Take5 for business

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FSB series

Malaysia's Financial Sector Blueprint 2022 - 2026

Finance for all, transformation and sustainability
Overview of the Financial Sector Blueprint 2022 - 2026

On 24 January 2022, Bank Negara Malaysia (BNM) launched the third Financial Sector Blueprint (FSB) 2022-2026.

The FSB sets out BNM’s vision for Malaysia’s financial sector to act as a key pillar in supporting economic recovery as well as drive Malaysia’s aspiration to be a dynamic, inclusive and sustainable nation.

Anchored on three themes, five thrusts and sixteen strategies, the blueprint serves as a guide to drive the development of Malaysia’s financial sector to become highly adaptive in responding to a wide range of uncertain changes in the future.

FSB 2022 - 2026:

3 Themes

Finance for all

Finance for transformation

Finance for sustainability

Did you know?
Financial sector roadmaps in Malaysia

1. FMSP*: 2001 - 2010
   - Develop a competitive, resilient and dynamic financial sector

2. FSB: 2011 - 2020
   - Develop a more competitive, dynamic, inclusive, diversified and integrated financial sector, with the ability to offer world class financial services

3. FSB: 2022 - 2026
   - Continue to develop the financial sector to be the catalyst for reform, drive sustainability and contribute to the nation’s aspiration of being a "Prosperous, Inclusive and Sustainable Malaysia"

Note:
FSB 2022 - 2026 includes BNM’s proposed initiatives, regulatory reforms and future strategies and directions which have direct and indirect implications on financial institutions (FIs), non FIs and regulatory bodies. Non-FIs include but are not limited to non-bank credit providers, payment system operators, fintech and e-commerce players and other critical third party service providers and relevant government-linked companies. Regulatory bodies include capital market regulators, the communications and multimedia regulator and agencies who also drive the cooperative oversight of the financial sector.

Sources:
- Financial Sector Masterplan, 2001 - 2010, BNM
- FSB 2011 - 2020, BNM
- FSB 2022 - 2026, BNM
Overview of FSB 2022 – 2026: thrusts and strategies

5 Thrusts

1.0 Fund Malaysia’s economic transformation

2.0 Elevate the financial well-being of households and businesses

3.0 Advance digitalization

4.0 Facilitate an orderly transition to a greener economy

5.0 Advance value-based finance through Islamic finance leadership

16 Strategies

1.1 Sustain a strong economic recovery
1.2 Facilitate transformation to a high-income nation
1.3 Ensure post-pandemic resilience of the financial intermediation role

2.1 Enhance the financial capability, access and effective usage of financial services
2.2 Strengthen protection for households and businesses to build financial resilience
2.3 Shape a financial system that upholds fair and responsible dealings with financial consumers

3.1 Future-proof key digital infrastructure
3.2 Support a vibrant digital financial services landscape
3.3 Strengthen cyber security readiness and responsiveness
3.4 Support the greater use of technology for regulation and supervision

4.1 Integrate climate-related and environmental risks in prudential regulation and supervision
4.2 Support an orderly transition to a low-carbon economy
4.3 Integrate climate risk in the Bank’s internal functions and operations

5.1 Sharpen Malaysia’s proposition as an international gateway for Islamic finance
5.2 Strengthen policy enablers of value-based finance for greater impact
5.3 Mainstream social finance

Source:
Financial Sector Blueprint 2022 – 2026, BNM
The FSB outlines three strategies to drive the development of a vibrant and resilient domestic funding ecosystem:

### 1.1 Sustain a strong economic recovery

**Strengthen counter-cyclical measures for continued access to financing**
- Supportive credit guarantee ecosystem
- Usage of forward-looking and alternative data
- Strengthen the role of Development Financial Institutions (DFIs) to bridge financing gaps

**Support measures for distressed borrowers to manage debt burden**
- Targeted support to vulnerable segments
- Offering of blended finance solutions

**Facilitate ‘second chances’ for non-viable borrowers**
- Simplify the insolvency regimes for MSMEs
- Enhance regulatory framework for the disposal and purchase of impaired financing

### 1.2 Facilitate Malaysia’s transformation to a high income nation

**Sustain and grow alternative finance and its supporting infrastructure**
- Encourage the exploration of social finance
- Establishment of a centralized collateral registry
- Increase the coverage and efficacy of referral to alternative finance
- Review of the taxation framework for alternative finance instruments
- Support government-linked investment companies (GLICs) and DFIs in developing an alternative finance ecosystem
- Adoption of trade-based financing instruments

**Strengthen the regulatory framework and collaboration to promote the development of the non-debt finance**
- Measures to make it easier for banks to offer non-debt based finance solutions
- Support the banks' partnerships with start-ups
- Work with the Securities Commission (SC) to develop a comprehensive domestic funding ecosystem

**Reinforce the finance ecosystem for microenterprises for sustainable and inclusive growth**
- Improve the microfinancing ecosystem
- Assist microenterprises to move up the value chain

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Note:
- ESG refers to environmental, social and governance

Source:
- FSB 2022 - 2026, BNM

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The FSB aims to build a resilient and sustainable foundation to drive the development of a highly adaptive financial sector which can cope with potential disruptions.

-Chow Sang Hoe
EY Asean Consulting Leader
Malaysia Consulting Managing Partner,
Ernst & Young Consulting Sdn Bhd
1.3 Ensure the post-pandemic resilience of the financial intermediation role

Preserve funding capacity in the long-term
► Facilitate the offering of trade credit protection solutions
► Encourage the offering of specialized insurance and takaful products
► Work with reinsurance and retakaful industry to support risk diversification needs
► Enhance surveillance and stronger oversight arrangements for non-bank players

Strengthen the vibrancy and resilience of financial markets to act as risk absorbers
► Promote the adoption of collateralized transactions within the money market
► Enhance the use of technology to improve liquidity and pricing transparency
► Intensify efforts to develop the onshore derivatives market
► Expand safety net arrangements (bilateral swap arrangements with regional central banks)
► Promote liquidity in the ESG bond and sukuk market
► Enhance the integrity and reliability of the domestic financial market benchmark

“As the performance of the wider economy is intertwined with the financial sector (FS), Malaysia’s FS players need to evolve to support a dynamic economic model that is innovation-led, highly productive and globally competitive.”

Chan Hooi Lam
EY Asean Financial Services Assurance Leader,
Malaysia Financial Services Assurance Leader
Ernst & Young PLT
Elevate the financial well-being of households and businesses

The Covid-19 pandemic and recent natural disasters have exacerbated the financial vulnerabilities of B40, and M40 households, and businesses, in particular the micro, small and medium enterprises (MSMEs). The FSB’s desired outcome is to provide these households and businesses with suitable and affordable financial services as well as empower them with the financial capabilities to make sound financial judgements.

To achieve the objectives, three strategies are recommended for adoption over the next five years:

2.1 Enhance the financial capability, access and effective usage of financial services

Equip consumers with improved financial capabilities
► Advance national collaboration on financial education initiatives (e.g. The Financial Education Network (FEN))
► Identify the annual KPI for the FEN Programmatic Roadmap
► Scale up targeted consumer engagement to elevate financial literacy and inclusion

Address inclusion gaps, focusing on take-up and the meaningful usage of financial services
► Preserve physical financial touchpoints until the necessary level of connectivity and digital literacy is achieved
► Expand the range of services of agent banks
► Explore greater interoperability between banks
► Increase the impact of DFIs in delivering their development mandates
► Digital banks to address the remaining market gaps
► Liberalize the policy on the establishment of physical branches for locally-incorporated foreign banks (LIFBs)
► Facilitate efforts to pilot and expand the use of behavioral analytics to engage out-of-reach communities
► Promote the wider adoption of financial inclusion KPI disclosure
► Promote more seamless data sharing for new financial inclusion opportunities through common standards - alternative credit scoring models; expanded offerings

2.2 Strengthen protection for households and business to build financial resilience

Expand market capacity to meet household and business protection needs against future risks
► Public-private partnerships to develop business risk transfer protection schemes
► Support the growth of diverse microinsurance and microtakaful markets (e.g., Perlindungan Tenang)

Strengthen efforts to address the pre-conditions for a sustainable protection landscape for key risks
► Advocate comprehensive social protection reforms
► Assist development efforts through gap assessment on Malaysia’s social protection framework
► Pursue further liberalization of the motor and fire tariffs to support an orderly transition to market-based pricing
► Address the long term sustainability and affordability of private medical and health insurance/takaful (MHIT)

Source:
► Financial Sector Blueprint 2022 - 2026, BNM
2.3 Shape a financial system that upholds fair and responsible dealings with financial consumers

Strengthen professional standards, incentive frameworks and disclosure practices

- Review existing regulatory requirements on the conduct of intermediaries to accommodate new digital business models
- Enhance the bancassurance / bancatakful policy framework to strengthen consumer safeguards
- Enhance professional qualifications and employee screening requirements
- Rationalize the regulation of insurance/takaful and capital market intermediaries with the SC
- Review and strengthen the incentive framework for insurance and takaful intermediaries
- Enhance effectiveness of product transparency and disclosure requirements
- Incorporate conduct risk assessments under the Composite Risk Rating (CRR) review process

Promote an enabling conduct environment for innovation and efficiency

- Outline the minimum parameters for conduct risk identification and mitigation for new business models
- Outline the guiding principles and regulatory expectations on the ethical use of emerging technology
- Effective implementation of the enhanced Reference Rate Framework (RRF) for a more competitive loan market
- Facilitate open and secure data sharing

Pursue regulatory reforms to strengthen the oversight of non-bank consumer credit providers

- Enact the proposed Consumer Credit Act (CCA) and set up the Consumer Credit Oversight Board (CCOB) to oversee consumer credit providers; ultimately transitioning all bank and non-bank credit providers under the various Ministries and agencies to an integrated structure
- Consolidate the Ombudsman for Financial Services (OFS) and the Securities Industry Dispute Resolution Center (SIDREC) to an integrated dispute resolution scheme that covers entities under BNM’s purview and capital market products, services and institutions

Note:

- Household financial well being refers to the ability to meet ongoing financial obligations, stay resilient to income shocks, achieve financial goals, and make financial decisions to improve overall quality of life
- Business financial well being refers to the ability to withstand unanticipated financial setbacks and capitalize on emerging opportunities to upscale and secure future growth
With evolving digital financial services and payment channels, the risk landscape is also reshaped. The key to transformation for Malaysia’s financial sector is to leverage on the benefits of digitalization, while managing the associated risks.

The FSB outlined the following measures to advance the digitalization of Malaysia’s financial sector:

### 3.1 Future-proof key digital infrastructure

Leverage key financial infrastructure for Malaysia’s broader digital ecosystem

- Modernization of the Real-Time Electronic Transfer of Funds and Securities Settlement (RENTAS) by reviewing the access model to include non-bank payment service providers
- Shared payment infrastructure including the adoption of common technical standards (ISO 20022, DuitNow QR)
- Enhance the efficiency of cross-border payments
- Intensify research and experimentation on the use of central bank digital currencies
- Coordinated collaboration with different government agencies and the private sector to establish a national digital identity
- Legislative and regulatory reforms to facilitate the end-to-end digitalization of business processes (use of digital and electronic signatures)
- Facilitate the accessibility and usage of digital financial services through speed, quality and affordable internet connectivity

### 3.2 Support a more vibrant digital financial services landscape

Enhance pathways for digital innovations to test, scale and exit

- Refresh the Regulatory Sandbox
- Advance “collaborative pilot” mechanisms (e.g., common open API standards)
- Smoothen the implementation of digital banking framework
- Finalize the regulatory framework for digital insurers and digital takaful operators in 2022
- Advocate and support the growth potential of the broader fintech ecosystem

Support industry-led strategies for digital payments adoption

- Industry-led approach to the development of digital payments - advance regulation for payment system operators (PSO), review existing regulatory policies on digital payment, pave the way for industry leadership and market dynamism (e.g., shareholding of PayNet)
- Support the national aspirations for digital payments under MyDigital (cashless payments)

Preserve effective oversight of digital business models

- Aim to preserve parity, proportionality and neutrality on digital business models
- Combine activity and entity-based approaches to regulation
- Focus on business continuity and the resolution framework
- Continuously develop and refine regulatory guidance on critical digital enablers
- Enhance inter-agency cooperation to better oversee emerging non-bank business models
- Ensure economic sectors are increasingly linked to financial services adhere to regulatory mandates that are closely intertwined with monetary and financial stability
3.3 Strengthen cyber security readiness and responsiveness

Strengthen system-wide cyber security oversight and capabilities

► Ensure the financial industry adheres to a strong set of minimum standards on cyber risk governance and management
► Intensify focus on cyber security issues arising from critical third party service providers (TPSPs)
► Develop the capacity to construct and maintain comprehensive cyber contagion maps of the financial industry
► Expand the scope and coverage of resilience measures (e.g., implementation of the cyber resilience maturity assessment (CRMA) framework, organize cyber drill exercises with other stakeholders and the Government and establish the Financial Sector Cyber Threat Intelligence Platform (FinTIP))

Strengthen domestic and global collaborative efforts on cyber security

► Support efforts in strengthening digital literacy and cyber hygiene practices
► Advocate greater standardization in cyber security and cyber resilience terminology
► Facilitate initiatives to deliver specialized cyber security training and certification

3.4 Support the greater use of technology for regulation and supervision

Leverage technology to further strengthen the Bank’s regulation and supervision of the financial industry

► Foster greater integration of risk analytics engines to support holistic surveillance across different datasets
► Streamline a more efficient regulatory and compliance process (e.g., a single applications and submissions interface with monitoring capabilities for all financial institutions)

Future-proof the Bank’s data strategy

► Gradually phase out manual or semi-automated data submissions and quality control processes and explore the use of an Application Programing Interface (APIs)
► Leverage the use of geospatial and other technologies to continuously enhance the granularity of data
► Enhance public access and portability to financial and economic data sets through Open Data initiatives

“Current innovations in digital banking, including open data, will steer banks to step up their collaboration with telcos, e-commerce players and payment channel providers, leading to the reshaping of the finance and funding ecosystem.”

Shankar Kanabiran
Malaysia Financial Services Consulting Leader
Ernst & Young Consulting Sdn Bhd
Facilitate an orderly transition to a greener economy

Recent natural disasters indicate that climate change risks are real and with significant materiality impacts. As such, the FSB aims to promote financial system resilience by improving climate-related and environmental risk management and supporting the transition to a low-carbon economy.

4.1 Integrate climate-related and environmental risks in prudential regulation and supervision

Ensure the effective implementation of the Climate Change and Principle-based Taxonomy (CCPT) to facilitate the assessment of climate-related risks and encourage financial flows towards environmentally sustainable economic activities

- Ensuring CCPT implementation in a consistent and credible manner
- Promote integration and alignment with the Value-based Intermediation Assessment Framework (VBIAF) and sectoral guides

Align the prudential and supervisory framework to incorporate climate and environmental risk considerations

- Strengthen supervisory expectations for financial institutions to identify, measure, monitor and manage exposure to climate and environmental risks
- Adjust prudential frameworks and requirements to increase resilience to climate and environmental risks
- Continue to support industry efforts to expand the availability of intermediate and advanced technical programmes on climate-related risks to strengthen the capabilities of professionals

Strengthen practices in the disclosure of climate risk by financial institutions

- Develop a clear roadmap for mandatory climate-related risk disclosures aligned with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD)

Pre-emptive and prudent climate change risk management is aimed at mitigating systemic risk to the financial sector if any sudden physical change (e.g., extreme weather events) or rapid transition to the low-carbon economy impacts the value of assets.

Lee Pei Yin
Malaysia Financial Accounting Advisory Services Leader
Ernst & Young PLT
4.2 Support an orderly transition to a low-carbon economy

Improve availability, access, and the use of data for tackling climate change and environmental degradation

➤ Facilitate the application of advanced digital tools to address the needs for accurate, granular and location-specific data
➤ Collaborate with the relevant players to identify critical data needs and create open access to relevant data sources

Scale up green finance for a more sustainable Malaysia

➤ Develop and expand specialized funding and risk mitigation mechanisms, (e.g., Low Carbon Transition Facility (LCTF) and Green Technology Financing Scheme (GTFC))
➤ Support efforts to develop carbon markets, including domestic emission trading scheme and voluntary carbon market

Collaborate with government agencies to align the financial sector’s response with the national strategy towards achieving carbon neutral and net-zero targets

➤ Ensure alignment with the national strategy set by the Malaysia Climate Action Council (MyCAC)
➤ Promote synergy between national and financial sector initiatives in high priority areas under the Malaysia sustainable finance roadmap

Represent emerging market perspectives on sustainable finance developments and challenges

➤ Accelerate capacity building initiatives on climate risks and sustainable finance through BNM’s membership in Network for Greening the Financial System (NGFS) and other international standard setting bodies and platforms
➤ Work closely with South East Asian Central Banks (SEACEN), the ASEAN Finance Ministers and Central Bank Governors to tackle common issues faced in climate and environmental risk management - including developing the ASEAN Green Map (a comprehensive and unified approach to address sustainability issues across the banking, insurance and capital markets)

4.3 Integrate climate risks in the Bank’s internal functions and operations

Enrich the scope of macroeconomic and financial stability assessments to include climate and sustainability effects

➤ Conduct climate risk stress tests for the financial industry by 2024; assessing the impact of climate change on the balance sheets of financial institutions over the next 30 years and estimating the potential financial losses
➤ Enhance surveillance and forecasting work to better understand the possible effects of climate change on key macroeconomic variables (e.g., transmission of physical and transition risks to the real sector)

Manage financial assets with greater consideration to climate and environmental risks

➤ Adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
➤ Incorporate climate and environmental risk considerations into portfolio management activities. Investment strategies will take into account ESG factors and the principles of Sustainable and Responsible Investment (SRI)

Run physical operations more sustainably

➤ Improve energy efficiency and move towards the principle of circularity in waste management
➤ Promote the issuance and usage of longer lifespan polymer banknotes
➤ Accelerate the adoption of e-payments
Advance value-based finance through Islamic finance leadership

The fifth thrust seeks to enhance and support Malaysia’s international standing in Islamic finance by leveraging on its sound and established Islamic finance ecosystem.

### 5.1 Sharpen Malaysia’s proposition as an international gateway for Islamic finance

**Strengthen gateway-critical capabilities in Malaysia’s Islamic financial industry**
- Support efforts to improve the Islamic financial industry’s global distribution capabilities, expand the Islamic Finance business footprint in other markets; ensure greater alignment with Islamic finance-related standards and practices.
- Promote greater visibility of Shariah Advisory and talent development institutions.
- Facilitate emerging Islamic financial innovations, including accelerating the scaling up of new products and services.
- Strengthen global partnerships to advance Islamic financial innovations beyond Malaysia’s borders.
- Support Malaysia as the preferred Islamic finance partner for halal industry growth.

**Promote greater industry leadership**
- Enhance Malaysia’s position as an Islamic fundraising and investment destination.
- Strengthen distribution capabilities and expand market access.
- Enhance the role of Islamic finance to support Malaysia’s national halal agenda.
- Sustaining Malaysia’s position as a leading knowledge center for Islamic finance globally.

**Facilitate further deepening of Malaysia’s Islamic financial and capital markets**
- Promote Malaysia as the center for origination, issuance, and trading for sukuk.
- Enhance best practices and standards in the Islamic money and capital markets.
- Review and improve the structure of Islamic instruments.

### 5.2 Strengthen the policy enablers of value-based finance for greater impact

**Develop a more conducive regulatory environment to facilitate the application of diverse Shariah contracts**
- Strengthen the Shariah regulatory framework.
- Explore the potential recalibration of existing regulatory requirements to cater to the broader application of ta’awun.

**Support the industry’s innovation efforts in developing new value-based business models, solutions, and practices**
- Leverage enhancements to the existing Regulatory Sandbox to better support innovations in value-based finance, such as novel applications in Shariah contracts.
- Support the further diversification of Investment Account (IA) offerings by Islamic banks.

**Facilitate greater stakeholder activism through higher quality disclosures**
- Facilitate improvements in the quality and usefulness of impact-based disclosures.

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**Note:**
1. Ta’awun refers to the cooperation among a group of individuals in a takaful fund to mutually aid each other to meet certain needs, as collectively agreed in a takaful contract.
5.3 Mainstream social finance

Elevate social finance as an integral part of the Islamic finance ecosystem reserve funding capacity in the long-term

- Support a range of finance models that promote impactful social outcomes
- Enable a conducive regulatory environment for diverse business models
- Develop better measures of value and impact in promoting the transparent disclosures of social finance

“The FSB aspires to promote Malaysia’s established Islamic finance ecosystem and drive global leadership in Islamic finance.”

Ahmad Qadri
Partner, Assurance
Ernst & Young PLT
In response to the FSB, Malaysian businesses and organizations will need to prioritize the following actions:

1. **Digitize now**
   - Scale-up investment into digital capabilities and tools
   - Leverage on digital capabilities to derive data insights

2. **Invest in future skillsets**
   - Identify future-ready talent and harness diverse skillsets for multi-competencies
   - Develop a dynamic learning infrastructure

3. **Collaborate across industries and capabilities**
   - Focus on building communities across industries and capabilities
   - Diversify to underserved segments and expand into new markets

4. **Manage transition risks for future sustainability**
   - Expand the risk universe to include emerging and sustainability risks\(^1\)
   - Address climate-related risks
   - Set ESG as a core strategy

Note:
\(^1\) Sustainability risks include the exposure to practices that negatively impact the environment and the people involved in the supply chain. Climate-related changes, water scarcities, food shortages, cyber attacks, diseases and poor labor conditions are some factors that increase sustainability risks.
EY thought leadership

How can regulation keep up as transformation races ahead?  
January 2022

Is your ESG data unlocking long-term value?  
November 2021

Is digital culture the key to unlocking finance transformation?  
February 2021

Climate change and sustainability: Global regulators step up the pace  
January 2021

How resiliency in risk management is the new top priority for banks  
June 2021

How can your workplace be as flexible as your workforce?  
December 2021

12th Malaysia Plan 2021-2025: Sector highlights

Malaysia Budget 2022

Re-modelling strategies with ESG

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FSB series: upcoming topics

► Advancing digitalization
► Greening finance
► Advancing value-based Islamic finance

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