

Malaysia Banking

POSITIVE

[Unchanged]

BNM's Financial Sector Blueprint 2022-2026

A holistic blueprint

BNM's Financial Sector Blueprint 2022-2026 is all-encompassing with five strategic thrusts that aim to broaden financial offerings to all, while supporting the country's high-income nation aspirations, promoting digitalization of the industry and promulgating sustainable/Islamic financing. We maintain a POSITIVE on the sector.

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Desired targets and outcomes by 2026

BNM's desired targets and outcomes by 2026 include a) increased digital offerings for customers with e-payment per capita increasing at a CAGR of >15%, b) strengthened financial safety nets particularly through increased insurance penetration rates of 4.8-5% of GDP, c) significant growth in alternative finance, d) deeper global integration across borders and Malaysia maintaining its global leadership in Islamic finance; and e) steady growth in green financing to more than 50% of new financing.

Five strategic thrusts for 2022-2026

BNM's five strategic thrusts for 2022-2026 are to a) fund Malaysia's economic transformation, b) elevate the financial well-being of households and businesses, c) advance digitalization of the financial sector, d) position the financial system to facilitate an orderly transition to a greener economy and e) advance value-based finance through Islamic finance leadership.

Promoting finance for all

Access to financing for all is an over-arching theme, in our view, be it to unserved or under-served consumers/SMEs. Measures include, among others, a) expanding the capacity of guarantee providers, b) strengthening the role of Development Financial Institutions (DFIs) to bridge financing gap (which includes a consolidation of the industry), c) facilitating "second chances" for non-viable borrowers eg by simplifying the insolvency regime for SMEs or removing existing foreign equity limit requirement for buyers of impaired assets, d) extending financing options to the under-served through digital banks and/or e) reinforcing the finance ecosystem for microenterprises.

Banking Sector - Peer Valuation Summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY 21E	PER (x) CY 22E	P/B (x) CY 21E	P/B (x) CY 22E	ROAE (%) CY 21E	ROAE (%) CY 22E	Net yield CY 21E	Net yield CY 22E
ABMB	BUY	3.29	3,697	3.25	11.3	9.7	0.8	0.8	7.1	8.0	3.3	4.1
AMMB	BUY	3.38	11,202	3.90	10.0	8.1	0.7	0.6	(0.3)	8.3	1.6	3.5
CIMB	HOLD	5.25	53,663	5.40	10.7	10.0	0.9	0.9	7.6	8.5	3.6	3.6
HL Bank	BUY	19.16	41,533	20.80	13.3	11.9	1.3	1.2	10.0	10.3	2.5	2.5
Maybank *	NR	8.25	97,998	NR	12.0	12.3	1.1	1.1	8.9	8.8	6.7	6.5
Public Bank	HOLD	4.19	81,331	4.10	14.3	14.4	1.6	1.5	11.8	11.1	3.6	3.6
RHB Bank	BUY	5.59	23,159	6.00	8.5	9.7	0.8	0.7	9.0	7.9	4.5	4.1
Simple avg			312,583		11.4	10.9	1.0	1.0	7.7	9.0	3.7	4.0
MC-wtd					12.2	12.0	1.2	1.1	9.2	9.4	4.4	4.4
BIMB	BUY	3.05	6,574	3.20	11.5	10.3	0.9	0.9	9.5	9.0	4.5	4.3
HLFG	BUY	18.48	21,206	20.55	9.5	9.0	0.9	0.8	9.7	9.5	2.6	3.2

* Consensus estimates Source: Maybank KE

Malaysia's financial development progress

Highlighting Malaysia's financial development progress over the past 10 years are some of the statistics below:

- 96% of customers have active deposit accounts (2011: 87%).
- 95% of sub-districts (with a population of at least 2,000 people) have access to financial services (2011: 46%).
- 45% of business financing is made to SMEs (2011: 39%). Of which 75% are to microenterprises.
- 41% share of total financing by the Islamic banking system (2011: 24%).
- 42% of adults own at least one life insurance policy or family takaful certificate (2014: 33%).
- 170 e-payment transactions made per capita (2011: 49)
- 14 countries host operations of Malaysian banks, whose overseas assets account for 25% of total assets).
- 5 new locally incorporated foreign banks with strong value propositions established since 2011.
- 42% share of global sukuk issuances by Malaysia.
- MYR6.6b e-remittance made, with lower costs and faster processing times.

BNM's regulatory focus for financial development

BNM's regulatory focus will be to:

- Foster market dynamism
- Support sustainable development objectives; and
- Remain anchored on its mandate to promote monetary and financial stability conducive for sustainable economic growth

<u>Regulatory focus</u>	<u>Description</u>
Fostering market dynamism	<ul style="list-style-type: none"> • Address undue barriers to market entry, while ensuring orderly exit. <ul style="list-style-type: none"> <i>Graduated entry pathways where a new entrant is gradually transitioned into the existing regulatory framework for incumbents.</i> <i>Facilitate the entry of new players that contribute towards addressing prevailing gaps such as in advancing greater financial inclusion.</i> <i>Promoting market participation in a way that serves the best interest of Malaysia.</i> • Promote 'co-opetition' efforts for critical ecosystem enablers. <ul style="list-style-type: none"> <i>Industry players pool resources to develop ecosystem enablers such as shared infrastructures. BNM will aim to facilitate collective actions among industry players.</i> <i>Promote open and interoperable design principles for key financial infrastructures such as to futureproof access to payment and settlement systems and to promote open data initiatives.</i> • Strengthen conditions for market discipline focusing on more empowered consumers. <ul style="list-style-type: none"> <i>Promote better informed decisions by financial consumers.</i>

Continue to collaborate with other stakeholders to explore ways to make it easier for consumers to change their financial service providers - namely, lowering “switching costs”.

Collaborate with the MOF and SC to pursue reforms to Malaysia’s legal and regulatory architecture for conduct oversight.

Support sustainable development objectives

- Mainstream value-based intermediation (VBI)

VBI emphasises the need for financial services to have a clear and distinct focus on generating a positive impact on the economy, community and environment.

- Address needs of the unserved and underserved

This was emphasised when the digital banking licensing framework was introduced.

Inclusive models for insurance/takaful, as well as social finance.

- Support greater climate resilience and a more environmentally sustainable growth model.

Enhance prudential frameworks and improve surveillance capabilities to better assess the complex implications of climate risk on the financial sector.

Consider opportunities for finance to play a catalytic role in supporting the transition to a low-carbon economy.

Promoting monetary and financial stability

- Ensure continued monetary policy efficacy.

The monetary framework, strategies and tools will be assessed to ensure that they can cater to megatrends pertaining to macroeconomic conditions, technological change, demographics and climate change, alongside the emergence of digital assets and currencies.

- Intensify efforts to safeguard resilience and integrity of the broader financial ecosystem.

BNM remains committed to continuously enhance its regulatory frameworks in line with international standards.

Desired outcomes and targets for 2026

BNM sets out three broad themes for 2026, being a) Finance for all, b) Finance for transformation and c) Finance for sustainability. The key targets and milestones are laid out below.

Three broad themes

Finance for all

- Diverse choices for customers, including 'digital first' solutions
- Strengthened financial safety nets
- Confident and capable financial consumers

Finance for transformation

- Growth in alternative finance
- Deeper global integration, with continued leadership as an international gateway for Islamic finance
- Vibrant and dynamic financial landscape

Finance for sustainability

- Wider adoption of value-based intermediation (VBI) to serve the economy, community and environment
- Steady progress in greening finance and financing green

Key targets and milestones

- Narrowing of gap between Malaysia's OECD/INFE (International Network on Financial Education) financial literacy scores and the average score of OECD members.
- Increase in e-payment per capita at CAGR of higher than 15%.
- Insurance/takaful penetration rate of 4.8-5.0% (as % of GDP).
- Doubling of number of individuals subscribed to microinsurance /microtakaful.
- Enactment of consumer credit law and oversight body.
- Single licensing regime for financial advisors and financial planners.
- Steady growth in alternative finance channelled to new, innovative enterprises.
- Faster, cheaper, more accessible cross-border payments.
- More than 50% of new financing is for green and transitioning activities.
- Steady growth in Value Based Intermediation (VBI)-aligned assets.

Five strategic thrusts

The Central Bank has also laid down five strategic thrusts (ST) for 2022-2026 and they are:

- Fund Malaysia's economic transformation
- Elevate the financial well-being of households and businesses
- Advance digitalization of the financial sector
- Position the financial system to facilitate an orderly transition to a greener economy
- Advance value-based finance through Islamic finance leadership

ST1: Fund Malaysia's Economic Transformation

Within this strategic thrust, there are 3 key strategies:

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

<u>Strategy</u>	<u>Description</u>
Sustain a strong economic recovery	<ul style="list-style-type: none"> • Strengthen counter-cyclical measures for continued access to financing. <ul style="list-style-type: none"> <i>Review the credit guarantee ecosystem to ensure that it supports financing, expanding the capacity of guarantee providers such as the Credit Guarantee Corporation and Syarikat Jaminan Pembiayaan Perniagaan (SJPP).</i> <i>Facilitate banks' access to a wider range of data sources on borrowers e.g. real-time payment information and analytical tools, to improve financing to target segments, especially to those with limited credit records.</i> <i>Strengthen the role of DFIs to bridge financing gaps: 1) Complete the restructuring/consolidation of the industry; 2) Build on the performance measurement framework for DFIs.</i> • Support measures for distressed borrowers to manage debt burden. <ul style="list-style-type: none"> <i>Will work with AKPK and banks to ensure an effective roll-out of repayment relief measures under the Financial Management and Resilience Programme (URUS) and the Financial Resilience Support Scheme (FIRST).</i> <i>Promote the offering of blended finance solutions to further catalyse the recovery of businesses. Blended finance instruments combine different sources of funds eg philanthropic funds and traditional bank financing, to lower finance costs for firms and reduce leverage.</i> • Facilitate "second chances" for non-viable borrowers. <ul style="list-style-type: none"> <i>Support efforts to simplify the insolvency regime for SMEs, especially microenterprises.</i>

- Enhance the regulatory framework that governs the disposal and purchase of impaired financing. Will seek to remove the existing foreign equity limit requirement for buyers to attract greater participation.*
- Facilitate transformation to a high-income nation
- Sustain and grow the alternative finance ecosystem and its supporting infrastructure.

Encourage FIs' exploration of social finance within their business models i.e. financial business that is focused on social outcomes and uses recognised instruments such as donations and cash waqf.

Work closely with relevant agencies to support efforts to expand the collateral base for SME financing, including the establishment of a centralised collateral registry. This registry will allow one-stop registration of all secured interest in assets to be pledged as collateral, which in turn, supports more reliable credit appraisals.

Work with CGC to increase the coverage and efficacy of referrals to alternative finance on the imSME platform. The imSME platform is an online SME financing and loan referral platform that matches SMEs to finance providers, including alternative finance lenders.

Advance alternative finance development including a) review of the taxation framework for alternative finance instruments, b) advancing a more conducive tax regime for leasing providers that reduces the tax burden on leasing companies, thus promoting the uptake of leasing among SMEs, c) support GLICS and DFIs in accelerating the holistic development of the alternative finance ecosystem, d) greater adoption of trade-based financing instruments, including supply chain financing programmes.
 - Strengthen the regulatory framework and collaboration to promote development of non-debt finance.

Explore measures to make it easier for banks to offer non-debt-based finance solutions, e.g. via equity-based solutions and through partnerships with other non-debt-based finance providers.

Work with the SC to develop a comprehensive domestic funding ecosystem.
 - Reinforce the finance ecosystem for microenterprises for sustainable and inclusive growth.

Review and improve the microfinancing ecosystem, including Skim Pembiayaan Mikro (SPM). SPM is a scheme that enables access to business financing of up to MYR50k, without collateral from participating banks.

Support programmes that go beyond finance to assist microenterprises to further move up the value chain.

Ensure post-pandemic resilience of financial intermediation role

- Preserve funding capacity in the long term

Improve crisis management responses

Promote greater offering of insurance and takaful solutions to mitigate risks e.g. a) facilitate the offering of trade credit protection solutions, b) encourage the offering of specialised insurance and takaful products, and c) work with the reinsurance and retakaful industry so that it supports the risk diversification needs of the domestic insurance and takaful market.

Enhance surveillance and promote stronger oversight arrangements for non-bank players.

- Strengthen vibrancy and resilience of financial markets to act as an absorber of risk.

Enhance the breadth and depth of the financial market.

Preserve Malaysia's leadership in Islamic finance by deepening the Islamic money and capital markets.

Strengthen integrity and professionalism in the financial market by upholding the highest standards and practices.

ST2: Elevate the financial well-being of households and businesses

Within this strategic thrust, there are 3 key strategies:

- Enhance financial capability and access, as well as effective usage of financial services towards greater financial inclusion
- Strengthen protection for households and business to build financial resilience
- Shape a financial system that upholds fair and responsible dealings with financial consumers

<u>Strategy</u>	<u>Description</u>
Enhance financial capability and access, as well as effective usage of financial services towards greater financial inclusion	<ul style="list-style-type: none"> • Equip consumers with improved financial capabilities. <p><i>Advance national collaboration on financial education initiatives.</i></p> <p>Address remaining inclusion gaps, focusing on take-up and meaningful usage of financial services, especially for the unserved and underserved segments.</p> <p>Strengthen the role of agent banks and Mobile Banks.</p> <p>Improve outreach to the “last mile” unbanked population - a) increase the impact of DFIs in delivering their developmental mandates, b) ensure that digital banks address remaining market gaps, c) liberalise the policy on the establishment of physical branches for locally-incorporated foreign banks, d) pilot the use of behavioural analytics to engage out-of-reach communities.</p> <p>Promote wider adoption of financial inclusion KPI disclosures by FIs.</p> <p>Promote more seamless data sharing across the financial sector.</p>
Strengthen protection for households and business to build financial resilience	<ul style="list-style-type: none"> • Expand market capacity to meet household and business protection needs against future risks. <p>Explore public-private partnerships to develop business risk transfer protection schemes against high-risk, large-scale perils.</p> <p>Support the growth of a diverse microinsurance and microtakaful market.</p> <ul style="list-style-type: none"> • Strengthen efforts to address pre-conditions for a sustainable protection landscape for key risks. <p>Advocate and support comprehensive social protection reforms by the Government.</p> <p>Pursue further liberalisation of the motor and fire tariffs, while ensuring basic motor protection cover remains accessible to all consumer segments.</p>

<p>Shape a financial system that upholds fair and responsible dealings with financial consumers</p>	<p>Address the long-term sustainability and affordability of private medical and health insurance/takaful cover - minimise information asymmetry, align stakeholders' incentives, holistic healthcare and regulatory reforms, cultivate individual responsibility, technology as catalyst of change.</p> <ul style="list-style-type: none"> • Strengthen professional standards, incentive frameworks and disclosure practices. <p>Review existing regulatory requirements on the conduct of intermediaries.</p> <p>Enhance the bancassurance/bancatakaful policy framework.</p> <p>Enhance the effectiveness of product transparency and disclosure requirements.</p> <p>Conduct risk assessments as a key component of supervisory engagements with FIs under the Composite Risk Rating review process.</p> <ul style="list-style-type: none"> • Promote an enabling conduct environment for innovation and efficiency. <p>Outline minimum parameters for conduct risk identification and mitigation.</p> <p>Outline guiding principles and regulatory expectations on the ethical use of emerging technology.</p> <p>Facilitate greater ease of product comparison, portability and innovative product offerings by financial services providers.</p> <ul style="list-style-type: none"> • Pursue regulatory reforms to strengthen the oversight of non-bank consumer credit providers and promote consistent consumer protection. • Work with the MOF and the SC to reform the conduct regulatory architecture eg enactment of the proposed Consumer Credit Act, while the OFS and the Securities Industry Dispute Resolution Centre will be consolidated.
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ST3: Advance digitalisation of the financial sector

Within this strategic thrust, there are 4 key strategies:

- Futureproof key digital infrastructures
- Support a more vibrant digital financial services landscape
- Strengthen cyber security readiness and responsiveness
- Support greater use of technology for regulation and supervision

<u>Strategy</u>	<u>Description</u>
Futureproof key digital infrastructures	<ul style="list-style-type: none"> • Leverage key financial infrastructures for Malaysia's broader digital ecosystem. <p>Futureproof Malaysia's payment systems especially real time payment infrastructures, focusing on a) modernising the Real-Time Electronic Transfer of Funds and Securities Settlement (RENTAS), enabling shared payment infrastructures in Malaysia's payments ecosystem and intensifying efforts to enhance cross-border payments efficiency.</p> <ul style="list-style-type: none"> • Advance the development of an open data ecosystem that is fit for the future. <p>Develop common standards for data sharing in the financial sector, particularly for high-impact use cases.</p> <p>Continuously review the data governance framework for the financial sector.</p> <p>Enable broader arrangements for more open and secure data sharing.</p>
Support a more vibrant digital financial services landscape	<ul style="list-style-type: none"> • Enhance pathways for digital innovations to test, scale and exit. <p>Refresh its Regulatory Sandbox and look to advance "collaborative pilot" mechanisms for areas where digital transformation is needed.</p> <p>Facilitate greater digitalisation of business models in financial services.</p> <p>Advocate and support the growth potential of Malaysia's broader fintech ecosystem.</p> <ul style="list-style-type: none"> • Support industry-led strategies for digital payments adoption. <p>Advance an industry-led approach to digital payments development.</p> <p>Supportive of the broader national aspirations for digital payments under MyDigital.</p> <ul style="list-style-type: none"> • Preserve effective oversight of evolving digital business models. <p>Continuously refine and adapt financial sector policies on digital business models to ensure that risks are managed effectively.</p> <p>Enhance inter-agency cooperation to better oversee emerging non-bank business models.</p>

- Strengthen cyber security readiness and responsiveness
 - Strengthen system-wide cyber security oversight and capabilities.
 - Strengthen domestic and global collaborative efforts on cyber security.
- Support greater use of technology for regulation and supervision
 - Leverage technology to further strengthen the Central Bank’s regulation and supervision of the financial industry.
 - Futureproof the Central Bank’s data strategy.

ST4: Position the financial system to facilitate an orderly transition to a greener economy

Within this strategic thrust, there are 3 key strategies:

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

<u>Strategy</u>	<u>Description</u>
Integrate climate-related and environmental risks in prudential regulation and supervision	<ul style="list-style-type: none"> • Ensure 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. • Align the prudential and supervisory framework to incorporate climate and environmental risk considerations. • Strengthen practices in the disclosure of climate risk by financial institutions.
Support orderly transition to a low-carbon economy	<ul style="list-style-type: none"> • Improve availability, access, and use of data for tackling climate change and environmental degradation. • Scale up green finance for a more sustainable Malaysia. • Collaborate with government agencies to align the financial sector’s response with the national strategy towards achieving carbon neutral and net-zero targets. • Represent emerging market perspectives on sustainable finance developments and challenges.
Integrate climate risks in the Central Bank’s internal functions and operations	<ul style="list-style-type: none"> • Enrich the scope of its macroeconomic and financial stability assessments to include climate and sustainability effects. • Manage its financial assets with greater consideration to climate and environmental risk. • Run its physical operations more sustainably.

ST5: Advance value-based finance through Islamic finance leadership

Within this strategic thrust, there are 3 key strategies:

- Sharpen Malaysia's proposition as an international gateway for Islamic finance.
- Strengthen policy enablers of value-based finance for greater impact.
- Mainstream social finance.

<u>Strategy</u>	<u>Description</u>
Sharpen Malaysia's proposition as an international gateway for Islamic finance	<ul style="list-style-type: none"> • Strengthen gateway-critical capabilities in Malaysia's Islamic financial industry. <i>Support efforts to improve the Islamic financial industry's global distribution capabilities e.g. by facilitating expansion of FIs Islamic financial footprint in other markets or promoting greater alignment of Islamic finance-related standards and practices.</i> • Promote greater industry leadership. • Facilitate further deepening of Malaysia's Islamic financial and capital markets.
Strengthen policy enablers of value-based finance for greater impact	<ul style="list-style-type: none"> • Develop a more conducive regulatory environment to facilitate the application of diverse Shariah contracts. • Support the industry's innovation efforts in developing new value-based business models, solutions, and practices. <i>Support further diversification of Investment Account offerings by Islamic banks.</i> • Facilitate greater stakeholder activism through higher quality disclosures.
Mainstream social finance	<ul style="list-style-type: none"> • Elevate social finance as an integral part of the Islamic finance ecosystem.

Risk statement

Upside risks: (i) Stronger-than-expected GDP growth, which would contribute to stronger loan growth and lower credit risks; as well as (ii) improved liquidity, which would help to sustain interest margins.

Downside risks: (i) Weaker-than-expected GDP growth, which could lead to slower loan growth and asset-quality issues; (ii) potential interest rate cuts that could negatively impact interest margins in the short term; and (iii) a slowdown in CASA growth, which could exacerbate deposit competition.

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