent Corporation to spearhead Malaysia's initiative to attract the Malaysian diaspora back and to ease the entry of skilled workers.

Actions

Improve consistency in the quality of the financial services workforce. In achieving this aspiration, the regulators and the Asian Institute of Finance (AIF) will play pivotal roles.

Regulators will enhance the guidelines and direction to promote continued development of the human capital in the financial institutions. For example, they will set minimum mandatory training hours for each staff.

Asian Institute of Finance, under the guidance of the regulators, will continue to spearhead the standardisation and certification effort in the financial services sector. For example, it will formally accredit private training institutes before these institutes can provide training to the financial services workforce to ensure consistent training quality.

Bring back Malaysian experts abroad and retain talents. Firstly, Government intends to provide incentives and more importantly make sure that the incentive programme is made known through a formal channel (e.g. embassies) as well as through an informal channel (e.g. Malaysian communities).

Secondly, Malaysia Talent Corporation will maintain a national database to track Malaysian financial services experts abroad and notify them of domestic opportunities.

Thirdly, as described in EPP 8, GLICs will provide mandates to attract high profile institutions to set up sizeable operations in Malaysia. This will provide more advanced employment opportunities in the financial services sector.

Ensure foreign talents experience a seamless immigration process. Many improvements have been made in this area. Today, end-to-end work visa approval for select financial services sub-sectors can be done within four to seven days. However, most applicants still have to complete multiple forms and be present in person at least twice during the process. There is no one-stop centre for processing applications for the financial services sector, as MIDA is for the manufacturing sectors.

The Immigration Department plans to further improve this by implementing straight-through online processing for foreign talents. Immigration will also streamline the terms and conditions for securing a work visa. The requirements to stipulate the length of employment period in the contract and to re-apply for movement within the same group of companies will be waived.

Provide Legal Certainty

Overview

For the proper functioning of the financial system, a favourable legal environment and efficient judicial system is imperative. The Chief Justice has stepped up the pace of judicial reforms since 2008 and launched bold initiatives, such as the revitalisation of the Intellectual Properties Court and the establishment of the Islamic Financing Court to cater to cases relating to these specialised fields of the law, as well as the introduction of a KPI system and higher salaries for judges and the judicial commissioner. Many more reforms are underway, and the Government is committed to ensuring that judicial reforms continue at full speed.

A key element of a favourable legal environment is legal certainty, i.e. legal rules must be clear and precise. Certain recently proposed legal changes, including the requirement for repossession of a vehicle under hire purchase to require a court order, could inhibit growth of personal finance businesses or impair risk management. It is important to clarify and review these amendments.

Actions

BNM to review impact and work with Attorney General to make necessary amendments on the following items:

- Proposed credit reporting act and data protection impact to risk management practice;
- Proposed amendment to hire purchase act (e.g. repossession of a vehicle requires a court order if more than one-third of the cash price) to auto finance industry; and
- Proposed changes to the minimum limit of RM50,000 for petitions under Bankruptcy Act to the financial services sector.

PEMUDAH to revise end-to-end foreclosure process. This will reduce lengthy foreclosure processing time (e.g. no escalation to high court after two unsuccessful auctions)

Other reforms. In addition, recent initiatives to reform the judicial system since 2008 currently being pilot should be accelerated. These include the planned rollout of e-court system and the establishment of new commercial courts in Kuala Lumpur.

Synchronised Developmental Plans

Overview

Malaysian financial services overall has a strong regulatory framework. Both BNM and SC have demonstrated their abilities to balance the developmental role and the stability of financial services sector amidst the 2008 to 2009 global financial crisis.

Going forward, the financial services sector will continue to operate in an ever changing environment. Intermediaries are engaging in various spectrums of activities ranging from traditional borrowing and lending to complex capital market activities. Regulators must aspire to continue working together and ensure coordination among themselves and more importantly with the financial institutions.

Actions

In order to meet the needs of evolving market demands, regulators need to ensure that they continue to harmonise development and supervision, for example, guidelines on disclosure and approval of products will be streamlined into one consistent set of guidelines.

Enhance the Consultation Model

Overview

Close co-operation between government and industry is needed going forward. Regulators regularly consult with industry as they recognise the many benefits to:

- Tap on market practitioners' knowledge and understanding of the market to validate and, where appropriate, refine policies;
- Gain advanced knowledge from market players of any implementation issues;
- Explain and garner support for policies;
- Give more certainty to and enable affected parties to prepare for new policies; and
- Develop a reputation for openness and transparency.

Action

In the future, the currently good consultation will be made richer by making public consultation a standard procedure for any regulatory change or development plan. However, in limited cases where advance notice would adversely affect a policy's effectiveness, the requirement for public or selective consultation will be waived e.g. institution-specific or insignificant regulatory changes.

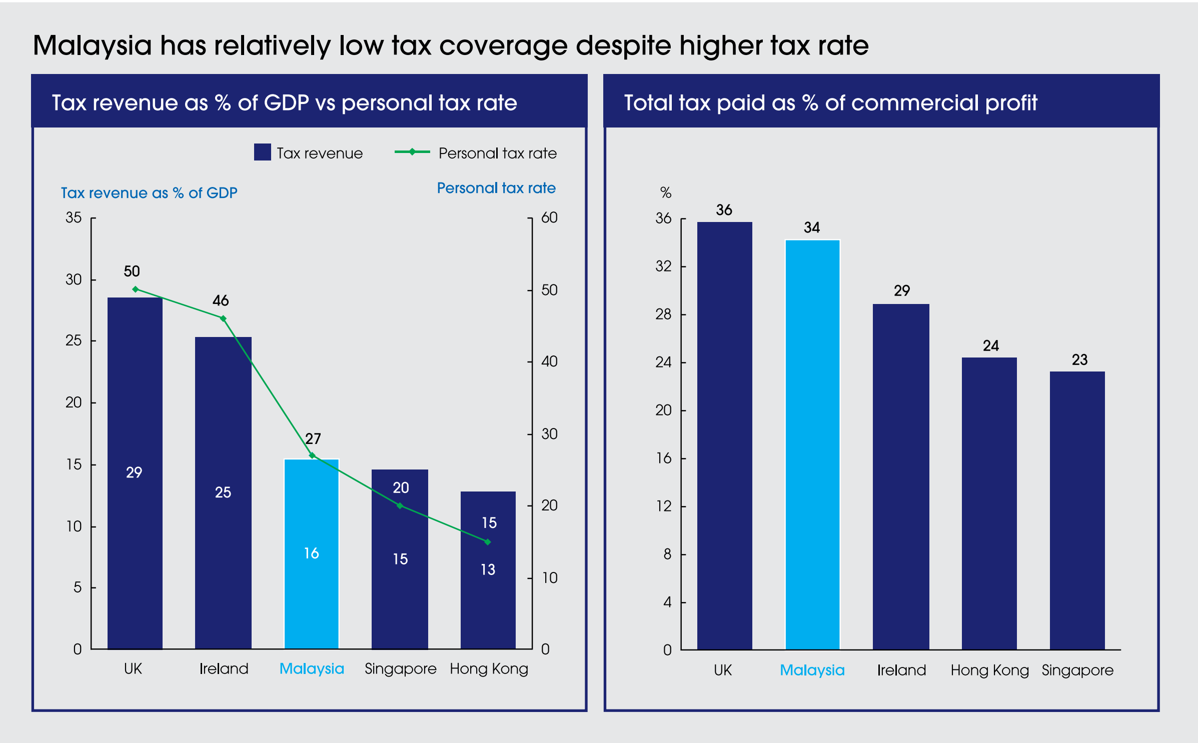
Create a Competitive Taxation Environment

Overview

A competitive tax environment is essential to attracting business operations and to attract and retain talent. In a world with increasing mobility of labour and capital, many regional financial centres like Hong Kong and Singapore have adopted low tax rate regimes. Tax incentives are also a commonly used tool to attract expertise and higher value-added services.

Compared to our regional competitors, Malaysia's personal and corporate tax rates are relatively high. Further, in spite of the higher tax rates, Malaysia's tax coverage ratio at 16 percent of GDP is relatively low *(Exhibit 7-9)*. This is largely due to a small tax base, where only an estimated 1 million people pay any income tax. The small tax base is detrimental to the development of the financial services industry as it limits our ability to use tax rates and targetted tax incentives as a competitive tool to attract investment and talent.

Exhibit 7-9



Actions

MoF intends to, over time, increase the tax coverage ratio by broadening the tax base, tackling tax avoidance and improving the integrity of the tax system. The key to doing this is pushing forward with studying the implementation of a goods and services tax, which is a fairer system of tax, as it is a broad-based consumption tax. As the tax base increases, Malaysia will have more flexibility to provide tax incentives selectively to further the country's strategic agenda and also possibility to lower the income tax rate for both individuals and businesses alike.

Coordinate a National Financial Literacy Programme

Overview

The ability of the rakyat to manage their finances will become increasingly important as we become a high-income economy. With financial products becoming more complex and sophisticated, it is important to ensure that consumers become financially competent and able to make informed and conscious financial choices.

Many developed countries (e.g. Australia, New Zealand, Singapore, and the Netherlands) have already implemented national strategies on financial literacy. Singapore launched MoneySense in 2003 to create a long-term sustainable programme to enhance the basic financial literacy of Singaporeans.

Malaysia is recognised by the World Bank as a country with a high level of financial inclusion. However, as a nation, we are not yet sufficiently financially savvy. For example, we have the highest level of household debt to GDP in Asia, at 77 percent. Our people also lack sufficient knowledge and skills to prepare for retirement. Lack of awareness also inhibits the growth of key sectors such as insurance and e-payment.

Various organisations such as Bank Negara, the SC, the Securities Industry Development Corporation, Bursa Malaysia, EPF, Permodalan Nasional Berhad (PNB) and the private sector have launched various initiatives to educate their customers to become more financially literate. These efforts need to be more focused and better coordinated to increase their effectiveness and reach.

Action

Going forward, BNM will lead the creation of a coordinated national financial literacy programme based on a public-private partnership that featured customised programmes and delivery models based on targetted community needs and wants.

Initiatives under this programme will be designed to teach Malaysians, from an early age through adulthood, financial skills covering basic money management (budgeting and savings, responsible credit, debt counselling, etc.), financial planning for long-term protection and retirement needs as well as how to make prudent investments. A cornerstone of the programme will be the integration of financial literacy into the formal school curriculum.

Launch a Concerted Marketing Campaign

Overview

Effective promotion of Malaysia's financial services strategy and value proposition as an investment destination as well as a hub for selective niches like Islamic finance is needed. Spearheaded by MIFC, efforts to promote Malaysia as a hub for Islamic finance have already helped to raise Malaysia's international profile. However, the Malaysian story is not well known and is generally undersold internationally. Further, we have not been able to dispel concerns over the capital controls implemented during the Asian Financial Crisis, even though these controls have mostly been lifted.

Action

A concerted, proactive international marketing and promotion campaign will be launched, which includes:

- Coordination across regulators and other ministries and agencies;
- Collaboration between industry and government for execution;
- Specific focus on attracting investments and creating jobs;
- Prioritised list of companies and regions to target with customised pitches; and
- Defined set of marketing and promotion actions supported by impact–based metrics that define success.

We plan to also cultivate a network of finance businesses and professionals (foreign investors or successful Malaysian businessmen abroad) to become "Malaysian ambassadors" who will be kept abreast of the latest developments in the sector and promote Malaysia abroad.

Develop the KL International Financial District

Overview

A world-class financial district does not only mean best-in-class utilities, Internet and communication infrastructure, but more importantly means a place where businesses and professionals can network and exchange ideas and opportunities.

Many global financial centres such as New York, Hong Kong, Singapore and Dubai have invested and continue to invest in upgrading and modernising the infrastructure for financial services companies. For example, Hong Kong is creating a new financial district in the Kowloon area. Similarly, Singapore is building the new Marina Bay Financial District to support its growth as a major business and financial hub in Asia. There is currently no financial district in KL. Instead, financial institutions are scattered within KL.

Action

The recently announced plans to develop the Kuala Lumpur International Financial District will be intensified. Eventually, this will allow Kuala Lumpur to attract higher calibre financial human talent to together help promote a vibrant financial services industry. This will also raise Malaysia's profile in the international arena and support the country's brand.

FUNDING

Achieving our growth targets of growing the financial services sector by three times by 2020 will require cumulative funding of RM211.1 billion over the next 10 years, of which RM65.2 billion will be for the 10 EPPs, and the balance will be to fund business opportunities and overall baseline growth *(Exhibit 7-10)*.

In terms of the sources of funding, the private and public sectors are expected to provide RM64.6 billion (99 percent) and RM0.6 billion (1 percent) of EPP funding, respectively.

In addition, several of the EPPs call for tax incentives to stimulate the growth of different sectors. In most cases, the loss in tax revenues is expected to be offset by an increase in corporate income tax from the beneficiaries of the incentives within a few years. For example, the proposed additional tax reliefs for insurance premiums in order to stimulate the insurance industry will result in lower tax revenues. However, over time, as insurance penetration increases as a result of higher insurance up-take, we will recoup the losses through taxes on the expanded income of insurance companies. It should be noted that any tax incentives to be provided to foreign entities to set up in Malaysia are not accounted for here, as Malaysia would not have earned any tax revenues from these entities if they were not present here.

Exhibit 7-10

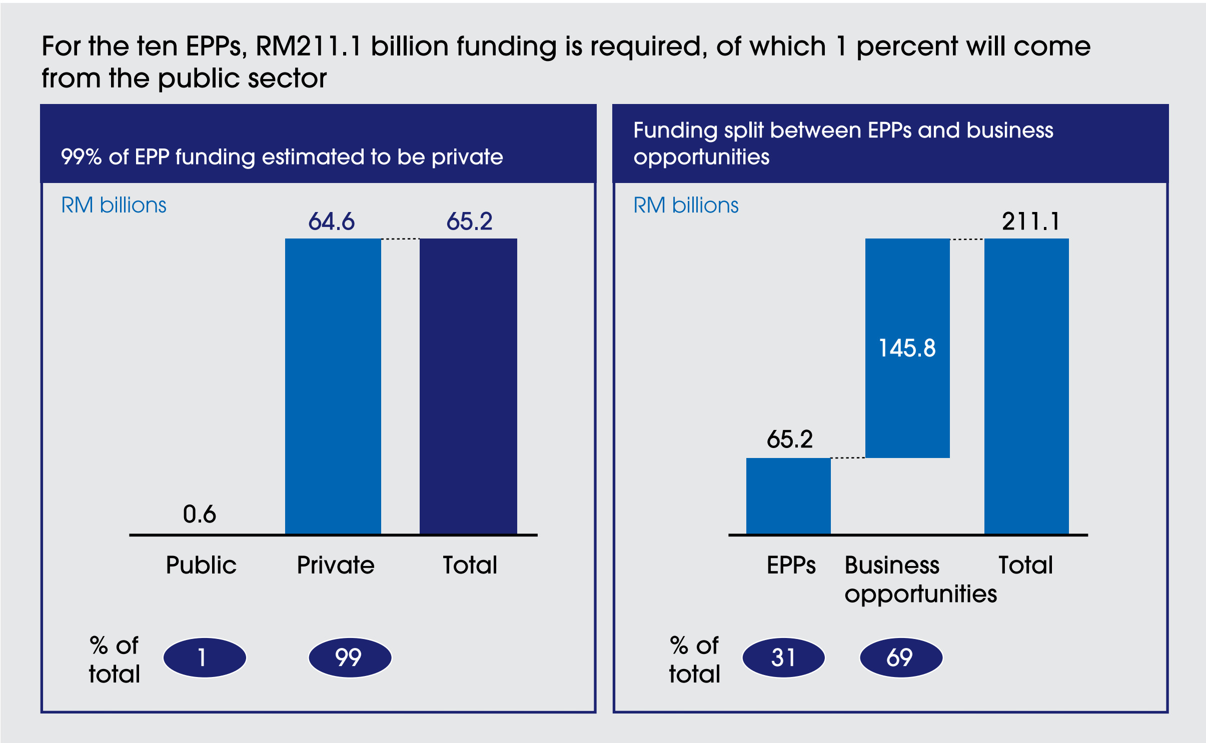


Table 7-1

EPP	Funding requirement 2011 - 2020 (RM million)	Details
Revitalising Malaysia's capital markets	862.7	Investment in new office buildings, IT system upgrade and trading infrastructure (e.g. trading platform, trading desk, Bloomberg terminals)
Deepening and broadening bond markets	43.74	Purchase of office equipment, computer and application systems
Transforming or rationalising developmental finance institutions	72.0	Capitalised on-off transformation and integration costs to enhance management and operations of DFIs
Creating an integrated payment ecosystem	883.1	In-payment infrastructure (e.g. electronic data capture system and radio-frequency identification (RFID) technology) Awareness campaigns to increase e-payment penetration
Insuring most, if not all, of our population	68.0	IT system and infrastructure for EIS Marketing and awareness campaigns to educate the public on the importance of insurance
Accelerating the growth of the private pension industry	48.0	National awareness campaigns to generate product awareness for private pensions and educate the public on financial and retirement planning
Spurring the growth of the nascent wealth management industry	495.5	Expansion of wealth management firms and creation of new entities (including purchase of office buildings, office equipment and IT system)
Accelerating and sustaining a significant asset management industry	679.7	Expansion of conventional and new Islamic asset management businesses (including purchase of office buildings, office equipment and IT system)
Developing regional banking champions	26,400	Capital injection to purchase equity stakes in target markets. Funding of related regionalisation and internationalisation activities
Becoming the indisputable global hub for Islamic finance	35,600	Funding of overseas acquisition and business expansion in target markets Set up of retakaful syndicate Investments to support Malaysia's development as an intellectual capital centre for Islamic finance (e.g. research grants, scholarships)

Funding For Business Opportunities and Baseline Growth

A cumulative total of RM145.8 billion over 2010 to 2020 will be required to fund business opportunities and baseline growth. Just 5 percent of the total funding requirement will be public investment. Details of the funding requirements are summarised in *Table 7-2*

Table 7-2

Business opportunity	Funding requirement 2011 - 2020 (RM billion)	Details of funding requirement
Commercial banking	64.9	Capital expenditure and capital injection to support business growth (mainly investment for branch expansion, IT system upgrade and maintenance and branding initiatives)
Investment banking	10.2	Investments for IT system upgrade and maintenance Branding to promote visibility of investment banking products
Islamic banking	50.2	Investments by existing companies to fund expansion of distribution network Capital expenditure to fund operations of new companies Investment in branding to promote Islamic Finance products and Malaysia's reputation as global Islamic finance leader
Insurance and takaful	17.3	Capital expenditure and capital injection to support expansion of insurance business within Malaysia and abroad Capital funding for new takaful players
Asset management and wealth management	1.2	Infrastructure investment and upgrade
Other segments including DFIs	2.0	Capital requirement and capital injection to fund financing activities of DFIs and new opportunities within PE and VC markets (e.g. innovation and green financing projects)

The total funding requirement also includes any spending required for national financial literacy programmes and relevant marketing activities to promote financial products and services nationwide.

GOVERNANCE AND DELIVERY

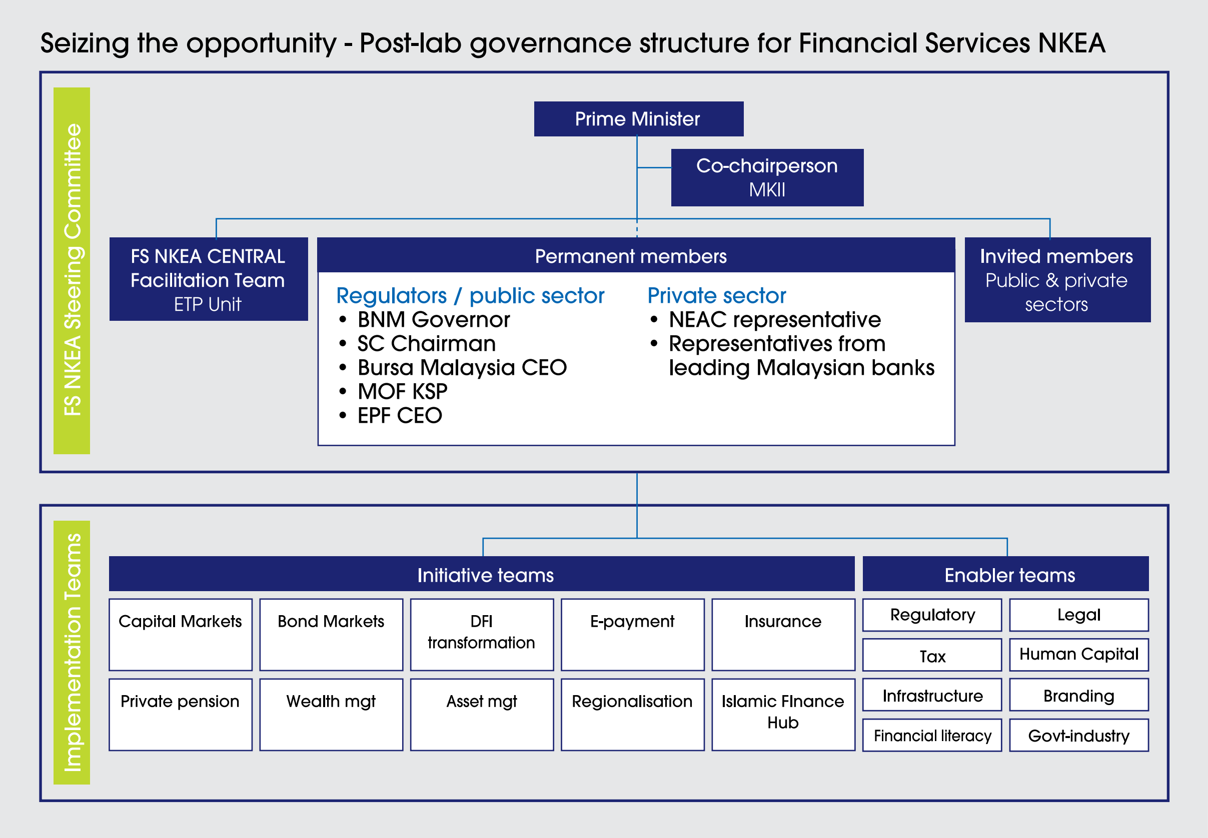
The EPPs and other opportunities outlined above are actionable immediately and tangible results are realisable within the near to mid-term. Translating these opportunities into actions must be a priority for both the financial services industry and all orders of government. It will take leadership, resources and focus, as well as a set of clear milestones that define success. *Table 7-3* shows the lead owners for each EPP and other stakeholders

Table 7-3

EPP	Lead initiative owners	Other key agencies, companies and organisations
Revitalising Malaysia's Capital Markets	Ministry of Finance Securities Commission Bursa Malaysia	Government-linked companies, government-linked investment companies, Malaysia Investment Banking Association, Association of Stockbroking Companies Malaysia
Deepening and Broadening Bond Markets	Securities Commission	Ministry of Finance, Bursa Malaysia, Employees Provident Fund, Malaysia Investment Banking Association, Danajamin
Transforming or Rationalising Developmental Finance Institutions	Ministry of Finance	Bank Negara Malaysia, developmental finance institutions, Ministry of International Trade and Industry, Ministry of Domestic Trade, Cooperative and Consumerism, Ministry of Agriculture, SME Corporation
Creating an Integrated Payment Ecosystem	Ministry of Finance Bank Negara Malaysia	Bursa Malaysia, Malaysia Electronic Payment System, Touch n Go, HOUSe, Ministry of Transport, Securities Commission, ABM
Insuring Most, If Not All, of Our Population	Bank Negara Malaysia	Ministry of Finance, Employees Provident Fund, Inland Revenue Board, Life Insurance Association of Malaysia, Private Insurance Association of Malaysia, Malaysian Takaful Association
Accelerating the Growth of the Private Pension Industry	Securities Commission	Ministry of Finance, Bank Negara Malaysia, Employees Provident Fund, Malaysian Association of Asset Managers, Life Insurance Association of Malaysia, Malaysian Takaful Association
Spurring the Growth of the Nascent Wealth Management Industry	Ministry of Finance Securities Commission Bank Negara Malaysia	Employees Provident Fund, Malaysian Association of Asset Managers, AB
Accelerating and Sustaining a Significant Asset Management Industry	Ministry of Finance Securities Commission	Bursa Malaysia, government-linked investment companies, Malaysian Association of Asset Managers
Developing Regional Banking Champions	Bank Negara Malaysia	Ministry of Finance, banks
Becoming the Indisputable Global Hub for Islamic Finance	Bank Negara Malaysia Malaysia International Islamic Financial Centre	Ministry of Finance, Securities Commission, Islamic Banking and Finance Institute Malaysia, Bursa Malaysia, Jabatan Wakaf, Zakat dan Haji (JAWHAR), Attorney General, Malaysian Takaful Association

To ensure that the EPPs are implemented according to the above timelines, a proper governance structure will be established as shown in *Exhibit 7-11*.

Exhibit 7-11



A Financial Services NKEA Steering Committee will be established. Headed by the Prime Minister and co-chaired by the Minister of Finance (II), membership will include the industry regulators and key representatives of the public and private sectors. Depending on the topics to be discussed in Steering Committee meetings, representatives from selected Government agencies, industry and private industry organisations may be invited to provide input and facilitate in issue resolution.

The Steering Committee will track the performance and progress of implementation of the EPPs, make the necessary decisions and provide direction and guidance to the execution teams. Issues escalated to the Steering Committee will also be tabled and discussed during the progress meetings. The Steering Committee will meet quarterly with the Prime Minister chairing the meetings.

The ETP Unit has the mandate of coordinating transfer of the EPPs to the respective stakeholders as well as coordinating all inter-agency collaborations. This team will provide performance management and tracking of the progress of the EPPs as well as provide analytical support to the execution teams. All materials for presentations, workshops, public engagements, etc. will also fall under the responsibility of the ETP Unit. This team will meet monthly with the execution teams.

The respective ministries and agencies will implement the initiatives according to the stipulated timelines and will be led by the relevant respective heads of the appointed entities. Selected private sector players will be involved in the implementation of the initiatives. In addition, cross-agency teams will implement the broader enablers necessary to ensure the success of the NKEA as a whole.

Box 7-1

Summary of Financial Services NKEA

• **Incremental GNI impact in 2020**	RM121.5 billion
• **Additional jobs in 2020**	275,400

- **Critical targets and milestones within 6 to 12 months**
  - Assets for listing and national REIT identified
  - E-dividend launched
  - Employee Insurance Scheme Consortium set up and lead manager appointed
  - Fund managers are allowed to invest in commodities
  - Bursa suq Al-sila opening hours extended