



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# Annual Report **2024**

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**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# Statutory Requirements

In accordance with section 13 of the Central Bank of Malaysia Act 2009, Bank Negara Malaysia hereby publishes and has transmitted to the Minister of Finance a copy of this Annual Report 2024 together with a copy of its Financial Statements for the year ended 31 December 2024, which have been examined and certified by the Auditor General. The Financial Statements will also be published in the Gazette.

For the purposes of section 115 of the Development Financial Institutions Act 2002, the annual report on the administration of the Development Financial Institutions Act 2002 and other related matters for the year ended 31 December 2024 is incorporated in this Annual Report.

**Abdul Rasheed Ghaffour**

Chairperson  
Board of Directors  
24 March 2025





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## **Abdul Rasheed Ghaffour**

Governor, Bank Negara Malaysia

# **Foreword**

The Malaysian economy registered commendable growth in 2024, along with moderate inflation. This was achieved despite significant challenges and opportunities, and continued episodes of heightened global financial market volatility throughout the year. These were influenced by shifting expectations on movements in global interest rates, lingering concerns over inflationary pressures and intensification of geopolitical tensions. Naturally, these global developments have had spillovers to Malaysia. However, having entered this episode from a position of strength, the economy was able to absorb these shocks. The impact on domestic economic and financial conditions have been contained. This has also enabled Malaysia to continue advancing critical structural reforms to fortify its resilience and lift its prospects.

Bank Negara Malaysia (BNM) remained steadfast in discharging its role to promote monetary and financial stability conducive to sustainable growth. The Monetary Policy Committee (MPC) centred its deliberations around the prospects of growth and inflation, in an environment of policy reforms undertaken by the Government. Taking all these into consideration, the MPC kept the OPR unchanged throughout the year, assessing that the monetary policy stance remains supportive of the economy.

The ringgit saw heightened volatility throughout the year, driven by global developments. This is consistent with trends of other currencies. BNM remained focused in ensuring sufficient liquidity and orderly functioning of the financial markets. Such conditions are crucial so that businesses are able to meet all their foreign currency needs. Coordinated actions with the Government since February 2024 also promoted more balanced two-way flows in the domestic foreign exchange market. As global uncertainties receded and investor confidence on Malaysia's prospects grew, the ringgit ended the year stronger. The ringgit ended the year 2.7% higher against the US dollar, and 7.5% higher against our major trading partners more generally.

Encouragingly, 2024 also saw investments approved in Malaysia reach record high, with multi-year private and public sector projects also making good progress. What is important is that the current upcycle is driven by quality investments by both domestic and foreign parties, in line with the National Investment Aspirations. With these aspirations well considered and integrated in the design of national strategies – including the New Industrial Master Plan, the National Energy Transition Roadmap and the National Semiconductor Strategy – we believe that these high-value investments have the potential to yield favourable returns for many years to come. This would catalyse a virtuous cycle, with the promise of more inclusive and sustainable growth, including through higher paying jobs for Malaysians and transforming Malaysia into a high-income nation.

Notably, optimism in Malaysia's longer term growth prospects also improved on the back of the Government's commitment to reforms. The Government's continued focus to optimise expenditure through subsidy rationalisation is an important step in strengthening Malaysia's fiscal position. Beyond fiscal discipline, initiatives to strengthen industrial policy and climate resilience underscore Malaysia's ability to continue reforming and reinventing itself and will further lift Malaysia's future growth potential. Consistent with our mandate, BNM will continue to support and advise the Government in this effort to advance Malaysia forward. Going forward, the launched Invest Malaysia portal will serve as a platform for investors to have easier access to information on investable opportunities in Malaysia.

The financial sector has continued to meet the needs and demands of Malaysia's economic development. Significantly, the financial sector continues to step up efforts to embrace digitalisation, accelerate value-based finance, and advance financial wellbeing of Malaysians. At the time of writing, three digital bank applicants have begun operations. The remaining two digital banks have been issued licenses and will start offering financial products to the public in phases. This year, we will open the window for interested parties to apply for digital insurance and takaful licenses. Further progress was made in our efforts to combat financial scams. The National Fraud Portal launched in 2024 significantly improves the effectiveness of the National Scam Response Centre, allowing for quicker tracking of stolen funds, and thus increasing the prospect of fund recovery. In 2024, we made significant inroads in expanding cross-border payments. This includes further advancing Project Nexus – a coordinated regional effort to improve the speed, cost, transparency of and access to cross-border payments.

In making further progress in value-based finance, we are cultivating a more inclusive and sustainable financial system. Social finance continued to be scaled up through iTEKAD, the umbrella programme to assist low-income microentrepreneurs. To date, around 10,000 participants have benefitted, with many now transitioning from being zakat recipients to zakat contributors and becoming job creators within their local communities. On Islamic finance, I am proud to share that Malaysia continues to be recognised globally as having the most comprehensive ecosystem. I am confident that Malaysia's position and strength in advancing innovation and impact outcomes through Islamic finance instruments can be leveraged upon to further advance outcomes to realise a more dynamic, inclusive and sustainable development path, both domestically and globally. Aligned with the MIFC agenda, we aspire to strengthen international linkages and cooperation for Islamic finance, as currently being undertaken by BNM and through the MIFC Leadership Council (MLC). On green financing, we see growing demand and uptake of funds made under our Low Carbon Transition Facility and High Tech and Green Facility. Similarly, we saw further progress in the Greening Value Chain programme with over 150 SMEs having begun reporting emissions data. We are also encouraged to share that financial institutions are increasing their offering of green and transition related financing and solutions. These point towards the financial sector making steady progress in supporting Malaysia's orderly transition to a greener economy.

Headway was also made in advancing financial wellbeing. The tabling of the Consumer Credit Bill in Parliament this year and the subsequent formation of the Consumer Credit Commission will mark a new chapter in transforming the consumer credit regulatory landscape. In parallel, initiatives continue to progress to enhance and uplift financial literacy and capacity of the public. Findings from the Financial Capability and Inclusion Demand Side Survey 2024 highlight the urgent need to accelerate efforts to strengthen financial behaviours and attitudes given contemporary trends, including the growing use of digital financial services and continued cost of living challenges. We will draw on these insights to chart out the next chapter in our efforts to elevate financial literacy, including through the Financial Education Network's Second National Strategy for Financial Literacy.

The year also saw BNM and the financial industry work on efforts to promote the long-term sustainability and affordability of private medical and health insurance/takaful (MHIT). Notwithstanding the challenges involved in this endeavour,



renewed and sharpened attention on this matter has drawn focus of key stakeholders to address the root causes of elevated medical cost inflation. Indeed, this is a complex problem that requires the concerted action of all stakeholders across the healthcare ecosystem – including the Ministry of Health, private healthcare providers, as well as the insurance and takaful industry. I believe that through open and frank dialogue, as well as the willingness and strong resolve to act, we can collectively arrive at a feasible and sustainable solution to this complex and long-standing issue.

In tandem with efforts to build resilience and preserve the stability of the financial sector, BNM also continued to deliver a thorough regulatory and supervisory work programme. Efforts are underway to increase the financial sector's state of preparedness to manage crises. These include measures to affirm the resilience of Malaysia's financial market infrastructure. These are on top of efforts to preserve and strengthen the capital and liquidity positions of financial institutions. We have also continued to make steady progress in integrating climate-related risks into prudential regulation and supervision.

Looking ahead, the global economic and financial environment is subject to considerable uncertainties. These mainly reflect unfolding geopolitical developments surrounding both trade and non-trade restrictions. As a small and open economy, Malaysia is not insulated from these global developments.

Notwithstanding, our diversified economic structure and wide array of policies accords us the resilience and agility to navigate these headwinds. We are confident that the Malaysian economy will remain on a steady growth path, with inflationary pressures to remain broadly manageable. BNM is committed to ensure a stable macroeconomic and financial environment and will continue to ensure that its monetary policy framework remains relevant and effective against an evolving operating landscape. This serves to create a conducive backdrop for Malaysia to double down on its reform efforts to build a stronger economy for the future. With further inroads made on fiscal reforms, this allows for resources to be freed up for investments to strengthen social protection, education, and healthcare infrastructure, among others – reforms which will generate long-term dividends and secure sustainable and inclusive growth for future generations of Malaysians.

With Malaysia chairing ASEAN in 2025, the year presents the opportunity for the country to meaningfully contribute at the regional and global level. Against an increasingly polarised world, ASEAN's progressive and pragmatic path towards greater regional integration stands out. On our part, BNM will champion initiatives to advance the region's payments connectivity, sustainable finance, and regional safety nets.

While uncertainties remain on the global horizon, BNM will continue to faithfully discharge our mandate and build the trust of the rakyat. Joining me in this effort are my dedicated colleagues whose hard work and perseverance have enabled BNM to consistently deliver on our mandates, even in the face of challenges. On behalf of the Board and Management, I want to express my deep and sincere gratitude to all staff for their unwavering support and professionalism. Strengthening its core values of integrity, collaboration, diversity, and excellence continues to be a top priority of BNM, underpinned by our culture transformation journey. This is key to build and sustain a healthy workforce, which is BNM's most important asset. Complementing such efforts are initiatives to modernise our infrastructure, systems, and processes. We are also working hard to adopt more sustainable, climate resilient practices as an organisation and are proud to include our inaugural Scope 1 and 2 emissions disclosure in this year's report. This paves the way for our transition towards becoming a net zero organisation, in line with Malaysia's net zero aspirations.

I would also like to extend my gratitude to the Board of Directors for their invaluable support. With their guidance, BNM will continue to deliver the mandates entrusted upon our institution by the Malaysian public with uncompromising standards of professionalism and integrity – for the benefit of the people and the nation, for many generations to come.



**Abdul Rasheed Ghaffour**



## Our Role

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# Our Role





# Our Role

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

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

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

BNM plays a key role in promoting a progressive and inclusive financial system. This takes into account the changing needs of the Malaysian economy and its

people, and the central role of finance in the nation's economic and social progress. Our pursuit to develop and deepen both the conventional and Islamic financial system also recognises that a well-developed financial system is one that can help absorb shocks, and therefore contributes to the country's resilience.

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

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

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

# Promoting Monetary Stability

Bank Negara Malaysia's Monetary Policy Committee (MPC) is responsible for setting monetary policy in Malaysia to maintain price stability while giving due regard to economic developments.<sup>1</sup> To achieve this goal, the MPC meets at least six times a year to regularly assess Malaysia's economic and inflation prospects, and decide on the Overnight Policy Rate (OPR).

## Monetary Policy in 2024

The global economy held steady in 2024 despite concerns of a global economic slowdown earlier in the year. These initial concerns arose from the accelerated monetary policy tightening undertaken by central banks the year before, coupled with the economic implications of keeping interest rates higher for longer to control inflation. However, throughout the year, economic activity was supported by resilient labour market conditions, moderating inflation and global monetary policy easing. Global trade also rebounded in line with stronger demand. The recovery, however, was not without its challenges. An escalation in military conflict in the Middle East, for example, led to on-and-off episodes of shipping disruptions. Nevertheless, the global technology upcycle, which drove demand for semiconductors and other electrical and electronic (E&E) goods, growth in non-E&E segments<sup>2</sup> and rising tourism activity supported global trade.

As the effects of previously tight monetary policy took hold, many countries achieved significant progress in driving down inflation in 2024, although at a different pace. The decline in global commodity prices and improving supply chain conditions also contributed towards lower global inflation. This provided space for major central banks to ease monetary policy throughout 2024, including the US. As a result, global financial conditions began loosening towards the second half of 2024. At the same time, however, global financial markets also experienced high volatility throughout the year. This was mainly due to shifting investor expectations on the magnitude and timing of US policy rate cuts.<sup>3</sup> There were also uncertainties surrounding China's economic prospects and the outcome of the US elections, as well as ongoing geopolitical concerns, which led to periods of tightening pressure on global financial conditions. These factors, in turn, impacted emerging market currencies, including the ringgit.

Despite challenges from the global macroeconomic environment, Malaysia's economy performed well in 2024. The economy recorded a stronger growth, expanding by 5.1% (2023: 3.6%) on the back of robust domestic demand with strong investments, as well as a rebound in exports. Malaysia's sound financial system also provided a strong buffer against the effects of volatile global financial markets. This ensured that domestic financial conditions remained conducive to financial intermediation, with sustained credit growth supporting the economy.

Positive labour market conditions amid continued employment and wage growth provided underlying support to resilient household spending. An improvement in household wealth, along with policy measures such as targeted cash transfers,<sup>4</sup> also provided an additional lift to private consumption. 2024 marked a further advancement of an investment upcycle in Malaysia as the economy

<sup>1</sup> More information on Malaysia's monetary policy and the MPC can be found in the 'Governance' chapter of this report and in the 'Monetary Stability' section of the BNM's website (<https://www.bnm.gov.my/monetary-stability>).

<sup>2</sup> Non-E&E segments, such as machinery and equipment (M&E), benefited from increased investment in emerging areas such as digitalisation and green energy.

<sup>3</sup> At the start of the year, financial market participants anticipated the US Federal Reserve (Fed) to significantly ease its monetary policy stance. However, the persistently elevated inflation in the US led to delayed policy rate cuts by the Fed compared to financial markets' initial expectations.

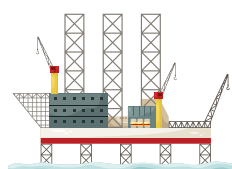
<sup>4</sup> These measures included the Sumbangan Tunai Rahmah (targeted cash transfers for lower income groups), Employees Provident Fund (EPF)-related measures, and early incentive payments to civil servants and pensioners, which supported household spending in 2024.

experienced a significant boost in investments across both private and public sectors. The country's expansion in semiconductor manufacturing and rise as a data centre hub in Southeast Asia spurred investment projects in the E&E and information and communications technology (ICT) sub-sectors. Further, ongoing multi-year private and public sector projects continued to progress well during the year.

### Diagram 1: Investment Upcycles in Malaysia



**1988–97**  
Transitioning to a  
manufacturing-driven  
economy



**2011–15**  
Strong expansion in oil  
and gas activity, as well as  
property market boom



**2023–current**  
Higher-value investments  
driven by the ICT and  
E&E sector

**Did you know?** Investment upcycles are associated with faster output growth and can be an important driver of economic transformation for Malaysia. Read our Box Article titled 'Deciphering Investment Cycles in Malaysia' in the Economic and Monetary Review 2024 for more information.

Source: Bank Negara Malaysia

Malaysia's exports rebounded in 2024, in line with improved global trade activity. Malaysia's well-established position in the global semiconductor supply chain, along with the global technology upcycle, helped to lift the E&E exports. Stronger investment activities in regional countries also increased demand for Malaysia's non-E&E exports. Additionally, increased flight capacity and visa exemption measures by Malaysia<sup>5</sup> supported the continued increase in tourist arrivals and spending. This further lifted Malaysia's economic performance for the year.

Domestic inflation moderated in 2024 against a backdrop of easing global cost conditions and the absence of excessive demand pressures. Both headline and core

inflation averaged 1.8% for the year (2023: 2.5% and 3% respectively). Early in the year, cost pressures emerged from external developments, such as global supply chain disruptions and a stronger US dollar against the ringgit. However, these cost pressures subsequently receded as a result of declining global commodity prices, improvement in global supply chain conditions, and the ringgit's appreciation against major currencies. Although domestic demand grew stronger, household spending stayed below trend, indicating the absence of excessive demand pressures.

Several domestic policy reforms were steadily rolled out by the Government during the year. These included higher water tariff rates, adjustments to the Sales and Services Tax (SST),<sup>6</sup> and the implementation of targeted subsidies for diesel. These adjustments led to some upward price pressures for certain categories of consumer goods and services. However, this was offset by broader declines in inflation across other segments, in particular, food and non-alcoholic beverages. Further, the mitigation and enforcement measures put in place minimised the spillover impact on the prices of other goods and services. For instance, public transport operators and businesses involved in goods transportation were able to continue accessing subsidised diesel which limited the cost impact on businesses. As a result, the overall effects of these policy adjustments on inflation remained contained.

The MPC kept the OPR unchanged for the year at 3.00%, where it had stayed since May 2023. While many central banks globally carried out monetary policy easing in 2024, the outlook of Malaysia's inflation and economy did not call for the same response. The reopening of economies post-COVID-19 crisis saw a recovery in demand, resulting in significant inflationary pressures globally. This prompted many central banks to tighten their monetary policies considerably throughout 2022 and 2023 to manage elevated inflation, following sizeable monetary policy easing to support the economy during the pandemic. Relative to other countries, Malaysia experienced inflationary pressures to a lesser degree. The extent of our monetary policy easing during the COVID-19 crisis was not as large<sup>7</sup> and the scale of our fiscal support was relatively more moderate. Once the domestic economy was on firmer footing, Malaysia adopted a pre-emptive and more

<sup>5</sup> Malaysia removed visa requirements for travellers from China and India for stays up to 30 days, from 1 December 2023 until 31 December 2024. The initiative was subsequently extended until 31 December 2026.

<sup>6</sup> In 2024, the SST rate was increased from 6% to 8% for selected services including accommodation, professional services, and digital services. Other services such as food and beverage, and telecommunications were kept at 6% SST rate. The scope of taxable services was also expanded to include logistics services and entertainment.

<sup>7</sup> The MPC lowered the OPR by a total of 125 basis points in 2020 to provide support to the domestic economy during the COVID-19 crisis. More information on the MPC's considerations in 2020 is available in BNM Annual Report 2020.

## Diagram 2: Let's Talk About Inflation

**Headline inflation** measures the overall inflation in an economy. It is based on the Consumer Price Index (CPI), which is computed by the Department of Statistics Malaysia (DOSM), and tracks changes in the prices of a fixed basket of goods and services over time. The CPI basket reflects the average spending patterns of Malaysian households and includes essential items like food and energy, which tend to experience short-term price fluctuations.

**Core inflation** is a measure of the underlying trend in price changes. In Malaysia, core inflation is estimated by excluding price-volatile items (e.g. fresh meat, vegetables and eggs) and price-administered items (e.g. electricity, road tolls and sugar). By excluding items of which price fluctuations are deemed transitory, core inflation better captures the more persistent trend of inflation which matters for monetary policy considerations.



Source: Bank Negara Malaysia

gradual approach of raising the OPR in line with improving demand conditions.<sup>8</sup> This measured approach preserved supportive conditions for domestic economic activity while keeping inflation in check, including through 2024.

In 2024, the MPC focused on assessing the potential impact of supply shocks<sup>9</sup> from external disruptions and domestic policy reforms on the broader economy. As monetary policy is a demand management tool, it has limited direct influence in addressing these supply shocks. Further, it takes time for any impact from OPR changes to work its way through the economy. To safeguard Malaysia's medium-term prospects for price stability and sustainable growth, the MPC carefully assessed the potential short- and longer-term effects of these shocks on inflation and growth. This involved vigilantly monitoring risks of supply-driven price increases becoming pervasive and persistent. This can happen especially if supply shocks are paired with excessive demand and unanchored inflation expectations.<sup>10</sup> Early signs of widespread and persistent price increases, if left unchecked, could lead to high and more prolonged inflation. Such a situation would be damaging to the welfare of all Malaysians, especially those from lower-income households. High inflation erodes people's purchasing power and savings, especially affecting those in the lower-income group. It is also detrimental for businesses as they face increased costs

to produce goods and provide services, or lower sales due to reduced demand. These factors would then lead to slower economic activity and growth.

As a whole, the assessment pointed to a limited impact of supply shocks on inflation in 2024. Relative price changes arising from the domestic policy reforms were assessed to be contained, with effective measures implemented limiting the impact on business costs. Global cost pressures early in the year also eased, which meant lower pressures on firms' production costs. Further, amid an absence of excessive domestic demand and unanchored inflation expectations, the MPC observed limited signs of excessive spending, borrowing and risk-taking behaviour by households and businesses. The robust demand during the year was also driven by stronger investment activity, which will support an expansion of Malaysia's productive capacity. This means more goods and services can be produced over time to meet future demand without generating excessive price pressures. Taking all these together, there was no evidence that price increases were pervasive and persistent in the prevailing environment. As such, the MPC was able to look through these supply shocks without having to adjust the OPR. Overall, monetary policy continued to be supportive of economic growth in 2024.

At the prevailing level of OPR, domestic monetary conditions remained conducive to the economy. Credit conditions supported household and business financing needs. Lending rates also remained broadly stable. BNM's monetary operations focused on ensuring sufficient liquidity in the banking system. This ensured the orderly functioning of domestic financial markets and financial intermediation in the economy.<sup>11</sup>

<sup>8</sup> Between May 2022 and May 2023, the MPC increased the OPR by a total of 125 basis points through five 25-basis point adjustments, bringing it from 1.75% to 3.00%. More information on the MPC's considerations during this period is available in BNM Annual Report 2022 and BNM Annual Report 2023.

<sup>9</sup> Further discussion on supply shocks can be found in the BNM Economic and Monetary Review 2024 Box Article titled 'Supply Shocks and Implications for Monetary Policy'.

<sup>10</sup> Inflation expectations can influence price- and wage-setting behaviours which could affect actual inflation outcomes. For example, when expectations are unanchored in a high inflation environment, firms would expect prices, including the costs of their inputs, to keep rising, thus leading them to increase the prices of goods and services at a faster rate. At the same time, workers may demand higher wages due to their expected loss of purchasing power. As a result, these behaviours can further contribute to higher actual inflation, making the initial expectations on inflation self-fulfilling.

<sup>11</sup> BNM conducts monetary operations using a range of instruments. More information on the various instruments used can be found in the 'Monetary Operations' section of the BNM's website (<https://www.bnm.gov.my/web/guest/overview>).

**Diagram 3: 2024 Key Domestic Figures at a Glance**



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

## The Ringgit Exchange Rate

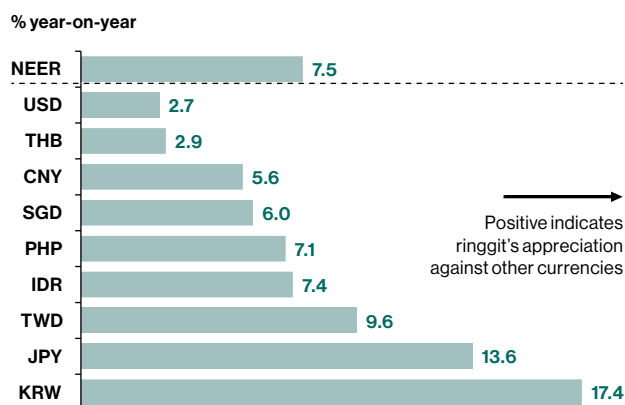
As with the year before, the ringgit's performance in 2024 continued to be driven mainly by external factors.<sup>12</sup> In the first half of the year, the ringgit, alongside many other regional currencies, faced depreciation pressures against the US dollar. Initial uncertainty on the Fed's interest rate decisions and a delay in the US rate cuts resulted in a stronger US dollar, as investors continued to favour US dollar-denominated assets. This was because interest rates in the US were higher than the prevailing interest rates in many countries, including Malaysia, which provided investors with better returns. Escalations in geopolitical tensions also led to financial market participants' preference for holding the US dollar, which is typically seen as a 'safe asset' during times of uncertainty.

During this period, the Government together with BNM took coordinated actions to manage downward pressures on the ringgit. Efforts were aimed at encouraging more consistent repatriation and conversion of foreign earnings

by corporates and investors. These collective actions contributed to more consistent inflows and helped ease the pressure on the ringgit.

As the year progressed, financial market expectations grew for the Fed to begin lowering policy rates. The Fed's eventual decision to cut its policy rate in September 2024 led to a narrowing difference in interest rates between the US and the rest of the world. These factors led to capital inflows into emerging markets as investors searched for higher returns. Following this, the US dollar weakened against major and emerging market currencies. The ringgit rebounded against the US dollar as a result. At the same time, investor optimism on Malaysia's positive economic prospects further supported the currency. While depreciation pressures re-emerged later in the year due to uncertainties surrounding the US elections, the ringgit recorded an overall appreciation against the US dollar and other major economies in 2024 (see Chart 1). In the longer term, the ongoing domestic structural reforms are expected to bring more investment flows into Malaysia. This will effectively provide more enduring support for the ringgit.

**Chart 1: Performance of the Ringgit Against Other Selected Major and Regional Currencies in 2024**



Note: NEER refers to the ringgit nominal effective exchange rate. It is an index measuring the ringgit's performance against the currencies of Malaysia's major trading partners. As a net exporting economy that has key relationships with many countries, this is often a better measure of general trends in the exchange rate rather than any one bilateral exchange rate (e.g. ringgit against the USD) to gauge the relative competitiveness of Malaysian exports against main trade partners.

Source: Bank Negara Malaysia. Exchange rates used here are the average of buying and selling rates at noon in the Kuala Lumpur Interbank Foreign Exchange Market.

<sup>12</sup> More information on the drivers of the ringgit, including short-term fluctuations and long-term fundamentals, can be found in BNM's feature article titled 'The Drivers of the Ringgit' in this Annual Report.



BNM's liquidity and foreign exchange operations continued to provide necessary support for orderly market conditions. Through the buying and selling of ringgit, BNM ensures sufficient two-way liquidity in the foreign exchange market during periods of market stress. This helps to prevent sudden or excessive swings in the ringgit exchange rate. Such ringgit movements could hamper economic activities like exports and investments.<sup>13</sup> We maintained efforts to deepen the foreign exchange market through ongoing initiatives by BNM's Financial Markets Committee and banks operating in Malaysia. This helps businesses meet their funding needs more effectively. We also continued to promote access to hedging instruments for businesses to better manage their foreign exchange risks.<sup>14</sup>

## Analysis and Research

Changes on the domestic and external front presented another challenging year in ensuring monetary stability. Our research remained focused on assessing the resilience of the Malaysian economy against various shocks and emerging trends. This was a complex task as the impact from economic developments is not always straightforward. Some changes create short-term volatility while others have longer-term consequences. Over the year, we extended our efforts to better understand them, which was critical in informing our policy assessments and formulation.

A key development for Malaysia in 2024 was the implementation of domestic policy reforms. This is still ongoing. We conducted scenario analyses to study their effects on domestic inflation and growth in the near and medium term. As the year progressed, we updated our scenario assumptions as information became available to refine our assessment of Malaysia's economic and inflation prospects. Adjustments in domestic policies can directly and indirectly affect the prices of goods and services. We continuously monitored signs of spillover to broader price trends through assessments of inflation persistence and pervasiveness. We collected insights on firms' sentiment and behaviour.<sup>15</sup> This included how they

managed pricing and cost pressures when faced with shifting conditions. We also conducted a deeper analysis of the role of inflation expectations in shaping economic decisions such as household spending. Additionally, we continued to look deeper into recent drivers of inflation in Malaysia,<sup>16</sup> and enhanced our surveillance toolkit to incorporate more high-frequency data for a timelier indication of underlying inflation trends.

In addition to the impact of domestic policy reforms, we conducted in-depth assessments of the investment upcycle, which is a key driver of Malaysia's economy. We examined the nature of these investments, the profiles of the businesses involved, and their linkages to the domestic economy, such as job creation. Our assessment analysed the short-term impact of the increased investment activity, as well as the potential longer-term effects on the economy such as improvement in productivity.<sup>17</sup> On another key driver of growth, we continued our assessments of the domestic labour market and the strength of private consumption. This included examining the significance of the gig economy in Malaysia, including its impact on employment and income prospects to support household spending. We also regularly evaluated the domestic financial conditions and their effects on credit and financing conditions, as well as consumption and investment activities.

Against the backdrop of external challenges, we studied how global economic and financial conditions can affect Malaysia's economy and the ringgit. This included analysing the impact from policy rate changes by other central banks, geopolitical tensions, and shifting financial markets sentiment. The global landscape was not without positive developments. A key example was the emerging global technology upcycle buoyed by increased adoption of artificial intelligence and cloud computing. By examining Malaysia's position in the global technology supply chain, we analysed how this upcycle could affect our exports, local industries, and subsequently domestic employment and wages. Our analyses suggest that Malaysia is well-plugged in the semiconductor supply chain and stands to benefit from rising global demand in this upcycle.<sup>18</sup>

<sup>13</sup> More information on policy related to the ringgit can be found in the 'Ringgit Exchange Rate Policy' section of the BNM's website (<https://www.bnm.gov.my/monetary-stability/ringgit>).

<sup>14</sup> More information on financial market development initiatives can be found in the 'Market Development Initiatives' section of the BNM's website (<https://www.bnm.gov.my/committees/fmc>).

<sup>15</sup> More information can be found in the BNM's Third Quarter of 2024 Quarterly Bulletin Box Article titled 'Clocking in on Business Sentiments: The RES' Business Climate Clock'.

<sup>16</sup> More information on whether price changes in Malaysia were driven by economy-wide or idiosyncratic factors can be found in BNM staff working paper titled 'Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia' on the BNM's website (<https://www.bnm.gov.my/publications/research>).

<sup>17</sup> Further discussion on Malaysia's investment upcycles can be found in the BNM Economic and Monetary Review 2024 Box Article titled 'Deciphering Investment Cycles in Malaysia'.

<sup>18</sup> Further discussion can be found in the BNM Economic and Monetary Review 2024 Box Article titled 'Malaysia's Position in the Global E&E Value Chain and Prospects'.

As the financial and economic advisor to the Government, BNM continued to actively participate in several inter-agency policy groups focusing on Malaysia's economic priorities. These included policies related to the cost of living,<sup>19</sup> labour, public finance, social protection and investments. We provided policy advice from a macroeconomic lens, taking into consideration the potential impact on domestic inflation and growth, as well as households and businesses. The ultimate aim is to preserve macroeconomic stability and protect the welfare of Malaysians.

We also supported policies that would facilitate the country's transition to a high-income nation. Strengthening the inflow of quality investments is critical to ensure Malaysia's economic competitiveness and growth potential in the long run. Through investor roadshows coordinated between BNM and the Government, we engaged with global investors more directly to showcase Malaysia's economic strength and investment opportunities. The launch of the InvestMalaysia Portal in November 2024<sup>20</sup> also marked a key milestone in our efforts to further enhance the country's attractiveness as a business and investment destination. Recognising further economic growth opportunities that rising data centre investment activity could bring to Malaysia, we also advocated for the development of a local ecosystem for data centre activities to tap into these potential benefits. This includes the fostering of stronger connections with local businesses and industries to provide critical back- and front-end services in support of data centre activities. We also continued our advocacy on climate transition and measures to foster the green mobility industry, recognising its potential as a new source of growth for Malaysia.<sup>21</sup>

A high-skilled workforce is required to build a high-income nation. We carried on supporting policies that would help Malaysian employees meet the skill demands necessary in a digitalised future economy. We also continued our advocacy on policies that promote a more comprehensive and efficient social protection system to ensure the well-being of Malaysians in the long term.<sup>22</sup>

## Communication and Outreach

Throughout the year, BNM continued to consistently communicate about our OPR decisions, Malaysia's growth and inflation outlook, and the ringgit. Our aim is to keep the public informed and engaged in these areas. We continuously strive to enhance our communication in promoting greater transparency in the MPC's decisions. This included sharing information about the MPC's decision-making process and important insights which guided these decisions. For this purpose, we leveraged our various communication platforms, including social media channels, interviews, speeches and public workshops. We also kept an active engagement with various key stakeholders during the year. These include analysts, investors, industries, media and Government representatives.<sup>23</sup>

We maintained ongoing collaboration with academia through various initiatives. These included the Visiting Research Fellowship (VRF)<sup>24</sup> and Research Support Initiative (RSI)<sup>25</sup> programmes. The VRF programme allowed us to expand our research on monetary and financial economics by producing joint publications, with two working papers published during the year.<sup>26</sup>

<sup>19</sup> Further discussion on cost of living can be found in the BNM Annual Report 2024 Feature Article titled 'Curbing Inflation, Easing Costs: The Policy Perspective'.

<sup>20</sup> To access the InvestMalaysia portal, visit <https://www.investmalaysia.gov.my>.

<sup>21</sup> More information on the progress of Malaysia's firms on their environmental sustainability journey can be found in the BNM's Second Quarter of 2024 Quarterly Bulletin Box Article titled 'Green Gauge: Tracking Firms' Strides Towards Environmental Sustainability'.

<sup>22</sup> These include policies promoting well-targeted social assistance for those in need of support, as well as broader income security for vulnerable groups and workers in the informal sector (e.g. self-employed individuals) by ensuring access to viable retirement savings plans and upskilling opportunities.

<sup>23</sup> More information on the BNM's public engagements throughout the year can be found in the 'Engaging Malaysians' chapter of this Annual Report.

<sup>24</sup> The VRF was launched in October 2020. The programme aims to produce joint research publications between academics and BNM staff. More information can be found on the BNM's website (<https://www.bnm.gov.my/research/vrf>).

<sup>25</sup> The RSI was launched in October 2020. This program is designed for post-graduate and post-doctorate candidates specialising in econometrics, macroeconomics, monetary and financial economics, machine learning, and data science. More information can be found on the BNM's website (<https://www.bnm.gov.my/research/rsi>).

<sup>26</sup> The joint research publications titled 'Does the threshold effect of government debt on growth exist for Malaysia?' and 'Phillips Curve Relation in Pre and Post Covid Malaysia' can be found on the BNM's website (<https://www.bnm.gov.my/publications/research>).



*MPC members, including our three external members, exchanged perspectives during in-depth discussions at the September 2024 meeting. In addition to the ten members, the MPC meetings are also attended by the relevant Bank staff.*



## Going Forward

In 2025, like many other economies, the Malaysian economy is expected to face challenges arising from global developments. This is against a backdrop of uncertainties surrounding tariffs and other policies from major economies, as well as geopolitical conflicts. Our resilient domestic demand, however, will serve as an important buffer against these external shocks. Investment activity is expected to remain robust and household spending will stay resilient. At the same time, inflation is also expected to remain manageable in 2025. The favourable domestic economic conditions in 2025 provide a firm foundation for the ongoing implementation of structural policy reforms as announced by the Government. Although they may impact inflation and economic growth in the near term, advancing these efforts is necessary to strengthen our economic resilience and ensure a sustained development of our economy over time.

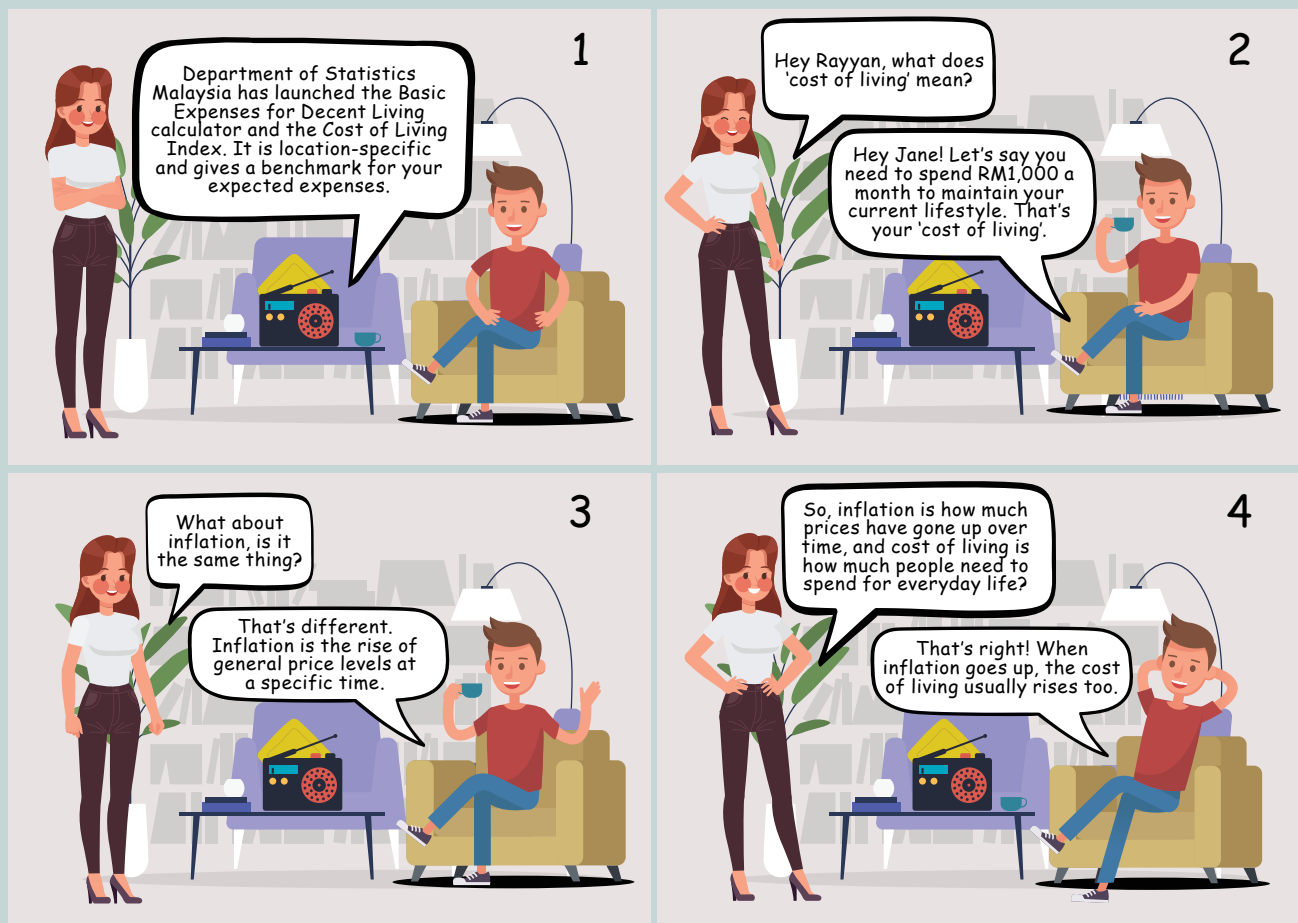
In line with the evolving global and domestic environment, the MPC will remain vigilant to ongoing developments that may impact our domestic growth and inflation prospects. Incoming information on economic and monetary developments will continue to inform the assessment

of Malaysia's growth and inflation outlook. BNM will remain steadfast in ensuring price stability in support of sustainable economic growth in the long term. Amid the uncertain environment, we will continue to leverage our existing communication platforms to offer deeper insights into Malaysia's economic and financial developments, as well as risks to our outlook. Our monetary operations will continue to ensure sufficient liquidity in the banking system and financial markets. They will complement our other policies to ensure smooth financial intermediation that is conducive for the economy.

Beyond the immediate term, our focus is on strengthening the country's resilience for the future. Malaysia will need to attract more high-quality investment, foster digitalisation and build a future-ready workforce. There is also a need to strengthen the country's climate resilience whilst capturing the opportunities that arise as a result of the transition. In addition to our advocacy work, BNM will collaborate further with our stakeholders on relevant policy measures, particularly structural reforms, to enhance our economic strength and raise Malaysia's growth potential. Our collective efforts are aimed at achieving Malaysia's aspiration to transition into a high-income developed nation with sustainable and equitable economic growth.

## Curbing Inflation, Easing Costs: The Policy Perspective

Diagram 1: Inflation and Cost of Living



Source: Bank Negara Malaysia

**Although inflation and cost of living are often used interchangeably as they both impact individuals' economic well-being, they are not the same**

Inflation and cost of living are two important economic concepts that impact the daily lives of individuals and the overall economy. While price levels refer to the overall cost of things you buy at a specific point in time, inflation<sup>1</sup> refers to the rate of change in price levels of a fixed basket of consumption items that represent the average pattern of purchases among Malaysian households. Though it may not necessarily reflect the day-to-day experience of price increases, it is a useful indicator for understanding the changes of overall prices of goods and services in the broader economy. On the other hand, cost of living (COL)<sup>2</sup> refers to the expenditure amount required to maintain a certain standard of living. This varies across households depending on income level, spending behaviour, location and other factors.

<sup>1</sup> Inflation is measured by the Consumer Price Index (CPI), which is published by Department of Statistics Malaysia (DOSM) monthly. For further information, please refer to the white box 'Inflation, the Cost of Living and the Living Wage' in the BNM Annual Report 2018.

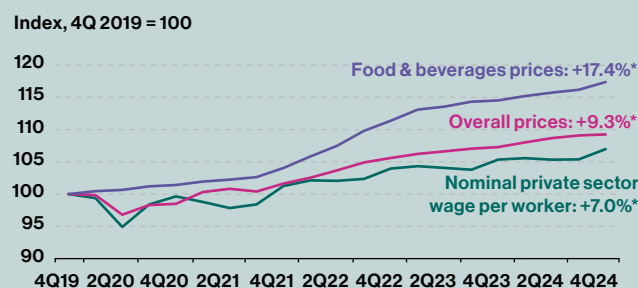
<sup>2</sup> Cost of living can be measured by the Basic Expenditure of Decent Living (PAKW), which was first published by DOSM in December 2024.

## Drivers of rising cost of living in Malaysia

Cost of living can be affected by a general increase in price levels, as measured by inflation. In recent years, the resurfacing of concerns over the increasing cost of living was driven by the high inflation environment following the reopening of the economy post-pandemic. Even when inflation has moderated since 2023, the price levels of goods and services have remained elevated.<sup>3</sup> Evidently, this remains in public discourse where concerns on affordability and household expenses are frequently highlighted.

Beyond the increase in expenditure caused by higher prices of goods and services, cost of living also considers the income perspective. Households will feel the pressure from rising cost of living if their income does not increase at the same pace as prices. When this happens, their purchasing power is eroded and their standard of living declines. Since the pandemic, wage growth has not kept up with the rise in overall prices (Chart 1). Lower-income households are more vulnerable, given that they typically have minimal financial buffers. Additionally, they tend to spend a larger proportion of their income on food.<sup>4</sup> The increase in food inflation is particularly concerning as it further erodes their already low purchasing power. Income growth must match or surpass inflation to preserve purchasing power to maintain or improve living standards.

**Chart 1: Consumer Prices and Wages**



\* The figure refers to cumulative growth between 4Q19–4Q24.

Source: Monthly Manufacturing Statistics, Quarterly Services Statistics and Consumer Price Index by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

## Monetary policy is one of the primary policy tools to manage inflation and contain increases in the cost of living

One aspect of tackling the rise in cost of living is to ensure inflation remains low and stable. Monetary policy is one of the primary tools to manage inflation through its effect on overall demand conditions. At the same time, although managing inflation is a necessary condition for containing increases in the cost of living, it is not sufficient on its own to fully address the issue.



### Did You Know?

Malaysia's long-term average inflation rate has generally been low and stable, typically around 2% per year over the past few decades.

<sup>3</sup> Post-pandemic, the inflation rate in Malaysia moderated significantly to 1.7% in January 2025 from a high of 4.7% in August 2022.

<sup>4</sup> Based on the 2022 Household Expenditure Survey by DOSM, B20 households spend 31.1% of their monthly income on food and beverages, whereas T20 households spend 16.6% of their monthly income on the same category.

Bank Negara Malaysia (BNM) implements monetary policy by determining the Overnight Policy Rate (OPR). This rate, in turn, affects how banks set their interest rates for loans, financing and deposits. During a period of strong demand and high inflation, BNM raises the OPR which will make it more expensive for banks to borrow money overnight from the central bank and from each other. Banks will subsequently raise loan rates for businesses and consumers. To raise funds, banks will also increase the deposit rates. As a result, borrowing becomes more expensive, while savings become more attractive given the higher returns. These two factors will discourage spending and investment in general, eventually lowering demand in the economy. Economic activity will slow down and dampen the pressure on prices, helping to contain inflation.<sup>5</sup>



### What causes inflation?

**Demand shocks** occur when there is a sharp increase in demand for goods and services in the economy.<sup>6</sup> When the economy is unable to meet the strong demand, it leads to a situation known as 'too much money chasing too few goods,' as coined by economist Milton Friedman.<sup>7</sup> Excess demand prompts businesses to raise prices of goods and services, leading to inflation. This was seen after the pandemic when a combination of continued Government policy support<sup>8</sup> and the realisation of pent-up demand led to higher household spending. Demand grew as a result, which contributed to a rise in inflation.<sup>9</sup>

**Supply shocks**, on the other hand, occur when there is a sudden fall in the supply of goods and services in the economy. This can be caused by factors such as adverse weather conditions, disruptions in supply of input materials and factory closures. As a result, production capacity is affected and costs may increase. For example, export restrictions in key commodity-exporting countries stemming from the Russia-Ukraine military conflict were key factors driving the surge in global energy and food commodity prices in 2022.

**Regulatory changes**, such as new taxes, tariffs or requirements to comply to stricter environmental policies can increase production costs. Often, businesses pass on the rise in costs to consumers in the form of higher prices. For instance, the increase in the sales and service tax (SST) rate in early 2024 exerted upward price pressures on most taxable services, such as the tax on electricity bills for households with monthly usage exceeding 600kWh.<sup>10</sup>

As inflation is also driven by factors beyond demand, relying on monetary policy alone is not sufficient to address rising prices. Specifically, monetary policy is not able to tackle challenges arising from supply shocks or changes in regulation that often lead to a higher cost of production and eventually, higher prices to consumers. In addition to that, monetary policy takes effect with a lag. According to BNM's estimates, it might take up to two years for an interest rate increase to fully affect inflation. The outcome depends on several factors, including how fast banks adjust their deposit and lending rates,<sup>11</sup> to what extent consumers and businesses change their spending and whether demand weakens enough to slow down price increases. This delay means prices might continue rising for a while before stabilising, making it hard to limit increases in households' cost of living. Therefore, addressing inflation would require other complementary policy tools to influence prices borne by households, especially those affected by supply factors.

<sup>5</sup> On the reverse, when inflation is too low, BNM lowers the OPR, which will lead to lower borrowing cost and deposit rates. This will encourage businesses and households to spend, thereby raising demand and eventually exerting upward pressure on inflation. Inflation that is too low often signals weak demand in the economy, which occurs when consumers and businesses are not spending or investing enough.

<sup>6</sup> This could be caused by rapid income growth from strong economic activity, very low interest rate causing excessive borrowing, too much spending by the Government that increases people's disposable incomes and improved consumer sentiments about the economy.

<sup>7</sup> Excess money is created when central banks lower interest rates, making borrowing cheaper and increasing the money supply and when government spending through deficit financing injects additional funds into the economy.

<sup>8</sup> Government stimulus measures included cash transfers, subsidies on select consumer items and seasonal price controls.

<sup>9</sup> Inflation surged following the pandemic, driven by both increasing demand and supply shocks. For further details, please refer to the box article 'An Anatomy of Inflation: Effects from the Prolonged Pandemic' in Bank Negara Malaysia's Economic and Monetary Review 2021.

<sup>10</sup> Effective from 1 March 2024, the service tax rate increased from 6% to 8% for all taxable services excluding food and beverage services, telecommunication services, parking services and logistics services.

<sup>11</sup> This adjustment is particularly relevant for new loans, as changes to existing loans are transmitted immediately.

## Fiscal policy can complement monetary policy to manage inflation and cost of living

Besides conducting monetary policy through the central bank, the Government can use fiscal policies to manage inflation as well as cost of living issues. Fiscal policy is the use of government spending and tax policies to influence economic conditions such as demand, growth and inflation. Similar to monetary policy, it acts as a counter-cyclical stabiliser for the economy, smoothing the highs and lows of economic activity. When demand is high, the Government can cut its spending to lower demand and help reduce upward pressure on prices. It can also raise taxes to reduce disposable income, which moderates spending and helps to stabilise price pressures.<sup>12</sup>

Unlike monetary policy, which is a blunt tool, fiscal policy can be more targeted to help reduce living costs for specific groups. For example, the Government can help to manage these rising expenses by providing targeted subsidies or tax breaks to households. Furthermore, when supply disruptions from events such as adverse weather cause general prices to increase, the Government can give cash assistance to affected households to supplement their income. Alternatively, financial assistance or subsidies can be provided to businesses to help them manage the higher production costs from the supply shocks, which could lower the extent of cost pass-through and the eventual price increases to consumers. However, this would increase fiscal burden and limit investments in other critical areas such as health, education and infrastructure. Therefore, this approach should be done judiciously and as a temporary measure as it only addresses the symptoms rather than the root cause of cost of living concerns.

Fiscal policy also plays a role in raising the economy's productive capacity. The Government can encourage this by, for example, investing in infrastructure, offering favourable tax policies for specific sectors like high-growth-high-value (HGHV) industries and promoting research and development (R&D) initiatives. This makes the economy more competitive and efficient, allowing businesses to expand production at lower costs. Eventually, this can translate to a more moderate pace of inflation.



### Price Controls

There are also temporary policy measures to control inflation which target specific sectors or items in the consumption basket. Price controls, such as price ceilings on essential items, can help ease the burden from high cost of living by making goods more affordable for low-income households. While price controls may directly help in the short run, they should not be applied for too long because they distort the determination of prices by market forces. Fixing prices below its actual market levels over an extended period could promote excessive consumption and wasteful behaviour, which can lead to supply constraints.<sup>13</sup> Allowing prices to be set based on demand and supply gives a fair value of how much goods and services are worth, reflecting what buyers are willing to pay compared to what sellers want to charge. Prices can then act as a signal to guide efficient allocation of resources.

## Structural reforms address the root causes of price pressures that affect the cost of living

Price pressures could also arise from market structures that increase costs and make the economy more vulnerable to shocks. For example, market inefficiencies could lead to monopolistic practices and reduced competition. This allows large firms to raise prices of goods and services without improving quality. In this regard, structural reforms can be undertaken to boost productivity, enhance competition and strengthen economic resilience. These reforms involve long-term adjustments to policies, institutions and economic frameworks. The ultimate goal is to create a vibrant economic environment that promotes competition, efficiency and higher income growth. At the same time, it seeks to keep inflation low and stable. By tackling both cost and income factors, these reforms help households better handle future cost of living challenges.

<sup>12</sup> On the flip side, during economic downturns, governments can increase spending to boost demand and stimulate economic activity. They can also lower taxes to raise disposable income, encouraging greater consumer spending and investment. These measures help to raise economic growth and lessen pressure on firms to reduce prices. While lower prices can be beneficial for consumers, it may also lead to workers earning lower wages and businesses making smaller profits.

<sup>13</sup> For further details, please refer to the box article 'Price Reforms: Motivation, Impact and Mitigating Measures' in Bank Negara Malaysia's Annual Report 2014 and the box article 'Cost of Living Revisited: Causes and Consequences' in Bank Negara Malaysia's Annual Report 2021.

Structural reforms can take on many forms. One approach is reducing regulatory burdens which can involve reforming tax and subsidy systems, improving public services and simplifying compliance practices. Such measures would ease business operations and speed up processes, which in turn improves efficiency and reduces costs of doing business.

Promoting technology adoption and encouraging R&D are also key in structural reforms. By offering incentives such as tax breaks and grants, businesses can invest in cutting-edge technologies and innovative methods. As economies focus on technology and R&D, they can make better use of existing resources and attract high-value investments that boost productivity. As more goods are produced with the same or less resources, this enhanced productivity enables businesses to increase wages while keeping prices competitive.

Furthermore, enhancing competition is also crucial for economic efficiency. Lowering trade barriers like tariffs and quotas would reduce barriers of entry for businesses. The promotion of healthy competition and prevention of anti-competitive practices help keep prices competitive and drives innovation. For consumers, this translates to more affordable goods and services of better quality.

### **Policies should also be focused on meaningfully increasing incomes, allowing households to afford goods and services amid rising prices**

Another aspect of tackling cost of living pressures is to raise income. Implementing strategic and innovation-driven industrial policies, as well as labour market reforms can increase household income through improvement in productivity, creation of more job opportunities and fair compensation. There are several strategies to achieve this.<sup>14</sup> For example, initiatives have been directed at promoting creation of high-skilled jobs.<sup>15</sup> On the labour supply side, education and training programmes can also be enhanced to upskill the workforce so that they can take on more complex roles and high value work which pay higher salaries. In the longer-term, reforms to the education system that encourage more students to pursue science, technology, engineering, and mathematics (STEM) fields would also help meet the labour demand of a high value-added economy.

Following that, reforms can focus on improving labour market flexibility by easing restrictive labour laws and encouraging workforce mobility. For example, improving skills standardisation would enable movement of workers between different jobs and industries. By leveraging technology, work arrangements can also be made flexible to accommodate diverse workforce needs and boost labour participation, especially for women.<sup>16</sup>

Next, it is also essential to strengthen labour market institutions and implement policies that promote fair compensation, in line with worker productivity. This includes enhancing existing wage policies such as the minimum wage law and the Productivity-Linked Wage System. Additionally, more transparent and fair wage-setting practices can be encouraged through collective wage bargaining and negotiations, to improve earning capacity of workers.

Lastly, the social protection system<sup>17</sup> is fundamental for providing a safety net for vulnerable groups impacted by economic shocks. Temporary financial help can be provided through direct cash transfers to reduce financial stress. The social insurance program is also critical to ensure ongoing income support as costs of living rise. Given that vulnerable populations tend to work in the informal sector,<sup>18</sup> they can be protected through provision of legal rights, social security benefits and workplace safety.

<sup>14</sup> For further details, please refer to the box article 'The Case of Labour Reforms in Malaysia: Challenges and Opportunities' in Bank Negara Malaysia's Economic and Monetary Report 2023.

<sup>15</sup> The National Investment Aspirations (NIA) is expected to create approximately 500,000 high-skilled jobs over the next five years. Additionally, the New Industrial Master Plan 2030 (NIMP 2030) targets the creation of 3.3 million job opportunities by 2030, including positions in high-value sectors such as advanced manufacturing, technology, and services.

<sup>16</sup> As at fourth quarter of 2024, the female labour force participation rate (LPFR) was 56.8%, significantly lower than men at 83.6%.

<sup>17</sup> The social protection system includes social safety nets, employment insurance and active labour market policies.

<sup>18</sup> The informal sector refers to economic activities that are not regulated by the government and typically operate outside formal legal and tax frameworks. Examples include street vendors selling goods, domestic workers providing household services and artisans creating handmade products.

For the social protection system to be effective in helping people navigate cost of living challenges, it needs to be inclusive and easy to access. Accurate data on households is necessary to effectively target and distribute benefits. Moreover, people should have access to various services for different life-cycle risks which include income support, as well as health, education, housing and unemployment benefits. To avoid over-reliance on these benefits, it is important to keep an eye on how people's financial situations improve. Then, assistance can be gradually redirected to others who need it more.

Households can also improve their financial situation by learning how to manage their money more effectively and make better spending choices. Platforms such as the Financial Education Network (FEN)<sup>19</sup> drive efforts to promote financial literacy which can help people manage their spending and debt.<sup>20</sup> Additionally, if households need assistance in managing their finances, they can get help from agencies like the Credit Counselling and Debt Management Agency (*Agenisi Kaunseling dan Pengurusan Kredit*, AKPK). AKPK offers services such as financial education, counselling, and advice on financial management, along with debt management programmes to help people move towards financial freedom.

### Conclusion

The cost of living is a fundamental aspect in people's daily lives and is a crucial determinant of their overall well-being. As such, it remains a key policy priority for any government in shaping decisions targeted at improving the standard of living. More direct measures, like price controls and subsidies, can be very impactful at providing short-term financial relief and keeping the prices of essential goods stable. However, they must be used sparingly as they tend to be fiscally expensive and not sustainable. Furthermore, they may lead to distortions that prevent natural price adjustments, which could negatively affect the economy in the long-term. In this vein, countercyclical macroeconomic policies such as monetary and fiscal policy along with structural reforms must work together in keeping inflation low and stable. Achieving price stability is also a prerequisite for creating the favourable conditions necessary for further structural reforms to take root and flourish, and most importantly, raise household income. These measures will take time before they result in a more enduring and impactful reduction in the cost of living.

Ultimately, addressing these issues requires strategic planning with a careful balance between short-term and long-term goals. It involves continuous dialogue with key stakeholders and clear communication to build public understanding and support for the benefits of these reforms. By aligning monetary and fiscal policies with structural reforms, policymakers can create a cohesive framework that keeps inflation low and stable, and ensures the cost of living remains manageable.

<sup>19</sup> The Financial Education Network (FEN) is an inter-agency platform committed to improving the financial literacy of Malaysians. For more information, please refer to: [www.fenetwork.my](http://www.fenetwork.my).

<sup>20</sup> Based on the 2024 Financial Capability and Inclusion Demand Side Survey (FCI), the Malaysian Financial Literacy Index (MYFLIC) revealed an optimistic picture for financial knowledge. Between 2018 and 2024, the financial knowledge component of the index increased by 7.3pts from 55.6 to 62.9.



## The Drivers of the Ringgit

### Introduction

The ringgit, like many other currencies, has experienced increased volatility in recent years. As a small and open economy, the ringgit is especially sensitive to shifts in global capital flows and broader financial market trends. In this article, we will explore the global and domestic factors that drive the performance of the ringgit, both in the short and long run. Understanding these drivers is essential for policymakers, including BNM, in designing policies to manage exchange rate fluctuations and mitigate its adverse effects on Malaysia's economy. This ensures economic stability while promoting long-term growth.

Malaysia's transition from a fixed exchange rate pegged to the US dollar, introduced during the Asian Financial Crisis in September 1998, to a flexible regime from July 2005 reflects the nation's strengthened financial and macroeconomic resilience. This flexible approach means that the ringgit's value is sensitive to both short- and long-term drivers.<sup>1</sup> Short-term drivers, often cyclical in nature, be it domestic or external factors affect immediate market conditions or sentiment. In contrast, long-term drivers impact a currency's broader direction and are based on the country's macroeconomic fundamentals, such as trade balances, productivity growth and capital investments. This encompasses not just domestic variables but also how they fare against other countries, for example how a country's productivity compares against that of its key trade partners. Both short-term and long-term drivers do not operate in isolation but frequently act alongside each other to create a dynamic influence on the currency performance.<sup>2</sup>

### The short-term drivers of the ringgit

Short-term factors that emanate from global, regional or domestic developments include changes in monetary policy, business cycles, regional growth prospects or geopolitical tensions that can affect investor sentiment and their investment decisions. One such example is the Federal Reserve's (Fed) decision to raise its policy interest rate<sup>3</sup> – the federal funds rate – beginning in March 2022. Higher interest rates in the US made short-term investments there more attractive compared to other economies, which drew more investors to the US and strengthened the US dollar. The ringgit, like many other currencies, is mostly traded against the US dollar. As a result, the ringgit's performance, as observed via the USD/MYR exchange rate, depreciated by 15% since the start of 2022 up to early 2024 (Chart 1). Despite positive global growth during this period, which typically benefits trade-dependent economies like Malaysia, regional currencies including the ringgit notably weakened against the stronger US dollar. This highlights the dominant influence of US dollar-related dynamics on emerging market currencies in the short term, even when the broader economic environment is supportive for stronger domestic growth.

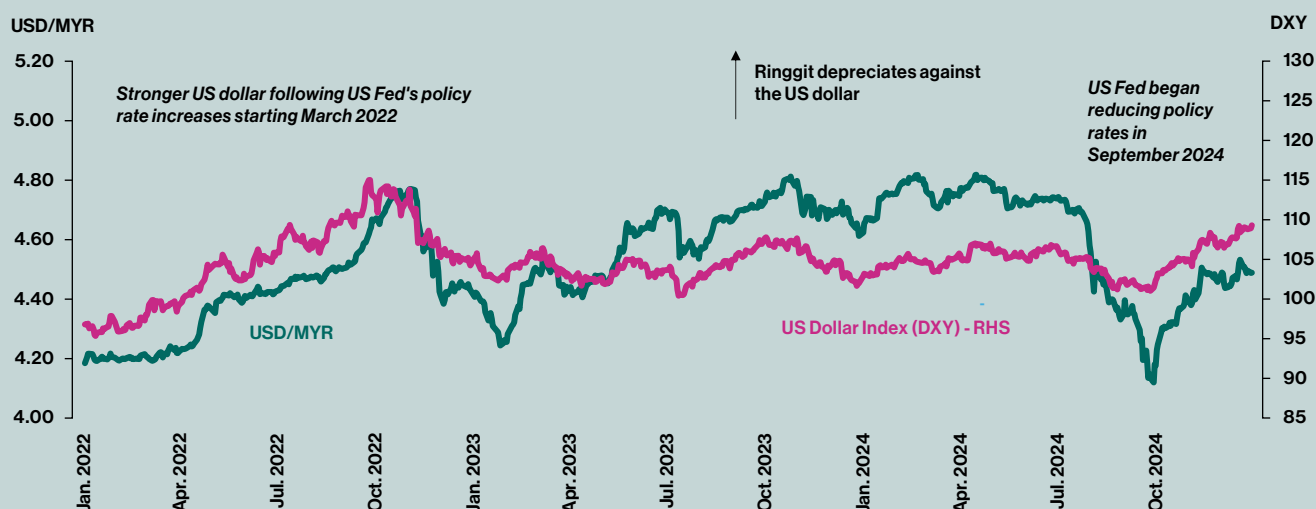
<sup>1</sup> An exchange rate regime represents the way in which a monetary authority manages its currency in relation to other currencies, which can be either fixed to another currency or allowed to fluctuate based on market conditions. According to the International Monetary Fund's (IMF) Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER), several countries adopt a flexible exchange rate regime. Notable examples include the United States, Eurozone nations, Japan, Canada, Australia, India, South Korea and Brazil.

<sup>2</sup> The supply and demand of a currency come from both trade activity for the purchase of goods and services, and financial market activity such as the sales and purchases of real and financial assets.

<sup>3</sup> As measured by the upper limit of the federal funds target range.



Chart 1: Ringgit's Performance Against the US Dollar Since 2022



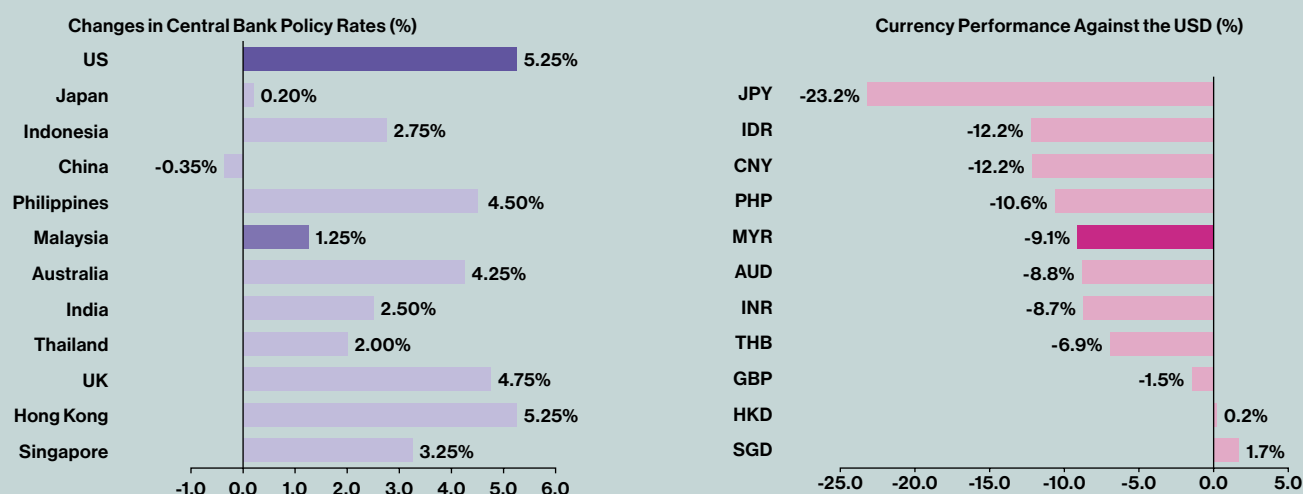
Note: 1. The USD/MYR exchange rates used here are the daily noon rates up to 31 December 2024.  
 2. The US dollar index (DXY) represents the performance of the US dollar against a basket of currencies which consists of the Euro (57.6%), Japanese yen (13.6%), British pound (11.9%), Canadian dollar (9.1%), Swedish krona (4.2%) and Swiss franc (3.6%), as at 31 December 2024.

Source: Bank Negara Malaysia and Bloomberg

What has caused the US dollar to perform better relative to the ringgit over the last two years? Two factors played a major role.

- a. **A higher US interest rate:** The post-pandemic increase in inflation in the US led the Fed to raise its policy rate aggressively by a total of 525 basis points to a target range of 5.25%–5.50%. In contrast, inflation in Malaysia was more contained, prompting BNM to raise the Overnight Policy Rate (OPR) by a more modest 125 basis points to 3%. Consequently, the large difference in interest rates between the US and Malaysia made holding US financial assets more attractive, spurring global investors to shift their funds towards the US, further strengthening the US dollar (Chart 2).

Chart 2: Policy Rate Changes in Selected Economies and Corresponding Currency Performance Against the US Dollar During the Post-COVID-19 US Fed's Hiking Cycle (15 March 2022–30 July 2024)



Note: 1. Calculations are based on the following timeframe: between 15 March 2022 (the day of the first US Fed policy rate hike at the March 2022 Federal Open Market Committee, FOMC meeting) and 30 July 2024 (shift in market expectations for the commencement of US Fed policy rate cuts following the July 2024 FOMC meeting, as indicated by the US overnight index swap rate).  
 2. Currency abbreviations are as follows: JPY – Japanese yen, IDR – Indonesian rupiah, CNY – Chinese renminbi, PHP – Philippine peso, AUD – Australian dollar, MYR – Malaysian ringgit, INR – Indian rupee, THB – Thai baht, GBP – British pound sterling, HKD – Hong Kong dollar, SGD – Singapore dollar.  
 3. Currency performance calculations are based on noon rates.  
 4. The chart shows the countries' respective policy rates except for Singapore which is based on the Singapore Overnight Rate Average (SORA).

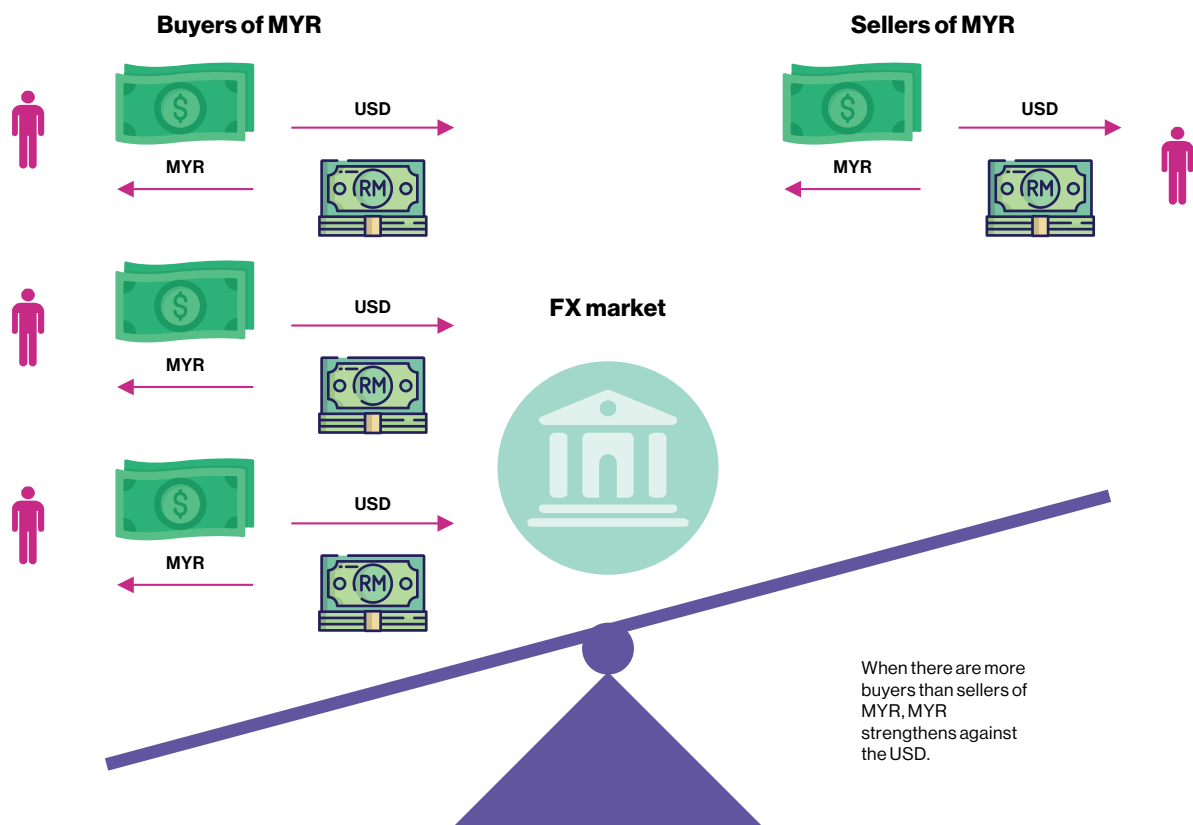
Source: Bank Negara Malaysia and Bloomberg

*b. Geopolitical tensions and 'safe-haven' demand:* Geopolitical tensions in the Middle East and Ukraine also increased demand for 'safe-haven' currencies as investors sought protection against global financial market volatility and potential losses.<sup>4</sup> During periods of global uncertainty, such currencies typically see higher demand. The US dollar, considered a 'safe-haven' currency due to its high liquidity and central role in international trade, experienced significant appreciation. This added to the pressure on the ringgit, which weakened further against the strengthening US dollar.

### How Do Markets Price Exchange Rates?

When the USD/MYR exchange rate rises from 4.00 to 4.20, it means the ringgit has depreciated against the US dollar. Why is that? At a rate of 4.00, one US dollar can be exchanged for 4.00 Malaysian ringgit. If the rate shifts to 4.20, this means it now takes more ringgit to buy one US dollar, indicating either a stronger US dollar or a weaker ringgit. The same principle applies to other currency pairs. For instance, when the SGD/MYR rate moves from 3.50 to 3.25, it means that the Singapore dollar now buys less ringgit, which again points to either a weakening Singapore dollar or a strengthening ringgit.

**Diagram 1: Stylised Illustration of Supply and Demand Affecting the Ringgit (MYR) Exchange Rate Against the US Dollar (USD)**



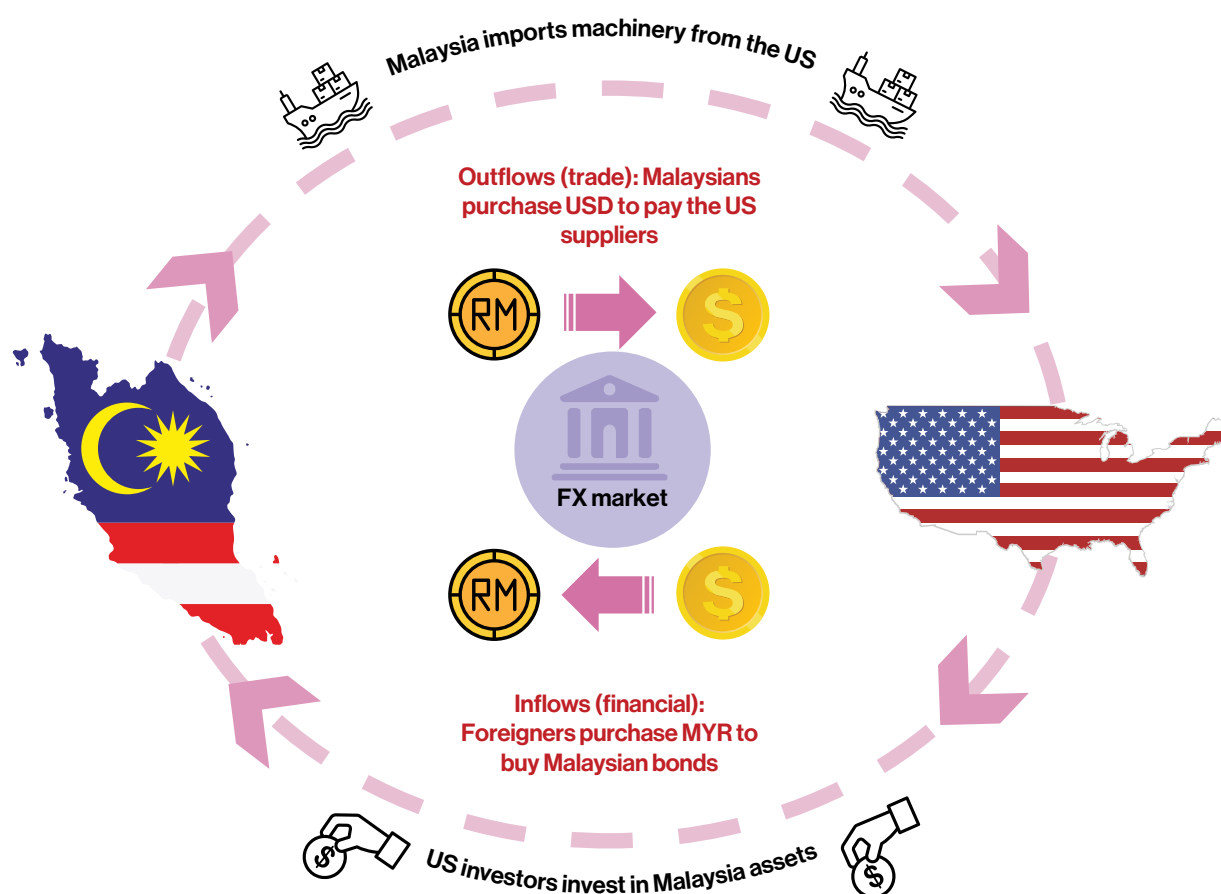
Source: Bank Negara Malaysia

<sup>4</sup> In contrast to 'safe-haven' currencies, 'risk-on' currencies (which commonly include currencies which are sensitive to global growth prospects such as the ringgit) tend to depreciate during periods of economic uncertainty and appreciate during periods of economic optimism and market stability, as investors are willing to take on more risk.

The foreign exchange market operates like any other markets, where prices are determined by the balance of demand and supply (Diagram 1). When demand for a currency increases more than its supply, its price will increase (the currency appreciates), and vice versa. For example, the exchanges of currencies surged following the post-COVID-19 tourism boom, as lockdown restrictions across the world were lifted and global travel resumed. A US tourist traveling to Malaysia would need to exchange US dollars for ringgit in order to holiday in Pulau Langkawi. This increases the relative demand for ringgit in relation to US dollars. Similarly, a Malaysian tourist travelling to Thailand would have to exchange ringgit for Thai baht, thereby increasing relative demand for the baht compared to the ringgit. These cross-border currency exchanges drive changes in the respective currency value across countries.

These transactions are typically referred to as 'foreign exchange flows'. These flows originate from two main sources: trade flows and financial flows (Diagram 2).

**Diagram 2: Illustration of Economic Activity Affecting Foreign Exchange Flows**



Source: Bank Negara Malaysia

- a. **Trade flows** involve the exchange of currencies for goods and services. For example, when Malaysia exports commodities like palm oil or electronic products, foreign buyers convert their currencies into ringgit to pay for these goods, which generates inflows into Malaysia. Conversely, when Malaysia imports machinery or when Malaysians travel abroad, ringgit is exchanged for foreign currencies, resulting in outflows. These trade-driven exchanges reflect the flow of goods and services between countries, and are influenced by factors such as global demand and commodity prices.

- b. Financial flows**, on the other hand, are based on portfolio and direct investment activities. Portfolio flows in particular, are often more volatile and sensitive to the changes in investor sentiment and interest rates between economies. For example, when the US interest rates rise, US financial assets like Treasury bonds become more attractive to global investors. These investors exchange their home currencies for US dollars, increasing the demand for the dollar. Similarly, when Malaysia offers competitive returns on its financial assets, it attracts foreign investors who convert their currencies into ringgit, boosting the ringgit's value.

Trade and financial flows collectively shape the supply and demand dynamics for the ringgit in the global markets. As this article will explore further, the relative demand for a currency remains the key factor influencing its performance.

The flexible exchange rate regime under which the ringgit operates allows the Malaysian economy to adjust to changing external conditions. When the ringgit weakens against other currencies, it boosts the competitiveness of Malaysia's exports,<sup>5</sup> locally produced goods and inbound tourism. This increased competitiveness would encourage foreign demand for Malaysia's goods and services, thus stimulating domestic economic activity.<sup>6</sup> In early 2024, when the ringgit was approaching historical lows, there were calls to peg the ringgit to the US dollar akin to the period following the Asian Financial Crisis. However, to maintain the peg, this would require Malaysia to either have substantial foreign currency reserves, to impose capital controls, or to align the domestic interest rates with that of the country it pegs to.<sup>7</sup> For example, if Malaysia fixes the ringgit exchange rate while allowing free capital flows, it will lose control over its monetary policy autonomy, as domestic interest rates would need to align with the US to sustain the peg. This means that Malaysia's OPR, which stood at 3% in early 2024, would have to be raised simultaneously alongside US interest rates, which exceeded 5% during the same period.

Malaysia's diverse economic base, strong financial sector and robust external position, which include sustained current account surplus and adequate reserves, provide resilience against external shocks, allowing the ringgit to remain under a flexible exchange rate regime better suited to its economic structure.<sup>8</sup> The ringgit's flexibility is, however, not without drawbacks for certain segments of the economy. With over 80%<sup>9</sup> of Malaysia's international trade transacted in the US dollar, businesses face higher costs for imported inputs as well as imported capital goods during periods of ringgit depreciation. Meanwhile, households feel the impact through increased prices for imported consumption items such as dairy products and clothing. This phenomenon, known as the 'exchange rate pass-through' (ERPT) to inflation, describes how a lower ringgit can result in higher domestic consumer prices. While BNM analyses<sup>10</sup> showed that ERPT has been generally low over the past two decades, it remains an important consideration in BNM's monetary policy decisions, given its bearing on inflation and broader economic activities.

## BNM's role in the foreign exchange market

Foreign exchange markets can be volatile. Surprises, whether positive or negative, can cause the ringgit to fluctuate. The greater the surprises, the larger the movement in the ringgit. Being such an important relative price, BNM places a high emphasis on managing excessive volatility in the USD/MYR exchange rate. The primary tool BNM uses is foreign exchange intervention (FXI), which involves deploying its international reserves<sup>11</sup> during periods of disorderly market conditions. These often result from short-term factors such as global economic data surprises or sudden material shifts in investor risk appetite. In extreme cases,

<sup>5</sup> Since a significant portion of Malaysia's exports is priced in US dollars, a weaker ringgit against the US dollar may have a limited and delayed impact on export volumes or competitiveness. This phenomenon is also commonly referred to as the 'dominant currency paradigm'. However, in the short term, exporters still benefit from translation gains, as they receive more ringgit from every good or service sold in US dollars.

<sup>6</sup> For further information on Malaysia's exchange rate regime, please refer to the BNM Annual Report 2022 box article titled 'The Exchange Rate and the Malaysian Economy'.

<sup>7</sup> The policy trilemma states that a country can only achieve two out of three goals: free capital flow, a fixed exchange rate and independent monetary policy. For further information on the trilemma, please refer to the BNM webpage on 'Ringgit Exchange Rate Policy'. <https://www.bnm.gov.my/monetary-stability/ringgit>.

<sup>8</sup> In contrast, Singapore and Hong Kong currently adopt a managed float regime and a currency board system featured by the Hong Kong-United States dollar peg respectively. The choice of having a less flexible exchange rate system is due to their relatively much higher economic openness and reliance on external trade and capital flows.

<sup>9</sup> For further information on the currencies used as a percentage of Malaysia's total trade settlement, please refer to the BNM Annual Report 2023 box article titled 'Promoting Cross-border Local Currency Settlement'.

<sup>10</sup> For further information on the extent to which the exchange rate pass-through channel affects domestic consumer prices in Malaysia, please refer to the BNM Economic and Monetary Review 2022 box article titled 'Revisiting Exchange Rate Pass-Through to Inflation in Malaysia'.

<sup>11</sup> Also known as foreign-currency assets typically held by central banks.

market prices may experience 'knee-jerk'<sup>12</sup> reactions when market liquidity is low, as many financial market participants look to buy or sell a particular currency at the same time with limited opposing sellers or buyers available. During episodes of sharp ringgit depreciation, BNM intervenes by buying ringgit from those who want to sell against a foreign currency, thereby providing liquidity and supporting the ringgit's value. Conversely, when the ringgit appreciates sharply, BNM steps in by selling ringgit in exchange for foreign currency to contain the excessive upward pressure on the ringgit. When the demand and supply of ringgit is more balanced, this helps ensure that the ringgit adjusts gradually, thereby preventing sudden changes in its value and maintaining foreign exchange market stability.

BNM faces a delicate balancing act when deciding whether to intervene in the foreign exchange market, while taking a measured and prudent approach. Many market shocks are temporary, meaning volatility in the ringgit may not last long. For example, shocks driven by specific events – such as global elections, policy announcements or speeches by influential figures like the US Fed Chair – can temporarily create sharp movements in the ringgit. These changes are typically driven by short-term investors looking to take advantage of price movements to gain profits. Market prices tend to stabilise once the uncertainty subsides and policies announced become clearer. In such cases, a more prudent approach would be to 'see through' such fluctuations, rather than unnecessarily deploying international reserves.

For the market to better face these challenges, BNM focuses on building the resilience of economic agents<sup>13</sup> and the financial system against exchange rate shocks. BNM has developed several market deepening initiatives aimed at enhancing accessibility to the ringgit, establishing financial linkages with regional trading partners, and improving market participants' flexibility to manage their foreign exchange exposure.<sup>14</sup> These initiatives effectively help Malaysia to diversify and manage its exposure to foreign currency risks. Additionally, BNM's progressive liberalisation of foreign exchange policies has led to a decentralisation of reserves, enabling local banks and entities to accumulate sizeable liquid foreign assets. These assets can be used to meet external debt obligations, without having to rely on the action of BNM.

More recently, in early 2024, when the US dollar reached its cyclical peak, the Government together with BNM took coordinated actions to improve foreign exchange market liquidity. In addition, BNM has introduced a pilot Qualified Resident Investor (QRI) programme in April 2024 to ease the process for resident corporates to repatriate foreign currency proceeds from overseas investments and convert into ringgit, as well as facilitate subsequent reinvestments abroad by the corporates. This programme aims to encourage a balanced flow of funds in the foreign exchange market. Alongside this, regular engagements with investors and corporates to encourage the repatriation and conversion of export proceeds and investment income provided support to the ringgit during a period of heightened financial market volatility. As the year progressed and monetary policy directions in advanced economies – particularly the US – became clearer, investor sentiment shifted. By September 2024, with US inflation cooling, the Fed began lowering its policy rate, reducing investors' demand in the US dollar. A gradual narrowing in the interest rates between the US and the rest of the world also further contributed to this change in investor sentiment and a broad recovery in regional currencies, including the ringgit. Given Malaysia's strong macroeconomic fundamentals and positive economic prospects, the ringgit not only benefited from these global developments but also performed relatively well relative to regional currencies in 2024. However, as previously mentioned, volatility in the global financial markets has remained elevated due to ongoing uncertainties arising from economic and geopolitical developments. Against this backdrop, the next section will explore the importance of building resilience against the negative impacts of exchange rate volatility, emphasising the role of underlying long-term drivers of the ringgit.

<sup>12</sup> Refers to quick and impulsive movements in prices, like a sudden spike or drop that happen immediately after news or events are announced. These reactions often occur because traders and investors respond without thoroughly analysing the situation, leading to sharp changes that may not always reflect the event's true long-term impact.

<sup>13</sup> Include businesses, financial and non-financial institutions, as well as financial market participants.

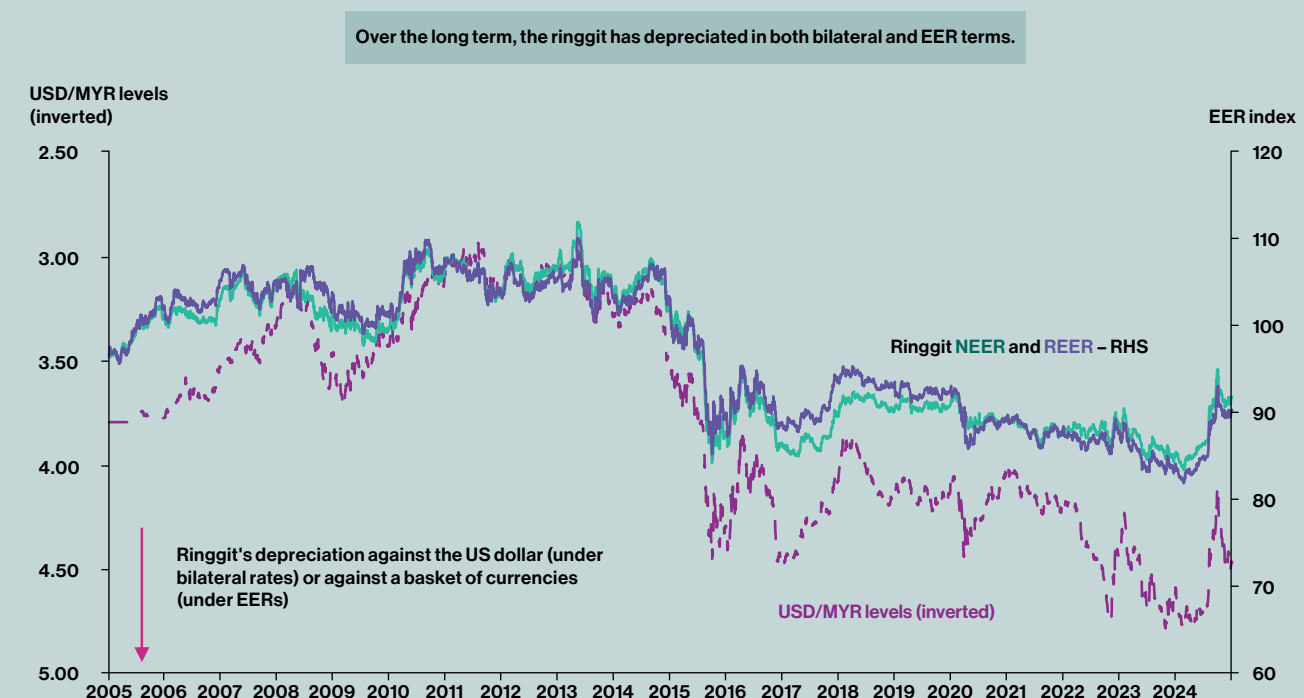
<sup>14</sup> This includes the local currency initiatives with China such as the bilateral currency swap arrangement agreement with the People's Bank of China, the Cross Border Collateral Agreement (CBCA) in 2010, the Renminbi Liquidity Facility in 2013, and the Local Currency Settlement Framework (LCSF) in collaboration with Bank of Thailand in 2016 as well as Bank Indonesia in 2018. BNM has also introduced the dynamic hedging programme in December 2016 to allow greater flexibility for registered institutional investors to actively manage their invested assets' foreign exchange exposure.

## The long-term drivers of the ringgit

The USD/MYR exchange rate is just one measure of the ringgit's performance. To gain a more holistic view, economists often refer to 'effective exchange rates', as opposed to a bilateral exchange rate.<sup>15</sup> The ringgit Nominal Effective Exchange Rate, or ringgit NEER for short, is commonly used for this purpose. This index measures the ringgit relative to the weighted average of Malaysia's major trading partner currencies, such as the Singapore dollar, the Chinese renminbi and the US dollar. A decline in the NEER indicates ringgit's depreciation against the basket of currencies, while an increase signals an appreciation. A related measure, the ringgit Real Effective Exchange Rate (ringgit REER), which also accounts for differences in price levels between Malaysia and its trading partners, offers insights into the country's export competitiveness. A lower REER means Malaysian goods and services become cheaper compared to those of trading partners, making them more attractive to global buyers. Conversely, a higher REER suggests that Malaysian exports may have become relatively more expensive, potentially reducing foreign demand. Together, the ringgit NEER and REER provide a foundation for analysing<sup>16</sup> the ringgit's longer-term movements.

Effective exchange rates (EERs) are better at providing a long-term perspective of any given currency's performance because they are less sensitive to short-term fluctuations. They are also not overly influenced by sudden and unique movements arising from any single economy.<sup>17</sup> The diverse composition of the currency basket used in EERs acts as a stabilising factor. Comparing the NEER and REER with the USD/MYR exchange rate (Chart 3) reveals a contrast. While the bilateral rate has depreciated over the years, the EERs have remained more stable, especially during periods of US dollar strength. However, over a longer horizon since 2014, both measures showed a gradual depreciation of the ringgit. This divergence from the performance of other regional currencies suggests that the ringgit's challenges extend beyond global factors. The next step is to identify the underlying drivers of these deviations, many of which are rooted in Malaysia's economic fundamentals relative to other countries.

**Chart 3: USD/MYR Levels Against Ringgit EERs**



Note: 1. The USD/MYR exchange rates used here are the daily noon rates up to 31 December 2024.  
2. Both NEER and REER indices are calculated based on the daily noon rates up to 31 December 2024.

Source: Bank Negara Malaysia and Bloomberg

<sup>15</sup> The BIS website provides updated and historical effective exchange rate indices data for a wide range of countries, including Malaysia, along with an explanation of the methodology used. <https://data.bis.org/topics/EEER>.

<sup>16</sup> For more details on the recent trends in the ringgit NEER and the ringgit REER, please refer to the BNM Second Quarter of 2023 Quarterly Bulletin box article titled 'Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices'.

<sup>17</sup> Fluctuations of currencies significant to the global economies, such as the US dollar and the Chinese renminbi, tend to have significant spillover effects to currencies of small open economies such as the ringgit.



Malaysia is a small, open economy with extensive financial linkages and exposure to global trade, making the ringgit susceptible to external developments. However, these external factors commonly affect most currencies in the same direction and are usually cyclical, meaning they do not fully explain the long-term depreciating trend in the ringgit EERs. Studies of the NEER and REER, reveal that structural economic drivers are the primary determinants of exchange rates over time.<sup>18</sup> These include relative productivity growth, terms-of-trade and trade openness.<sup>19</sup> While Malaysia's economic fundamentals have remained solid over the years, ongoing efforts to boost the nation's long-term competitiveness and growth potential (Table 1) through the decisive and accelerated implementation of structural reforms will ensure enduring support for the ringgit. Cyclical factors may well exert short-term depreciation pressures on bilateral exchange rates, however, a sustained demand for the ringgit, supported by solid fundamentals, can help cushion against these external shocks and contribute to greater stability in the EERs over the long term.

**Table 1: Key Macroeconomic Indicators for Malaysia Over the Years**

Indicators (period average)	2005–15	2016–24
GDP per capita (RM)	29,250	47,866
Real GDP growth (%)	5.0	3.9
Inflation (year-on-year %)	2.6	1.8
Gross international reserves (USD million)	107,648	106,598
Net international investment position (RM million)	15,784	30,026
Current account balance (% of GDP)	10.5	2.8
Terms of trade (Index)	102.8	103.5
Fiscal deficit (% of GDP)	-4.2	-4.5
Banking system total capital ratio (%)	15.0	17.9

Note: 1. Data for terms of trade comprises the period 2010–24, where indexation begins at 2010=100.

2. Banking system total capital ratio data is only available starting 2013 following the adoption of the Basel III regulatory framework.

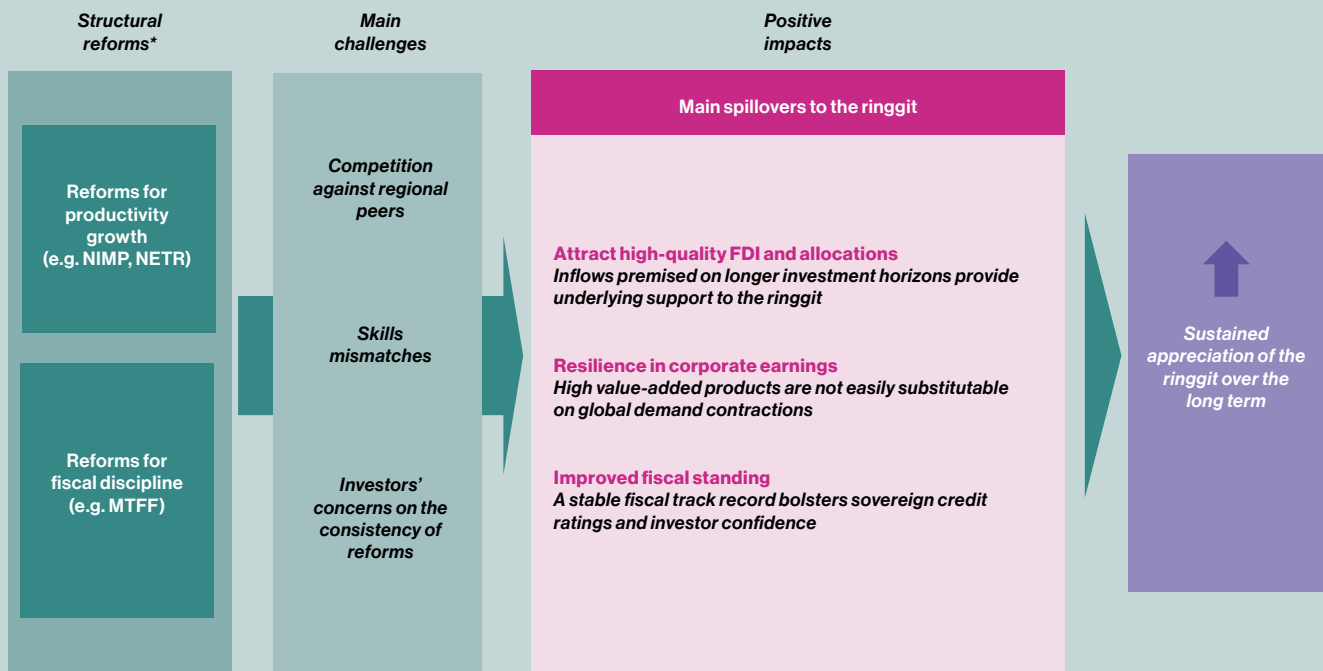
Source: Bank Negara Malaysia, Ministry of Finance and Department of Statistics, Malaysia

This demonstrates why policy discussions on the ringgit's longer-term outlook are premised on Malaysia's domestic structural reforms. In improving Malaysia's relative productivity growth and relative terms-of-trade, the Government's ongoing initiatives – such as the New Industrial Master Plan 2030 (NIMP) and the National Energy Transition Roadmap (NETR) – have a critical role to play. Both are designed to elevate Malaysian industries up the global value chain and better position them to capitalise on global investment trends. If Malaysia's industries can gain a competitive edge through the quality, complexity, and diversity of products manufactured, rather than overreliance on lower cost advantages alone, the country can secure a stronger position within the global value chain and increase its output value. These outputs, when exported, would generate greater and more resilient earnings for Malaysian businesses, leading to larger and more consistent profit repatriations. From the perspective of global investors, policies that enhance Malaysia's attractiveness – such as enabling investment frameworks, increased ease of doing business and robust economic growth prospects – will encourage foreign direct investment (FDI) and other long-term capital flows. These 'pull-factors' create long-lasting support for the ringgit, even during periods of cyclical financial market stress.

As part of structural reforms, increasing Government's expenditure on developing the necessary infrastructure to attract high-quality investments without undermining its commitments to fiscal discipline will be important. Maintaining a consistent record of fiscal discipline signals that Malaysia's growth is balanced, sustainable, and conducive to long-term investments. The Medium-Term Fiscal Framework (MTFF) outlines a clear direction for Malaysia's fiscal consolidation, with initiatives designed to diversify and broaden the tax base while ensuring more productive spending. For example, the subsidy rationalisations for electricity, water, and diesel have been timed and sequenced based on favourable macroeconomic conditions, such as Malaysia's positive growth trajectory and low inflation, to manage its impact on households and businesses.

<sup>18</sup> Despite having a relatively lower inflation vis-à-vis its trade partners, Malaysia's EER over the longer term is largely influenced by structural factors beyond relative prices (or inflation). In contrast, in several Latin American emerging market economies such as Argentina or Venezuela, the domestic currencies have experienced significant depreciations, which are often tied to its diminished purchasing power from high inflation rates and recurring economic crises.

<sup>19</sup> Ca'Zorci et al. (2022), Goldfajn and Valdes (1999), Elbadawi (1994), Dufrenot and Yehoue (2005), and Melecký and Komárek (2007).

**Diagram 3: Transmission Channels of Structural Reforms and Their Associated Challenges**

\* This diagram does not represent a comprehensive account of ongoing structural reforms as it is meant for illustrative purposes only.

Source: Bank Negara Malaysia, Ministry of Economy, Ministry of Investment, Trade and Industry, Ministry of Finance, and Malaysian Investment Development Authority

## Conclusion: Prospects for the economy and ringgit

The movements of the ringgit, like that of most currencies, would be driven by both short-term fluctuations as well as long-term economic fundamentals. The choice of policy responses to preserve orderly conditions in the foreign exchange market will depend on the underlying drivers of exchange rate movements. Often, a multi-pronged policy toolkit is deployed to enhance policy efficacy and to avoid overburdening of any single tool. BNM's FXI is useful in dampening short-term excessive volatility caused by global shocks. However, relying too heavily on international reserves to counter long-term drivers rooted in fundamental factors may not be the appropriate strategy. Instead, structural reforms and policies must take centre stage, whether through further financial market developments to build resilience against the negative impacts of ringgit volatility, or through policies aimed at strengthening productivity and competitiveness, hence improving economic growth prospects and fiscal sustainability.

BNM continues to collaborate closely with the Government on multiple fronts to maintain confidence in the ringgit and promote orderly conditions for households and businesses to manage their foreign exchange exposure. This includes supporting the effective implementation of structural reforms, engaging with the global investment community in highlighting their positive impacts, and leveraging its policy toolkit to ensure favourable domestic financial conditions to enable reforms to take place. Ultimately, however, a collective effort – spanning policymakers, businesses and the society at large – is critical to realising the full potential of these reforms. This unified approach holds the key to unlocking sustainable growth, ensuring the long-term resilience and appreciation of the ringgit.



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# Promoting Financial Stability

## Financial Stability Priorities in 2024

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

In 2024, the Malaysian economy recorded a stronger growth rate of 5.1% (2023: 3.6%) driven by robust domestic demand, strong investments and rebound in exports contributed by the global technology upcycle. Against this backdrop, Malaysia's financial sector continued to be well-positioned to support financial intermediation activities.

In 2024, our regulatory and supervisory priorities were targeted towards:

- promoting the adoption of globally consistent prudential standards that are appropriate for the Malaysian economy;
- strengthening the governance and risk management practices of financial institutions;
- further strengthening the resilience of financial institutions against emerging risks such as cyber threats, climate and fraud;
- enhancing preparedness of the banking system to withstand crisis; and
- promoting high standards of business conduct to ensure fair outcomes for financial consumers.

## Regulatory Priorities

In 2024, BNM issued 11 key prudential and conduct policies (refer to Diagram 1).

### Capital framework reforms

BNM is committed to adopt international standards for our regulatory capital framework. Malaysia achieved significant progress in adopting the Basel III<sup>1</sup> reform package in 2024. We finalised the revised capital standards for credit risk under the standardised approach.<sup>2</sup> Additionally, in December 2024, BNM issued enhanced requirements to limit losses to banks from large exposures<sup>3</sup> to a single counterparty or a group of connected counterparties for industry consultation. In 2025, we will be consulting the industry on three additional elements of Basel III reforms: (i) the revised internal ratings-based approach for credit risk; (ii) the capital requirements for counterparty risk for derivative trades; and (iii) the requirements on assessing interest rate risk in the banking book. Collectively, these standards aim to ensure the Malaysian financial system is resilient against future shocks, while remaining competitive and able to better meet the financing and protection needs of households and businesses.

For insurers and takaful operators, we consulted the industry on the revised risk-based capital framework that is aligned with the Insurance Capital Standard (ICS).<sup>4</sup> The revision aims to improve risk sensitivity and comparability of capital adequacy measurement across the insurance and takaful sector.

<sup>1</sup> Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS) in response to the financial crisis of 2007–09. The measures serve to increase the level and quality of regulatory capital, ensure that significant risks are properly captured, improve bank liquidity and prevent excessive leverage.

<sup>2</sup> Further details on this policy can be found in the feature article 'Implementation of the Standardised Approach for Credit Risk: Key Revisions under Basel III and the Impact on Banks' in BNM's Financial Stability Review for Second Half 2024.

<sup>3</sup> Large exposures refer to total exposures of a bank to a single counterparty that are equal to or above 10% of its Tier 1 Capital.

<sup>4</sup> The ICS is a prescribed capital requirement that is developed by the International Association of Insurance Supervisors (IAIS) to promote a comparable risk-based measure of capital adequacy for Internationally Active Insurance Groups (IAIGs).

### Strengthening prudential standards on risk management

BNM's prudential policy initiatives in 2024 were also focused on strengthening the risk management standards and capabilities of financial institutions amidst a changing operating environment and evolving technology landscape. The growing digitalisation of financial services has heightened the risk of operational disruptions and cybersecurity threats for financial institutions. In light of this, BNM undertook a review of the Risk Management in Technology (RMiT) policy to strengthen the resilience of financial institutions against operational disruptions and enhance system-wide defences against cyberattacks and digital crimes. The requirements for stronger governance and internal controls proposed in the RMiT policy are aimed at preserving public confidence in the reliability and safety of the financial system.

BNM also continued our efforts to enhance the capability of financial institutions in facilitating the transition towards a greener economy. This year, we finalised the Climate Risk Stress Testing Methodology Paper in preparation for the submission of the first industry-wide climate stress testing exercise to BNM in 2025. The outcomes of the stress testing exercise will be used to further improve financial institutions' climate risk management practices.<sup>5</sup>

We also took steps to ensure prudential regulations continue to reflect expectations for the strong governance and oversight of Shariah in the conduct of Islamic financial businesses. This included standards to support the broader application of *ta'awun*<sup>6</sup> by takaful operators and its proper disclosure to takaful participants.<sup>7</sup>

### Ensuring fair treatment and outcomes for financial consumers

BNM requires financial institutions to uphold high standards of market conduct and professionalism to ensure fair outcomes for financial consumers. Amongst others, we ensured that market conduct requirements are adequate to address emerging risks arising from digitalisation of financial services and the growing complexity of financial products and services. In 2024, we updated the product transparency and disclosure requirements to include digital channels, so that consumers have access to detailed information on financial products and services for decision-making. We also strengthened the standards for financial institutions to be responsive, fair, transparent and effective in managing consumer complaints.

As part of efforts to ensure effective avenues for consumers to seek fair redress in the event of disputes with financial institutions, BNM and the Securities Commission Malaysia (SC) consolidated the Ombudsman for Financial Services (OFS) and the Securities Industry Dispute Resolution Center (SIDREC) into the Financial Markets Ombudsman Service (FMOS). FMOS will serve as the one-stop dispute resolution body for financial services. This integrated dispute resolution centre aims to improve the overall process to provide quicker and transparent resolutions for financial consumers and investors, thereby strengthening consumer and investor confidence in the financial system.

In the insurance and takaful sector, we strengthened the requirements to improve the process of handling and assessing general insurance and takaful claims.<sup>8</sup> New regulatory requirements are also being finalised to ensure prudent and professional conduct of insurance and takaful brokers.

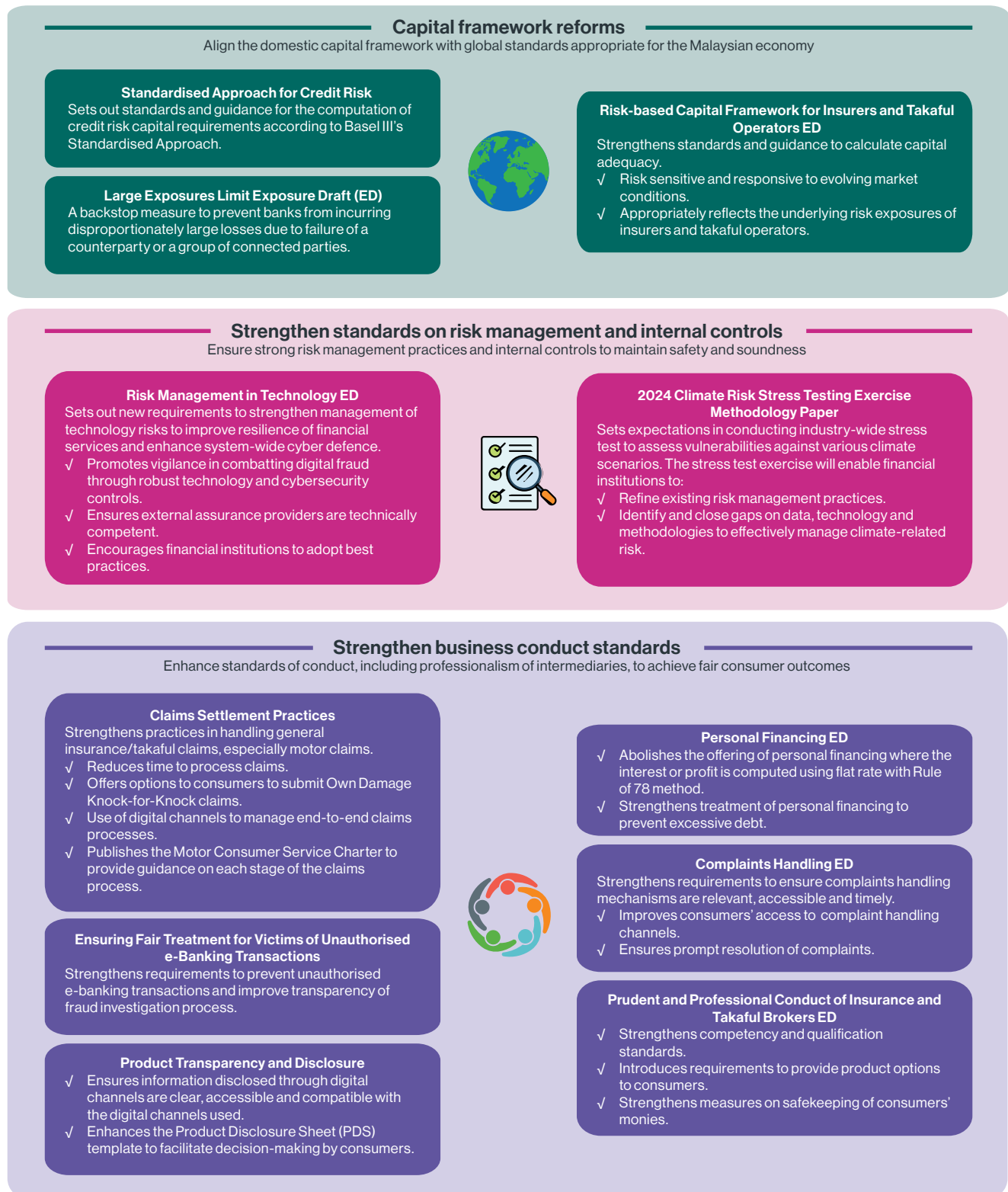
<sup>5</sup> Further details on BNM's initiatives to facilitate the transition to a greener economy can be found in the section on 'Supervisory Priorities and Approaches' and the chapter on 'Towards a Greener Financial System'.

<sup>6</sup> *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.

<sup>7</sup> More details on the initiatives to expand the application of *ta'awun* can be found in the chapter on 'Promoting a Progressive and Inclusive Islamic Financial System'.

<sup>8</sup> Further details can be found in the feature article on 'In the Driver's Seat: Enhanced Claims Settlement Practices'.

Diagram 1: Key Policy Issuances and Updates in 2024



Source: Bank Negara Malaysia

## Supervisory Priorities and Approaches

BNM adopts a risk-based approach in the supervision of financial institutions, comprising both on-site and off-site reviews. This dynamic and forward-looking approach enables supervisors to focus on activities which pose material risks to financial institutions. Supervisory assessments are formally communicated to financial institutions for prompt corrective actions.

### Cyber resilience

A key supervisory focus in 2024 was on strengthening cybersecurity measures of financial institutions and their preparedness to handle cyber incidents that could disrupt the provision of financial services and affect the integrity of the financial system. This includes managing contagion risks arising from interconnectivity with third-party service providers.

BNM conducted a second industry-wide cyber drill exercise to gauge financial institutions' readiness to respond to a widespread cyberattack and test industry-wide cooperation arrangements on information sharing to support incident responses. A total of 242 participants from 49 financial institutions took part in the exercise. Most financial institutions showed improved response levels to a cyberattack event compared to the first cyber drill conducted in 2022. We will continue our ongoing engagements with financial institutions, relevant public and private entities, cybersecurity experts and solution providers to identify emerging cyber risks and inform the development of regulations and supervisory practices.

The Cyber Security Act 2024 (CSA 2024) which was enacted in August 2024 designated BNM as one of the sector leads for the financial sector, together with the SC and the Ministry of Finance. Following this, BNM has designated several financial institutions as National Critical Information Infrastructure (NCII) entities. These entities will be required to adhere to the stringent standards and security measures under CSA 2024, thus contributing towards strengthening Malaysia's cyber defences and resilience against emerging cyber threats.

### Strengthening resilience against financial fraud

BNM continued to closely monitor the effectiveness of the fraud countermeasures implemented by the industry since 2022. These measures, which include migrating to more secure authentication methods, introducing a kill-switch capability and implementing a cooling-off period for high-risk transactions, have contributed to the overall reduction in the number of fraudulent unauthorised

transactions. As fraudulent tactics continue to evolve, we required financial institutions to further strengthen their fraud detection measures and remain vigilant against emerging threats. Together with the financial institutions, BNM also increased efforts to raise public awareness on how to avoid falling victim to evolving fraudulent tactics, particularly involving malware and phishing.<sup>9</sup>

### Ensuring resilience against climate-related risks

In managing climate-related risks, BNM continued to monitor the progress of financial institutions in adopting the taxonomy for classifying economic activities which are aligned with climate-related outcomes<sup>10</sup> and sound standards on climate risk management.<sup>11</sup> Following the issuance of the additional guidance on performing climate-related due diligence assessments on customers in 2023, we have observed notable improvements in the quality of reporting by financial institutions on the climate impact arising from their financing and investment exposures.

We also stepped up our engagements with financial institutions to gain insights into their climate targets and plans to support the transition to a net zero economy. Most financial institutions have set medium to long-term climate targets but are still refining the implementation plans and timelines to achieve the desired targets. As part of this process, we expect financial institutions' business strategies to be more closely aligned with the management of physical and transition risks arising from exposures to high climate risk sectors, while making sure that the transition is done in a just and orderly manner. In addition, progress made by financial institutions in implementing climate-related disclosures that are aligned to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) starting in 2024 are also expected to support the ability of financial institutions to implement the National Sustainability Reporting Framework (NSRF) in phases starting in 2025.<sup>12</sup>

### Crisis preparedness

Recovery planning is one of BNM's initiatives to elevate the banking system's preparedness in managing crisis. Following the issuance of the policy on Recovery Planning

<sup>9</sup> Further details on these various initiatives can be found in the feature article on 'Building a United Front Against Online Fraud Risk' and chapter on 'Maintaining Financial Integrity'.

<sup>10</sup> Policy document on Climate Change and Principle-based Taxonomy.

<sup>11</sup> Policy document on Climate Risk Management and Scenario Analysis.

<sup>12</sup> Further details on financial institutions' progress to implement climate-related disclosures and the adoption of NSRF can be found in the feature article on 'Navigating the Financial Sector's Transition to the National Sustainability Reporting Framework' in BNM's Financial Stability Review for Second Half 2024.

in 2021, we reviewed the recovery plans of selected banks in 2024 against the key components of BNM's recovery planning policy. The review focused on governance arrangements on recovery planning, strategic analysis, recovery indicators, recovery options, and analysis of scenarios that could threaten the banks' viability. Based on the findings from the review, these banks will be required to enhance the comprehensiveness and quality of their recovery plans, where relevant.

### Ensuring fair outcomes to financial consumers

BNM continued to focus its market conduct supervisory activities to uphold the principles of fair treatment of financial consumers. Our supervisory activities in 2024 were mainly aimed at ensuring financial institutions have in place appropriate governance and controls to treat their consumers fairly. When lapses were identified, financial institutions were required to pursue corrective measures promptly.

In order to manage high household indebtedness, BNM required financial institutions to ensure that suitability and affordability assessment standards for personal financing products with large amounts of financing or those offered to retirees are sufficiently robust. These enhanced measures are intended to protect consumers from incurring debts that are beyond their affordability to repay. In addition, BNM directed financial institutions to enhance their oversight and controls over employees involved in sales and approvals of personal financing. We also intensified financial education initiatives to help consumers, especially vulnerable consumers, to be more aware of risks of excessive borrowings.

In line with BNM's pursuit of achieving fair outcomes for consumers, we reviewed the policies and governance practices surrounding fees and charges to ascertain whether these fees and charges are fair, non-predatory and in accordance with BNM's standards. A total of 14 financial institutions were required to cease or revise fees and charges that were not properly justified or meeting BNM's standards. Additionally, financial institutions were required to provide fair redress and restitution to the affected customers.

Financial institutions are also required to be vigilant in protecting consumers' information at all times. To ensure this, we continued to place strong supervisory focus on financial institutions' governance and controls to assess whether they are effective in protecting consumers' information. Financial institutions were required to step up their vigilance over cyber and ransomware attacks and ensure they are well-prepared to take swift measures to contain any impact from information breaches. This includes providing adequate and timely communication

to the affected consumers as well as instituting controls to monitor for risks of identity theft. We also pursued enforcement actions proportionate to the severity of harm to financial consumers and impact to public trust.<sup>13</sup>

### Supervisory cooperation

BNM collaborates with other regulators within the country and internationally through the exchange of supervisory and regulatory information. The exchange of supervisory information with other regulators facilitates the consolidated supervision of financial groups, especially those with cross-border operations. In 2024, BNM participated in 20 supervisory colleges<sup>14</sup> where two of these colleges were hosted by BNM as the home regulator.

During the year, we hosted our first supervisory college focusing on money laundering and terrorism financing risks. Supervisory authorities in the region that are responsible for supervising banking groups with cross-border operations in Malaysia participated in the college. The insightful exchange of experiences in managing cross-border flows was helpful in contributing to global efforts in combating financial crime and maintaining financial system integrity.

We remained active in international forums and committees.<sup>15</sup> Such platforms provide us the opportunity to exchange insights and perspectives on important and emerging areas, especially from the viewpoint of an emerging market. This contributes to our ability to discharge our financial stability mandate effectively by strengthening our supervisory functions and ensuring sound regulations that are consistent with global standards and appropriate to domestic circumstances.<sup>16</sup>

BNM is also a member of the Association of Southeast Asian Nations (ASEAN) Cybersecurity Resilience and Information Sharing Platform (CRISP).<sup>17</sup> This initiative brings together central banks from the ASEAN region to enhance capacity of members through sharing of information on cybersecurity threats and insights and the development of robust cybersecurity strategies to combat cyber threats. We have been participating actively in this programme since its inception.

<sup>13</sup> Further details on the actions taken can be found in the section on 'Supervisory and Enforcement Actions'.

<sup>14</sup> Supervisory colleges are groups of supervisors with the primary objective of exchanging information and establishing a dialogue in order to ensure that they are able to identify and address the main risks across a financial group.

<sup>15</sup> These include the BCBS, IAIS, Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), Islamic Financial Services Board (IFSB), Network for Greening the Financial System (NGFS) and ASEAN Taxonomy Board.

<sup>16</sup> Further information on our role in the international and regional communities can be found in the chapter on 'International Engagements'.

<sup>17</sup> BNM has been an inaugural member of CRISP since its inception in 2019.



## Supervisory and Enforcement Actions

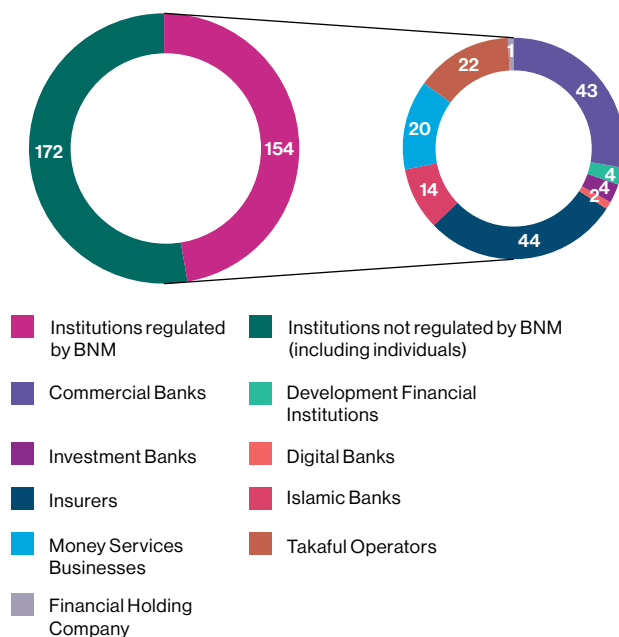
BNM deploys a range of supervisory and enforcement actions to safeguard financial stability and protect the integrity of the financial system. The actions taken against financial institutions vary based on the severity of breaches. Supervisory actions such as orders to comply are normally applied during the regular course of supervision. These are intended to be preventive or corrective in nature. On the other hand, enforcement actions, such as administrative penalties and compounds are more punitive. These are imposed on more serious breaches of regulations. This comprehensive approach has contributed to a positive change in the compliance culture of financial institutions. In our effort to be more transparent in the approach we take in deciding the appropriate actions, we published the Enforcement Approach document<sup>18</sup> to provide clarity on our enforcement regime and strategies.

In 2024, a total of 326 supervisory and enforcement actions were taken against BNM regulatees, as well as individuals and institutions that were in breach of our regulations (see Chart 1). These actions were mainly offences relating to anti-money laundering, countering financing of terrorism and countering proliferation financing (AML/CFT/CPF), prudential and foreign exchange policies (see Chart 2). Monetary penalties amounting to RM18.9 million were imposed on these institutions. We will continue to publish details of enforcement actions in our website to deter future breaches and promote confidence in the financial system.

BNM also deploys preventive and combative actions against financial crimes (Diagram 2). We conducted onsite surveillance activities on 123 entities involving 166 premises to detect potential illegal activities. Our surveillance activities are also supported by law enforcement partners such as the Royal Malaysia Police (Polis Diraja Malaysia, PDRM) and the National Anti-Financial Crime Centre (NFCC) in disrupting and dismantling illegal schemes and entities. In addition, we also leveraged other investigative tools including the use of data analytics.

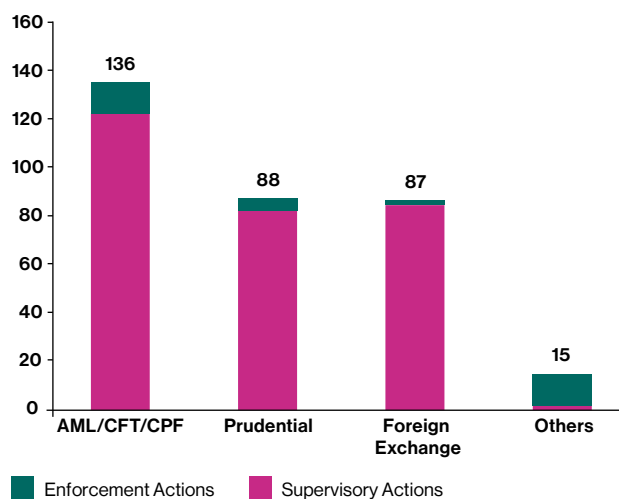
We pursued stronger enforcement actions against illegal activities including investigation and prosecution of illegal money services business (MSB) operators. We issued 37 cease and desist orders against illegal

**Chart 1: Number of Actions Taken by Type of Institutions in 2024**



Source: Bank Negara Malaysia

**Chart 2: Number of Actions Taken by Type of Breaches in 2024**



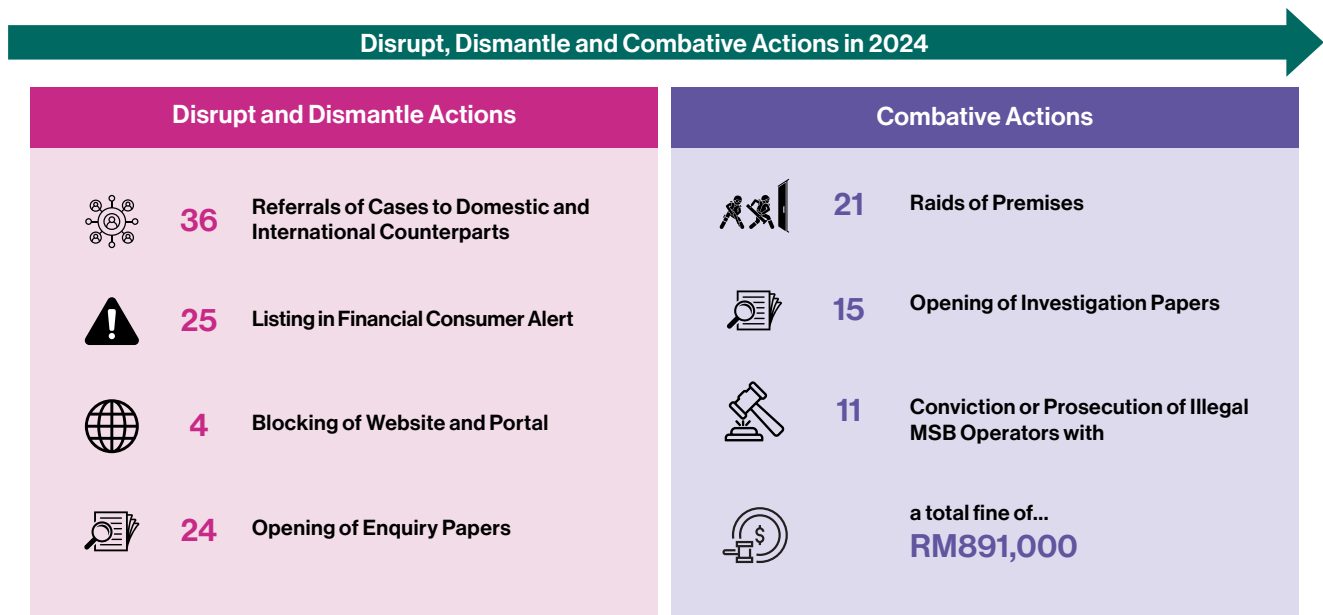
Source: Bank Negara Malaysia

MSB operators. We also forfeited assets from illegal activities, amounting to RM28.4 million. For breaches of the Money Services Business Act 2011 and Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001, we secured convictions against 11 illegal MSB operators in 2024 with a total fine of RM891,000.

<sup>18</sup> BNM issued the document on 30 April 2024.



Diagram 2: Disrupt, Dismantle and Combative Actions in 2024

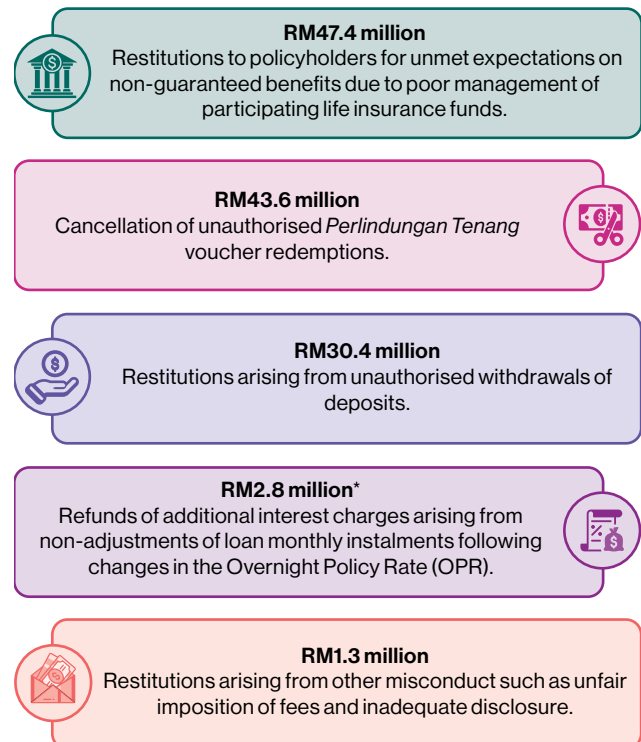


Source: Bank Negara Malaysia

The amended Money Services Business Act 2011 came into force on 1 August 2024. The amendments enable BNM to take more effective enforcement actions against illegal MSB operators. This is intended to act as a strong deterrent against unauthorised activities that endanger the interest of customers and undermine the integrity of the MSB industry. In dismantling other illegal schemes, we collaborated with NFCC and law enforcement agencies<sup>19</sup> to investigate and prosecute cases involving illegal deposit-taking and related money laundering schemes.

On market conduct, we actively pursued punitive actions against financial institutions that failed to maintain acceptable standards of sound and responsible conduct to protect financial consumers. We secured restitutions amounting to RM125.5 million to approximately 1.5 million customers (Diagram 3). We also took supervisory actions against insurance and takaful brokers, and financial advisers that failed to meet regulatory expectations including acceptable standards of professionalism. Where relevant, we also issued specific directives requiring financial institutions to take corrective measures to maintain high quality standards of fair dealings to consumers.

Diagram 3: Refund and Reinstatement Arising from Non-compliances to Business Conduct Requirements in 2024



\* By end-December 2024, RM2.8 million in refunds were issued to affected customers, and this process is ongoing into 2025.

Source: Bank Negara Malaysia

<sup>19</sup> These include PDRM, Ministry of Domestic Trade and Cost of Living, Inland Revenue Board of Malaysia, Cybersecurity Malaysia, Companies Commission of Malaysia, Registrar of Societies, and Malaysian Anti-Corruption Commission.

## Going Forward

The financial landscape will continue to evolve, primarily driven by digital and technological advancements, new and emerging risks, and changes in demography. Moving forward, to ensure that our regulatory and supervisory priorities are in line with our financial stability mandate, BNM will:

- a. Continue to strengthen our regulatory and supervisory approaches to promote a financial system that is resilient to future shocks and emerging risks. This includes advancing key regulatory initiatives to align with international standards, appropriate to Malaysia's context.
- b. Intensify efforts to protect the safety and integrity of the financial system through strong enforcement actions and ongoing collaboration with other law enforcement agencies.
- c. Ensure the regulations as well as supervisory monitoring and surveillance on conduct matters remain effective in ensuring fair treatment of consumers.
- d. Advance efforts to strengthen the operational resilience and crisis readiness of the financial sector.
- e. Continue to pursue efforts to strengthen financial institutions' resilience against climate-related risk and support an orderly transition towards a greener financial system.

## In the Driver's Seat: Enhanced Motor Claims Settlement Practices

A key expectation of anyone who purchases motor insurance is to obtain timely and fair compensation when an incident occurs, such as a road accident or natural disaster. Thus, it is critical for general insurers and takaful operators (GITO) to ensure that their claims handling practices are efficient to deliver fair outcomes to financial consumers. Towards this end, Bank Negara Malaysia (BNM) has enhanced the Claims Settlement Practices Policy Document (CSP PD). This PD aims to make claims process clearer, fairer and quicker, especially for motor claims, while raising professionalism standards of GITO and registered adjusters.<sup>1</sup>

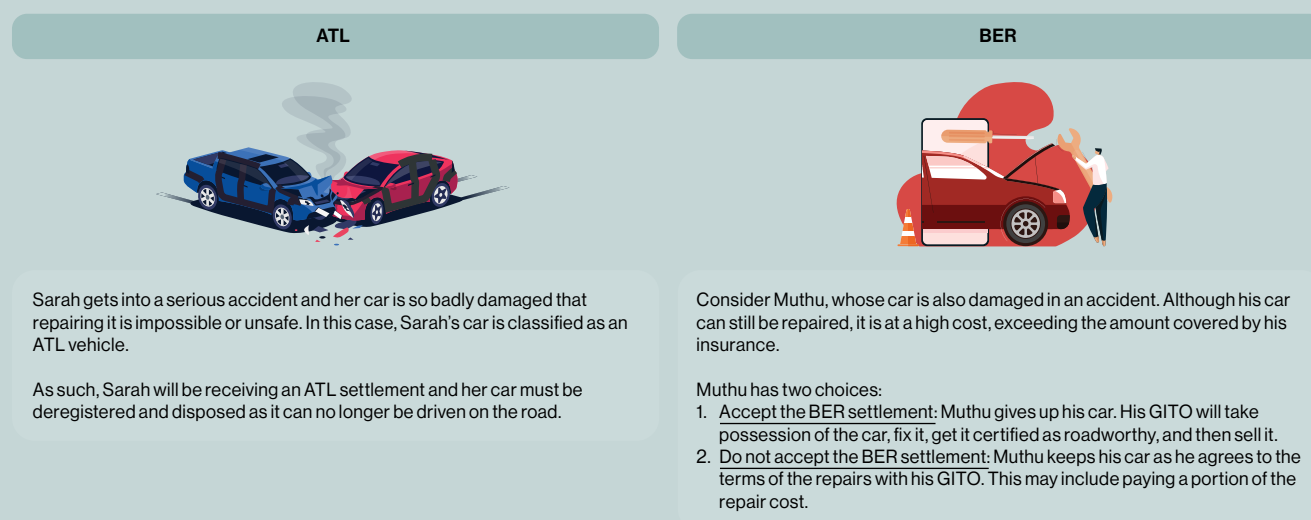
The enhancements include additional requirements aimed at shortening the total time taken (also commonly known as turnaround times (TATs)) to complete motor claims processes. We expect this to result in further improvements to the average processing time taken to settle motor claims by up to half the time previously taken.

The revised PD also requires GITO to inform consumers about the Own-Damage Knock-for-Knock (OD KfK) option. The OD KfK option allows consumers with comprehensive motor insurance policies or takaful certificates to submit claims to their own GITO for road accidents where they are not at fault, instead of having to deal with the other party's GITO. OD KfK enables consumers to experience a more convenient and faster claims process. Importantly, consumers' No-Claim-Discount (NCD) will remain unaffected.

Every GITO is also required to publish a Motor Customer Service Charter (MCSC) on its websites to guide consumers on what to expect at each stage of the claims journey. In the MCSC, consumers will find the service standards that GITO are committed to deliver and the expected TATs throughout motor claims processes. Subsequently, if the decisions made by GITO are not to their satisfaction, consumers can submit complaints to the Financial Markets Ombudsman Service (FMOS) or BNM's Laman Informasi Nasihat dan Khidmat (BNM LINK) for further assistance.

The revised PD also clarifies the two different types of total loss vehicle claims, namely Actual Total Loss (ATL) and Beyond Economic Repair (BER). The low understanding of the differences between ATL and BER has been a common source of confusion among consumers. With this clarity, consumers can make informed decisions and know what to expect if their vehicle falls under either category, i.e. whether their vehicles should be disposed of or taken by the GITO in exchange for a BER settlement.

**Diagram 1: Difference between ATL and BER Vehicles**



Source: Bank Negara Malaysia

<sup>1</sup> Refers to professionals who investigate insurance/takaful claims to determine the cause and amount of the loss.

Other important policy enhancements aimed at ensuring the safety of BER vehicles and protecting the environment are summarised below.

### Diagram 2: Other Requirements on GITOs with Regard to ATL and BER Vehicles



GITOs must report ATL and BER status of vehicles to the Road Transport Department (JPJ) within five working days after the consumer accepts the claims offer. For BER vehicles, rigorous safety checks will be conducted by vehicle inspection providers (VIP), such as PUSPAKOM to ensure they meet safety standards before being declared roadworthy.



GITOs must dispose ATL vehicles at authorised automotive treatment facilities (AATFs) where available, which supports environmental sustainability objectives and helps reduce illegal activities such as illegal transfer of ownership or fraudulent claims.



GITOs cannot deny coverage just because a vehicle is classified as BER. If a GITO is unable to offer coverage, clear reasons must be given, and consumers should be advised on availability of other options.

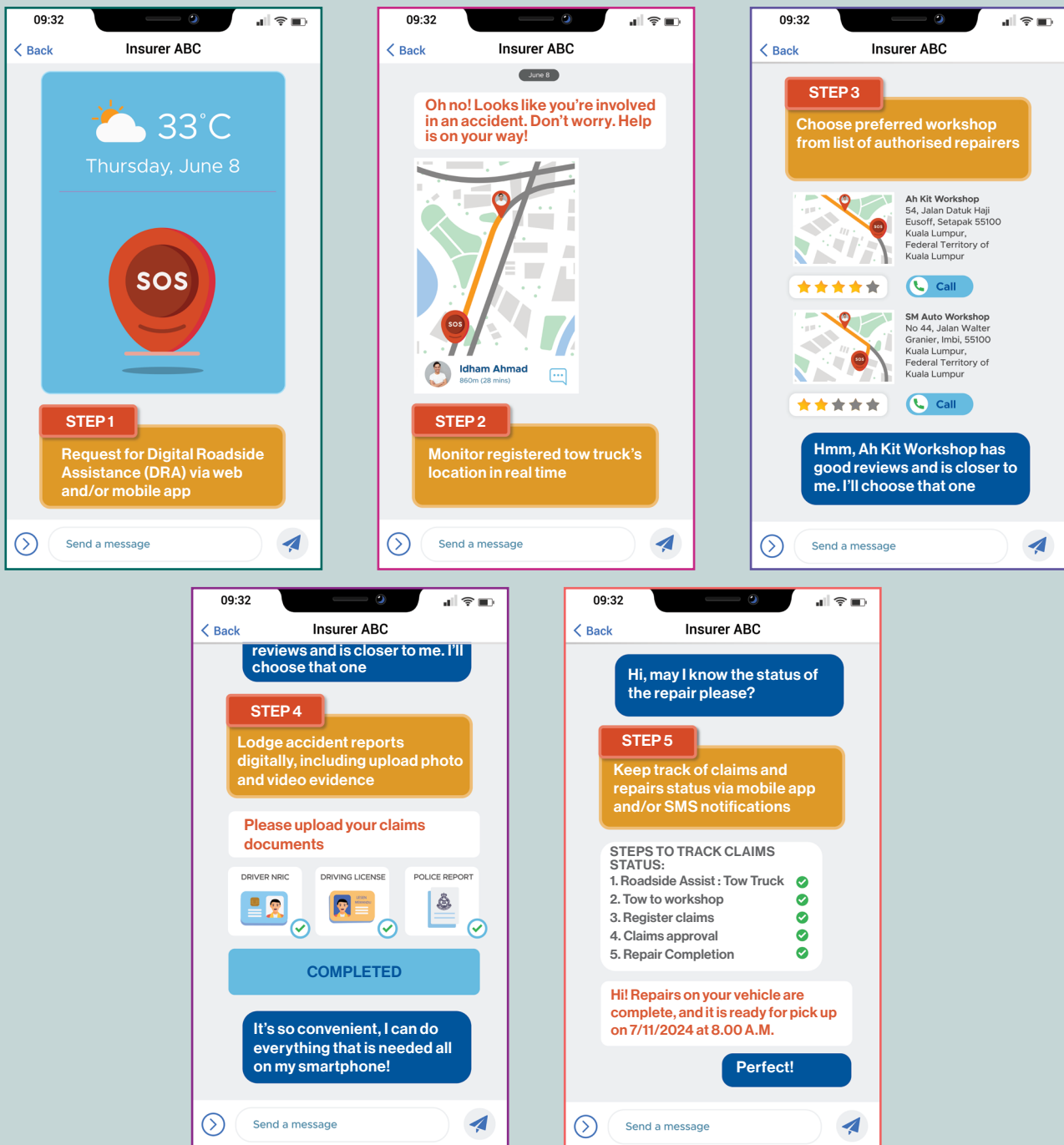
Source: Bank Negara Malaysia

Following the revised PD and BNM's call to embrace digitalisation, all GITOs have started introducing Digital Roadside Assistance (DRA). This initiative enables consumers to use digital channels to request for help in the event of an accident or vehicle breakdown, track the location of tow trucks, select workshops, submit and monitor their claims, all in real-time. With DRA, consumers' experience and convenience are expected to further improve.<sup>2</sup> Diagram 3 shows an example of the step-by-step process on how to use DRA when initiated via mobile applications.

With these improvements, consumers can expect faster and simpler procedures and better service quality.

<sup>2</sup> More information on GITOs that have incorporated DRA can be found in the 'Promoting a Progressive and Inclusive Financial System' chapter of this report.

Diagram 3: Example of the Step-by-Step Process for DRA via Mobile Application



Source: Bank Negara Malaysia

# Promoting a Progressive and Inclusive Financial System

Bank Negara Malaysia continued to foster a progressive and inclusive financial system in line with the desired outcomes of the Financial Sector Blueprint 2022–2026.

As the Financial Sector Blueprint (Blueprint) 2022–2026 reaches its mid-point, BNM's developmental priorities remain focused on advancing an inclusive financial system that supports economic transformation in a more digitalised environment. This commitment is further reflected by the second Financial Inclusion Framework (2023–26) (FIF),<sup>1</sup> which offers targeted strategies to improve financial inclusion. In 2024, BNM prioritised initiatives which assisted businesses, especially micro, small and medium enterprises (MSMEs), to build business resilience, improve access to finance and transition to green practices. BNM also directed efforts at raising financial literacy levels and understanding on-the-ground financial inclusion challenges to ensure effective interventions. Along with this, BNM encouraged participation by key players to drive responsible innovation within a dynamic digital financial services landscape. The evolving landscape also highlights the need for further efforts to develop alternative financing models to support economic transformation, address protection gaps and equip the workforce to respond to emerging opportunities and challenges. Chapters titled

'Promoting a Progressive and Inclusive Islamic Financial System' and 'Towards a Greener Financial System' further elaborate on key efforts and progress in advancing value-based finance through Islamic finance thought leadership and facilitating an orderly transition to a greener economy.

## Enhancing Continuous Access to Financing

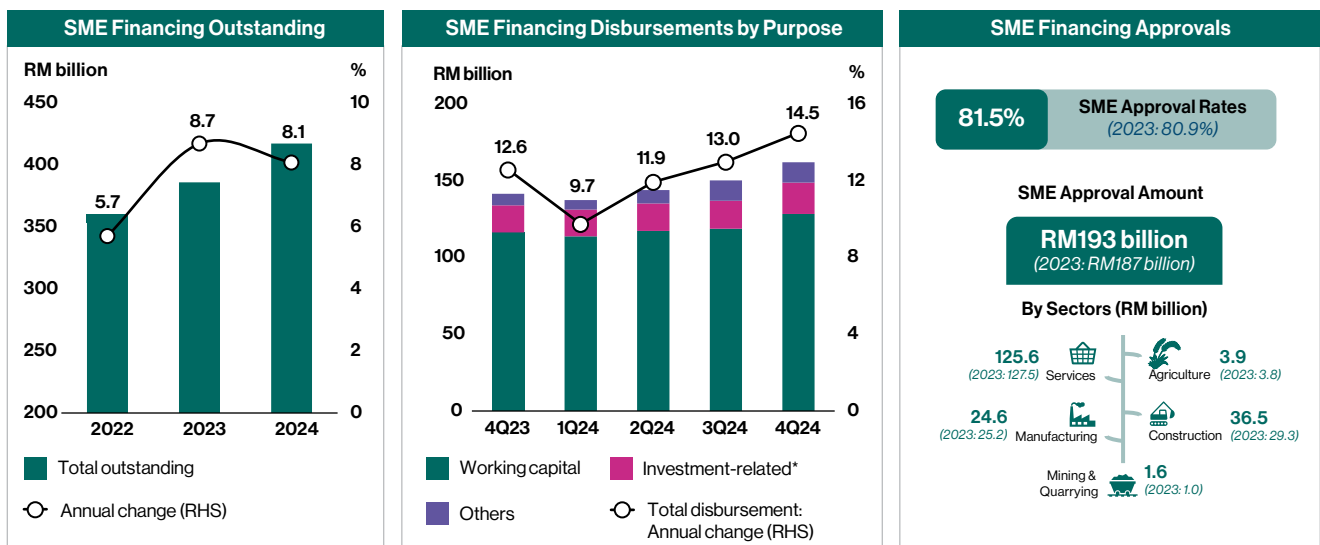
In 2024, credit conditions remained supportive of businesses' financing needs, as financing to businesses grew by 5.1% (2023: 3.7%). Of this, outstanding SME financing growth continued to remain strong at 8.1% (2023: 8.7%), supported by continued disbursements mainly for working capital purposes. New SME financing approvals grew during the year amid a higher approval rate of 81.5% (2023: 80.9%), particularly for the construction sector (Chart 1).

BNM's Fund for SMEs (the Fund), which accounted for 8% of outstanding financing to SMEs, complemented financing from banks and development financial institutions (DFIs).<sup>2</sup> As at end-2024, about RM5 billion remained available for utilisation. The current focus is to channel funds into areas aligned with national economic and development priorities, including accelerating digital transformation and the greening of SMEs (Diagram 1).

<sup>1</sup> The first Financial Inclusion Framework 2011–20 was developed by BNM to advance financial inclusion, with focus on four dimensions, i.e. accessibility, take-up, usage and satisfaction of financial services. The targeted strategies implemented under this framework achieved progressive outcomes and laid a solid foundation that broadened the level of financial inclusion in the country.

<sup>2</sup> DFIs prescribed under the Development Financial Institutions Act 2002 are Bank Kerjasama Rakyat Malaysia (Bank Rakyat), Bank Pertanian Malaysia Berhad (Agrobank), Bank Simpanan Nasional (BSN), Bank Pembangunan Malaysia Berhad (BPMB), Export-Import Bank of Malaysia Berhad (EXIM Bank) and Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank).

Chart 1: Performance of SME Financing

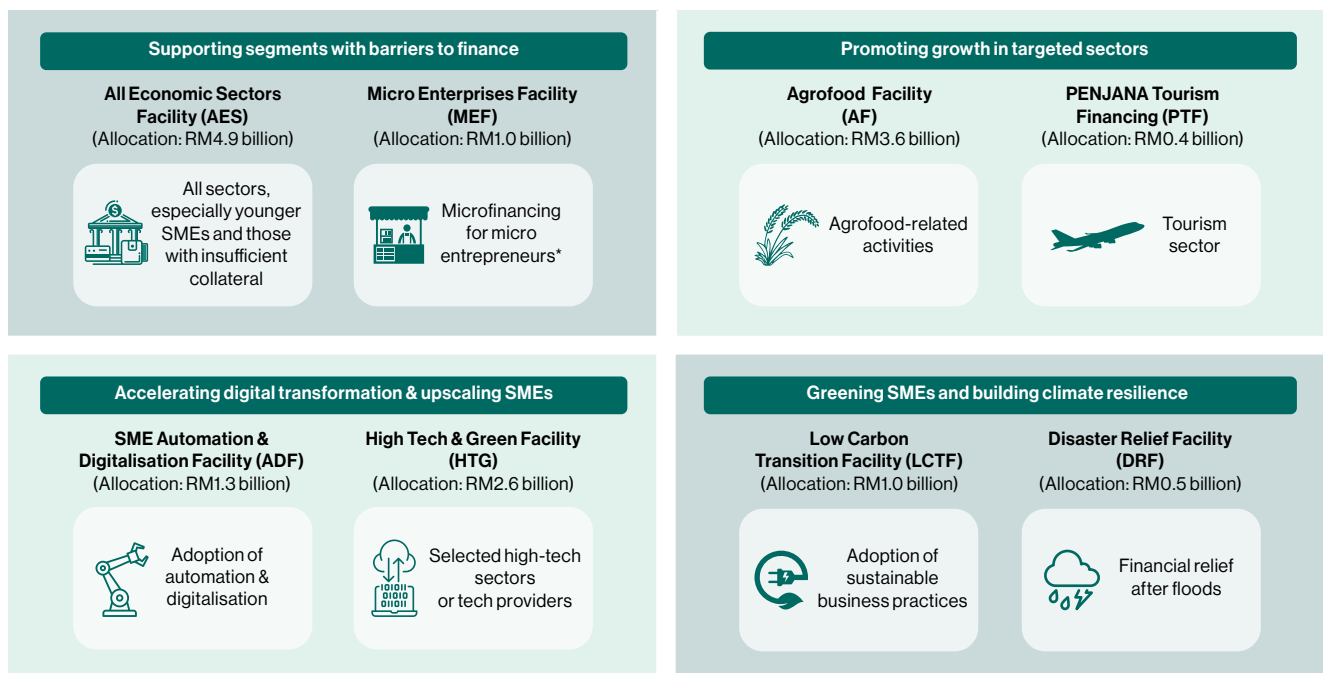


\* Investment-related purpose includes financing for the purchase of non-residential properties, residential properties for business use, fixed assets (including cars), and construction activity.

Note: Reflects loan/financing from the banking system and development financial institutions (DFIs).

Source: Bank Negara Malaysia

Diagram 1: Active Facilities under BNM's Fund for SMEs Providing Targeted Support to SMEs



\* Includes self-employed, gig workers and iTEKAD participants.

Source: Bank Negara Malaysia



During the year, BNM upsized the High Tech and Green Facility (HTG) and Agrofood Facility (AF) to a total allocation of RM6.2 billion to support increasing demand for digital transformation in strategic sectors and agrofood production. The Micro Enterprises Facility (MEF) was also upsized to RM1 billion to cater for future demand. The scope of BNM's Fund for SMEs will be reviewed to ensure that it continues to meet the needs of Malaysian SMEs. This includes enhancing SMEs' resilience against floods, targeting financing to younger SMEs, and providing additional support for SMEs in the tourism sector in view of the upcoming Visit Malaysia Year 2026. BNM will also assess and enhance the design of the Fund to further increase its impact on the unserved and underserved segments in line with Malaysia's economic aspirations. This includes exploring innovative models beyond concessionary financing and ways to crowd-in larger private sector participation.

In 2024, BNM issued the Policy Document on *Skim Pembiayaan Mikro* (SPM) which aims to enhance access to financing and service quality to microentrepreneurs. The SPM financing limit is increased to RM100,000 (from RM50,000) without collateral.<sup>3</sup> Guarantee schemes were also introduced by the Credit Guarantee Corporation in collaboration with participating financial

institutions (PFIs) to support microentrepreneurs who might otherwise be assessed as too risky. Currently, 15 PFIs offer 42 microfinancing products under SPM, which have benefitted over 300,000 microentrepreneurs since inception. As at end-2024, outstanding financing under SPM grew by 19.2% to RM2.1 billion (end-2023: RM1.8 billion).

The iTEKAD<sup>4</sup> initiative, now in its fifth year, continues to help low-income microentrepreneurs build their skills and grow their businesses, further strengthening their track record and access to financing (Diagram 2). Since inception, iTEKAD has aided more than 9,000 microentrepreneurs. It has expanded through partnerships with 14 PFIs, with an additional bank joining the initiative in 2024. These PFIs also collaborated with over 100 implementation partners to expand outreach and deliver positive impact to the ecosystem (Diagram 3). Under the Budget 2025, the Government offers two incentives namely, an additional RM15 million grant allocation for iTEKAD participants' seed capital and a new RM5 million matching grant allocation for insurance and takaful contributions. This would encourage PFIs to further integrate social finance into financing and financial protection offerings targeted at microentrepreneurs.

**Diagram 2: The Impact of iTEKAD on Low-income Microentrepreneurs Shown Through Success Stories of Participants**



Azmi, the founder of Dr. Shoes, initially operated a business of manually repairing and producing shoes, bags and leather goods. With the seed capital received through joining iTEKAD, Azmi was able to invest in the necessary machinery and raw materials to boost production capacity. As a result, he has increased his output from producing three sandals a day manually by hand, to producing three times the output. The resulting increase in income has allowed Azmi to improve the living standards of his family.

Despite working as a barista for the past 11 years, Amanina faced financial limitations to start her own business. Through iTEKAD, she received the opportunity to open a café as a franchisee of Monti Keopi. By participating in the structured training offered by the iTEKAD programme, Amanina developed essential skills in financial and business management, supplier relations, and effective staff management.

Aina, the founder of ScarfRosie, started her business by selling scarves online. Upon onboarding to the iTEKAD programme, she was able to open a physical store and increase her sales. The income generated from the expanded business helped Aina to pay her tuition fees and provide financial support to her family. iTEKAD also enabled her to provide employment opportunities to university students, allowing them to work at ScarfRosie, earn a salary and alleviate their own financial challenges.

Source: The Alliance for Financial Inclusion's video on 'iTEKAD: Empowering Malaysia's Microentrepreneurs', which can be viewed at [https://youtu.be/5kTg4\\_aGoQ8?si=ERPm-VijNU0SD-jj](https://youtu.be/5kTg4_aGoQ8?si=ERPm-VijNU0SD-jj).

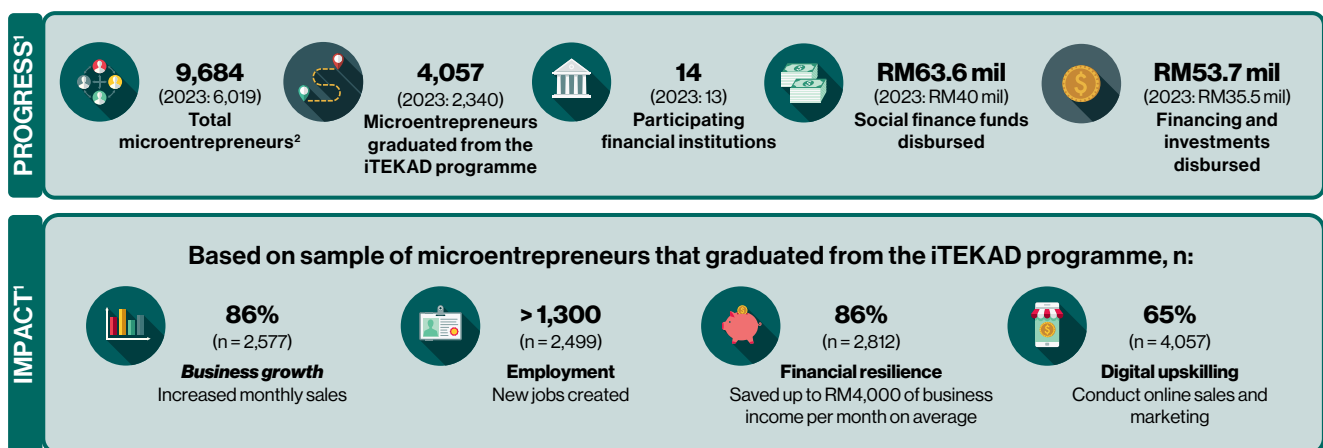
<sup>3</sup> Subject to assessments by participating financial institutions, financial guarantee from third party or collateral may be required in certain scenarios to improve microentrepreneurs' likelihood of securing financing.

<sup>4</sup> For more information, please refer to the feature article on 'iTEKAD: An Ecosystem Approach in Scaling Up Social Finance' in BNM's Annual Report 2023.



iTEKAD Marketplace featuring 13 microentrepreneurs at the Sasana Symposium 2024

### Diagram 3: Progress and Impact of iTEKAD in 2024



<sup>1</sup> Data as at end-December 2024.

<sup>2</sup> Total participants refer to the number of both on-going and graduated participants, reflecting the total beneficiaries of iTEKAD.

Source: Bank Negara Malaysia, participating financial institutions

### DFIs as key enablers to drive sustainable growth and enhance industry inclusivity

In 2024, outstanding DFI financing grew by 5.6% to RM183.3 billion (2023: 6% to RM173.5 billion), supporting more than 3 million SMEs, microenterprises, start-ups,<sup>5</sup> and the low-income group. The financing has yielded positive impacts, creating and sustaining employment for more than 130,000 individuals. Additionally, in 2024,<sup>6</sup> more than 14,000 business customers<sup>7</sup> were able to grow their businesses as evidenced by higher sales turnover and business expansion.

These achievements were enabled by the Performance Measurement Framework (PMF)<sup>8</sup> which guides DFIs in developing intentional strategies that create additionalities through their business activities (Diagram 4) to add value to the financial system and the broader economy (Diagram 5). During the year, the PMF Working Group (PMFWG) was established to advance the effective rollout of the PMF across DFIs. As a collaborative platform, it facilitates open dialogue among stakeholders to discuss challenges relating to PMF implementation, promotes the sharing of effective strategies and integrates technological advancements to streamline data collection processes.

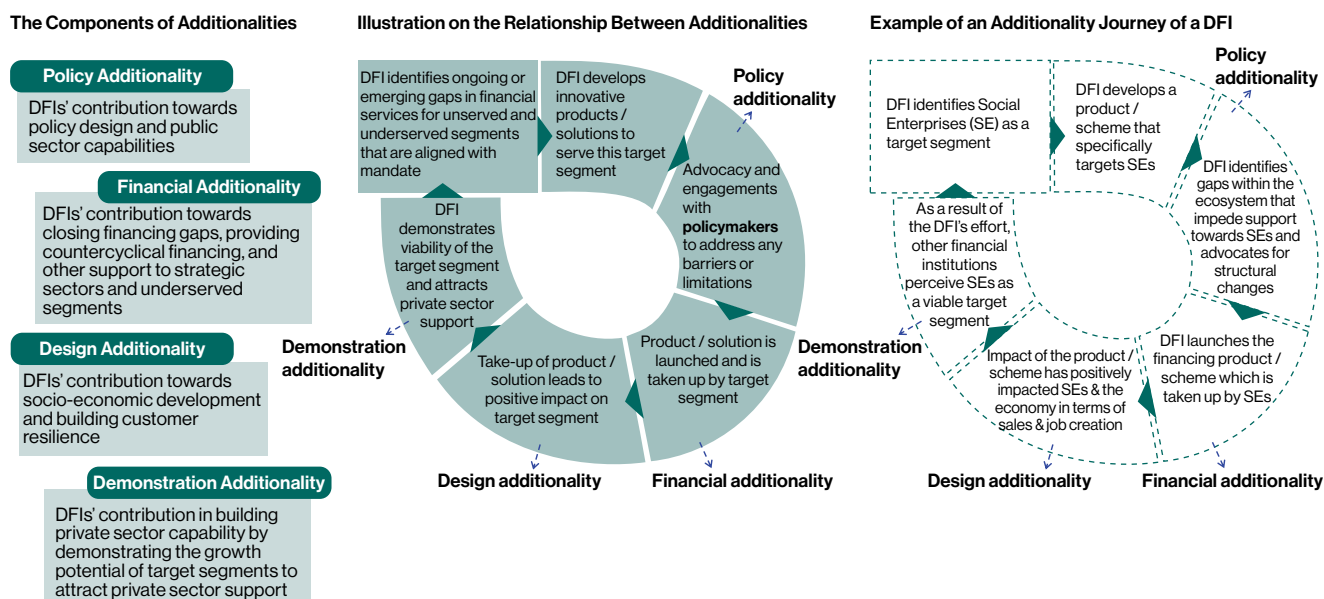
<sup>5</sup> Businesses with less than three years in operation.

<sup>6</sup> Out of 24,000 businesses surveyed.

<sup>7</sup> Includes businesses which have reported upward migration, such as transitioning from small to medium, or medium to large, or experienced improvements in credit rating.

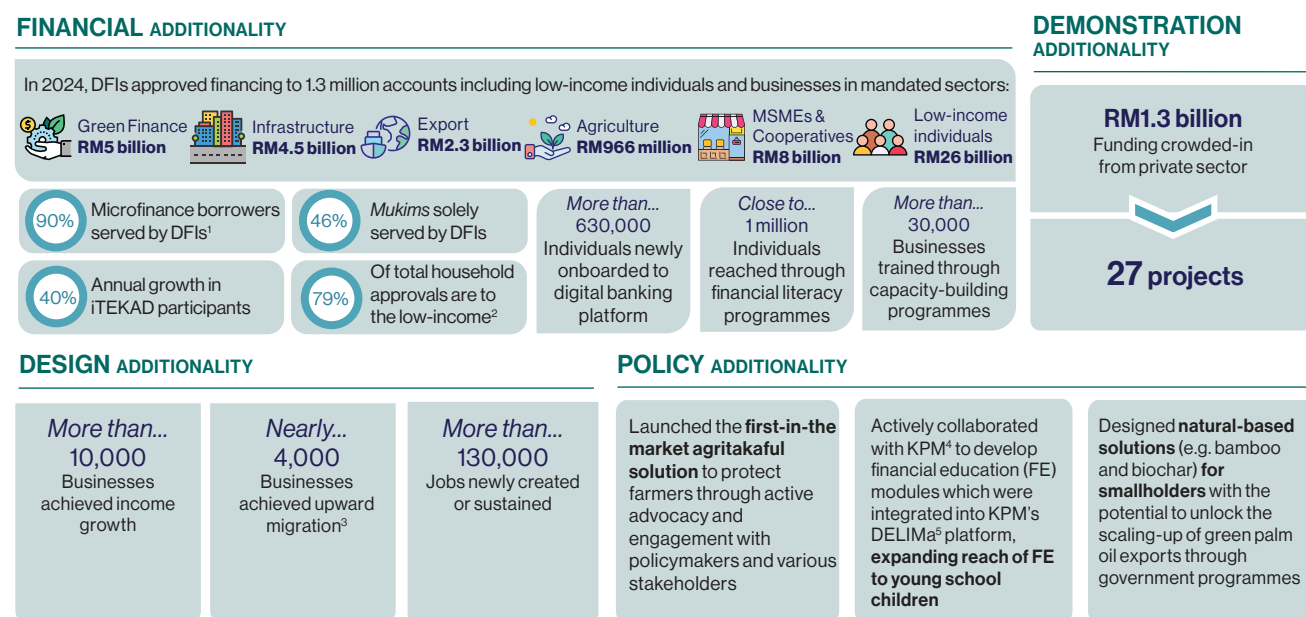
<sup>8</sup> The PMF is a measurement framework for DFIs that encompasses wider contributions beyond financing. The framework emphasises the creation of additionalities, which is the increase in social value that would not have occurred under a purely commercial environment.

**Diagram 4: Illustration on How the PMF Steers DFIs in Delivering their Mandates and Adding Value to the Financial Ecosystem**



Source: Bank Negara Malaysia

**Diagram 5: DFIs' Achievements in Additionality Creation in 2024**



<sup>1</sup> Based on number of accounts outstanding under Skim Pembiayaan Mikro (SPM).

<sup>2</sup> Based on number of accounts approved in CCRIS.

<sup>3</sup> Upward migrations: informal to formal, micro → small → medium → large or improvements in credit rating.

<sup>4</sup> Kementerian Pendidikan Malaysia

<sup>5</sup> Digital Educational Learning Initiative Malaysia

Source: Bank Negara Malaysia





*BNM and the World Bank's collaboration for Green Finance Workshop: Strategies for Closing Finance Gaps for Climate Resilience and Sustainability*

As outlined in the PMF, a key additional focus of retail DFIs is elevating the financial literacy levels of Malaysians. In collaboration with the Ministry of Education, the DELIMA<sup>9</sup> platform offers financial education resources to schools, reaching 2.1 million students. Moving forward, DFIs will be piloting a 'Just-In-Time' financial education programme. The programme aims to address issues of high indebtedness via targeted guidance on informed decision-making relating to key topics such as savings, retirement planning and debt management, especially among young individuals and civil servants.<sup>10</sup>

DFIs contributed to sustainability efforts, approving close to RM5 billion in financing climate mitigation and adaptation initiatives in 2024. This financing supported projects in the circular economy, industrial decarbonisation, waste-to-energy innovation and climate resilience. DFIs also introduced green finance products such as savings accounts with takaful protection against flood risks, Malaysia's first crop takaful for small farmers, and a RM1.5 billion trade finance programme with a carbon emissions calculator. Efforts to further build DFI green finance capabilities include a Green Finance Workshop jointly organised by BNM and the World Bank, which aimed to unlock financing opportunities, mitigate risks, and support climate transition for vulnerable groups.

Following the Budget 2024 announcement, the restructuring of DFIs involving the merger of Bank Pembangunan Malaysia Berhad, SME Bank and EXIM Bank is well underway. By combining resources and expertise, the newly merged DFI is anticipated to offer more comprehensive financial solutions and capacity building initiatives, particularly to the unserved and underserved groups such as SMEs and Bumiputera enterprises.

## Enhancing Financial Inclusion and Access to Financial Products and Services

### Advancing financial inclusion strategies

Promoting financial inclusion is key to improving the financial resilience and well-being of Malaysians. In achieving broader developmental outcomes, a key aspect of the second FIF is the structured monitoring and evaluation (M&E) process. The M&E process focuses on key performance indicators (KPIs) based on three themes: access, usage, and capability (Diagram 6) which helps ensure transparency and steer collective efforts, including industry-led initiatives.

<sup>9</sup> Digital Education Learning Initiative Malaysia (DELIMA) is a platform that offers interactive and accessible services required by teachers and students within the Malaysian school system.

<sup>10</sup> Based on Financial Capability and Inclusion Demand Side (FCI) 2021 Survey, civil servants form the highest percentage of borrowers of personal loan; and account for 10%–13% of new bankruptcy cases between 2021 and 2024.

**Diagram 6: Key Areas of Financial Inclusion and Definitions, Key Performance Indicators (KPIs) to Measure Financial Inclusion Progress**



### Access

Ability to use appropriate services and products offered by formal financial institutions.



### Usage

The depth or extent of financial services and products usage.



### Capability

Possess a combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being.

Source: Bank Negara Malaysia

Indicator	Baseline (2023)	Target (2026)
<b>Access</b>		
% of sub-districts (mukims) with population >2000 to have at least one FAP within 10km traveling distance or 5km radius <sup>1</sup>	96%	All mukims
Number of SST enabled with Interbank Cash Deposit (IBCD)	906	At least 25% of total CRMs
% of adult population <sup>2</sup> with formal accounts <sup>3</sup>	98%	99%
% of adult population with deposit accounts	97%	98%
% of adult population with digital accounts <sup>4</sup>	New data, pending availability	
% of SME financing to total business financing (total amount outstanding)	48%	50%
Approval rate for financing among SMEs	80.9%	Continuous improvement
Insurance/takaful penetration rate as a % of GDP	4.7% (2022)	4.8%-5%
Number of individuals subscribed to microinsurance/microtakaful	781,727	Doubling microinsurance/microtakaful subscribers from 2021 <sup>5</sup>
% of adult population who trust financial service providers will treat them fairly	90% (2021)	92%
<b>Usage</b>		
% of customers with active deposit accounts (more than one transaction per month)	New data, pending availability	
Compounded Annual Growth Rate (CAGR) of e-payment per capita	13.3% (2020) <sup>6</sup>	Higher than 15%
% of performing financing accounts <sup>7</sup> for households	98%	Continuous improvement
<b>Capability</b>		
OECD/INFE International Survey of Adult Financial Literacy	61.0	Close gap with OECD Average
Malaysia Financial Literacy and Capability (MYFLIC) Index	59.0 (2021)	Close gap with OECD Average
% of individuals sharing passwords/PIN of bank accounts with third party	37% (2021)	Close gap with OECD Average
% of individuals that pay attention to security of websites before making an online transaction	38% (2021)	Close gap with OECD Average
% of adult population able to cover living expenses for 3-6 months, in the event of losing main source of income	36% (2021)	Close gap with OECD Average

<sup>1</sup> A Financial Access Point (FAP) refers to a place that provides, at minimum, financial services of accepting deposits and facilitating withdrawal of funds by customers. FAPs include bank branches, mobile units of financial institutions, deposit and withdrawal electronic terminals and agent banks.

<sup>2</sup> Adult population refers to population aged more than 15 years.

<sup>3</sup> Formal account refers to deposits, financing, insurance/takaful, e-wallet accounts and digital accounts with regulated entities.

<sup>4</sup> Digital account refers to e-money, mobile banking and internet banking.

<sup>5</sup> 2021 microinsurance/microtakaful (Perlindungan Tenang) subscribers: 610,013

<sup>6</sup> 2020 data (pre-pandemic) is used as a baseline for more realistic comparison.

<sup>7</sup> Performing accounts are defined as loan accounts with one or less month in arrears.

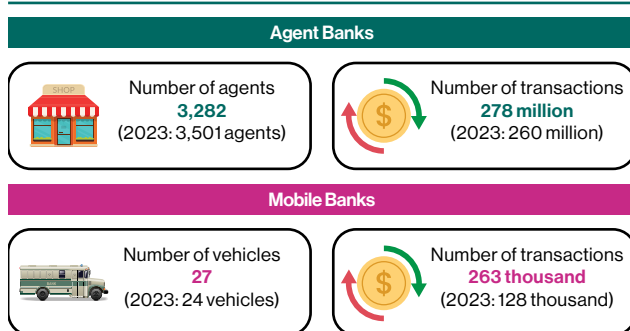
Note: Annual progress updates on these indicators will be made available at the 'Financial Inclusion' section of BNM's website (<http://www.bnm.gov.my/financial-inclusion-data-for-Malaysia>) from Second Quarter of 2025.

Source: Bank Negara Malaysia, OECD

### Availability of financial access points

Physical financial access points<sup>11</sup> (FAPs) remain an important bridge for consumers moving towards digital services. Malaysia ranks among the highest in the region in terms of availability of FAPs, with 95% of *mukims*<sup>12</sup> being served.<sup>13</sup> In underserved areas, agent banks and mobile banks play a crucial role in widening access to essential banking services, with 44% of *mukims* solely relying on these services (Diagram 7). BNM remains committed to addressing the needs of the remaining 46 unserved *mukims*.

**Diagram 7: Key Performance Indicators of Agent Banks and Mobile Banks (under BBI) in 2024**



Source: Bank Negara Malaysia

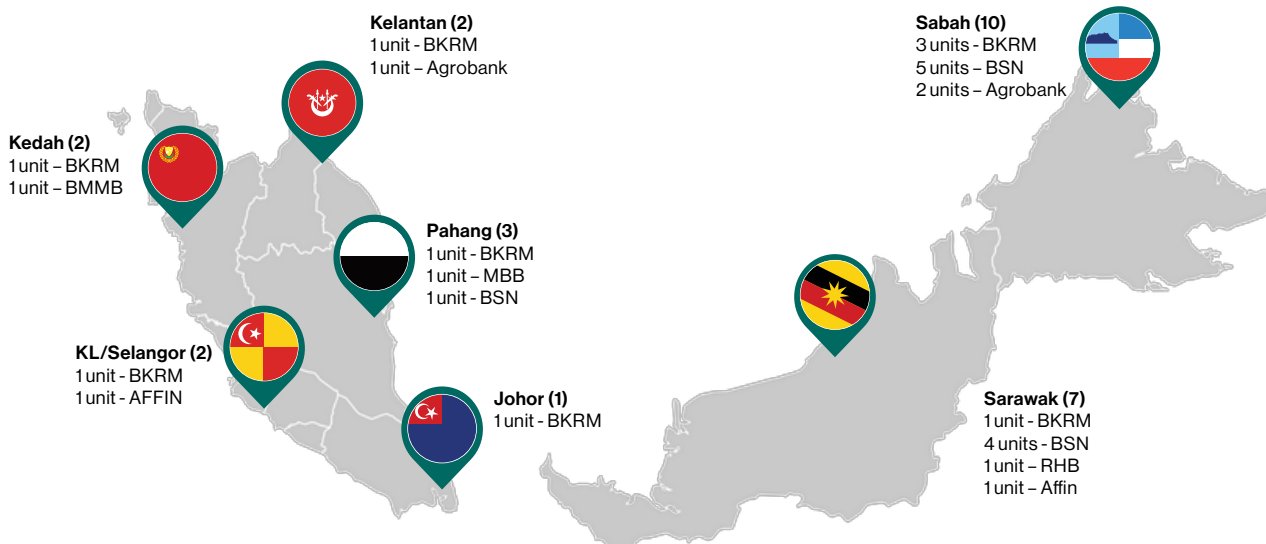
The network of mobile banks was further expanded in 2024 with an allocation of RM10 million from the Government for the Bank Bergerak Initiative<sup>14</sup> (BBI) (Diagram 8).

During the Financial Literacy Month (FLM) 2024, BBI held 18 programmes across ten states, reaching over 7,400 people. The Digital Financial Literacy (DFL) survey conducted during this period showed improved scores in areas served by BBI,<sup>15</sup> reflecting the effectiveness of financial advisory services and education initiatives provided via mobile banks. Please refer to the chapter titled 'Engaging Malaysians' for the DFL survey results.

The introduction of the interbank cash deposit (IBCD) service by PayNet has enhanced consumers' access to financial services. This service aims to facilitate cash deposits particularly in rural areas with limited access points, thereby encouraging savings among underserved groups. As at end-2024, nine<sup>16</sup> IBCD acquirers (bank or non-bank service providers) have enabled IBCD, while two more acquirers are set to enable it by February 2025 (Diagram 9). Together with the Government, financial institutions and PayNet, efforts aligned with the goals of the second FIF are underway to ensure improved access to financial services.

**Diagram 8: Locations of Mobile Banks**

As of 2024, 27 mobile branches have been in operation at 63 *mukims* across seven states in Malaysia (deployed by seven participating FIs)



Source: Bank Negara Malaysia

<sup>11</sup> FAPs are locations where individuals can perform basic banking activities, such as cash deposits and withdrawals. This can take the form of a bank branch, an electronic terminal, or an appointed agent.

<sup>12</sup> *Mukim* is defined as a subdivision of an administrative district.

<sup>13</sup> A *mukim* with at least one FAP that has cash-in and cash-out functions i.e. a bank branch, agent bank, self-service terminal and mobile bank.

<sup>14</sup> Since 2022, BBI has helped banks offer essential banking services such as cash deposits, withdrawals and digital onboarding through mobile units.

<sup>15</sup> Average score of 85% compared to 77% for other locations.

<sup>16</sup> Safeguards CS Sdn. Bhd, Euronet Services Malaysia Sdn. Bhd., MBSB Bank Berhad, Alliance Bank Malaysia Berhad, Bank Muamalat Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Bank Islam Malaysia Berhad and United Overseas Bank (Malaysia) Bhd and Bank Pertanian Malaysia Berhad (Agrobank).





Mobile banks from various financial institutions across Malaysia

### Diagram 9: Key Features of Interbank Cash Deposits (IBCD)

#### What is IBCD?

Interbank Cash Deposit (IBCD) is a facility that allows consumers to deposit cash into accounts of other beneficiary banks using Cash Deposit Machines (CDM) or Cash Recycler Machines (CRM). IBCD enables cardless, real-time credit of cash deposited at one bank into the beneficiary's account at another bank. IBCD is operated by PayNet through Shared ATM Network (SAN).



Source: Bank Negara Malaysia

#### Promoting inclusive financial protection offerings

The insurance and takaful sector are crucial in protecting individuals and businesses against a variety of unforeseen risks and contributes to advancing an inclusive, resilient society. In 2024, 45.5% of Malaysians have at least one life insurance or family takaful policy, an increase from pre-pandemic levels of 41.5% in 2019. Life insurance and family takaful policies typically see higher uptake in urban areas like Kuala Lumpur and Pulau Pinang, in tandem with greater awareness on the importance of protection.

Throughout 2024, there were over 530,000 subscriptions of microinsurance and microtakaful products under the Perlindungan Tenang (PT) framework. Since the launch of the revised PT policy document<sup>17</sup> and the implementation of the PT voucher programme in 2021, cumulative PT take-up has grown significantly and currently stands at 4.9 million subscriptions. This is roughly 49 times the take-up rate

<sup>17</sup> The PT policy document, launched in 2021, laid out revised requirements for PT products since their introduction in 2017. These include broadened distribution channels and strengthened consumer protection requirements.

since the launch of the PT framework in 2017 up to 2021.<sup>18</sup> A total of RM17 million in claims was paid out in 2024, showing an increase of 20% compared to 2023. These claims payouts were against unexpected and adverse life events like deaths, personal accidents and critical illnesses.

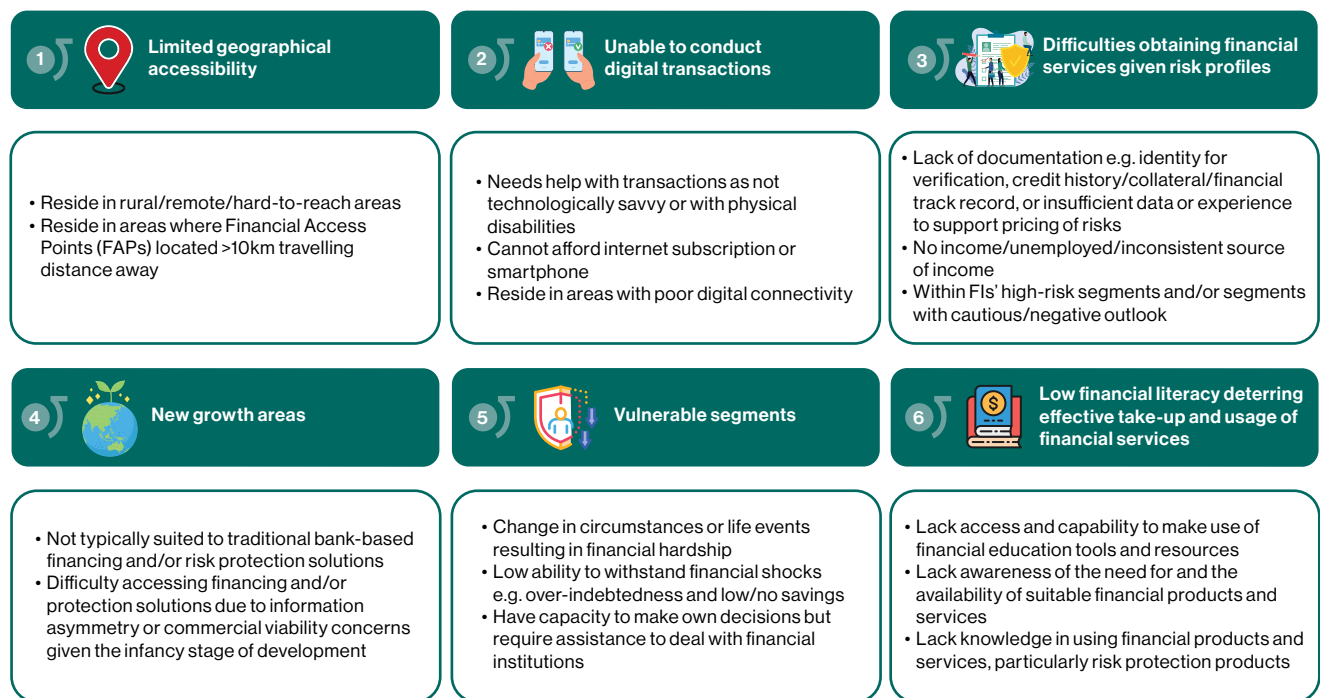
As announced in the Budget 2025, the PT voucher programme will provide financial assistance of RM30 to *Sumbangan Tunai Rahmah* recipients to purchase or renew PT products. Beyond PT, the Government also extended the mySalam scheme for two more years until the end of 2025. This extension will allow vulnerable groups to continue benefitting from affordable takaful protection while encouraging the take-up of PT products to maintain protection in the future. In 2024, the insurance and takaful operators (ITOs) leveraged data from mySalam's claims experience to support the development of more innovative microinsurance and microtakaful products.

Raising awareness about the availability and importance of these protection products is also important. On this note, the Financial Education Network (FEN)<sup>19</sup> incorporates educational programmes on personal risk protection in all its outreach activities and financial education programmes.

## Understanding and Addressing Financial Inclusion Challenges

Understanding the perspectives of local communities is essential for developing effective interventions for the unserved and underserved groups. BNM's second FIF identifies six key characteristics of these segments (Diagram 10).

**Diagram 10: Principle-based Guidance on the Financially Unserved and Underserved**



Source: Bank Negara Malaysia

<sup>18</sup> The cumulative PT take-up rate from 2017 to 2021 amounted to slightly over 100,000 subscriptions.

<sup>19</sup> The Financial Education Network (FEN) is an inter-agency network co-chaired by BNM and Securities Commission Malaysia, with members comprising of Ministry of Education, Ministry of Higher Education, Malaysia Deposit Insurance Corporation, Employees Provident Fund, Credit Counselling and Debt Management Agency and Permodalan Nasional Berhad.



*BNM and Yayasan MySDG's engagement session with NGOs and Social Enterprises on 'Advancing Financial Capability and Inclusion of Underserved Segments'.*

During FLM 2024, BNM collaborated with Yayasan MySDG<sup>20</sup> to engage with key non-government organisations and social enterprises. The session, which focused on vulnerable groups, including the Orang Asli and people with disabilities (PWDs), highlighted the unique challenges faced and the need for targeted measures to financially empower these groups. It also raised their awareness on relevant financial inclusion and education initiatives<sup>21</sup> as well as complaint and redress mechanisms.<sup>22</sup> For more information on key education initiatives and engagements during FLM 2024, please refer to the chapter titled 'Engaging Malaysians'.

### Promoting digital financial inclusion

As part of efforts to promote digital financial inclusion, BNM has carried out targeted e-payment initiatives, such as the e-Duit campaign, that focus on small businesses in unserved and underserved areas. The positive impacts on higher usage of digital payments suggest that cashless ecosystems not only improve operational



efficiency but also enhance the financial well-being of small businesses. For more information, please refer to the chapter titled 'Promoting Safe and Efficient Payments and Remittance Services'.

### Ensuring inclusive and impactful financial education initiatives

Reflecting on the progress made in 2024, the implementation of the Financial Education Measurement and Evaluation (FEME) Framework<sup>23</sup> has been vital in elevating financial education programmes. In its first year, nine FEN members and partners adopted the framework.<sup>24</sup> The assessment revealed an increase in financial literacy scores and was further validated through focus group discussions. The FEME Framework supports the need for structured financial education programmes in a controlled environment<sup>25</sup> to enhance its outcomes. This requires close collaboration with the Government, educational institutions, and the private sector to incorporate these programmes into their existing capacity-building initiatives.

<sup>20</sup> Yayasan Matlamat Pembangunan Mampan Malaysia (Yayasan MySDG) is a foundation dedicated to helping vulnerable communities. Their goal is to improve Malaysia's progress toward achieving the Sustainable Development Goals (SDGs).

<sup>21</sup> These include microfinancing, financial risk protection programmes such as Perlindungan Tenang and i-Mula 50. i-Mula 50 is an initiative by Life Insurance Association of Malaysia (LIAM), in collaboration with participating LIAM member companies, to encourage first-time buyers to purchase life insurance protection. The fund established for this initiation, totalling RM5 million, offers a subsidy of RM50 for each qualifying life insurance policy to make purchasing insurance more affordable.

<sup>22</sup> FCI Survey 2024 highlighted the awareness and usage of Financial Redress Agencies remains low, where 73% are unaware of FSPs' complaints unit and 52% are unaware of the Credit Counselling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit, AKPK) services.

<sup>23</sup> Information on the FEME Framework is available at <https://www.fenetwork.my/wp-content/uploads/2024/01/FEME-Framework-Guidelines.pdf>.

<sup>24</sup> The abovementioned FEN members and partners are BNM, Ministry of Higher Education, Securities Commission Malaysia, AKPK, Malaysia Insurance Deposit Corporation, The Financial Industry Collective Outreach, LeapEd Services Sdn. Bhd., Federation of Investment Managers Malaysia and the Malaysian Takaful Association. Topics covered include financial concepts, retirement planning, investment planning, digital financial literacy, personal risk management and debt management.

<sup>25</sup> An environment designed to promote focused and uninterrupted teaching and learning, e.g. classroom or online learning.



## Financial Capability and Inclusion Demand Side Survey 2024

### Overview of the FCI Survey 2024

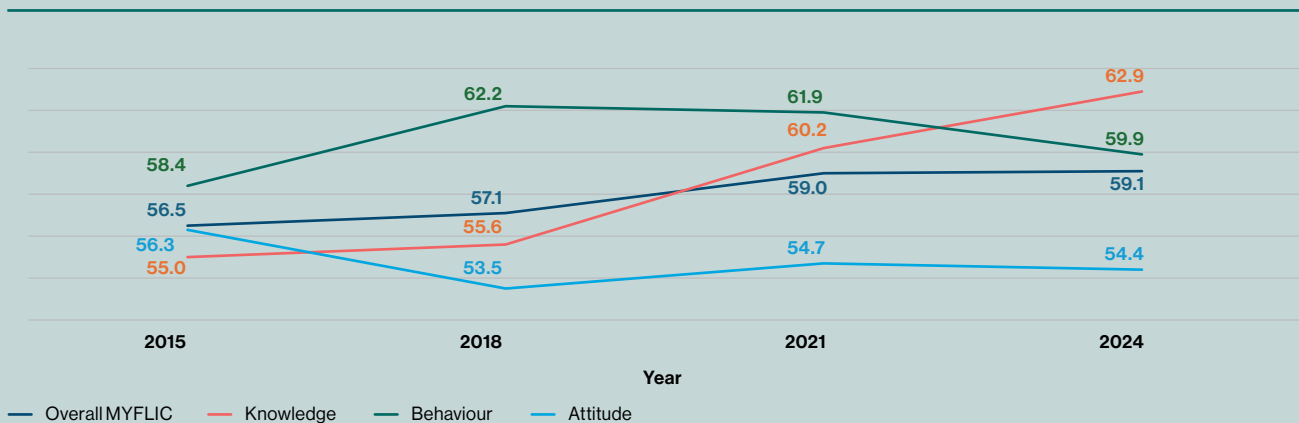
The Financial Capability and Inclusion Demand Side (FCI) Survey is a cross-sectional survey conducted every three years by Bank Negara Malaysia (BNM). It assesses the level of financial capability of Malaysians based on measures of financial knowledge, behaviour and attitude to arrive at a combined score known as the Malaysia Financial Literacy and Capability (MYFLIC) Index. In conducting the survey, BNM also considers the material factors and developments during each survey period. For instance, the FCI Survey 2021<sup>1</sup> captured the impact of the COVID-19 pandemic and corresponding relief measures on Malaysians, in addition to measuring the level of financial capability.

The FCI Survey 2024 which was conducted in 3Q 2024 broadens its scope to cover assessments on financial well-being and digital financial literacy.<sup>2</sup> This is given that issues such as rising cost of living and rapid growth of digitalisation have had a more prominent impact on financial behaviour during the survey period. It also assesses the financial capability of Malaysians following the implementation of the National Strategy for Financial Literacy 2019–2023 (NS1.0), revealing new challenges and opportunities in building financial resilience moving forward.

### Key findings

The 2024 survey reveals that at the broad level, financial literacy levels in Malaysia have been largely unchanged since 2021, with the MYFLIC Index at 59.1 (2021: 59.0). Nonetheless, there have been improvements observed in financial knowledge (+2.7), but declines were seen in the scores for financial behaviour (-2.0) and attitude (-0.3) (Diagram 1).

Diagram 1: Overall MYFLIC Index



Note: 3,587 Malaysian respondents aged 15 years old and above. MYFLIC Index is based on a maximum score of 100.

Source: Bank Negara Malaysia

Financial knowledge improved to 62.9 in 2024, up from 60.2 in 2021, in most sub-components, particularly under product awareness and understanding of financial concepts such as diversification, inflation as well as risk and return. However, despite increased product awareness, more Malaysians feel there is a lack of clear and reliable information on financial products, which affects their decision-making behaviour. Malaysians generally have a basic understanding of financial products, including the concept of paying more than the borrowed amount due to interest or profit charges. However, there is a lower level of understanding regarding more complex aspects, such as rate revisions and their impact on the monthly interest or profit payments. Overall, this has led to the decline in the overall financial behaviour score from 61.9 in 2021 to 59.9 in 2024.

<sup>1</sup> The Financial Capability and Inclusion Demand Side Survey 2021. ([https://bnm.gov.my/documents/20124/8440087/fsr22h1\\_en\\_box1.pdf](https://bnm.gov.my/documents/20124/8440087/fsr22h1_en_box1.pdf))

<sup>2</sup> Based on OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion 2022

Low and/or unstable income, combined with rising living expenses, are also found to impede the ability to practise sound financial management, such as paying bills on time and saving money for the future. While many attempt to live within their means, rising cost of essentials like food and utilities make it increasingly difficult to keep within budget, as expenses often exceed planned limits (Diagram 2). Consequently, Malaysians prioritise on meeting immediate needs, leaving little room for long-term saving or financial planning.

**Diagram 2: Malaysians are Affected by Higher Costs of Living**

**26% of Malaysian sometimes/always run short of money (2021: 14%)**

### TOP 3 REASONS FOR RUNNING SHORT OF MONEY

Insufficient/Low income



Fluctuating/Unreliable Income



Increased cost of food and other necessary items



Source: Bank Negara Malaysia



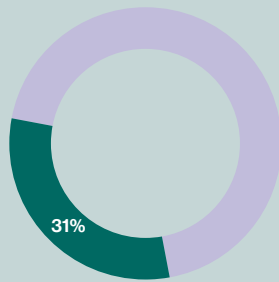
Tighter conditions affect saving habits among Malaysians. In 2024, only 58% try to save money for the future (2021: 67%).

## Swipe or Tap to Spend: The Psychology of Painless Payment

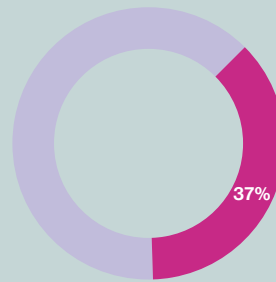
The use of digital financial products and services (DFS) in Malaysia has grown substantially. In 2024, 92% of Malaysians are using DFS, compared to 74% in 2021. This increase highlights the rapid digitalisation of the financial sector, which brings both opportunities and challenges. Despite the progress, the widespread use of DFS raises concerns about online spending habits. 'Painless payments', where spending is made so much easier online, can lead to poor financial choices like overspending (Diagram 3).

While Malaysians have made progress in improving cyber hygiene compared to 2021, further improvements are needed. For example, only 39% of Malaysians pay attention to the security of a website before making transactions, compared to the global average of 66%. While the sharing of bank account passwords and/or PIN with close friends has decreased significantly, over one in 10 Malaysians still do so. With the widespread adoption of DFS, these gaps in cyber hygiene practices will continue to leave users exposed to security risks.

Overall, Malaysian consumers still face difficulties in managing money effectively, including budgeting, monitoring expenses, living within their means, and avoiding overspending in a digital environment. This in turn can undermine personal financial well-being. With rapid digitalisation trends, the need for digital financial literacy to grow in tandem is now even more critical.

**Diagram 3: Digital Financial Habits of Malaysians**

Malaysians are likely to spend more and impulsively when buying online compared to when making purchase in person at a shop.



Malaysians have purchased goods and services they do not need online.

### Digital Hygiene Among Malaysians



Password Protection

15% share passwords and/or PIN of bank accounts with close friends (2021: 37%)



39% pay attention to the security of a website before making online transactions (2021: 38%)



20% regularly change password for online shopping and personal finance (2021: 11%)

Source: Bank Negara Malaysia

## Financial literacy: Fundamental for Financial Well-being and Financial Peace

Financial well-being involves the ability to meet financial obligations, handle income changes, reach future financial goals, and make financial decisions that enhance quality of life. Better personal financial management can boost financial resilience and positively influence one's perception of their financial situation. Additionally, improving income and manageable living costs are crucial components of financial well-being.

### Financial resilience – dealing with unexpected expenses

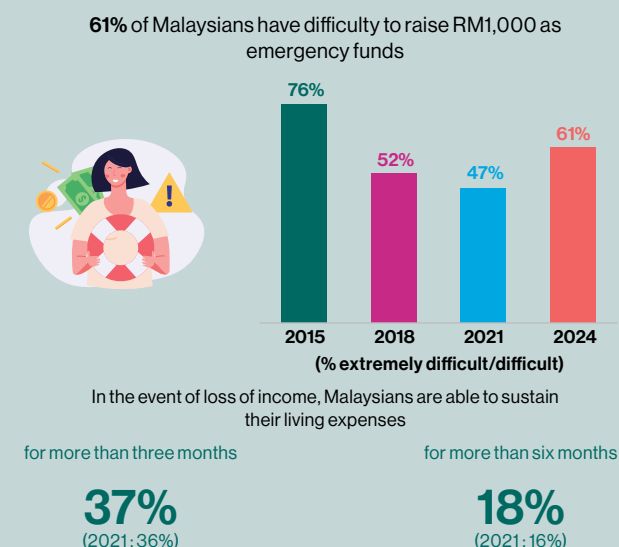
Having financial resources to handle unexpected expenses and financial shocks is vital for maintaining financial well-being. In 2024, 37% Malaysians claimed they can cover living costs for more than three months if their income is disrupted (2021: 36%) (Diagram 4). At the same time, more Malaysians were less prepared to cope with financial shocks, with 61% reporting difficulty to secure RM1,000 in emergency cash (2021: 47%).

35% of Malaysians indicate they lack sufficient financial protection when faced with adverse or catastrophic events. 40% claim to only rely on own or family savings as a financial safety net to manage unforeseen events, such as accidents, loss of income or emergencies.

Currently, personal financial risk management through emergency savings and insurance/takaful protection have yet to become a common practice among Malaysians. This gap impedes their ability to manage unforeseen expenses, and could potentially impact other aspects of long-term planning such as retirement savings for themselves or other family members. This gap underscores the critical need for affordable and accessible financial products, like Perlindungan Tenang, to help Malaysians, especially the vulnerable segments, in managing financial risks and building resilience against financial shocks. Awareness of Perlindungan Tenang products has shown improvement (Diagram 5), but it is more important to translate this awareness into effective adoption, and provide Malaysians with a crucial layer of financial security.

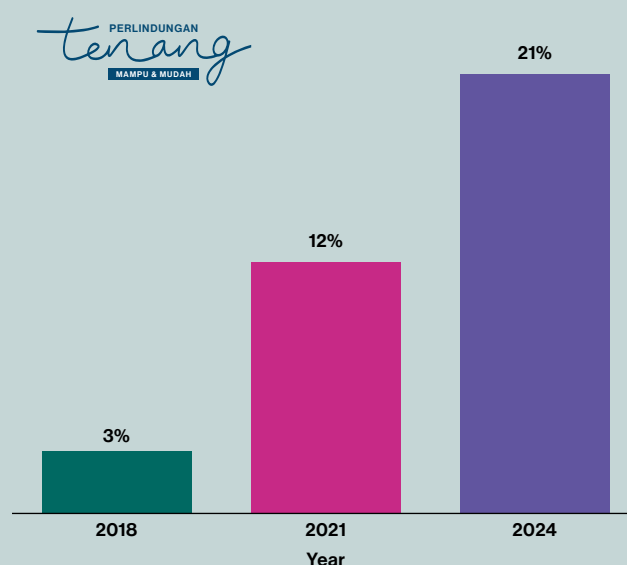


Diagram 4: Dealing with Unexpected Events



Source: Bank Negara Malaysia

Diagram 5: Awareness on Perlindungan Tenang



Source: Bank Negara Malaysia

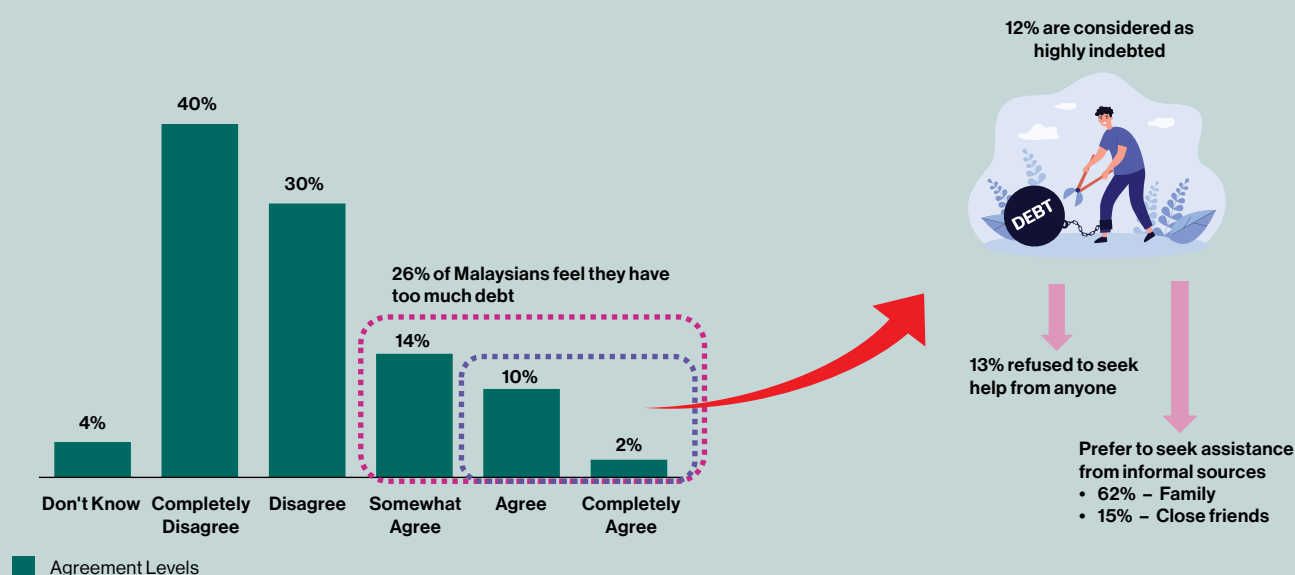
### Perceptions and feelings about own financial situation

The FCI Survey 2024 also evaluates Malaysians' perceptions of their financial situation by assessing their views on debt levels and their ability to cover expenses in old age.

#### Feeling of indebtedness

26% of Malaysians feel that they carry too much debt (2021: 30%), with 12% being highly indebted (2021: 14%). The majority are young individuals struggling to manage student loans, store credit, and debts owed to family, friends or colleagues. Following closely are gig workers who face financial strain due to commitments for car, housing and credit card loans, which are further exacerbated by unstable income. Highly indebted Malaysians are more forthcoming to discuss their debts, but this remains primarily through informal channels. Although the use of formal avenues, such as consulting Agensi Kaunseling dan Pengurusan Kredit (AKPK), registered financial advisors and seeking online help, has risen, the overall uptake remains low. Seeking help from financial services providers is also unpopular (Diagram 6).

Diagram 6: Indebtedness among Malaysians

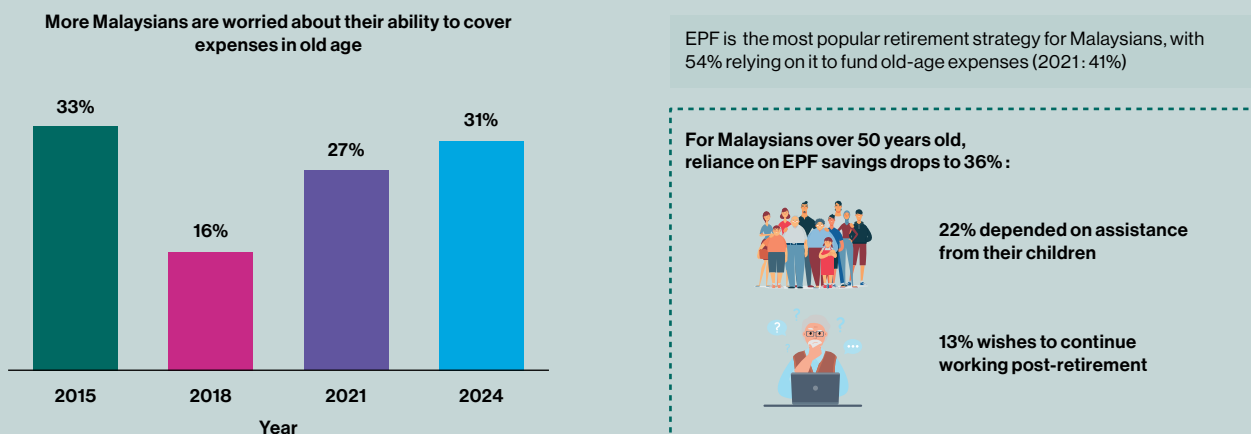


Source: Bank Negara Malaysia

### Perception on retirement

31% of Malaysians are worried about managing expenses in old age, up from 27% in 2021. While EPF is the most popular retirement strategy, with 54% of Malaysians relying on it to fund old-age expenses (2021: 41%), reliance on EPF savings dropped to 36% among Malaysians over 50 years old. Instead, they increasingly depend on other strategies, such as investment products, informal income sources such as support from children and family, as well as to continue working post-retirement. As Malaysia becomes an aging society, long-term financial planning requires closer attention. The shift towards more informal strategies among the older generation suggests that younger Malaysians may face greater financial responsibilities for parents and relatives, potentially impacting household financial well-being if not adequately planned for (Diagram 7). These situations intensify the need for better long-term financial planning.

**Diagram 7: Malaysians on Retirement**



Source: Bank Negara Malaysia

### Conclusion

On balance, Malaysians have become more aware and knowledgeable of their financial affairs since the implementation of NS1.0. However, rising costs of living amid uncertain income streams, as well as the rapid pace of digitalisation, present new challenges. With the advent of social media and more accessible information platforms, awareness on financial products continues to increase. This presents opportunities for financial service providers and policymakers to further intensify efforts to increase financial literacy with greater impact as we move forward.

The insights from the FCI Survey 2024 will serve to shape the next phase of the national strategy for financial literacy (NS2.0). Issues such as impact of digitalisation on consumer behaviours, changes in the financial and economic landscape, as well as an aging society, will guide the setting of priorities and plans, in close collaboration with relevant stakeholders and partners through the Financial Education Network (FEN). Ultimately, NS2.0, expected to be launched in Q4 2025, aims to further elevate financial literacy and well-being for Malaysians, building upon the achievements of NS1.0.

## Advancing Digitalisation of Financial Services

### Facilitating market entry to boost dynamism in the financial sector

BNM remains committed to fostering a regulatory environment that encourages responsible innovation in the financial sector. This will ensure that the financial industry effectively manages the risks associated with its innovation efforts.

Following their licensing in 2022, all five digital banks have successfully received approvals to commence operations. As of December 2024, the three digital banks that have launched their products to the public received RM2.3 billion of deposits with a total of 1.3 million customers, reflecting a growing customer base. Nearly 60% of their customers come from the underserved segments,<sup>26</sup> such as the low-income households and those that reside at underserved *mukims*.<sup>27</sup>

Beyond savings and payment functions, digital banks began rolling out financing products at end-2024. These products are expected to improve access and convenience, including for early-stage businesses, self-employed individuals and sole proprietorships. Additionally, the fully digital application process via mobile apps or websites combined with data analytic capabilities enable digital banks to tailor credit offerings based on customer profiles, including those with limited credit histories.

Going forward, digital banks are expected to progressively expand their product offerings, including microloans and invoice financing, as well as incorporate in-app financial education content to help improve the financial literacy of customers. These efforts will support unserved and underserved groups participating meaningfully in the financial sector, which contributes to their economic empowerment.

We also finalised and issued the Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (DITOs) in July 2024. This framework paves the way for the entry of DITOs to elevate the dynamism of the Malaysian financial landscape. DITOs are also expected to deliver meaningful value propositions of inclusion,

competition and efficiency to close critical protection gaps and meet consumer needs. We have opened the window for interested applicants to submit formal applications for DITO licence(s) from 2 January 2025 until 31 December 2026.

### Enhancing critical enablers for innovation

Alongside facilitating the entry of new digital-first players, BNM is committed to advancing the secure adoption of electronic Know-Your-Customer (e-KYC) solutions. The revised e-KYC Policy Document published in April 2024 expands its scope to cover individuals and legal persons through electronic Know-Your-Business (e-KYB), as well as e-KYC for the unbanked. It also introduces certification expectations on technology providers for higher assurance that e-KYC solutions in the financial sector continue to remain robust and secure amidst an evolving fraud landscape. The recent rollout of MyDigital ID as Malaysia's national digital identity marks a key milestone for identity verification within the digital economy. A trusted and secure National Digital ID infrastructure can notably reduce the risk of identity theft and fraud, complementing the existing e-KYC process. To this end, we are working closely with the industry and relevant government agencies through pilot tests to ensure robust system capabilities and security measures are in place for MyDigital ID roll-out in the financial sector.

In February 2024, we had undertaken enhancements to the Financial Technology Regulatory Sandbox (Sandbox Framework). Two key enhancements include: (i) a simplified eligibility assessment for all applicants including for fintech companies, and (ii) the introduction of a Green Lane for financial institutions with a track record of strong risk management capabilities to test their innovations more quickly and flexibly. Following this, we observed increasingly diverse and complex innovations submitted for Sandbox participation, with 11 Standard Sandbox solutions<sup>28</sup> and three Green Lane institution applications.<sup>29</sup> Insights obtained from testing these Sandbox solutions can also inform the formulation or refinement of relevant BNM policies.

In June 2024, BNM partnered with the Fintech Association of Malaysia (FAOM) to host the inaugural Sandbox Open Day, themed '*Innovation Reimagined*'. Over 300 attendees from the fintech community, financial institutions, regulatory authorities and other ecosystem stakeholders engaged in discussions and one-on-one consultation sessions to discuss the Sandbox process and explore new innovation ideas.

<sup>26</sup> Based on the Financial Inclusion Framework Strategy Paper (2023–26), the underserved and unserved segments are typically characterised by limited geographical accessibility, inability to conduct digital transactions, difficulties in obtaining financial services, low financial literacy, SMEs in new growth areas and are likely to be more vulnerable due to personal circumstances.

<sup>27</sup> Underserved *mukims* have five or lesser financial access points with a population of over 2,000 people.

<sup>28</sup> An increase from four Standard Sandbox applications received in 2023.

<sup>29</sup> Notable examples include income estimation models utilising alternative data and e-KYC solutions for unbanked foreign workers. Such solutions explore innovative ways to determine creditworthiness and onboard customers, which can enable or improve access to financial services.



The inaugural Sandbox Open Day 2024 hosted by BNM and FAOM at Sasana Kijang



Additionally, the event also launched FAOM's pre-screening and mentorship programme, developed in collaboration with BNM and 12 industry experts.<sup>30</sup> This initiative offers advisory support to guide prospective Sandbox applicants. We encourage interested applicants to take advantage of this programme to accelerate and enhance their Sandbox journey.

#### Catalysing structural reforms in the Insurance and Takaful industry

BNM continues to actively pursue reforms to ensure that Medical Health Insurance/Takaful (MHIT) protection remains accessible, recognising its critical role in Malaysia's health financing. Refer to the feature article 'Securing Sustainable Access to Medical Health Insurance/Takaful Protection' for more information.

Following the issuance of the revised Policy Document on MHIT Business in early 2024, the industry has since embarked on several measures to ensure the sustainability and affordability of MHIT offerings amid ongoing medical cost inflation. One of the key developments is mandating the offering of MHIT products with co-payment feature as an option for consumers. Effective September 2024, ITOs have started offering co-payment options, alongside their existing MHIT products which they can continue to offer without a co-payment feature. The resulting wider suite of MHIT products should cater to the varying financial needs and health status of consumers and empower them to take active decisions towards choosing products that best suit them. Besides that, this measure also aims to help contain medical cost inflation, alongside other reforms, by encouraging needs-based usage of healthcare services.

Another notable milestone is the establishment of the central medical claims data platform, which recently went

live in January 2025. Moving forward, ITOs will be required to regularly submit detailed MHIT claims data, including treatment costs and utilisation trends, in an anonymised format to ensure consumer privacy. Proper governance and safeguards have also been put in place to align with data protection laws and best practices. This platform will facilitate the publication of costs for common medical procedures, empowering consumers to compare prices and make cost-effective choices in the future. It will also enable more comprehensive analyses of treatment charges and key cost drivers to help manage medical claims inflation.

BNM remains committed to collaborating with the Ministry of Health (MOH) in advancing broader health reforms outlined in the Health White Paper to ensure sustainable healthcare financing in Malaysia. In 2024, BNM had engaged various stakeholders within the ecosystem, including MOH, the Association of Private Hospitals Malaysia (APHM), consumer associations,<sup>31</sup> academicians, think tanks, insurance and takaful associations (Life Insurance Association of Malaysia (LIAM), *Persatuan Insurans Am Malaysia* (PIAM), and the Malaysian Takaful Association (MTA)), to discuss further measures to address the long-term challenges of rising healthcare costs. In December 2024, BNM also announced interim measures on premium repricing, aimed to assist policyholders by spreading the increased premiums over a period of at least three years, pausing premium increases for the elderly and reinstating lapsed policies without additional underwriting. While helping preserve MHIT protection for existing policyholders in the interim, it is crucial that these measures are followed closely by more sustainable reforms to address rising medical costs and claims inflation in the longer run.

<sup>30</sup> Industry experts are nominated by FAOM and include representatives from various sectors such as payments, legal, advisory and fintech.

<sup>31</sup> Includes among others, the Federation of Malaysian Consumers Association (FOMCA), Consumers' Association of Penang (CAP), Citizen Health Initiative (CHI), Campaign to Protect the Right of Insurance Consumers of Malaysia (CPRICM) representing individual policyholders and Malaysian Employers Federation representing employers that purchased MHIT for their employees.

In 2024, further progress was also made in transforming the motor insurance and takaful ecosystem. All 23 general insurers and takaful operators (GITO) have implemented Digital Roadside Assistance (DRA) solutions. The DRA offers motor consumers access to roadside assistance when an incident such as a vehicle breakdown or accident occurs. Once onboarded, consumers can embark on their digital claims experience, which includes tracking their tow truck's location, choosing a workshop digitally, submitting their claim documents and tracking the status of their claims and repairs. This provides transparency on the claims process and an integrated experience to the consumer.

To drive adoption of DRA, PIAM, MTA and the broader GITO industry launched the 'Jom Level-Up' campaign which features an interactive microsite,<sup>32</sup> engaging webinars and on-ground outreach. This initiative aims to build a more informed and proactive consumer base, by fostering awareness of needs-based coverage, promoting digital solutions, and strengthening understanding of consumers' rights.

In 2025, BNM will continue to consult relevant stakeholders to shape a resilient and future-ready motor insurance ecosystem aligned with evolving mobility trends. These

include using telematics to enhance road safety and improve claims processes, ensuring appropriate cover and pricing for electric vehicles, and offering usage-based insurance models tailored for different risk profiles. Leading up to 2026, efforts will focus on exploring automated accident detection sensors, digitalising and automating loss assessment and enabling online police reporting systems. These efforts require coordination and advocacy amongst government agencies and broader motor ecosystem players.


## Future-proofing the Financial Sector Workforce

### Building a resilient and competitive talent pool in the financial sector


Technological advancements, changing regulatory requirements and new growth areas demand an agile workforce with the necessary skillsets to drive the industry forward. Supported by BNM, the Asian Institute of Chartered Bankers (AICB), Asian Insurance Institute (AII) and Islamic Banking and Finance Institute (IBFIM) launched the Future Skills Framework (FSF) for the financial sector in July 2024 to address these challenges (Diagram 11).

Diagram 11: Overview of Key Findings from the FSF for the Malaysian Financial Sector


### 6 Key Trends Impacting the Malaysian Financial Sector Workforce...




**Customer-centricity:** Understanding and meeting customer needs throughout their journeys and interactions with the business




**Employee-centricity:** Creating a positive workplace environment that prioritises employee wellbeing, satisfaction, performance and productivity




**Sustainability:** Embedding Environmental, Social and Governance (ESG) factors to align business practices with national agendas and goals



**Digital transformation:** Leveraging technology to improve and streamline business operations and enhance customer experiences



**Generative Artificial Intelligence:** Integrating deep learning technologies for automation and original content creation to boost productivity



**Cybersecurity:** Implementing measures to protect against digital threats

### ... affecting the composition of jobs and skills in demand in the next few years

#### 17 (11%) out of 161 job roles are identified as emerging

These job roles fall within 5 job clusters: digital, data and IT operations; people advisory and solutions; branding, marketing and communications; customer relations and advisory services; and supply chain and procurement management

#### 36 (22%) out of 161 job roles are identified as evolving

This refers to job roles where the nature of the roles is expected to be augmented to include any of the following: provide strategic direction and advice, drive sustainability agenda, and utilise emerging technologies relevant to the industry, to name a few

#### 10 top prime skills<sup>1</sup> can be found in 3 skills clusters, with 81% of job roles requiring data collection and analytics skill

Global perspectives	Project management	Improvement & process re-engineering	Research & information synthesis	Scenario planning & analysis	Growth & Partnerships	
Risk management	Shariah compliance	Regulatory compliance	Risk management, Governance & Regulatory Compliance			
Data collection & analytics	Data storytelling & visualisation	Digital & Data Integration		All 15 power skills <sup>2</sup> are relevant to all job roles, with 5 assessed to have the largest gaps within FIs		
Communication	Problem solving	Critical thinking	Digital fluency	Innovative thinking		

<sup>1</sup> These refer to technical skills of priority that are job-role specific.

<sup>2</sup> These refer to fundamental skills relevant for all job roles complementing prime skills.

Source: Asian Institute of Chartered Bankers (AICB)

<sup>32</sup> The 'Jom Level-Up' campaign microsite is accessible at (<https://jomlevelup.my/>).



### Core Components of the Future Skills Framework

The FSF is a single point of reference which covers job roles and skillsets required to address evolving workforce needs in the banking<sup>33</sup> and insurance and takaful sector. The framework is designed to benefit multiple stakeholders across the financial sector talent ecosystem as follows:

- Individuals currently working in or aspiring to work in financial services can take ownership to chart their own professional development paths.
- Employers can better anticipate how skills and job roles will evolve and use it to strategise how to develop and attract talent.
- Training providers can gain insights on sector trends and skills in demand to develop appropriate curricula and programmes to more effectively support learners' and business needs.

The FSF can facilitate job mobility within and across sub-sectors, foster lifelong learning, encourage development of an integrated and high-quality training ecosystem and facilitate transformation of the Malaysian workforce through national initiatives on skills development.

Achieving the FSF's desired outcomes requires collaboration from various stakeholders in the public and private sectors. This includes industry partnerships, incentives for continuous professional development, as well as ongoing assessments on the effectiveness of the framework. BNM is committed to supporting public-private partnerships that can drive common efforts to bridge skills gaps and enhance talent capabilities. This entails meaningful reforms such as facilitating the integration and alignment of the FSF with the national platform for future skills in Malaysia led by TalentCorp under the Ministry of Human Resources (MOHR) to support cross-sector talent mobility, as well as efforts towards greater job security and a vibrant labour market.

<sup>33</sup> Includes conventional, digital, Islamic, investment and development financial institutions.

### Financial Market Developments

In driving financial market development initiatives, BNM's ongoing collaboration with market participants through the Financial Markets Committee<sup>34</sup> (FMC) has been instrumental in advancing our efforts to enhance the breadth and depth of domestic financial markets and supporting sustainable economic growth.

In 2024, we initiated consultations on domestic interest rate benchmarks with a view to transition from the Kuala Lumpur Interbank Offered Rate (KLIBOR) to the more robust Malaysia Overnight Rate (MYOR) and Malaysia Islamic Overnight Rate (MYOR-i).

Ongoing engagements with industry stakeholders have provided BNM with valuable insights in navigating volatile market conditions and identifying measures to enhance market infrastructure. During the year, we released a discussion paper to solicit public input on critical implementation areas, including the identification of potential successors for term reference rates and the management of legacy KLIBOR contracts. The feedback gathered will serve as the foundation for the transition roadmap, scheduled for publication in 2025. To facilitate a smooth transition, market-led working groups will be established to guide the development and integration of MYOR/MYOR-i, as well as manage legacy KLIBOR contracts ahead of the cessation date. This strategic shift intends to maintain confidence in the reliability and robustness of financial benchmarks used in the domestic financial market.

Principal Dealers (PDs) remain pivotal in ensuring bond market liquidity through their underwriting of government bond auctions and market-making responsibilities. They also contribute to the growth of the domestic bond market by participating in development initiatives with BNM. In 2024, we implemented enhancements to the PD framework with key changes aimed at boosting liquidity in the corporate bond market and encouraging participation in MYOR/MYOR-i based financial products. An annual capital-weighted scorecard will be published on BNM's Financial Markets Investor Portal (FMIP) to complement the existing unweighted scorecard, highlighting each PD's efforts in relation to their capacity. Through this enhanced framework, we aim to strengthen the key role of PDs in supporting a progressive and vibrant Malaysian bond market while broadening Malaysia's investor base by expanding product offerings.

<sup>34</sup> The FMC was established in 2016 to broaden industry engagement with a focus on reviewing and formulating comprehensive strategies for the wholesale financial markets.



On the foreign exchange front, BNM liberalised the foreign exchange policy (FEP) to allow multilateral development banks (MDBs) and qualified non-resident DFIs to issue ringgit-denominated debt securities and extend ringgit financing to resident entities. This flexibility allows both financiers and businesses to structure financing in ringgit for domestic projects while reducing the risk of currency mismatch. Furthermore, BNM introduced the pilot Qualified Resident Investor (QRI) programme, offering flexibility for resident corporates to reinvest abroad after repatriating and converting foreign currency funds from overseas investments. These initiatives are expected to promote healthy two-way flows in the domestic financial markets while further supporting the resilience of the ringgit.

In line with these developments, BNM's ongoing initiatives to deepen Malaysia's Islamic financial market are highlighted in the feature article titled 'Deepening the Islamic Financial Market and Liquidity Management'.

## Going Forward

In 2025, BNM will remain steadfast in promoting a progressive and inclusive financial system. Efforts will concentrate on initiatives that advance the objectives outlined in the Blueprint to ensure that its desired outcomes are achieved. BNM undertook a mid-term review in 2024 to evaluate the progress of current Blueprint strategies and identify necessary adjustments (Diagram 12).

Alongside the Blueprint strategies, our financial inclusion initiatives will be guided by the vision and strategies laid out in the second FIF. Efforts are underway to enhance financial literacy strategies. On this front, there are ongoing collaborative efforts between FEN members and partners to gather feedback for the Discussion Paper on Malaysia's Second National Strategy for Financial Literacy 2026–30 (NS2.0).<sup>35</sup> The paper will outline strategic priorities and action plans for financial literacy, aligned with SDGs.

## Key Strategic Adjustments under the Blueprint Mid-Term Review

Against a backdrop of technological advancements, climate transition and demographic shifts, BNM has adapted its Blueprint strategies and developmental priorities to keep pace with upcoming trends and challenges.

Firstly, BNM will enhance efforts to support business resilience and Malaysia's economic transformation agenda by building onshore funding and insurance/takaful capacity and growing innovative sukuk structures to deepen Islamic financial markets. Measures will also be strengthened to close protection gaps for vulnerable groups, such as the elderly, persons with disabilities and communities located in natural disaster-prone areas. These measures include scaling awareness programmes and encouraging more diverse product offerings.

BNM will further facilitate financial sector innovation, which can leverage on recent technological advancements, such as generative artificial intelligence and asset tokenisation. At the same time, BNM will maintain proportionate oversight over emerging risks arising from rapid digitalisation such as cyber security and digital financial fraud.

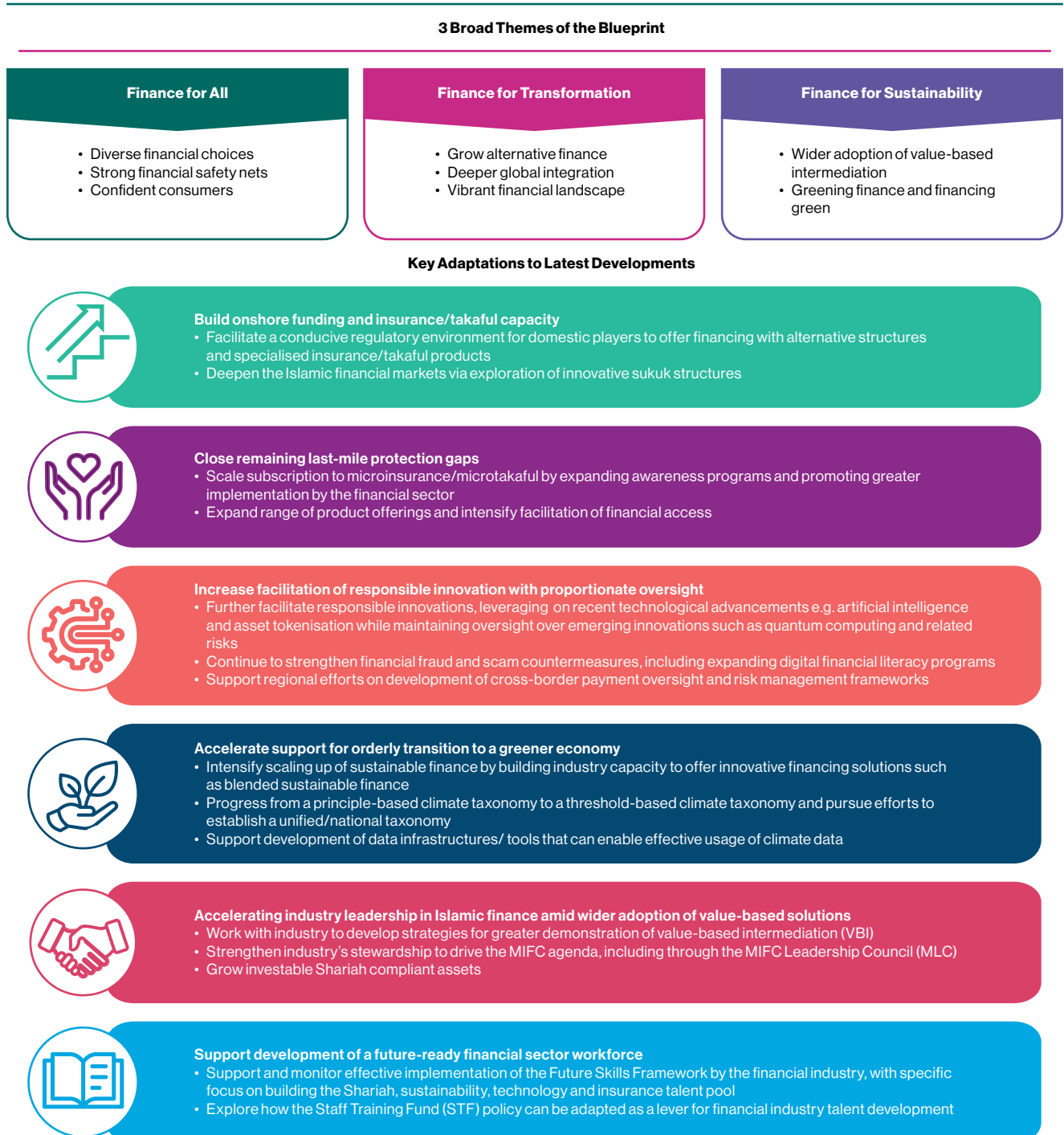
Additionally, there will be accelerated support for Malaysia's orderly transition to a greener economy by scaling the financial sector's capacity to provide innovative sustainable finance solutions. BNM will also continue to explore refinements to climate frameworks such as the Climate Change and Principle-based Taxonomy (CCPT) and support development of tools for effective use of climate data.

Efforts will also continue in pursuing Malaysia's Islamic finance agenda by undertaking strategies to intensify implementation of value-based finance, strengthen industry's stewardship to drive the Malaysia International Islamic Financial Centre (MIFC) agenda, including through the MIFC Leadership Council (MLC), and grow investable Shariah compliant assets. Lastly, active support for the development of a future-ready financial sector workforce will be provided through the effective implementation of the FSF, including exploring changes to the Staff Training Fund (STF) policy as a lever. Given that talent is a critical enabler to achieving all Blueprint priorities, BNM aims to strengthen the existing financial sector talent ecosystem, with a specific focus on building the Shariah, sustainability, technology and insurance talent pool.

<sup>35</sup> For more information, refer to Discussion Paper on the Proposed Features of Malaysia's Second National Strategy for Financial Literacy (2026–30).

The leadership and support from the financial industry remain critical to ensure that the financial sector continues to provide a conducive environment for sustainable and inclusive economic growth. In the journey to achieve Malaysia's aspirations, a whole-of-nation approach is needed, where collaboration among all relevant stakeholders is necessary.

**Diagram 12: Key Strategic Adjustments under the Financial Sector Blueprint 2022–2026 Mid-Term Review**



Source: Bank Negara Malaysia

## Securing Sustainable Access to Medical and Health Insurance/ Takaful Protection

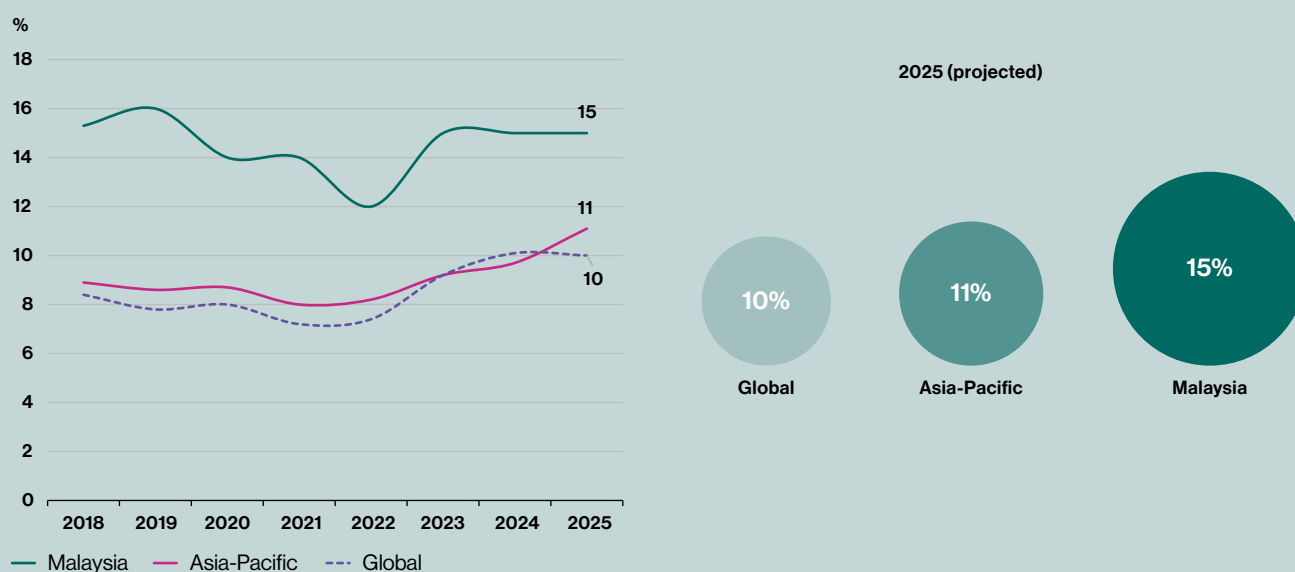
### Introduction

As Malaysians age and face higher rates of chronic diseases,<sup>1</sup> healthcare spending is expected to rise. To prepare for unexpected expenses, more Malaysians have begun to purchase medical and health insurance/takaful (MHIT). As of 2023, there are 7.7 million individuals covered under MHIT. Overall, Malaysia spent RM84.2 billion<sup>2</sup> on healthcare in 2023. Of this, the amount funded by MHIT has grown six times over the past two decades from RM0.96 billion in 2003 to RM6.75 billion in 2023. In this article, we will explore the implications of medical inflation to MHIT premiums,<sup>3</sup> strategies to manage medical inflation and secure sustainable access to MHIT.

### Medical inflation and its implication to MHIT premiums

Malaysia experiences double-digit medical inflation, which is higher than global and Asia-Pacific averages (Chart 1). Among the factors that contributed to the high medical inflation in Malaysia are the rise of non-communicable diseases (NCDs), ageing population, increase in manpower cost in the healthcare sector and advancements in medical technology. This development has resulted in higher claims payout by insurers and takaful operators (ITOs). To preserve the long-term sustainability of MHIT protection, ITOs will periodically review and adjust the pricing of their MHIT products to ensure that the premiums collected are sufficient to cover the cost of claims made by policyholders.

**Chart 1: Medical Inflation in Malaysia vs Regional and Global Average**



Source: AON Global Medical Trend Rates Report

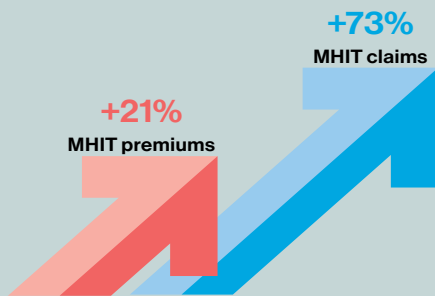
<sup>1</sup> Findings from National Health and Morbidity Survey 2023 show that 15.6% of Malaysian adults have diabetes, 29.2% have hypertension and 33.3% have high cholesterol.

<sup>2</sup> Includes total expenditure paid by Ministry of Health (MOH), out-of-pocket expenditure by households, MHIT, other ministries, agencies and local authorities, private corporations and non-profit institutions. The expenses include cost of curative, rehabilitative, and long-term nursing care, health promotion and prevention, medical goods and health programme administration. Source: Malaysia National Health Accounts: Health Expenditure Report, MOH.

<sup>3</sup> Any reference to insurance policy/insurance premiums/policyholders includes takaful certificate/takaful contributions/takaful participants for standalone MHIT products and cost of insurance (COI)/*tabarru'* for unit-deducting MHIT riders.

Between 2021 and 2023, the total cost of MHIT claims increased by 73%, far surpassing the 21% growth in MHIT premiums collected (Chart 2). Apart from higher average costs of treatments, this was also driven by more frequent utilisation of medical services as seen by the increase in claims frequency. In 2018, 11 claims were made for every 100 policyholders but by 2023, this number more than doubled to 25 claims (Chart 3). This issue is further compounded by high costs of hospital supplies and services (HSS) such as drugs, laboratory fees and consumables (e.g. gloves). These costs are currently unregulated and show wide variation across hospitals. Given that the HSS component constitutes 59% to 70% of overall private hospital bills, depending on the type of treatment (i.e. non-surgical vs surgical), its impact on overall claims costs is significant.

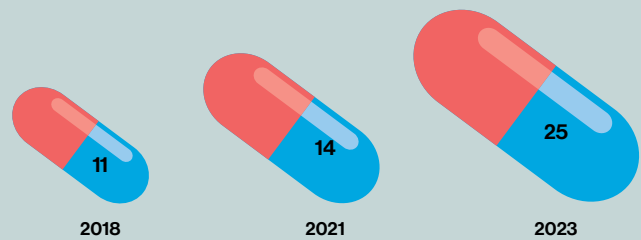
**Chart 2: Trend of MHIT Premiums and Claims, 2021–23**



Source: Bank Negara Malaysia and Insurance Services Malaysia

**Chart 3: MHIT Claims Frequency, 2018–23**

Number of claims per 100 policyholders



Source: Bank Negara Malaysia and Insurance Services Malaysia

The design of MHIT products also plays a role in this issue. MHIT products with high utilisation limits such as up to RM8 million annually and without lifetime limits, are generally associated with higher healthcare utilisation. Additionally, difference in total charges have been observed for the treatment of similar medical condition between policyholders who receive treatment via cashless facilities, where ITOs issue guarantee letters and make direct payment to medical providers, and those who first make payments out-of-pocket and then seek reimbursement from ITOs.

The persistent rise in claims costs driven by increase in average costs of medical treatments and utilisation of healthcare services over the years, has led ITOs to review the existing levels of premiums and adjust premiums to better reflect expectations of future claims costs. Although such adjustments are a normal practice for ITOs, premium adjustments in Malaysia were more significant in the post-COVID-19 period partly due to the inclusion of adjustments that were deferred by ITOs during the pandemic in 2020 to relieve policyholders at the time. Additionally, medical claims also increased post-pandemic following the resumption of medical treatments and procedures that were earlier delayed and a rise in infectious diseases. In 2024, some of the premium adjustments were quite significant. While 61% of affected policies experienced less than 20% premium increase, about 9% of affected policies experienced more than 40% premium increase.

To alleviate the immediate impact of premium adjustments to policyholders, Bank Negara Malaysia (BNM) in December 2024 introduced a number of interim measures<sup>4</sup> (Diagram 1). These are temporary in nature to allow some time for the implementation of critical broader health reforms to contain medical inflation. The interim measures cannot be sustained if high medical inflation persists. It is therefore imperative that key stakeholders must holistically and effectively implement broader health reforms to address medical inflation which will be further elaborated in the section titled 'Expediting reforms to effectively address medical inflation' of this article.

<sup>4</sup> Source: <https://www.bnm.gov.my/-/mhlt-pr>

**Diagram 1: Interim Measures for Premium Adjustments in 2024–26**

- 1 Spread out premium adjustments\* over a minimum of three years.
- 2 Temporary pause in premium adjustments\* for policyholders aged 60 years old and above covered under minimum plans.
- 3 Policy reinstatement without additional underwriting to be facilitated for policyholders that have lapsed or surrendered their policies due to premium adjustments in 2024.
- 4 Provision of alternative MHIT products at the same or lower premiums.

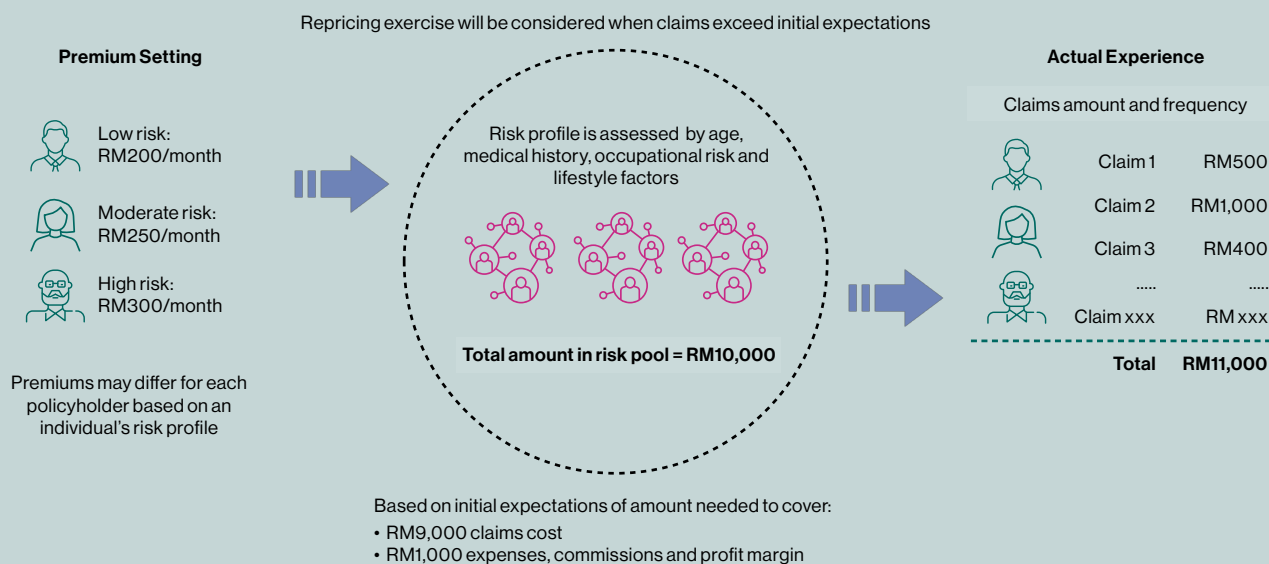
\* Applicable to premium adjustments due to medical inflation only.

Source: Bank Negara Malaysia

## Premium adjustments depend on the claims experience of risk pools and how often an ITO undertakes a repricing exercise

MHIT products are designed based on the principle of pooling risks between different individuals to distribute the cost of claims and reduce the financial burden of each individual (Diagram 2). MHIT products that provide reimbursement of medical expenses are generally designed with non-guaranteed premiums that are subject to periodic premium adjustments. Hence, the premiums are set with some allowance for inflation until the next expected pricing review period. If the medical inflation experienced by the pool is higher than expected, the future premiums paid by policyholders would have to be adjusted to reflect this in order to ensure that the pool has enough resources to meet claims. This will affect all policyholders in the pool, even if a policyholder has not made a claim or has just entered the pool.

**Diagram 2: Risk Pooling**

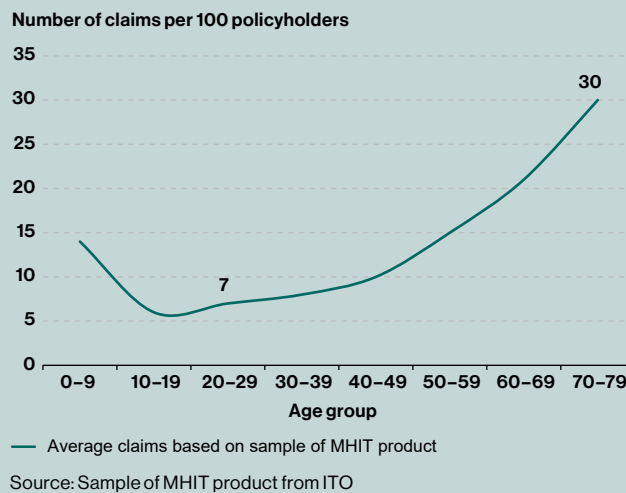


Source: Bank Negara Malaysia

The characteristics of the risk pool will affect the premiums that policyholders pay over their coverage period. Within a risk pool, premiums may vary between individuals based on factors that could affect overall claims on the pool, such as age, gender, medical history, occupational risk, lifestyle factors and plan type. A common factor used to determine MHIT premiums is age. Generally, premiums increase with age, in line with increasing health risks and likelihood of seeking medical treatment. For example, data from a sampled product shows that there are 30 claims for every 100 policyholders aged 70–79 years old. This is significantly higher as compared to seven claims per 100 policyholders aged 20–29 years old (Chart 4).

Differentiated premiums help to achieve a fairer distribution of financial contributions to the pool, in line with an individual's risk profile. On the other hand, it can lead to affordability and access issues for older policyholders including retirees at a time when they have a greater need for protection. Community-rated models where everyone pays the same premium regardless of age and other risk factors is an alternative to the current risk-rating model adopted by ITOs in Malaysia. However, without sufficient scale, appropriate incentives and public policy interventions (e.g. mandatory participation), it can lead to other problems such as adverse selection, low innovation and unsustainable premiums.

**Chart 4: Average Claims by Age Group**



The size of the risk pool also influences the premium levels during the coverage period. Larger risk pools mean ITOs can spread the financial risk among more policyholders. A large base of policyholders also usually offers a more balanced mix of low-risk and high-risk individuals in the risk pool. This balance helps to keep costs manageable and premiums stable over a longer period. Policyholders in smaller pools are likely to experience greater volatility in claims experience. Recognising the risks of small and shrinking risk pools, BNM allows ITOs to increase risk diversification within a risk pool (e.g. by combining homogenous cohorts) to ensure more stable claims experience within the risk pool going forward.

Premium adjustments are also affected by the frequency<sup>5</sup> of repricing exercises. ITOs typically conduct repricing every one to three years. Less frequent reviews and a longer interval between repricing exercises may result in a higher premium increase, as the premium adjustments will have to take into consideration expected future medical inflation for a longer period of time.

<sup>5</sup> For further information, refer to feature article on 'Evaluating the Impact of Medical Re-pricing Deferrals on Life Insurers and Family Takaful Operators', Financial Stability Review – First Half 2021 [https://www.bnm.gov.my/documents/20124/4782528/fsr2021h1\\_en\\_wb4\\_medical.pdf](https://www.bnm.gov.my/documents/20124/4782528/fsr2021h1_en_wb4_medical.pdf).



## Features of Investment-Linked Products

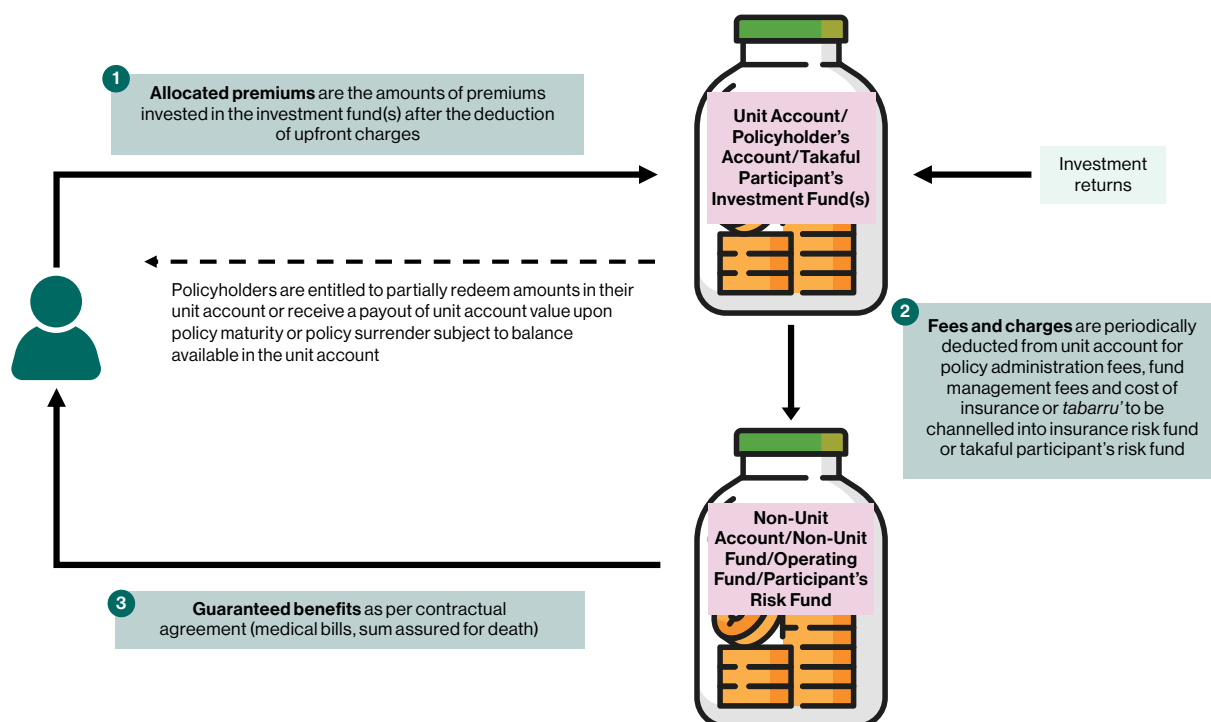
Investment-linked products (ILP) are generally designed with level premiums throughout the policy term. Level premiums mean that the policyholder pays the same premium throughout their coverage period. Level premiums will not go up because of age. However, level premiums can still change (i.e. due to medical inflation) as explained earlier in the article. The premiums, after deduction of upfront charges, will be invested into the investment fund(s) selected by the policyholder. Subsequently, the cost of insurance (COI) and other fees such as fund management fees will be deducted from the policyholder's unit (or investment) account periodically.

The level premiums, plus any investment returns earned, allow the policyholder to grow their unit account from the early years when COI is relatively low. The balance in the unit account is accumulated to cover future increases in COI. However, if medical inflation exceeds initial expectations, the COI is revised upwards, requiring a higher level of premiums to be paid to maintain the level of coverage, similar to other types of MHIT products.

Given this structure, the sufficiency of the unit account to sustain future COI could be impacted by the following reasons:

- lower than expected cash inflow** arising from unfavorable investment returns, policyholder missing premium payments or policyholder does not pay new level of premiums following premium adjustment; or
- higher than expected cash outflow** due to partial withdrawal from the unit fund by the policyholder and increase in COI arising from medical inflation or when policyholder increases coverage without premium top-up.

**Diagram 3: Investment-Linked Product**



Source: Bank Negara Malaysia

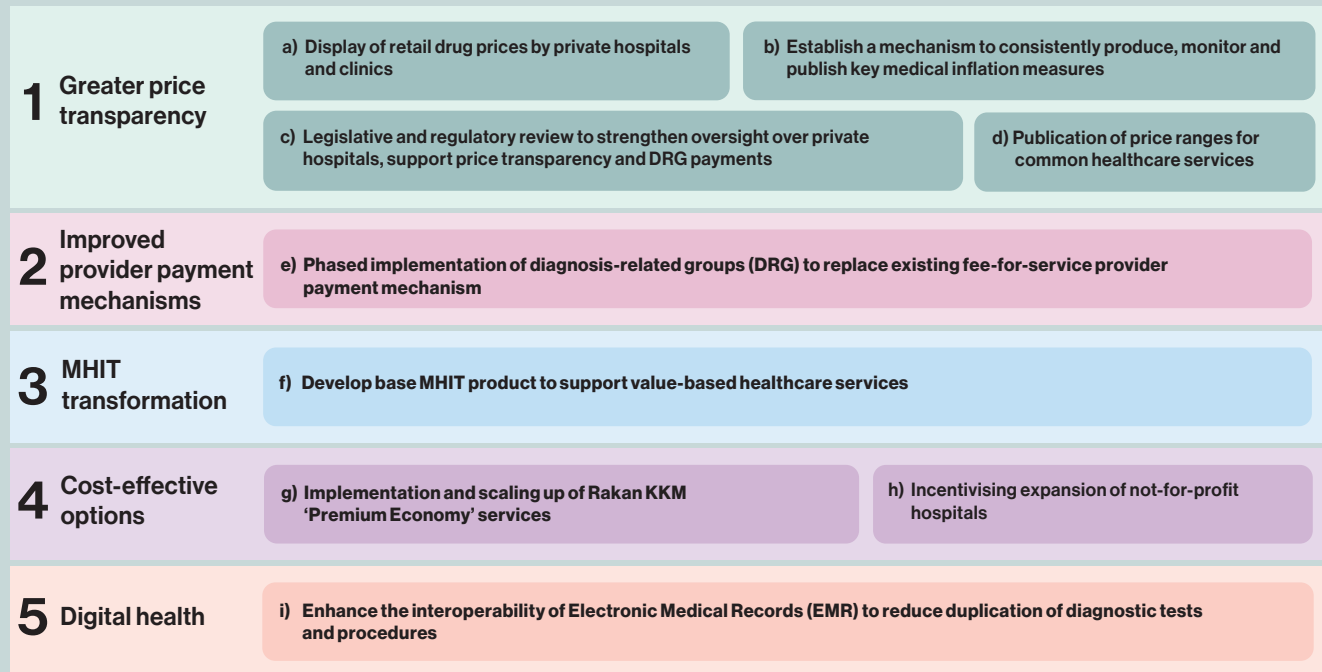
To improve transparency to policyholders, BNM requires<sup>6</sup> ITOs to disclose the sustainability of policyholders' ILP policies on an annual basis. Key information required in the disclosure includes investment performance and whether the current level of premiums is sufficient to ensure coverage until the end of the policy coverage period.

<sup>6</sup> Source: <https://www.bnm.gov.my/documents/20124/948107/PD-Investment-Linked-Business-2023.pdf>

## Expediting reforms to effectively address medical inflation

Ensuring MHIT remains accessible over the longer term requires addressing the root causes of rising medical inflation. This is important to ensure MHIT products remain sustainable, and policyholders can continue to access the required healthcare services to avoid further burdening the public healthcare system. To this end, BNM together with key stakeholders including the Ministry of Finance, the Ministry of Health (MOH), ITOs, private hospitals and clinics, and consumer groups are working closely to implement nine key initiatives to reduce the pace of medical inflation, guided by five strategic thrusts (Diagram 4).

**Diagram 4: Five Strategic Thrusts and Nine Initiatives to Address Medical Inflation**



Source: Bank Negara Malaysia and Ministry of Health

The first strategic thrust is to facilitate **greater price transparency**. Initiatives under this pillar include the display of retail prices for drugs and the publication of price ranges for common healthcare services. This publication enables policyholders and ITOs to compare prices across different medical providers while promoting healthy competition. Additionally, a mechanism to consistently produce, monitor and publish key medical inflation measures will be developed, including to better align the methodology with how general inflation is calculated. To support the initiatives, MOH will also undertake regulatory and legislative review of current oversight arrangements of private hospitals.

The second strategic thrust is the implementation of **Diagnosis-Related Groups (DRG) payment mechanism** to replace the existing fee-for-service provider payment mechanism at hospitals. Under DRG, patients are categorised into groups based on their diagnoses and medical needs, adjusting for severity and co-morbidities. Each group is then associated with a predetermined payment amount. This incentivises efficiency and health outcomes, while providing greater price predictability.

The third strategic thrust is **transforming MHIT offerings** via development of a base MHIT product. The development of a base MHIT product aims to deliver a scalable solution that can ensure more sustainable premiums over the long-term through larger risk pooling. The development of the base product will be accompanied by appropriate cost containment measures. Such measures include the implementation of DRG, prioritisation of a cost-effective benefits package and strategic purchasing of healthcare services.

The fourth strategic thrust is increasing the supply of **affordable, mid-tier hospital beds** via the implementation and scaling up of the Rakan KKM<sup>7</sup> initiative by MOH (which can also serve as a price benchmark) and by incentivising the expansion of not-for-profit hospitals. This initiative will offer more cost-effective options to policyholders.

The fifth strategic thrust is to enhance the interoperability of **electronic medical records (EMR)** across hospitals. EMR will address the current fragmentation of health records in different healthcare facilities. Greater accessibility and portability of a patient's medical data will improve quality and continuity of care while reducing duplication of diagnostic tests and procedures. Over the longer term, this will increase operational efficiency and reduce costs.

The implementation of the five strategic thrusts is expected to reduce the pace of medical inflation and result in cost savings, while ensuring access to quality healthcare in line with global best practices. This will help to contribute to more sustainable premium adjustments over the longer term and secure continued access to MHIT protection. Both the Ministry of Health and Ministry of Finance are supportive of these initiatives and concerted action from all stakeholders across the healthcare ecosystem is key towards successful implementation of the five strategic thrusts.

<sup>7</sup> Rakan KKM offers 'premium economy' services at selected public hospitals for elective outpatient, daycare and inpatient services. For further information refer to: <https://rakankkm.moh.gov.my/en/>

# Promoting a Progressive and Inclusive Islamic Financial System

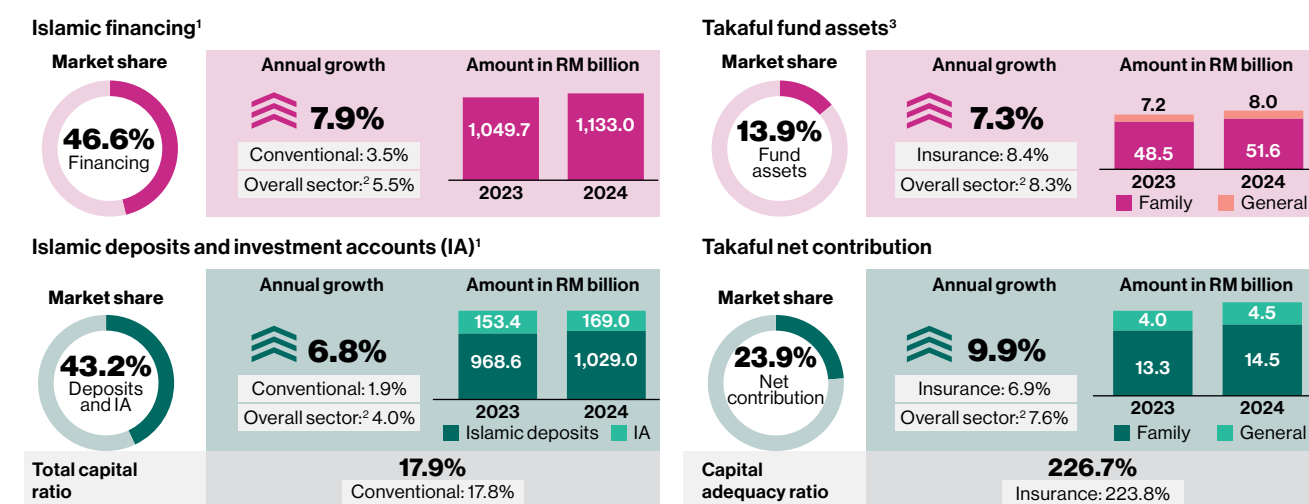
During the year, we focused on elevating Islamic finance's role and impact towards promoting sustainable economic growth and enhancing social justice.

In 2024, Bank Negara Malaysia (BNM) continued to advance Islamic finance in collaboration with key stakeholders. Efforts remained focused on enhancing the Islamic finance sector's contribution to economic developments, sustainability and financial inclusion. BNM also strengthened the regulatory environment to promote value-based finance and innovative financial instruments. On the global front, BNM actively collaborated with the industry to strengthen Malaysia's thought leadership in Islamic finance and position Malaysia as an international gateway for Islamic finance. This includes enhancing cross-border linkages, enhancing clarity in Shariah understanding and application in modern financial activities, promoting Shariah mutual recognition and exchanging insights and best practices through various

international fora. These efforts are aligned with development priorities set out in the Financial Sector Blueprint (FSBP) 2022–2026.

The Islamic banking and takaful industries continued to record positive growth in 2024. The Islamic banking industry's share of total financing in the financial system increased from 45.6% in 2023 to 46.6% in 2024, while the takaful industry's share of total net contribution increased from 23.4% in 2023 to 23.9% in 2024. Islamic banking and takaful institutions remained resilient and well-capitalised (Diagram 1). The resilience of the Islamic financial institutions has enabled the industry to continue meeting the funding needs of businesses, including small and medium enterprises (SMEs), and households, as well as providing financial protection (Diagram 2). Although total takaful net contributions grew steadily, the family takaful market penetration<sup>1</sup> has moderated slightly in 2024. This was due to decline in sales of new certificates relating to investment-linked and medical and health products during the year arising from challenges relating to medical cost inflation and general cost of living pressures.

**Diagram 1: Market Share and Growth Indicators**



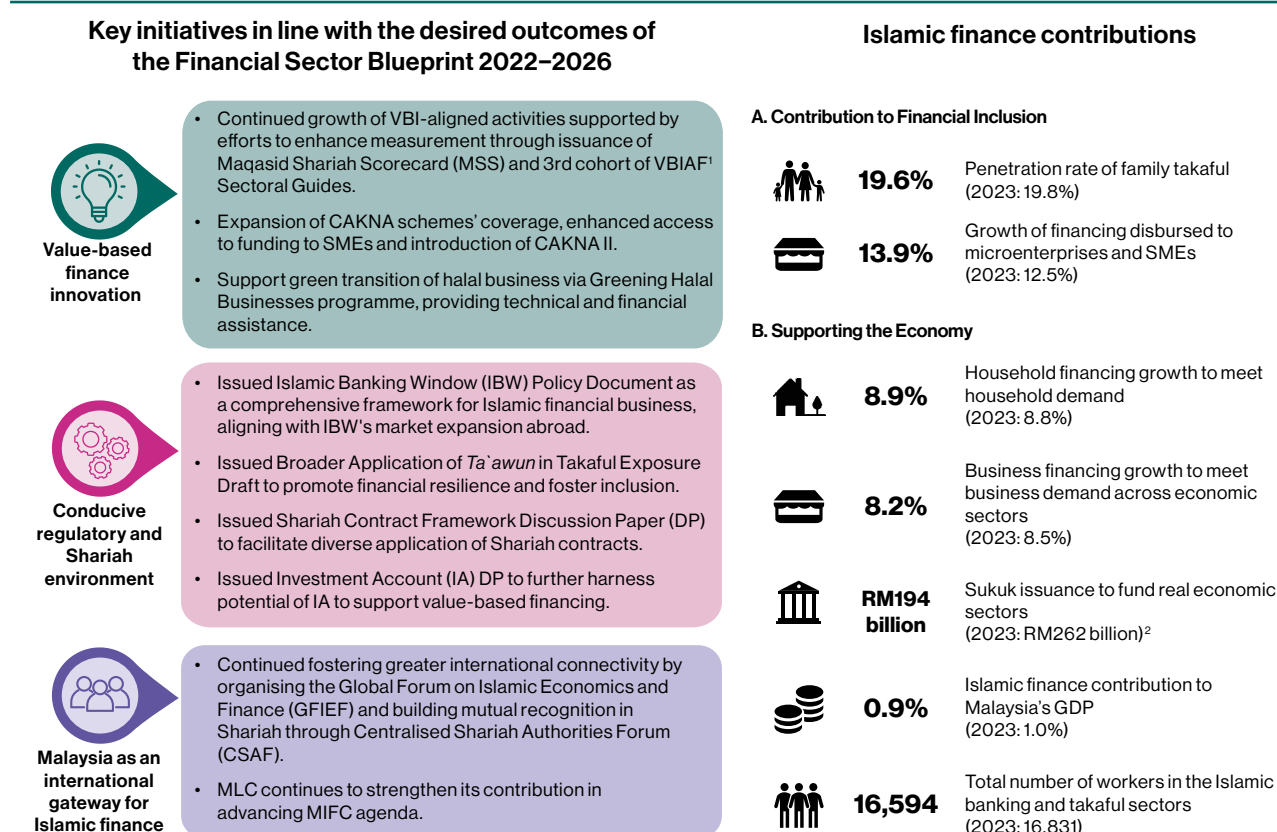
<sup>1</sup> Includes development financial institutions.

<sup>2</sup> Annual growth for overall sector refers to combination of Islamic and conventional sectors.

<sup>3</sup> Not inclusive of the shareholders' fund assets.

Source: Bank Negara Malaysia

<sup>1</sup> The ratio of total number of family takaful certificates in-force to total population.

**Diagram 2: Summary of Islamic Finance Key Initiatives in 2024 with Indicators on Contributions to the Economy**


<sup>1</sup> Value-based Intermediation Financing and Investment Impact Assessment Framework.

<sup>2</sup> Lower government sukuk and bond issuance in line with government fiscal budget and borrowing strategy.

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

## Strengthening Islamic Finance Ecosystem for Sustainable Economic and Social Impact

### Steady progress of value-based finance initiatives

The Value-based Intermediation (VBI) principles have been key in guiding the Islamic financial industry to deliver positive impact on the economy, community and environment. Islamic banks intermediated RM216.1 billion in 2023, benefitting 8.0 million accounts through initiatives that were aligned with VBI goals.<sup>2</sup> These figures reflect a significant growth of 64.5% in value and 61.2% in outreach compared to 2022, showing the growing commitment of Islamic banks to VBI goals. Islamic banks also showed significant progress in fostering a high value green economy through a substantial rise in net-zero and green financing. While still relatively nascent, the financing amounts increased by approximately 50%, rising from RM16.5 billion in 2022 to RM25.9 billion in

2023. Additionally, the number of accounts has more than tripled to 140,798 accounts in 2023 compared to the previous year. Specific areas of focus include clean and green transportation, transition financing, and sustainable water and wastewater management.

In September 2024, the third cohort of the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides, which aligns with BNM's Policy Document on Climate Risk Management and Scenario Analysis (CRMSA) and Climate Change and Principle-based Taxonomy (CCPT), was issued, covering four sectors.<sup>3</sup> The VBIAF Sectoral Guides outline sector-specific guidelines that assess the impact of financing and investment activities across ten economic sectors<sup>4</sup> in total. The first and the second cohorts of the Sectoral Guides covering six sectors, issued in 2021 and 2022 respectively, are currently being

<sup>3</sup> The third cohort covers agriculture, mining, transport and waste management sectors.

<sup>4</sup> The first cohort covers palm oil, renewable energy and energy efficiency sectors while the second cohort covers oil and gas, construction, and infrastructure and manufacturing sectors.

<sup>2</sup> Source: Value-based Intermediation (VBI) Report 2023 by the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM)



reviewed by the VBI Community of Practitioners (VBI CoP)<sup>5</sup> to also ensure alignment with CRMSA as well as CCPT.<sup>6</sup> The review is targeted for completion by 2025.

In October 2024, the takaful sector advanced the implementation of Value-based Intermediation for Takaful (VBIT) framework with the launch of the *Maqasid* Shariah Scorecard (MSS) by the Malaysian Takaful Association (MTA). This pioneering initiative aims to track key performance indicators (KPIs) and outcomes that reflect the core values of Islamic finance. The MSS uses a scorecard that incorporates *maqasid* Shariah parameters to help takaful operators measure their KPIs based on key thrusts of the VBIT framework.<sup>7</sup>



Assistant Governor Suhaimi Ali together with members of MTA and ISRA Institute during the launch of *Maqasid* Shariah Scorecard at VBIT conference

Another VBIT initiative is the pilot social takaful programme using a 'blended approach' for the under-protected segments. This initiative blends benevolent funds with takaful contributions and private funds to provide affordable protection to vulnerable groups, including

micro-entrepreneurs, in a sustainable manner. The programme aims to promote inclusive protection, in line with VBIT's goals of empowerment and sustainability in takaful solutions. The programme is also expected to utilise the Government's grant on annual takaful contributions for microentrepreneurs under iTEKAD as announced in Budget 2025. More information on iTEKAD can be found in the chapter on 'Promoting a Progressive and Inclusive Financial System'.

#### Scaling up funding solutions through CAKNA schemes

CAKNA schemes<sup>8</sup> remained accessible to SMEs in managing their cash flow throughout the project lifecycle for government procurement contracts. Since its inception in 2021, CAKNA I has provided a total of RM919 million non-debt funding facilities, benefiting 305 SME vendors. The scheme has now been expanded to cover all ministries and state-level agencies, providing liquidity to SMEs across a broader scope of business activities through eight participating financial institutions.

During the year, CAKNA II was introduced as a financing facility to help SMEs with timely completion of their projects, particularly small contractors (G1–G4) with government projects related to supplies, services or contract works. Currently, five participating financial institutions offer six financing products under CAKNA II for SMEs with government contracts. Additionally, RM200 million was allocated under All Economic Sectors Facility (AES) of BNM's Fund for SMEs to support the implementation of small-scale government projects.

As part of these expansions, outreach programmes were held in collaboration with the Ministry of Finance (MOF) and the Ministry of Entrepreneur Development and Cooperatives (MEDC). These programmes aim to raise awareness and familiarity with CAKNA schemes among Ministries, state agencies as well as SME vendors.

<sup>5</sup> VBI CoP is a collaborative platform initiated by Islamic banks spearheading VBI industry initiatives. The founding members consist of Bank Islam Malaysia Berhad, CIMB Islamic Bank Berhad, Bank Muamalat Malaysia Berhad, HSBC Amanah Malaysia Berhad and Bank Pertanian Malaysia Berhad (Agrobank), and the CoP has grown to 16 members to date.

<sup>6</sup> CRMSA sets out the principles and requirements for financial institutions to manage climate-related risks by financial institutions while CCPT facilitate financial institutions in assessing and classifying economic activities that contribute to climate change mitigation and adaptation. CRMSA and CCPT were issued in 2022 and 2021 respectively.

<sup>7</sup> Four key thrusts of VBIT – financial resilience (ability to bounce back from the financial shock); good self-governance (ability to effectively exercise all necessary functions of regulation); community empowerment (process of enabling people to gain control over the factors and decisions that shape their lives); and best conduct (practice that is deemed to be most superior because it leads to the best results).

<sup>8</sup> There are two schemes under CAKNA. CAKNA I caters to the liquidity needs of SMEs post-contract delivery, while CAKNA II caters to the financing needs pre-contract delivery. Further information at <https://www.bnm.gov.my/skim-cakna>.



Briefing on CAKNA I and CAKNA II to government officials in Putrajaya and government contractors in Kedah

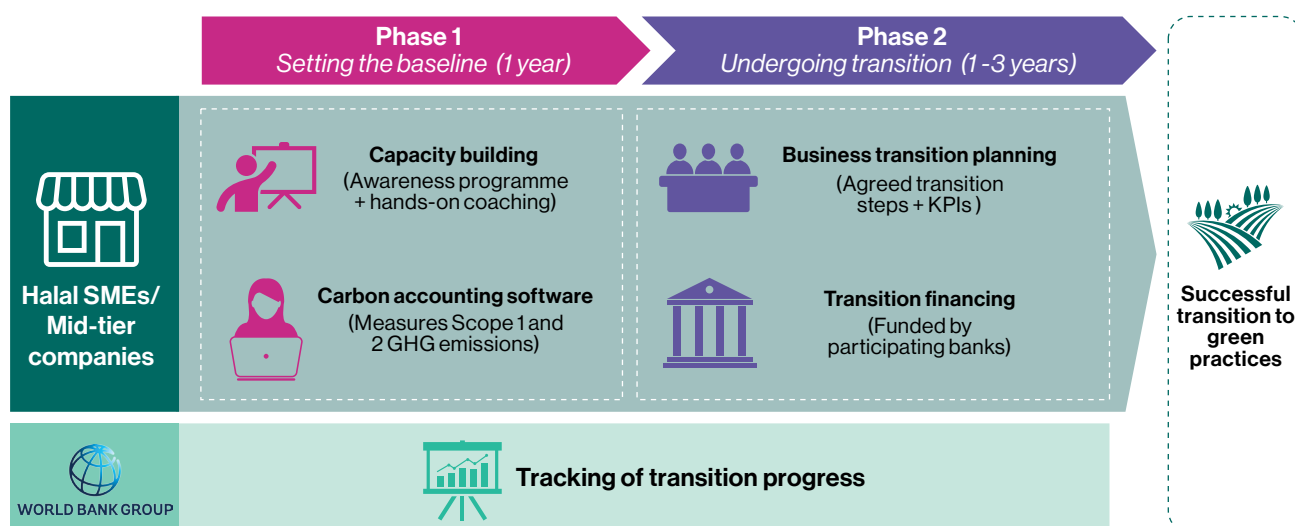
### Advancing halal trade and business

The halal sector presents significant opportunities for Islamic finance to support the real economy. With growing global demand for halal products, Islamic financial institutions, together with relevant government agencies,<sup>9</sup> can help support halal companies to grow and expand their export potential.

In May 2024, BNM, in collaboration with MOF, Islamic Development Bank (IsDB) and the World Bank Group Inclusive Growth and Sustainable Finance Hub (World Bank) in Malaysia, announced the Greening Halal Businesses (GHB) pilot programme. This initiative aims to support greening efforts by Malaysian halal businesses, particularly SMEs and mid-tier companies in meeting green transition needs. The increasing emphasis on ethical consumerism underscores the need for halal businesses, especially those across the value chain in exports, to intensify their commitment to sustainable practices.

The GHB pilot programme employs a blended facilitation approach, offering a range of support mechanisms in phases (Diagram 3). Phase 1 focuses on offering capacity building and carbon accounting tools to measure greenhouse gas (GHG) emissions. Additionally, financial assistance will also be provided via a government grant allocation of RM15 million under Budget 2025 to further incentivise the transitioning efforts of halal companies. These may include obtaining green certification to access new export markets and purchasing energy-efficient equipment to reduce emissions from business operations. Beyond this, Phase 2 will be funded through facilities provided by participating banks to support the successful transition of businesses to green practices. The implementation progress will be tracked and evaluated by the World Bank through identified impact indicators.

Diagram 3: Illustration of Greening Halal Businesses' Structure and Mechanism



Source: Bank Negara Malaysia

<sup>9</sup> For example, the Halal Development Corporation Berhad (HDCB) and the Malaysian External Trade Development Corporation (MATRADE).

### Implementation of Agritakaful

Malaysia's first agriculture-based takaful programme, the Paddy Crop Takaful Scheme (Skim Takaful Tanaman Padi, STTP), was launched during the year. The scheme is designed to enhance the resilience of the agriculture community by providing basic protection against crop losses, particularly from natural disasters such as floods and droughts, that are exacerbated by climate change.

The STTP, offered by a subsidiary of Agrobank – Agro Captive Takaful Limited – through collaboration with the Ministry of Agriculture and Food Security (MAFS), specifically targets the paddy farming subsector. This voluntary, multi-peril takaful scheme aims to cover about 200,000 small-scale paddy farmers registered with MAFS agencies, spanning 350,000 hectares of paddy fields nationwide. Takaful coverage offered is up to RM3,000 per hectare per planting season, with a limit of two seasons per year. Takaful contributions amounting to RM60 per hectare per season will be fully subsidised by the Government in the first year. The scheme is also expected to support national food security efforts by encouraging more entrepreneurs to participate in the agriculture industry with takaful coverage to protect against unforeseen events that could disrupt harvests. The scheme will be piloted over the next three years.

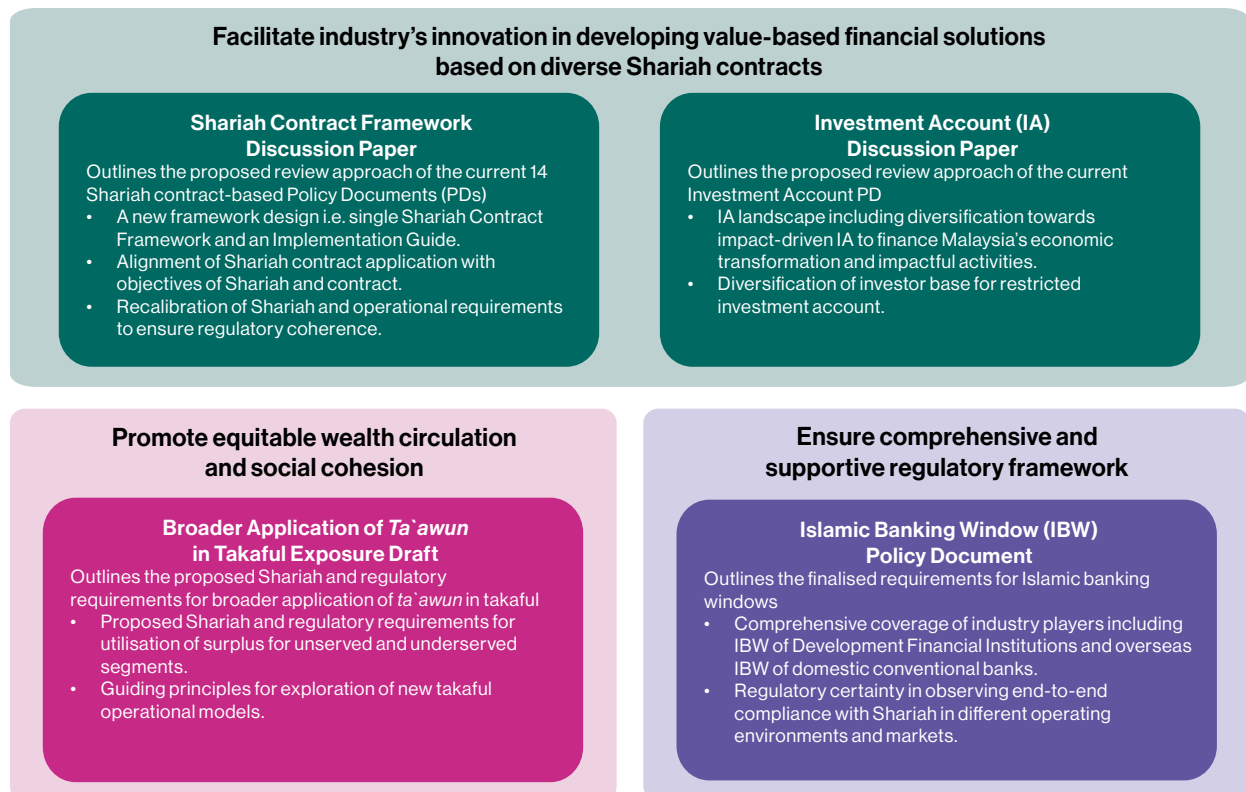
## Enabling Regulatory Environment to Facilitate Islamic Finance Growth

### Strengthening policy enablers to facilitate business growth

In 2024, BNM reviewed and enhanced several Islamic finance regulations to continue providing a conducive regulatory environment that fosters growth in Islamic finance. BNM issued a number of discussion papers during the year to facilitate application of diverse Shariah contracts, aimed at supporting inclusion and product innovation in value-based finance. This includes a review of the Shariah contract-based regulatory framework and existing policy requirements on investment account. As part of the review of the Shariah contract-based regulatory framework, BNM is exploring a new framework design and policy recalibration for both Shariah and operational requirements of the existing 14 Shariah contracts. These efforts aim to facilitate innovation in the use of diverse Shariah contracts while ensuring end-to-end Shariah compliance to better address consumer and economic needs.

BNM also published the Broader Application of *Ta'awun* in Takaful Exposure Draft to facilitate the takaful industry to

**Diagram 4: Key Islamic Finance Policy Initiatives in 2024**



Source: Bank Negara Malaysia

## Promoting a Progressive and Inclusive Islamic Financial System

contribute towards socio-economic advancement of society through the *ta'awun* (mutual assistance) concept. To remain effective amid evolving market environments, BNM also revised its policy on the Islamic banking window to ensure a

level playing field across different types of institutions. Overall, these efforts seek to encourage innovative solutions and drive business growth within the industry. The policy issuances are summarised in Diagram 4.

Diagram 5: Summary of Key Shariah Deliberations in 2024



### Product Innovation

#### Issuance of Malaysian Government Investment Issue (MGII) based on *wakalah* concept

- SAC approved MGII structure based on *wakalah* (agency) contract and its variants such as *wakalah bi al-istithmar* (agency contract for investment) and *wakalah bi al-khadamat* (agency contract for services) as an alternative to *murabahah* in order to diversify the underlying Shariah concept for the instrument.

#### New features of Sell and Buy Back Agreement (SBBA)

- SAC approved the proposed new features of SBBA including margining, profit disbursement and substitution of asset.



### Policy Development

#### Transfer of funds for funding and liquidity risk management from an Islamic financial institution to a conventional financial institution

- In principle, it is not permissible for any form of fund to be transferred from Islamic financial institutions to conventional financial institutions, unless there is certainty (*al-yaqin*) or a high probability (*ghalib al-zann*) that the funds will not be used for non-Shariah compliant activities, in which the transfer of funds aims to address hardship, subject to *Hajah* and *Darurah* Policy Document (PD).

#### Broader application of *ta'awun* in *takaful*

- Utilisation of distributable surplus for broader application of *ta'awun*, best interest of *takaful* participants must be preserved.
- Express consent from *takaful* participants must be sought as a general Shariah requirement when utilising the distributable surplus.

#### Strengthening Shariah contract framework

- SAC deliberated proposed review approach of the Shariah contract PDs to support the application of diverse Shariah contracts and innovation by the industry.

#### Research on fundamentals of modern money including Central Bank Digital Currency from Shariah perspectives

- Understanding of money from historical Shariah conception and how it works in the modern banking and economic system for ascertainment of Shariah perspectives.



### Industry Practices

#### Anticipatory hedging

- Anticipatory hedging is recognised to mitigate risk exposure from projected or anticipated transactions, where it may be considered as an actual risk if the amount of transaction is justifiable, quantifiable and the timing of payment can be ascertained.

#### Review of existing SAC rulings on *tawarruq*

- SAC deliberated Shariah assessment on *tawarruq* application in the industry and its potential impact to the policy direction.

#### Parameters for the transfer of *takaful* business to an insurance company through a novation agreement in a run-off arrangement

- SAC deliberated on the transfer of *takaful* business to an insurance company (including a licensed reinsurance company) through novation agreement in a run-off arrangement, mapped against requirements set out in the *Hajah* and *Darurah* PD.



### Market Infrastructures

#### Islamic FX Swap as a liquidity management instrument between BNM and IFIs

- Islamic FX Swap based on (a) *bai' al-sarf* and *wa'd* (currency exchange and unilateral promise) and (b) *tawarruq* for the purpose of liquidity management is permissible given the need (*hajah*) to facilitate liquidity injection into the market.

#### Funding Facility for Retail Payment Settlement (FRPS)

- Affirmed permissibility of subscription to FRPS in respect of its Shariah compliance, which involves automated sale and purchase transactions using *wakalah* contract.



### Arrangements that Do Not Meet Shariah Requirements

#### Financing of property under construction based on *ijarah muntahiyah bi tamlik*

- The financing does not meet the requirements of the sale and purchase contract on establishing ownership of the asset before the rental contract is signed, and the asset does not exist at the time of signing of the sale and purchase contract.

#### Execution of Foreign Exchange Products and Settlements Services without *wakalah* agreement

- The *wakalah* arrangement does not meet the structure approved by the SAC and requirements of a valid *wakalah* agreement.

Source: Bank Negara Malaysia



## Building a Conducive Shariah Framework to Enable Vibrant Ecosystem

### Summary of key Shariah deliberations in 2024

The Shariah Advisory Council of Bank Negara Malaysia (SAC) continued to play a critical role in developing Islamic finance in Malaysia. Its rulings follow a structured decision-making framework that integrates both classical Shariah underpinnings and comprehensive sources of Islamic law, as well as contemporary views and fatwas. These rulings consider practical application of financial instruments, real-world conditions, impact on the industry, and their broader influence on the overall economy.

In 2024, SAC addressed various contemporary issues and provided clarity on Shariah matters to support market innovation. Key areas of SAC's deliberations are summarised in Diagram 5.

### Advancing Shariah talent ecosystem

In 2024, BNM continued efforts to develop credible and sustainable pipeline of Shariah experts in Islamic finance. Targeted initiatives include an intensive mentoring programme where participants were able to engage closely with SAC members and prominent international Shariah scholars.

BNM also held a focus group session which provided a platform for participants to discuss the application of the Shariah decision-making framework adopted by the SAC to industry issues under the guidance of SAC members. This initiative is part of the ongoing development process aimed at futureproofing the Shariah talent pool within the domestic Islamic finance ecosystem.



Sheikh Professor Dr. Ali Muhiddin Al-Qaradaghi, Professor Dr. Ashraf Md. Hashim (Chairman of the SAC) and Tan Sri Dr. Mohd Daud Bakar at the mentoring programme with Shariah experts in Islamic finance

## Elevating Malaysia's Leadership in Fostering Global Linkages in Islamic Finance

Malaysia remains committed in strengthening its position as a global gateway for Islamic finance. During the year, BNM continued its efforts anchored on three key areas:

- Fostering global cooperation and initiatives to advance Islamic finance.
- Strengthening Malaysia International Islamic Financial Centre (MIFC) business linkages.
- Deepening Islamic financial market.

### Fostering global cooperation and initiatives to advance Islamic finance

#### Global Forum on Islamic Economics and Finance

In May 2024, BNM organised the Global Forum on Islamic Economics and Finance (GFIEF) in Kuala Lumpur. The event gathered over 2,300 policymakers, industry leaders and practitioners from 75 countries. GFIEF was held under the patronage of MOF. Its organising partners include the Securities Commission Malaysia, Labuan Financial Services Authority, the International Islamic Liquidity Management Corporation (IILM), IsDB, the Islamic Financial Services Board (IFSB) and the World Bank Group.

With the theme 'Shaping a Resilient Global Islamic Economy Through Values-based Reforms', the two-day forum featured deep policy discussions and initiatives that strengthen international cooperation (see Diagram 6).

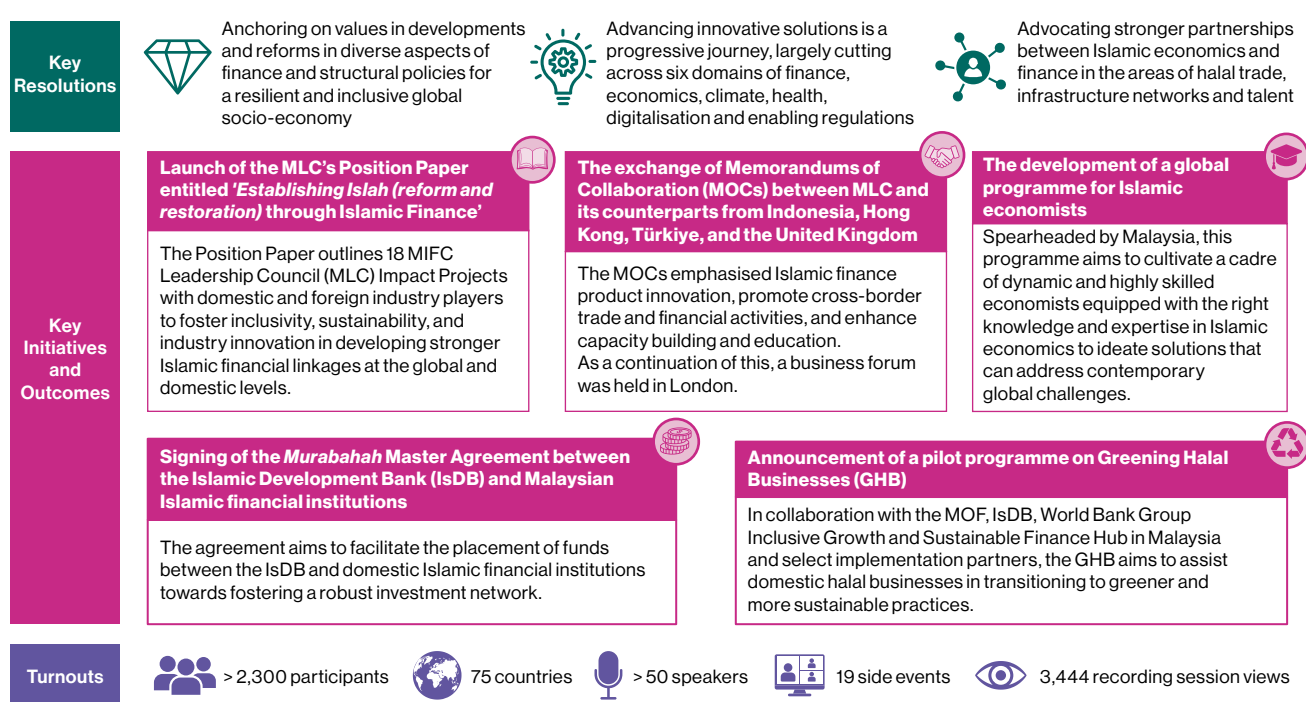
#### Key international partnerships in Islamic finance

As part of the global Islamic finance community, BNM remained an active participant at international organisations and platforms such as the IFSB, IILM and the Organisation of Islamic Cooperation (OIC)–Standing Committee for Economic and Commercial Cooperation of the Organisation of the Islamic Cooperation (COMCEC) Central Banks Forum. Additionally, BNM also engaged with several countries at global and regional events to advance strategic initiatives. This includes promoting Islamic finance within ASEAN and OIC trade initiatives.

BNM remains committed to supporting the development of Islamic finance by offering to share knowledge and expertise with other jurisdictions, fostering collaboration, and contributing to exchange of insights and practices. In 2024, BNM engaged with several jurisdictions including Indonesia, Kazakhstan, Kyrgyz Republic, the Philippines, Republic of Tatarstan



**Diagram 6: Key Initiatives and Outcomes from GFIEF**



Source: Bank Negara Malaysia



Prime Minister YAB Dato' Seri Anwar bin Ibrahim delivering his keynote address



Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour delivering his welcoming remarks



Panel discussing GFIEF resolutions as actionable next steps for the industry, regulators and beyond



MLC Chairman Tan Sri Azman Mokhtar presenting the MLC's Position Paper to Prime Minister YAB Dato' Seri Anwar bin Ibrahim

(Russia), Tajikistan, Uganda, the United Arab Emirates and Uzbekistan. BNM is also collaborating with the IsDB's Center of Excellence in Kuala Lumpur and ISRA International Consulting (ISRA) in hosting the Islamic Finance Capacity Building Programme (IFCBP) for IsDB member countries, with a focus on the Central Asian region. The inaugural programme is scheduled for the first half of 2025. This initiative aims to meet the growing demand for specialised training in Islamic finance regulation and supervision while promoting a robust and stable financial system. The training programme is tailored to the specific needs and contexts of the Central Asian region, ensuring maximum relevance and impact.

#### **Promoting greater mutual recognition of Shariah**

In May 2024, BNM hosted the 4th Centralised Shariah Authorities Forum (CSAF) Working Group Meeting in Kuala Lumpur. The meeting focused on discussing a proposed future model for CSAF and its key terms of reference (ToR). These proposals aim to strengthen CSAF governance and streamline meeting conduct, including effective organisation of CSAF events, agenda setting, and host country rotation. The ToR also focused on enhancing CSAF's credibility as a prominent reference source for financial regulatory authorities, global fatwa-issuing bodies, and international standards-setting organisations.



4th CSAF Working Group Meeting in Kuala Lumpur

#### **Strengthening Malaysia International Islamic Financial Centre (MIFC) business linkages**

#### **Strengthening industry's participation in advancing the MIFC agenda**

Since the MIFC Leadership Council (MLC) was established in 2022, it has worked to strengthen the industry's role in advancing MIFC propositions as an

international gateway for Islamic finance. This could be seen from MLC's Position Paper which was published during GFIEF in May 2024. In its Position Paper, MLC identified 18 initial MLC Impact Projects that drive collective actions and shifts by the industry to foster positive societal change through Islamic finance. These efforts focus on connecting Islamic finance with global markets, promoting financial innovation via philanthropic capital, supporting sustainability, and building knowledge, capacity and institutions.

#### **MIFC-UK Business Forum**

As part of efforts to advance the MIFC agenda and position Malaysia as an attractive Shariah compliant fundraising destination, BNM and MLC co-organised the MIFC-UK Business Forum in London in September 2024. The event was held in partnership with the Islamic Finance Council United Kingdom (UKIFC), The CityUK, and UK Islamic Finance-Halal Economy Hybrid Group. His Royal Highness Sultan Nazrin Muizzuddin Shah, Royal Patron of Malaysia's Islamic Finance Initiative, graced the occasion. The Forum brought together over 140 key financial stakeholders from Malaysia and the United Kingdom (UK) to discuss the opportunities and challenges in promoting green investments through wider application of Islamic finance solutions.

The Forum concluded with a resounding call for strategic partnerships to enhance Islamic finance services in the UK, emphasising the transformative role of technology in banking solutions and its potential to drive accessibility, efficiency and innovation in addressing funding needs (Diagram 7). This collaborative effort seeks to increase impactful investments towards a sustainable future.

#### **Diagram 7: Advocacy for Sustained Collaboration during the MIFC-UK Business Forum**

Through the business roundtable, forum participants from both Malaysia and the UK advocated for sustained collaboration towards:

1. Promoting industry **collaboration in cross-border trade and financing activities**, including green investments, private equity and funding infrastructure projects.
2. Maximising the potential of **innovative Islamic finance instruments** in supporting green transition.
3. Fostering **partnership in capacity building, research and knowledge exchange** on Islamic finance for mutual development.

Source: Bank Negara Malaysia





*The MIFC–UK Business Forum, co-organised by BNM and MLC, brought together key financial stakeholders from Malaysia and the UK*

### Deepening Islamic financial market

#### **Islamic Financial Market Subcommittee roundtables**

In 2024, Islamic Financial Market Subcommittee (IFMC) held a series of dialogues aiming to strengthen investment linkages and position Malaysia as a Shariah-compliant investment destination. The IFMC–IsDB treasury dialogue, held alongside GFIEF in May 2024, showcased the depth of Malaysia’s debt securities market, diverse and innovative sukuk structures as well as the development of Islamic derivatives and hedging markets. A key outcome of the dialogue was the signing of the Murabahah Master Agreement by IsDB and several Islamic banks to facilitate fund placements across institutions. This agreement is expected to further enhance investment linkages between the multilateral development bank and domestic financial institutions. The feature article on ‘Deepening the Islamic Financial Market and Liquidity Management’ provides more information on this strategy. Another IFMC–MLC roundtable was held in August 2024 which centred on advancing Malaysia’s green funding ecosystem. The aim is to position Malaysia

as a competitive destination for Shariah-compliant green investment and fundraising activities.

### Going Forward

Our strategic priorities in 2025 are to further develop the Islamic finance ecosystem, enabling the industry to adapt and grow sustainably in a fast-changing environment. Moving forward, we will focus on three key areas to drive the future of Islamic finance:

- Strengthen the ecosystem to support both economic and social development, while sustaining growth.
- Ensure an enabling regulatory environment and Shariah framework that support innovation and adapt to the evolving needs of the industry.
- Position Malaysia as an international gateway for Islamic finance through stronger global ties, business linkages and market growth. This includes advancing the role of Islamic finance in supporting regional funding needs including climate projects, green transition and social finance during Malaysia’s ASEAN Chairmanship.

## Deepening the Islamic Financial Market and Liquidity Management

### Introduction

Malaysia aspires to be a global leader and international gateway for Islamic finance. This has to be supported by a well-developed Islamic financial market comprising an effective liquidity management system and fund raising or financing avenues. Bank Negara Malaysia (BNM) has been at the forefront of efforts to promote the growth and resilience of Islamic financial market as an important pillar to support a sustainable, inclusive and diversified economy.

### The development of the Islamic financial market in Malaysia

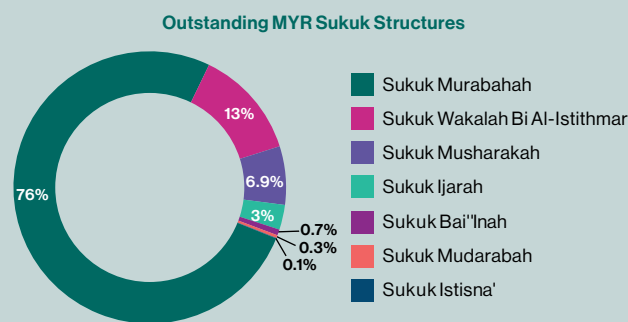
Malaysia's Islamic financial market benefits from a diverse range of market participants including Islamic banks, takaful and retakaful operators, fund managers and multilateral development banks (MDBs). An array of products and Shariah-compliant instruments including sukuk and equity instruments have been developed and are actively traded. The vibrant Islamic financial market also helps to facilitate efficient product pricing and liquidity management.

BNM continues to develop the Islamic financial market with the following key focus areas:

#### i. Continued product innovation

Innovation is fundamental to the growth and adaptability of Malaysia's Islamic financial market, ensuring it meets the demands of a rapidly changing economic environment. The Islamic financial market offers a wide array of instruments to investors including the Malaysian Government Investment Issues (MGII). In 2024, Government of Malaysia announced *wakalah bi al-khadamat* (agency contract for services) structure which will add to the diverse array of MGII. Approved by the Shariah Advisory Council (SAC) of BNM on 30 April 2024, this structure serves as an alternative to *Murabahah*, aiming to diversify the underlying Shariah concepts of the instrument. This approach enhances the global appeal of MGII among investors by accommodating more structures to meet diverse investor requirements, aligning with both progressive Shariah interpretations and international market standards. The inaugural issuance of *wakalah bi al-khadamat* structure is scheduled for 2025.

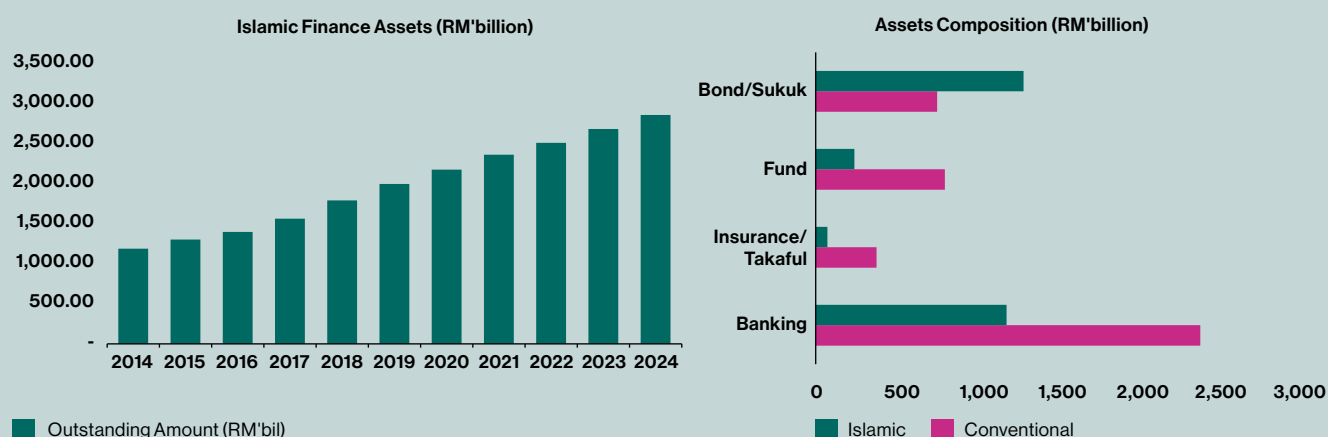
**Diagram 1: Composition of Shariah Structures in the Malaysian Sukuk Market in 2024**



Source: Bloomberg

#### ii. Expanding the product offerings

To meet the growing investor demand and support the development of Islamic assets, BNM has taken several initiatives to broaden the availability of Shariah-compliant instruments. These initiatives include the development of social finance instruments, which aim to integrate *waqf*, *zakat*, and *sadaqah* into formal financial market instruments. This involves creating a *waqf*-based sukuk to fund community and infrastructure projects, thereby promoting financial inclusion and ethical investments. BNM has also been facilitative of the issuance of MYR-denominated sukuk by MDBs and qualified non-resident development financial institutions by providing regulatory flexibilities, such as broadening investment opportunities for institutional investors.

**Diagram 2: Composition of Islamic Assets vs Conventional Assets**


Source: Bank Negara Malaysia (Monthly Highlights & Statistics), Securities Commission Malaysia

### iii. Aligning with sustainability initiatives

BNM continues to promote the issuance of green and Sustainable and Responsible Investment (SRI) sukuk to meet the expanding financing needs in the renewable energy, biodiversity and public infrastructure projects, in line with the projects identified in the National Energy Transition Roadmap.

#### Advancing Green Sukuk

Malaysia is well-positioned to support the growth of the green sukuk market domestically and globally. Various efforts are now being undertaken by BNM and market participants to scale up green sukuk adoption and position the country as a gateway for Islamic finance.

The Islamic Financial Market Subcommittee (IFMC)–MIFC Leadership Council (MLC) held a roundtable discussion on green sukuk on 19 August 2024. The roundtable aimed at advancing the sustainability agenda in Malaysia and supporting the Government's biodiversity sukuk issuance plan. The roundtable identified three key strategies:

- build critical mass by encouraging businesses and issuers to explore green funding through capital market solutions, including blended finance and smaller-ticket sukuk issuances;
- strengthen collaboration with key stakeholders to activate market levers that will enhance the vibrancy of green funding. These levers include developing a green asset pipeline and repository, establishing a strong carbon pricing and market, implementing comprehensive disclosure and reporting practices, and targeted incentives to drive initiatives in transitioning to a greener economy; and
- broaden the investor base and advocate for stronger roles by the institutional investors in shaping the green investment landscape, including fostering stronger ties with MDBs that have aligned mandates and objectives.

#### Expanding the SRI Sukuk market

The SRI Sukuk market is poised for further expansion, driven by the priorities of energy transition, social inclusivity, and sustainability under the MADANI economy framework. This agenda is closely aligned with Malaysia's 12th Malaysia Plan (2021–25), particularly Theme 3, which emphasises advancing green growth, enhancing energy sustainability, and transforming the water sector. These strategic focus areas bolster the ongoing push for sustainable financing, positioning SRI Sukuk as a key instrument in achieving the country's long-term sustainability goals. Within this supportive framework, Malaysia's ecosystem is well-positioned to facilitate SRI sukuk issuances. As a result, Malaysia experienced a significant growth in SRI sukuk issuances, reaching RM11.9 billion in 2024. This represents an almost ninefold increase since the sukuk's initial introduction in 2017.

Regionally, Malaysia hosted the inaugural ASEAN-labelled sukuk issuance in 2017 under the SRI Sukuk Framework and has been instrumental in establishing the ASEAN Green Bond Standards. These standards ensure alignment with international best practices while addressing regional needs. Through collaboration with the ASEAN Capital Markets Forum, Malaysia supports efforts to enhance regional capital markets by focusing on sustainable finance, responsible

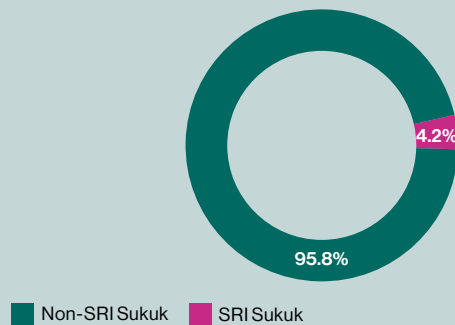


investment, and strengthening ESG disclosure frameworks. These initiatives have positioned Malaysia as a leader in advancing responsible investment practices within ASEAN's sustainable finance framework.

Furthermore, BNM continues to support the issuance of ringgit-denominated sukuk by residents and non-residents for use in Malaysia through the facilitative foreign exchange policy. A key objective is to scale up the issuance of SRI instruments to finance climate resilience, energy efficiency and social impact projects. This commitment underscores Malaysia's leadership role in fostering innovation and growth in the green finance sector within the ASEAN region.

**Diagram 3: Composition of SRI Sukuk vs Total Sukuk in the Market in 2024**

Outstanding MYR SRI Sukuk vs Non-SRI Sukuk (RM1.33 trillion)



Source: Bloomberg

## Liquidity management in the Islamic financial market

BNM plays a pivotal role in deepening the Islamic financial market. This includes ensuring that market participants have access to liquidity management tools that comply with Shariah principles while maintaining the efficiency, effectiveness and stability of the financial system.

As part of the efforts to enhance the liquidity management for market participants, BNM introduced the Islamic Collateralised Funding Policy Document (ICF PD) on 28 June 2024 to support the development of the Islamic repo market. The ICF PD provides a structured framework and standards for Islamic repo transactions, thereby improving the overall functioning of the Islamic Interbank Money Market (IIMM). The standardisation of Islamic repo transactions within the IIMM has promoted the efficiency and activity of the interbank market which facilitate short-term funding and liquidity management among the Islamic financial institutions in Malaysia. As a result, the volume of Islamic interbank repo transactions<sup>1</sup> increased by 2.4 times, from RM12.6 billion in 2023 to RM42.6 billion in 2024, indicating strong market adoption and growing liquidity.

## Leveraging strategic collaboration to further advance the development of the Islamic financial market

### i. Strengthening collaboration through IFMC

Established by the Financial Market Committee (FMC) in May 2022, the Islamic Financial Market Subcommittee (IFMC) serves as an important platform to foster cooperation between the central bank and market participants to drive strategic initiatives for the Islamic financial market. As a baseline, primary focus is to identify and address pain points and challenges within the Islamic financial market. In addition, the IFMC drives strategic initiatives aimed at improving market access and enhancing trading liquidity. The IFMC also focuses on initiatives to strengthen market

<sup>1</sup> Source: Bank Negara Malaysia

resilience through robust risk management frameworks and the adoption of anticipatory hedging tools, which help safeguard market stability against potential disruptions. In achieving its mandate, the IFMC promotes greater participation in the strategic initiatives among Islamic financial institutions, asset managers, corporate entities and MDBs, thereby fostering a dynamic and inclusive market environment.

### ii. Advancing Shariah mutual recognition

Islamic finance operates in many jurisdictions with varying Shariah interpretations and a key component in enabling universal participation is mutual recognition. This concept has consistently been a central focus of the Centralised Shariah Authorities Forum (CSAF), an international networking platform that brings together central Shariah authorities from various jurisdictions. The forum aims to discuss current and emerging Shariah issues, leveraging the diverse perspectives and experiences of its member countries. The Malaysian sukuk market stands to benefit from increased foreign investments, which would boost market liquidity and help bridge the gap between conventional and Islamic financial instruments.

BNM actively engages with organisations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Development Bank (IsDB) to articulate Malaysia's Shariah applications and positions to gain recognition and acceptance. While eliminating all differences may not be feasible as it could remove the uniqueness of Shariah itself, finding common ground is essential to promote the comprehensiveness (*shumuliyyah*) of Islam. These collaborations strive to balance local diversity with global applicability, thereby ensuring inclusivity and facilitating broader market integration.

## Conclusion

BNM's sustained efforts in innovation, diversification and collaboration continue to position Malaysia as a global gateway for Islamic finance. The alignment of Shariah principles with sustainability agenda, along with strategic partnerships and the leadership of the IFMC, underscores Malaysia's commitment to addressing gaps and meeting future challenges in Islamic financial market. By continuing to innovate and achieve mutual recognition, Malaysia's Islamic financial market is poised for sustained growth, stability, and resilience within a dynamic global economy.

# Promoting Safe and Efficient Payment and Remittance Services

BNM is committed to ensuring that payment systems remain safe, efficient and responsive to evolving needs of Malaysians.

The payment landscape and money services business (MSB) industry<sup>1</sup> continued to advance rapidly in 2024 with businesses and consumers increasingly embracing digital payments. BNM's focus in 2024 was twofold. First, we aimed to drive greater innovation and efficiency. This included continuing to promote electronic payments (e-payments), futureproofing key payment infrastructures and exploring emerging technologies. Second, we sought to preserve public confidence in our payment system by ensuring the safety and reliability of payment services. In doing so, we also ensured our regulatory and supervisory framework remained fit-for-purpose.

## Sustaining Greater Digitalisation of Payment and MSB Services

**Use of e-payments continued to rise. Overall transactions increased by 28% in 2024 (2024: 14.7 billion; 2023: 11.5 billion)**

Malaysia is well on track to achieve the Financial Sector Blueprint 2022–2026 target of over 15% compounded annual growth in the average e-payment transactions per capita. In 2024, e-payment transactions grew by 19% to 409 transactions per capita (2023: 343). On average, this translates to every Malaysian making at least one e-payment transaction per day. This marks a significant milestone in the progress of e-payment adoption in Malaysia, given that the average was only one transaction per week just over a decade ago. The high growth in 2024 was supported by increasing consumption

activity, with the total value of selected retail e-payment transactions<sup>2</sup> increasing by 17% to reach RM698.1 billion (2023: RM592 billion).

Among the different modes of e-payments, online banking remained the most widely used. These transactions also grew the most in 2024, increasing by 24% (2023: 13%). In terms of online banking channels, the share of mobile banking at 62% (2023: 50%), is higher than internet banking.

The second most widely used mode of e-payment is electronic money (e-money). In 2024, e-money transactions increased by 25% (2023: 26%). 64% of e-money transactions was attributed to electronic wallets (e-wallets) with the remainder to card-based e-money (2023: 59%). The average transaction size of e-money remained low at around RM33 (albeit higher than in 2023 at RM27), indicating that this mode of payment is commonly used for everyday purchases.

Payment cards is the third most used mode of e-payment. Payment card transactions grew by 20% in 2024 (2023: 26%), with debit cards accounting for 68% of the total payment card transactions (2023: 66%). The growth in debit card usage grew by twice as fast as credit cards (24% versus 12%). Contactless card transactions continued to gain traction given its speed and convenience, constituting 83% of payment card transactions at physical premises during the year (2023: 77%). This growth has been supported by the growing adoption of mobile wallet usage in Malaysia such as Apple Pay, Google Pay and Samsung Pay, as well as the expansion of open toll payment systems across more highways during the year.

Acceptance of e-payment transactions have continued to rise among businesses, especially smaller-sized enterprises. In particular, the usage of DuitNow QR

<sup>1</sup> Namely remittance, currency exchange and wholesale currency services. Wholesale currency refers to the buying and selling of foreign currency by licensed banks or licensed MSB operators, as well as the import and export of foreign currency notes.

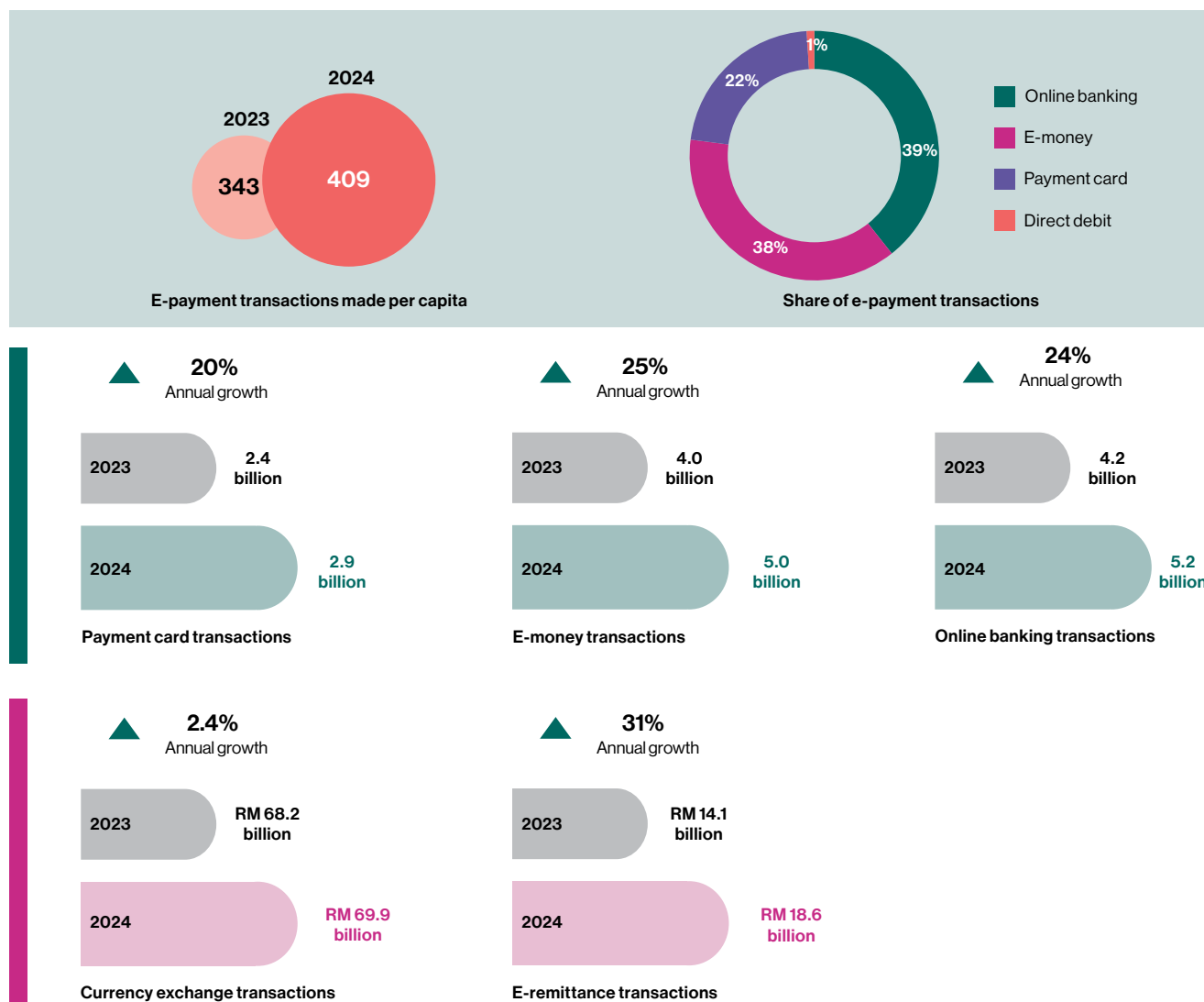
<sup>2</sup> Includes e-payment transactions made via payment cards, e-money purchase transactions and Financial Process Exchange (FPX) transactions. FPX is commonly used for e-commerce purchases.

## Promoting Safe and Efficient Payment and Remittance Services

continued to increase given its convenience, lower cost and wide coverage. There are 2.6 million registered DuitNow QR acceptance points across Malaysia as at end-2024 (2023: 2 million). The wider DuitNow QR merchant network

has contributed to an increase in DuitNow QR transactions<sup>3</sup> by more than double (2024: 870 million; 2023: 360 million), with total transaction value amounting to RM31.1 billion (2023: RM14.6 billion).

**Diagram 1: Snapshot of E-Payment and Money Services Business**



Source: Bank Negara Malaysia

<sup>3</sup> Refers to person-to-merchant DuitNow QR transactions and excludes person-to-person and cross-border DuitNow QR transactions.

With rapid e-payment adoption, the use of cheques continued to decline. In 2024, 39.9 million cheques were issued, which is 2% lower than the previous year (40.9 million). Large corporations remain the main users of cheques, as some prefer<sup>4</sup> the tangible nature and flat fee of this payment instrument. However, as e-payment adoption continues to rise, we anticipate that cheque usage will steadily decline. This will be further supported by ongoing efforts, including by the financial industry, to increase awareness on the availability and benefits of e-payment alternatives among their corporate customers.

Currency exchange transactions<sup>5</sup> registered a moderate growth of 2.4% during the year, with transactions increasing to RM69.9 billion (2023: RM68.2 billion). The trend observed may be contributed by the emergence of various cross-border e-payment alternatives available in the market. Meanwhile, overall outward remittance transactions increased by 25% to RM42.7 billion (2023:

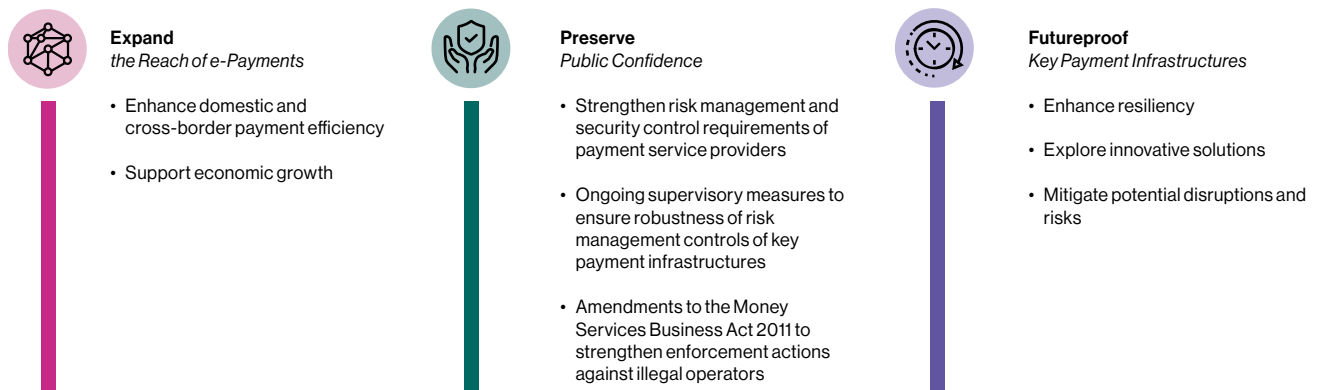
RM34.2 billion). This was attributed to, among others, the increased number of foreign workers entering the country under the Labour Recalibration Programme (RTK) 2.0 and greater access to formal remittance services through digital means.

Digitalisation of remittance services also continued to gain traction. E-remittance services offered by licensed non-bank remittance service providers (RSPs) increased significantly by 31% to RM18.6 billion (2023: RM14.1 billion), accounting for 43% of overall outward remittance (2023: 41%).

## Priorities in 2024

In 2024, BNM remained focused in delivering the three key priorities, as identified in the Blueprint, to advance Malaysia's payment ecosystem (Diagram 2).

**Diagram 2: Priorities and Key Initiatives in 2024**



Source: Bank Negara Malaysia

<sup>4</sup> In 2024, BNM conducted a study to understand factors that contribute to the continued use of cheques among selected government agencies and large corporations. Reasons for continued cheque use, particularly among large corporations, include fixed cheque fee, client preferences, and a lack of awareness of existing e-payment methods that mimic cheque features.

<sup>5</sup> Refers to currency exchange transactions facilitated by both licensed banks and MSB operators.



## Expanding the Reach of E-Payments

### Promoting greater adoption of e-payment services

BNM, in collaboration with Payments Network Malaysia Sdn. Bhd. (PayNet) and the financial industry, continue to promote widespread use of e-payments among Malaysians through various e-Duit programmes. In 2024, we intensified our e-Duit Desa programme, which began in 2022, to further raise awareness and promote adoption of e-payments in rural areas. Through this effort, over 800 micro merchants nationwide have been onboarded to accept e-payments throughout 2024.



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

To ensure sustainable e-payment adoption among these smaller merchants, PayNet and the financial industry are committed to ensure DuitNow QR transaction fees remain affordable and have been preparing for the eventual implementation of tiered pricing. With this approach, smaller merchants are expected to continue to enjoy zero or low Merchant Discount Rate (MDR)<sup>6</sup> for acceptance

<sup>6</sup> MDR is a common fee associated with the provision of e-payment services and is charged based on the transaction value of the e-payment transaction.

of DuitNow QR, while larger merchants can negotiate MDR that are reflective of their financial capabilities and value-added services they enjoy.

In 2024, we also returned to Pulau Redang<sup>7</sup> to study how our blueprint project '*Bayo Dok Gune Pitih*' (pay without using cash) has impacted the lives of the locals on the island. We found evidence of e-payment adoption significantly improving the economic livelihoods of the local community in Pulau Redang.

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E-payment adoption among businesses in Pulau Redang has increased significantly since 2019, with more than 90% of merchants on the island now accepting e-payments.

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For example, it has created opportunities for businesses to expand their customer reach, as businesses responded to growing demand from their customers for e-payment options. More than 70% of businesses reported receiving majority of payments electronically, enabling them to benefit from reduced cash handling cost, and enhanced security and safety.

The use of e-payments also reduced the need for business owners to travel to the mainland to conduct financial transactions, saving time and costs<sup>8</sup> while minimising travel-related risks. The result of this study reinforces the tangible positive impact that digitalisation can bring to rural communities, not only in terms of cost efficiency but also safety, especially during the monsoon season. It also highlights the benefits and importance of cooperation between the public and private sectors to sustain widespread e-payment adoption across the island (e.g. infrastructure and awareness building).

Recognising the positive impact of digitalisation, BNM and the industry will continue to explore opportunities to further promote e-payments nationwide. This includes expanding e-Duit programmes and targeted initiatives in specific communities.

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<sup>7</sup> A feature article titled 'Empowering Communities with Digital Financial Services' was published in BNM's Annual Report 2022. The report highlights the real-life challenges that motivate the locals to embrace e-payments, supported by the multi-pronged approach to foster sustainable and inclusive e-payment adoption.

<sup>8</sup> Based on the BNM study, it is estimated that the cost of transportation to the mainland alone would be more than RM50 per round trip.



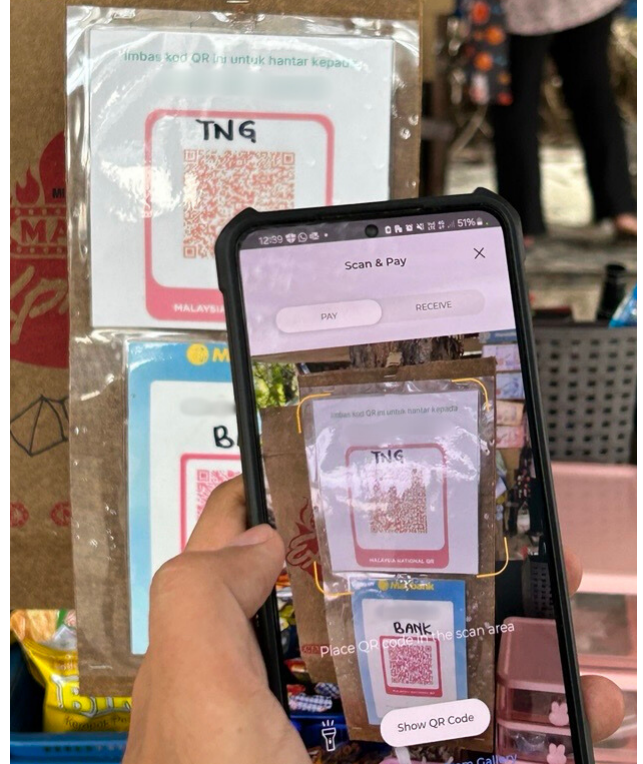
Acceptance of e-payments among businesses in Pulau Redang

Alongside on the ground awareness programmes, we expanded our efforts<sup>9</sup> by utilising social media, radio broadcasts and billboard announcements to reach out to the masses on the benefits of e-payments and promote its safe use. We also focused on targeted engagements with selected government agencies and large corporations that continue to use cheques to encourage greater e-payment adoption among these entities.

#### Faster, cheaper and more convenient cross-border payments

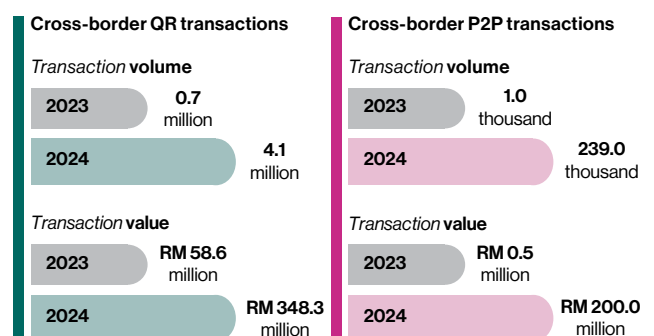
In 2024, BNM intensified efforts to encourage the use of live cross-border instant payment linkages between Malaysia and Indonesia, Singapore and Thailand. Through these linkages, customers and businesses benefit from faster, cheaper and more seamless cross-border payments.

Part of our efforts included the onboarding of four new local payment service providers (PSPs), including non-banks, to participate in the offering of cross-border payment services. This has enabled more Malaysians to enjoy these services when travelling to these countries. This also benefits local merchants by widening their customer base to accept QR payments from travellers from these countries.



The intensified promotional efforts, coupled with higher number of participants offering the cross-border payment services, led to a significant increase in cross-border QR transactions. Notably, compared to the previous year, the total number of cross-border QR payment transactions by both foreign visitors in Malaysia and Malaysians travelling abroad grew more than five times to 4.1 million transactions worth RM348.3 million in 2024. Cross-border P2P transactions also recorded significant growth, with transaction volume increasing to 239,000 transactions worth RM200 million in 2024 (2023: 1,000 transactions worth RM534,000).

#### Diagram 3: Snapshot of Cross-border Payment Services



Source: PayNet

<sup>9</sup> In 2024, 45 distinct initiatives were launched across various platforms to create greater awareness on e-payments.



## Promoting Safe and Efficient Payment and Remittance Services

In September 2024, with the strategic intention of expanding Malaysia's payment connectivity within ASEAN, we established a new cross-border QR linkage with Cambodia. In the first phase of the launch, Cambodian travellers visiting Malaysia are able to pay Malaysian merchants by scanning DuitNow QR codes. By the second quarter of 2025, Malaysians travelling to Cambodia will also be able to make payments to Cambodian merchants accepting QR code payments using their existing mobile payment applications.<sup>10</sup> With access to a wider payment network, local merchants, including smaller ones, are able to expand their business footprint, further strengthening regional trade integration.

Another cross-border initiative that BNM is actively pursuing is the development of a scalable multilateral payment connectivity model under Project Nexus.<sup>11</sup> The third phase of Project Nexus (Phase 3)<sup>12</sup> had concluded with the issuance of a comprehensive blueprint in July 2024. The blueprint focused on the appropriate governance arrangement, business model and technical specifications that will be used as a guide to operationalise Nexus.

Under the current phase of Project Nexus (Phase 4), BNM, in collaboration with the Reserve Bank of India, Bangko Sentral ng Pilipinas, Monetary Authority of

Singapore and Bank of Thailand, along with the domestic instant payment system (IPS) operators in each country, are working towards establishing the Nexus Scheme Organisation (NSO).<sup>13</sup> This new entity will be responsible for managing the Nexus scheme moving forward. With the live implementation of Nexus, as a first use case, customers would be able to transfer funds instantly and securely to a recipient in any country within the Nexus network using proxies such as mobile phone numbers.



Launch of Project Nexus Phase 4 on 1 July 2024 with the BIS General Manager and the Governors of Bank of Thailand, Bangko Sentral ng Pilipinas, Reserve Bank of India, Bank Negara Malaysia and Monetary Authority of Singapore

### Diagram 4: Bilateral Linkages with Malaysia



Source: Bank Negara Malaysia

<sup>10</sup> This service would only be available for users of participating PSPs.

<sup>11</sup> Nexus is a Bank for International Settlements Innovation Hub (BISIH) Singapore Centre project that seeks to enhance cross-border payments by connecting multiple domestic IPSs globally.

<sup>12</sup> BNM partnered with BISIH and central banks from Indonesia, Philippines, Singapore and Thailand in Phase 3 of Project Nexus.

<sup>13</sup> The NSO will be wholly owned by the central banks and/or IPS in participating countries, depending on their specific domestic structure.

BNM also leveraged our role as the co-chair of the ASEAN Working Committee on Payment and Settlement Systems (WC-PSS),<sup>14</sup> to further advance cross-border payment initiatives. As part of this effort, we identified two key initiatives. First, the development of a roadmap to enable all ASEAN Member States to eventually participate in the regional payment connectivity network. Second, preparing the groundwork for the establishment of greater cooperative oversight to preserve the safety and resiliency of the region's cross-border payment linkages. This work will intensify in 2025 as Malaysia assumes the ASEAN Chairmanship, with an aim to deepen financial integration and promote shared prosperity in the region.

## Preserving Public Confidence in the Use of Payment Services

### Continuous oversight of payment services

BNM remained focused on promoting sound risk management practices and safeguarding the resilience of critical payment system infrastructures, such as Real Time Electronic Transfer of Funds and Securities System (RENTAS) and the domestic retail payment systems.

In 2024, both RENTAS and the major retail payment systems remained resilient and achieved high system availability. BNM's supervisory efforts during the year were focused on ensuring the resiliency of key payment infrastructures operated by BNM and PayNet, and further strengthening the observance level of these infrastructures to the Principles for Financial Market Infrastructures (PFMI).<sup>15</sup> Initiatives undertaken included enhancing business continuity measures for both RENTAS and the major retail payment systems, as well as strengthening liquidity risk management tools and liquidity stress test scenarios for RENTAS. Supervisory efforts in technology risk management and cybersecurity of payment services were also intensified given the importance of technology in the provision of these services. This resulted in improvements in areas surrounding cybersecurity and data protection practices.

BNM also took steps to further strengthen the governance and risk management practices of PSPs. These efforts included conducting comprehensive supervisory review of selected PSPs, focusing on the strength and robustness of their governance structures, as well as AML/CFT, fraud and IT risk control measures. Additionally, we introduced the new Operational Risk Reporting (ORR) system<sup>16</sup> to facilitate comprehensive and timely incident reporting by PSPs to BNM, enabling better surveillance of operational risks in the payment ecosystem. We also intensified engagements with PSPs to enhance their risk management capabilities and elevate compliance standards on areas including cyber resilience and AML/CFT.

BNM's oversight activities were supported by ongoing use of advanced analytical tools for risk monitoring of PSPs and MSB licensees. During the year, we operationalised the use of a geospatial machine learning tool to enhance detection of anomalies among MSB outlets, such as transaction patterns that significantly deviate from peer outlets. This tool has facilitated more targeted assessments to be carried out by BNM supervisors. We also explored the use of language models to analyse a large number of compliance reports to improve the efficiency of supervisory reviews.

To ensure cross-border payment linkages operate safely and securely in line with growing adoption of the services among users, BNM, alongside counterparts from relevant jurisdictions, have initiated the groundwork for the establishment of cooperative oversight arrangements of cross-border payment linkages. The arrangement would initially focus on the regular exchange of relevant information among central banks, with this being a precursor towards more holistic oversight arrangements that will be pursued under the ASEAN WC-PSS.

### Policy responses to emerging risks and market developments

BNM is fully committed to ensure regulatory requirements remain fit-for-purpose in adapting to emerging risks and developments. In 2024, amendments were made to the Money Services Business Act (MSBA) 2011 to strengthen BNM's ability to take enforcement actions against illegal MSB operators and ensure more timely and proportionate enforcement actions can be taken on existing licensees (Diagram 5). In addition, BNM intensified collaboration with local councils to assist in identifying hotspot areas of illegal MSB operations. In 2024, we engaged with 18 local councils nationwide.

<sup>14</sup> The ASEAN WC-PSS was established in 2010 to support the ASEAN Economic Community on payment and settlement issues. The working committee aims to act as an inclusive and collaborative information sharing and capacity building platform, while also formulating recommendations on action plans to promote greater payment connectivity among ASEAN members. BNM and the Brunei Darussalam Central Bank are co-chairs of the ASEAN WC-PSS from the second half of 2024 to the first half of 2026.

<sup>15</sup> The PFMI are international standards issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions to strengthen and preserve financial stability of financial market infrastructures (i.e. payment systems, central counterparties and trade repositories).

<sup>16</sup> PSPs are expected to report operational risk incidents through the new ORR system in the first half of 2025.

Diagram 5: Key Changes to MSBA 2011



Measures to **deter illegal MSB activities** with swifter and more punitive enforcement actions

- Tightened definition of 'remittance business'
- Widened scope of admissible evidence in court
- Legislated mandatory imprisonment and minimum fine for conducting unlicensed MSB services
- Strengthened provision on 'Abetment'
- Enable the Court to forfeit all exhibits tendered during trial



Measure to ensure **prompt and proportionate enforcement action against non-compliant licensees**

- Expanded scope of administrative actions (e.g. monetary penalties, public reprimand) that can be taken by BNM on operational non-compliances



Measure to **elevate MSB industry's stature**

- Replaced the term 'money-changing business' in MSBA 2011 with 'currency exchange business' to address the common misconception that money changing businesses are equivalent to money lending businesses<sup>2</sup>

<sup>1</sup> The change made to the term is only applicable to the English language text while the term in Bahasa Melayu remains as 'pengurusan wang'.

<sup>2</sup> Money lending businesses are under the purview of the Ministry of Housing and Local Government (KPKT).

Source: Bank Negara Malaysia

We also initiated reviews of existing policies to further strengthen the risk management and security controls of PSPs. Through this effort, BNM issued two exposure drafts during the year that outline the proposed new regulatory requirements. The first exposure draft focuses on measures to strengthen fraud prevention for payment card transactions. This includes extending the security and customer protection measures, which are applicable to online banking transactions, to payment cards. The measures aim to streamline regulatory requirements across different payment channels and preserve users' confidence in the use of payment cards. Additionally, BNM proposed new regulatory requirements to enhance PSPs' management of technology risk and cybersecurity through the issuance of the exposure draft on Technology Requirement for Payment Services Regulatees in December 2024. These requirements aim to improve the resiliency of payment services and enhance system-wide cyber defences of PSPs.

In 2024, we continued to step up efforts to combat the threat of online fraud and scams by further strengthening our three-pronged anti-fraud strategy, covering prevention, enforcement and customer awareness and protection. On the prevention front, we have mandated banking institutions to implement additional security controls, such as velocity checks to analyse customer behaviour.<sup>17</sup> These additional controls are intended

to elevate fraud detection standards, ensuring that detection capabilities remain robust complemented by more effective fraud intelligence sharing among financial institutions. Additionally, we required eligible e-money issuers (EMIs) to implement the five security controls<sup>18</sup> adopted by banking institutions in 2022, further elevating fraud control standards across the payment industry. On consumer protection, an enhanced policy to ensure banking institutions treat victims of unauthorised online banking fraud fairly has been introduced and took effect from October 2024. The policy aims to ensure a more robust and timely investigation process of fraud cases that is fairer to both financial institutions and customers, whilst emphasising the importance of building a vigilant and well-informed society to combat fraud. Further details on these initiatives, particularly on enforcement and customer protection, can be found in the feature article 'Building a United Front Against Online Fraud Risk'.

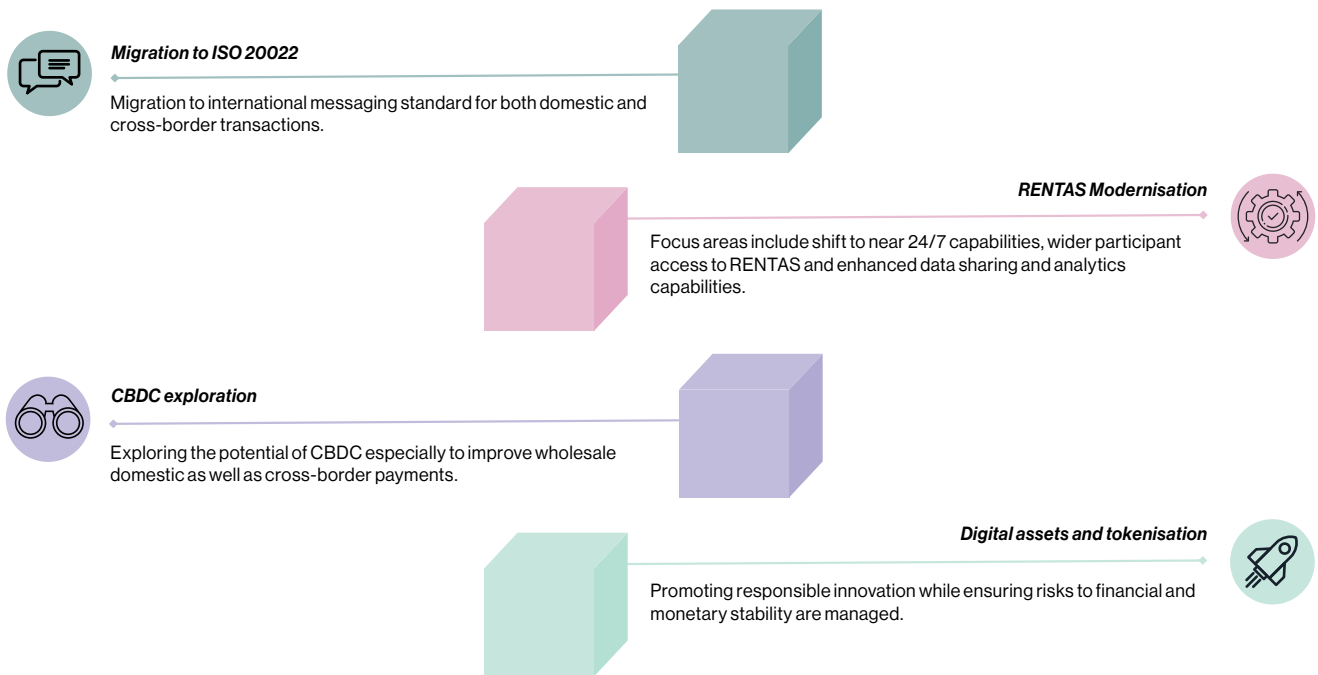
### Futureproofing Key Payment Infrastructures

During the year, BNM made significant progress in advancing ongoing initiatives to modernise Malaysia's key payment infrastructures (Diagram 6). These initiatives are critical to ensure we are able to keep pace with emerging developments.

<sup>17</sup> This refers to monitoring of the speed and frequency of customer transactions to flag deviations from normal behaviour, identifying patterns that may indicate fraudulent activity.

<sup>18</sup> Eligible EMIs are required to: (i) adopt a robust multi-factor authentication method for account registration and e-wallet transactions; (ii) introduce cooling-off period for first time registration of e-wallet accounts and secure devices; (iii) restrict authentication of e-wallet transactions to only one secure device; (iv) establish a 24/7 complaint channel for incident reporting by customers; and (v) adopt fraud detection rules and triggers to block suspected fraudulent transactions.

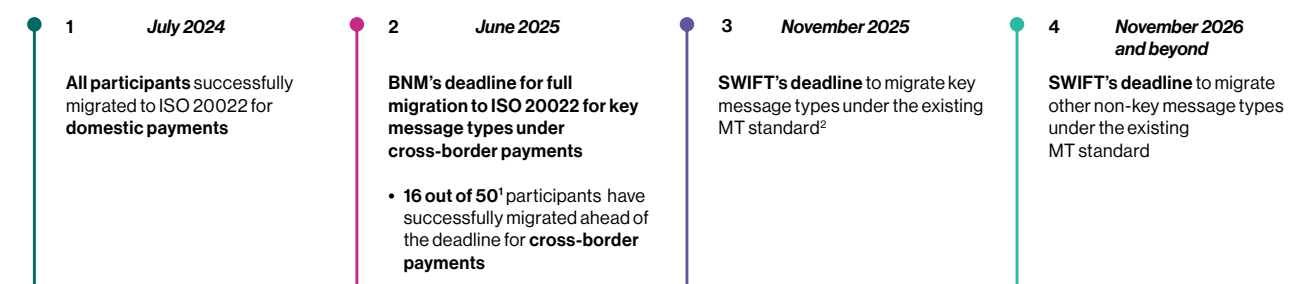


**Diagram 6: Key Initiatives to Modernise Malaysia's Payment Infrastructures**

Source: Bank Negara Malaysia

With regard to the migration to ISO 20022,<sup>19</sup> the financial industry has fully adopted the new messaging standard for domestic payment transactions since July 2024. The industry is now progressing towards the adoption of ISO 20022 for key message<sup>20</sup> types under cross-border payment transactions. While this initiative is targeted to

be completed in June 2025,<sup>16</sup><sup>21</sup> out of 50 participants have successfully migrated ahead of the deadline as of December 2024 (Diagram 7). This reflects the industry's strong commitment to enhance the efficiency of payment infrastructures and strengthen their risk management capabilities.

**Diagram 7: Progress of ISO 20022 Migration**<sup>1</sup> As of December 2024<sup>2</sup> Refers to ISO 15022

Source: Bank Negara Malaysia

<sup>19</sup> ISO 20022 is an internationally recognised messaging standard for the financial industry with enhanced data content and structured messaging format. For more information, please refer to Bank Negara Malaysia Annual Report 2020 and the introductory video at <https://www.iso20022.org/about-iso-20022>.

<sup>20</sup> In June 2024, SWIFT announced that the co-existence timeline for non-key message types has been extended to November 2026 and beyond, while retaining the original migration deadline for key message types by November 2025. The key message types as defined by SWIFT includes payment instructions.

<sup>21</sup> 9 participants have fully migrated for both key and non-key message types while 7 participants have migrated for key message types only.

Similarly, significant progress was made in modernising RENTAS in 2024 which provides a clear path forward for its continued enhancement. On this, BNM issued a focused strategy paper in December 2024 detailing the key areas that we will pursue to modernise RENTAS in the next several years (Diagram 8). The paper takes into consideration feedback received from the industry, including non-RENTAS participants,<sup>22</sup> on an earlier discussion paper on RENTAS Modernisation Plans issued in February 2024. As part of the focused strategies being pursued, we have commenced work on the implementation of near real-time settlement (NRTS)<sup>23</sup> for retail payments with the industry expected to transition to the new settlement model by the second half of 2025.

### Exploring Responsible Innovation while Managing Emerging Risks

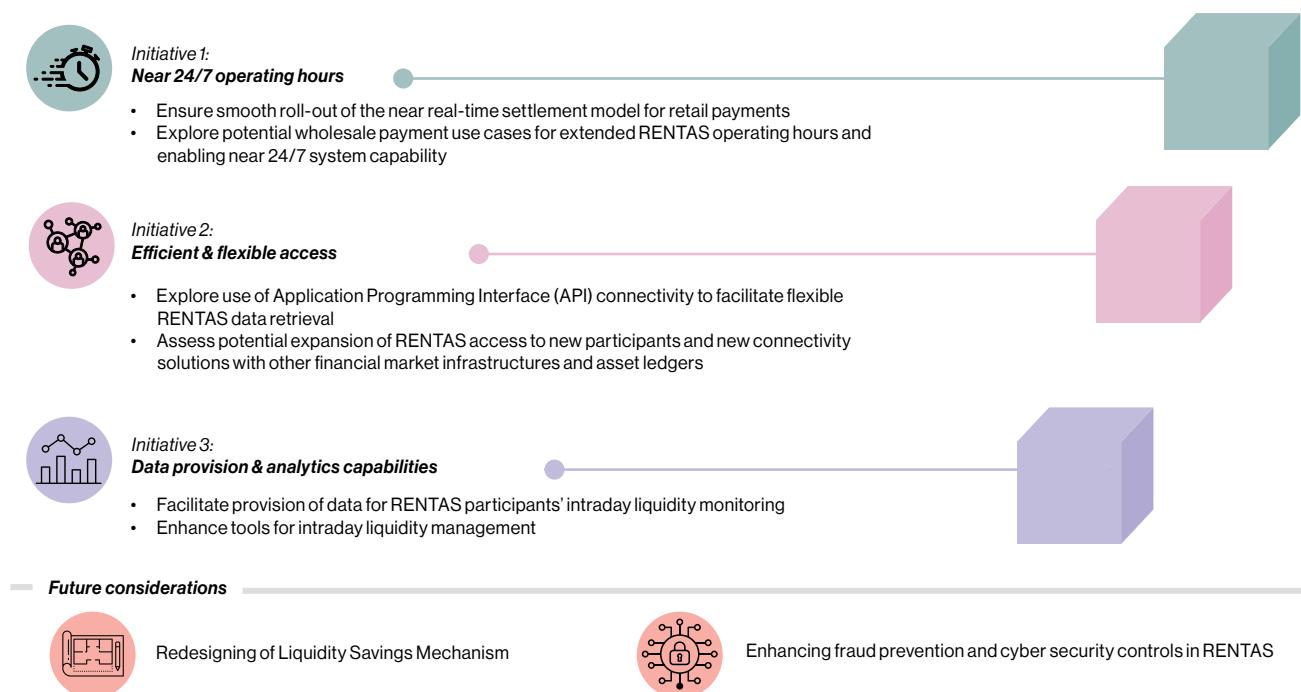
Digital assets continued to grow in popularity as an asset class. To this end, BNM's Digital Currency Research Hub was established to actively explore opportunities to harness the benefits of innovative features and technologies underlying digital assets, while effectively

managing the associated risks. More specifically, the Hub's focus in 2024 was twofold.

First, intensified ongoing research and market surveillance have enabled BNM to better assess opportunities for further exploration work, while balancing the attendant risks to BNM's financial and monetary stability mandates. This was undertaken in close collaboration with the Securities Commission Malaysia, including ongoing sharing of intelligence between the two institutions. Further details on the current state of the digital asset market in Malaysia and our thinking on asset tokenisation can be found in the feature article 'Navigating the Future of Digital Money'.

Second, the Hub actively seeks opportunities to promote responsible innovation. During the year, the Hub continued to explore the use of emerging technologies to futureproof key digital infrastructures, particularly on central bank digital currency (CBDC). This includes the exploration of domestic wholesale CBDC (i.e. Project Mawar)<sup>24</sup> in collaboration with selected financial institutions. The outcomes of Project Mawar, which is expected to be completed in 2025, are

**Diagram 8: Key Initiatives under RENTAS Modernisation Plan**



Source: Bank Negara Malaysia

<sup>22</sup> For example, EMI and fund management companies.

<sup>23</sup> NRTS is expected to significantly reduce the credit and settlement risks that RENTAS participants are exposed to when offering retail payment services, as retail payment transactions are currently settled on a deferred net basis.

<sup>24</sup> Project Mata Wang Ringgit (Mawar).

expected to provide further clarity on the potential of DLT and CBDC to futureproof RENTAS while deepening our understanding of the policy and operational issues surrounding the issuance of wholesale CBDC. Complementing this is BNM's involvement in projects by the BSIH that explore the potential of CBDC to improve cross-border payments (Diagram 9).

In July 2024, BNM participated in Project Rialto which is jointly led by the BSIH Eurosystem and Singapore Centres, in partnership with Banque de France, Bank of Italy and Monetary Authority of Singapore. The project aims to address the costly, slow and complex foreign exchange (FX) services currently facilitated by correspondent banks for cross-border payments. The project will explore possible solutions using technology with wholesale central bank digital currencies (wCBDC) as a settlement asset, aiming to lower the FX costs of cross-border payments.

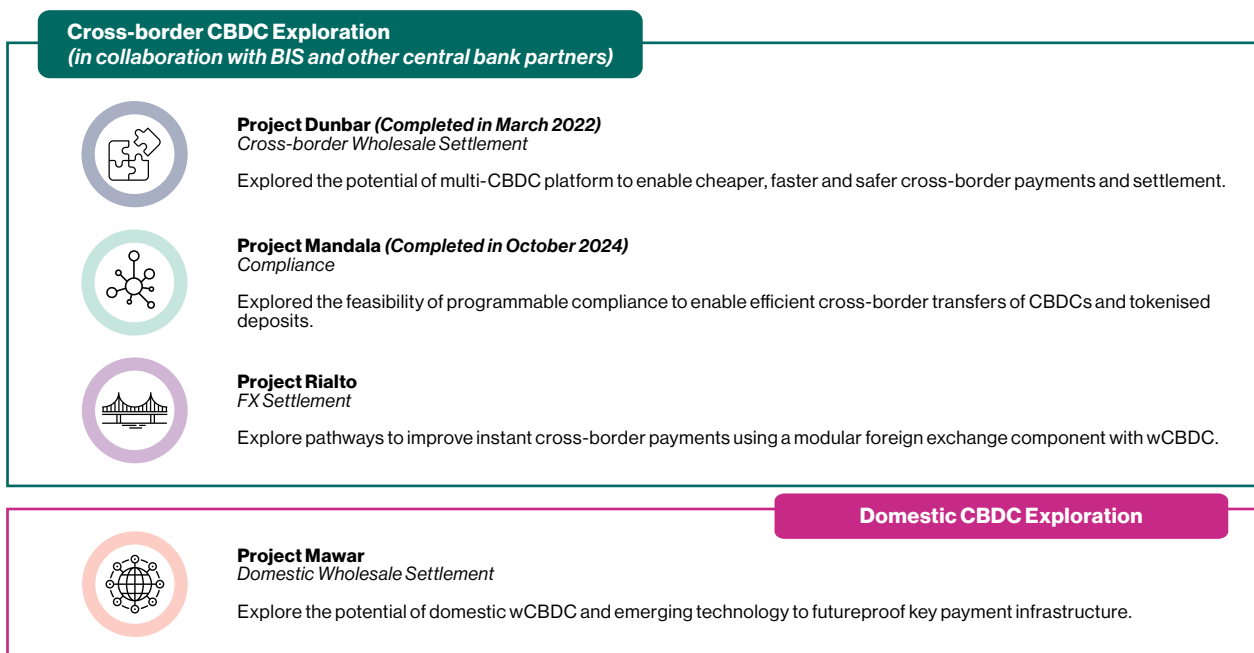
Another BSIH project that BNM was involved in is Project Mandala. The project, which published its final report in October 2024, demonstrated the feasibility of automating compliance procedures for cross-border financial transactions using smart contracts. By embedding regulatory compliance in cross-border transaction protocols, aside from a more streamlined compliance checking process for financial institutions, it will also facilitate more effective compliance monitoring by central banks.

## Going Forward

In 2025, BNM's focus is to ensure that payment systems and MSB services in Malaysia remain safe, efficient and fit-for-purpose. To this end, we will continue to proactively identify and address emerging risks through ongoing supervisory activities and continue strengthening our regulatory framework. We will also work closely with the public and private sectors to preserve public confidence in the use of payment and MSB services and promote responsible innovation. This is especially important in the fight against financial fraud, where we intend to enhance collaboration with key stakeholders, such as the law enforcement agencies and relevant parties in the communication sector, while also ensuring effective implementation of existing countermeasures.

Additionally, we will strengthen our collaboration with international stakeholders, in line with Malaysia's ASEAN Chairmanship in 2025 and BNM's role as co-chair of the ASEAN WC-PSS. The goal is to further expand instant payment connectivity and its use in the region, enabling more people to benefit from safe, efficient and affordable cross-border payments. Importantly, we will continue to futureproof domestic payment infrastructures through our ongoing work on RENTAS and CBDC, as well as intensifying exploratory work on other emerging technologies such as asset tokenisation, in line with aspirations of the Blueprint. This is to ensure that payment infrastructures are responsive to the evolving needs of the financial system and broader economy.

**Diagram 9: Key Initiatives to Advance Malaysia's Exploratory Work into CBDCs**



Source: Bank Negara Malaysia

## Building a United Front Against Online Fraud Risk

### Did you know that ...

1

**Online fraud is a global threat, affecting both individuals and businesses.**

Globally, one in five consumers have fallen victim to fraud in the last four years.<sup>1</sup>

2

**Scammers and fraudsters target people from all walks of life.**

No one person or group of people is immune to online fraud. In fact, working adults are the primary target for scams in Malaysia given their perceived wealth.

3

**In 95% of scams in Malaysia, victims knowingly transfer money to scammers.**

Scammers rely on different tactics to deceive their victims into sending them money. These are known as authorised fraud.<sup>2</sup>

<sup>1</sup> Source: ACI Worldwide

<sup>2</sup> Source: Polis Diraja Malaysia (PDRM)



Aishah, enticed by the promise of high returns, transfers her entire savings to a purported investment company on the advice of her friend. Despite constant reminders about investment scams from her bank and family, Aishah believes that the investment scheme is legitimate. Aishah later finds out that the investment is indeed a scam, and she loses all her money.



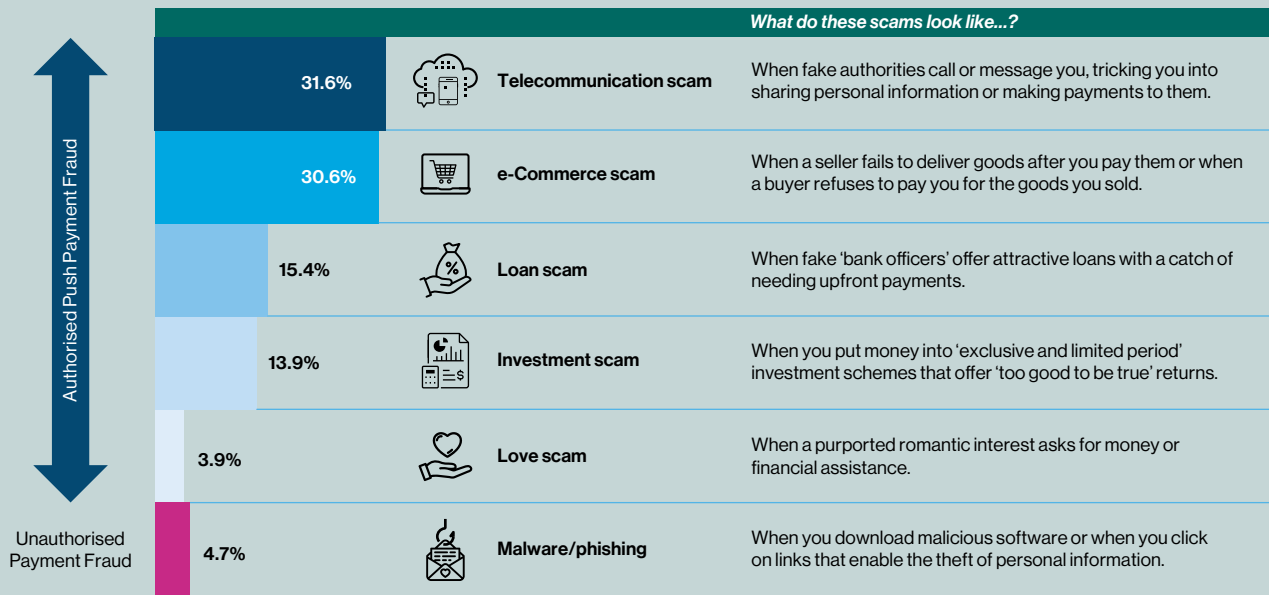
Adam receives a digital wedding invitation from a friend. He clicks the link to confirm his attendance. Later that night, he is shocked to discover several large fund transfers were made without his knowledge. He suspects the link was the cause of this as it may have triggered the installation of a malicious app.

Stories like these have become common but there is a key distinction between these two situations. This lies in the element of customer consent which helps distinguish between the two broad types of fraud – authorised and unauthorised fraud (Diagram 1).

- Aishah's story depicts how an authorised fraud occurs. Victims are deceived into knowingly transferring money to fraudsters under false pretences. These fraudsters use social engineering tactics to exploit emotions like greed, fear or love, making individuals vulnerable to fraud.
- Meanwhile, Adam experiences an unauthorised fraud which involves transactions made by fraudsters without the victim's knowledge. Fraudsters use methods like malware and phishing to obtain personal credentials of their victims. Once these credentials are obtained, fraudsters perform transactions without the victim's knowledge.

Online fraud, be it authorised or unauthorised, is a global threat that affects individuals of all ages and educational backgrounds, and even businesses. This raises an important question: how can we collectively strengthen our defences against fraud and minimise its harm so that stories like the ones of Aishah and Adam become few and far between?

Diagram 1: Main Scam Cases Reported to Polis Diraja Malaysia (PDRM)



Source: Polis Diraja Malaysia (PDRM)

## Multi-pronged approach to strengthen resilience

Malaysia recognised that combatting the threat of fraud requires a multi-pronged approach. A host of measures surrounding prevention, enforcement and awareness is essential to establish a robust defence against online financial fraud (Diagram 2). Importantly, for these measures to be effective, it calls for everyone to work together.

Diagram 2: Understanding BNM's Three-pronged Anti-fraud Strategy

### BNM's three-pronged anti-fraud strategy

#### Prevention

*How can we prevent fraud from happening in the first place?*



**A proactive approach helps financial institutions detect suspicious activity and prevent it from escalating into fraud.**

BNM requires banks and non-banks to deploy advanced fraud detection measures and enhance internal controls. This allows financial institutions to quickly detect and stop suspicious activity.

#### Enforcement and Recovery

*If fraud does occur, how can we hold fraudsters accountable and help victims recover their money?*



**Effective enforcement and recovery prevents fraudsters from profiting off stolen money.**

BNM leverages the NSRC to expedite a coordinated response with industry and law enforcement agencies once a fraud is reported. With the National Fraud Portal, the tracing and recovery of stolen funds is quickened, reducing overall harm to victims.

#### Awareness and Consumer Education

*How can we empower consumers to protect themselves?*



**Informed consumers are key to developing a strong first line of defence against fraud.**

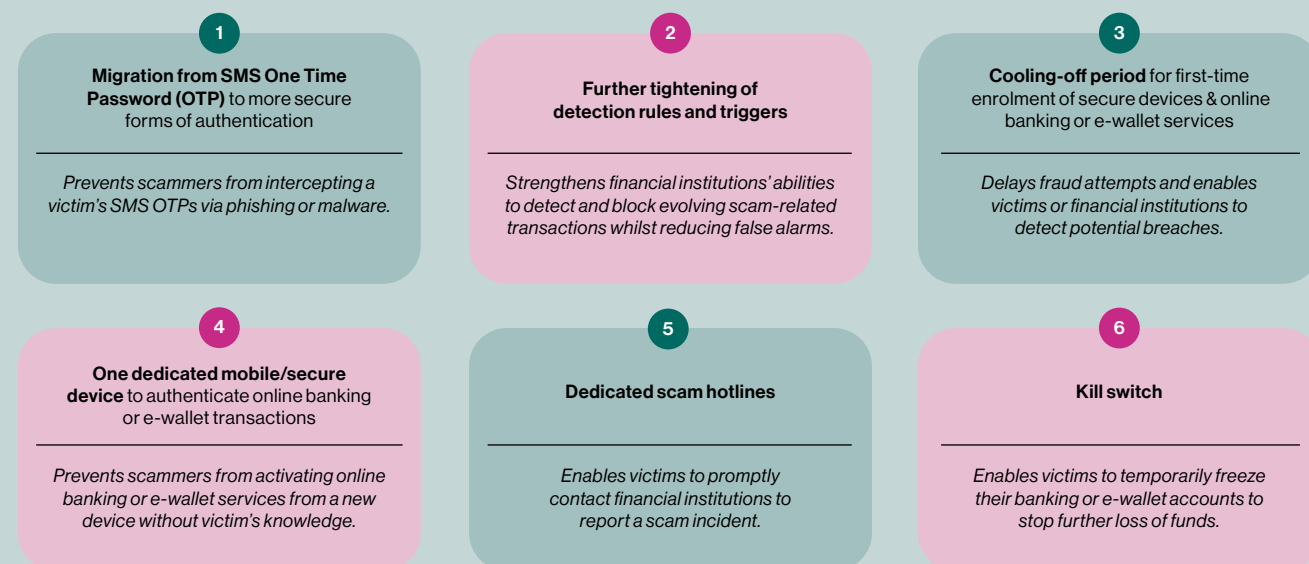
BNM partners with various stakeholders to help consumers recognise fraud risks and understand the tools available to combat them. These efforts are crucial in tackling authorised scams, which can only be prevented by consumers themselves.

Source: Bank Negara Malaysia



Malaysia has advanced our fight against online fraud. Since 2022, concerted efforts have been undertaken to strengthen security controls of our financial institutions to prevent fraud (Diagram 3).<sup>1</sup> These preventive measures, which have been implemented by all banks and recently extended to all major e-money issuers, have yielded positive outcomes. In 2024, the number of cases of fraudulent unauthorised transactions involving malware and phishing reported to BNM declined by 52%. With these enhanced security controls, the banking industry also managed to avert over RM399 million in attempted fraudulent transactions in 2024. The amount is five times larger than the actual total losses from online fraud transactions reported to BNM.

**Diagram 3: Security Measures Implemented by Financial Institutions**



Source: Bank Negara Malaysia

On enforcement, the National Fraud Portal (NFP)<sup>2</sup> went live in April 2024 to support the operations of our National Scam Response Centre (NSRC). NSRC acts as a primary contact point for victims to quickly lodge reports of fraud. NSRC officers use the NFP as a platform for tracing the flow of fraud transactions, sharing information among financial institutions and monitoring the intervention actions taken by financial institutions. This has resulted in a 75% reduction in the time taken to obtain complete information on fund flow and a 41% increase in cases being escalated to PDRM for further investigation.<sup>3</sup>

### Vigilant and proactive consumers is key to minimising fraud

In Malaysia, more than 95% of online fraud are due to authorised transactions. As the pattern of authorised fraud can closely resemble genuine transactions, financial institutions face significant challenges in identifying and blocking fraudulent transactions without risking disruptions to the smooth functioning of the payment system. Rather, the best way to prevent these transactions from happening in the first place is to educate and increase consumers' awareness on such scams. This is where BNM, government agencies, and the financial industry have intensified their efforts. Greater success in averting fraud can only be achieved if consumers take proactive actions to safeguard themselves from fraud. These include resisting deals that are 'too good to be true', taking heed of scam warnings from friends, family and banks, as well as practising good cyber hygiene by not sharing passwords, personal credentials and not clicking suspicious links.<sup>4</sup>

<sup>1</sup> Refer to Diagram 6 titled 'Three-pronged Approach to Combatting Financial Fraud and Scams' in Annual Report 2023 for further details on the fraud countermeasures within BNM's anti-fraud strategy ([https://www.bnm.gov.my/documents/20124/12142010/ar2023\\_en\\_ch1e.pdf](https://www.bnm.gov.my/documents/20124/12142010/ar2023_en_ch1e.pdf)).

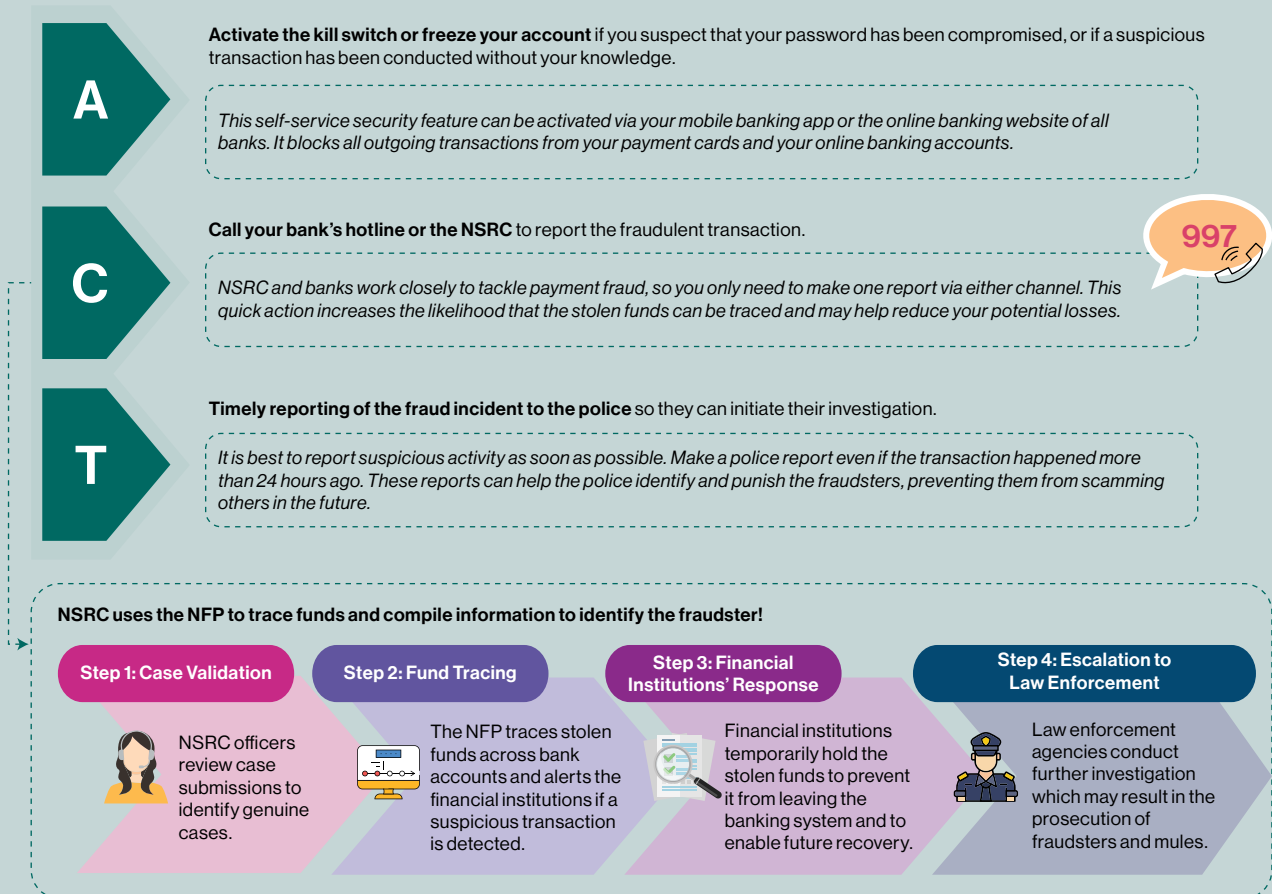
<sup>2</sup> Refer to Diagram 3 of 'Maintaining Financial Integrity' chapter in Annual Report 2023 ([https://www.bnm.gov.my/documents/20124/12142010/ar2023\\_en\\_ch1g.pdf](https://www.bnm.gov.my/documents/20124/12142010/ar2023_en_ch1g.pdf)).

<sup>3</sup> Refer to 'Maintaining Financial Integrity' chapter in Annual Report 2024 for further details on developments related to the NFP. <https://www.bnm.gov.my/ar24ch1g>.

<sup>4</sup> Based on the Financial Capability and Inclusion Demand Survey conducted in 2024, 15% of respondents willingly shared their banking passwords with close friends, 61% do not pay attention to security features of the banking websites they use, while 80% do not change their passwords regularly.

That said, if consumers still fall victim to fraud, prompt ACTION by consumers is key (Diagram 4). It will help financial institutions and enforcement agencies to respond swiftly and minimise further losses. It also supports efforts to prosecute the perpetrators.

**Diagram 4: Swift ACTION by Consumers Can Minimise Fraud Losses**



Source: Bank Negara Malaysia

## Fair treatment for victims of unauthorised transactions

Consumers reasonably expect financial institutions to safeguard their funds. Likewise, financial institutions depend on consumers to be alert and careful to avoid falling victim to fraud. Therefore, both financial institutions and consumers have a shared responsibility to keep bank accounts secure. In line with this shared responsibility, BNM has issued a policy on Ensuring Fair Treatment to Victims of Unauthorised e-Banking Transactions to banking institutions in 2024. Diagram 5 provides an overview of the policy which aims to ensure that investigations by financial institutions into unauthorised fraud incidents and compensation to victims are fair and equitable. Let's look back to the cases relating to Aishah and Adam.



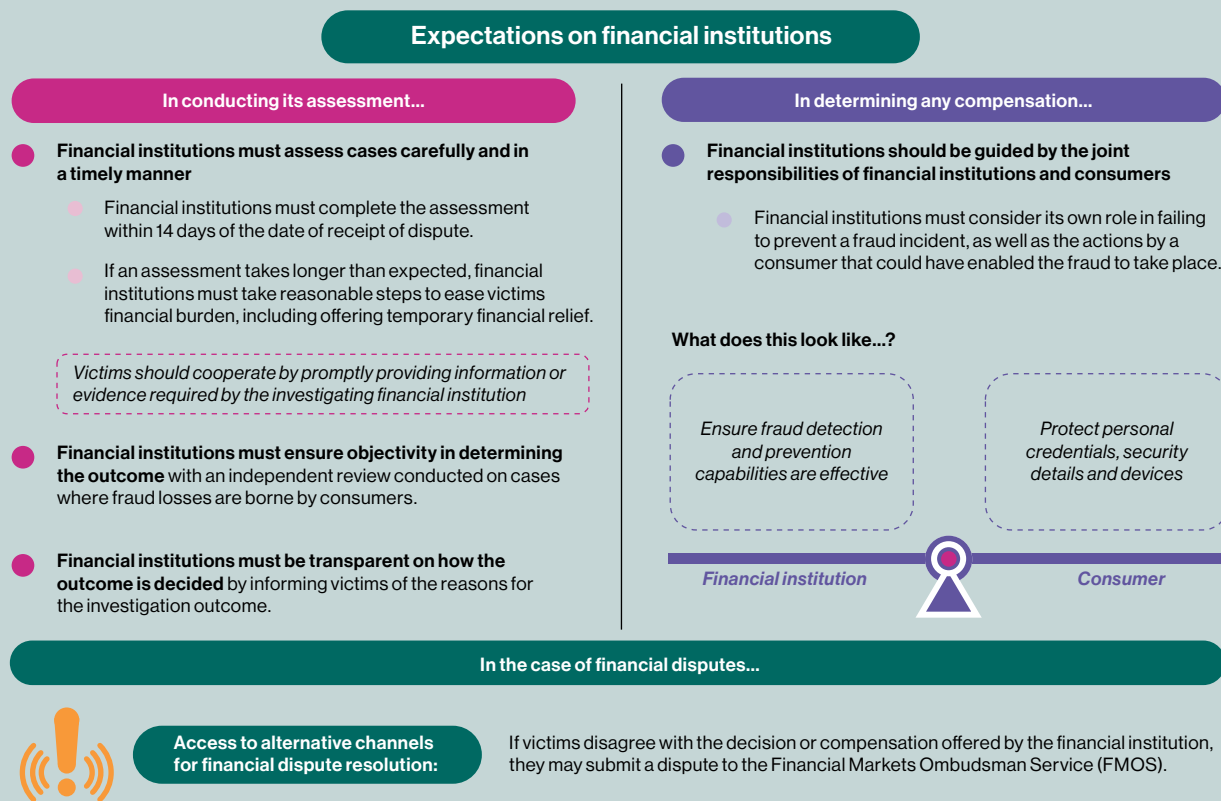
In Adam's case, both Adam and his bank are jointly responsible for enabling the fraud to occur. Adam should have verified the link before clicking on it. Nonetheless, the bank should have paused the transaction and alerted Adam once it detected a series of large and rapid fund transfers to a new third-party individual late at night which is not Adam's typical banking transaction behaviour. Hence, the bank must consider both parties' failure to take reasonable steps to prevent this fraud in determining the compensation to Adam.



Meanwhile, for Aishah who willingly transferred the money given the attraction of the high investment returns, any recovery of the stolen funds will depend on her taking prompt ACTION. Empowering customers through education is the best measure to reduce such fraud.

Recognising red flags before transferring funds can save consumers from losing their hard-earned money. Heed financial institutions' warning on potential fraud to avoid falling prey to scams. Ongoing education and awareness can empower consumers to remain vigilant and protect themselves from scams, especially in cases like Aishah's.

**Diagram 5: Overview of the Expectations on the Financial Institutions**



Source: Bank Negara Malaysia

## Looking ahead

The fight against online fraud is an ongoing challenge and requires a whole-of-nation approach. In this fight, BNM is committed to constantly enhance our strategy by ensuring financial institutions implement strong fraud prevention measures, improving the efficiency and effectiveness of the investigation and enforcement process, and increasing consumer awareness and protection.

The industry is already taking steps to bolster current efforts. This includes exploring ways to continuously strengthen fraud prevention and enforcement through greater use of technology and information sharing.

All of us, as consumers, play a vital role in combatting fraud. As the first line of defence, consumers can help prevent fraud and contribute to a safer digital payment ecosystem by staying vigilant and proactive. Only collectively can we enhance our resilience against this financial threat.

## Navigating the Future of Digital Assets

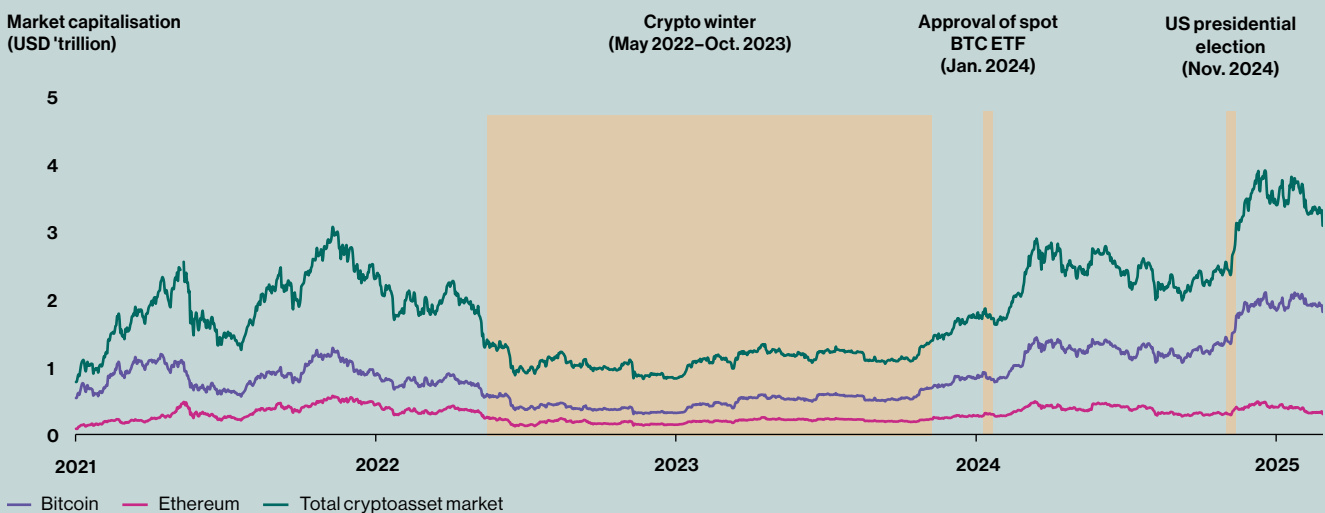
The global digital asset market,<sup>1</sup> has undergone substantial growth in 2024. This was driven by increased institutional adoption, technological innovation and increased regulatory clarity. As a result, the digital asset ecosystem has expanded from cryptoassets to include a growing market for tokenised assets, with greater traction on CBDC exploration by central banks.

### Global cryptoasset landscape

Cryptoassets have seen renewed public interest since the crypto winter in 2022. The regulatory approval of spot Bitcoin (BTC) and Ethereum exchange-traded funds (ETF) in the United States led major fund managers to begin offering crypto investment products, boosting institutional interest. Jurisdictions like the European Union and the United Kingdom also provided more regulatory guidance focused on customer and investor protection, anti-money laundering and compliance requirements.

Since the outcome of the US Presidential Election in November 2024, optimism and interest in the cryptoasset markets has grown.<sup>2</sup> On 5 December 2024, Bitcoin surpassed the USD100,000 barrier for the first time. However, these markets retreated after a volatile start to 2025 due to geopolitical concerns, macroeconomic uncertainty and industry-specific setbacks.

**Chart 1: Market Capitalisation of Selected Cryptoassets**



Source: CoinGecko

<sup>1</sup> Includes both cryptoassets and real-world asset tokenisation. Cryptoassets are defined as 'privately-issued digital assets that depend on cryptography and distributed ledger technologies (DLT) or similar technologies'. It is a subset of digital assets, which is a broader term used to refer to a digital representation of value.

<sup>2</sup> The new Trump administration has conveyed a more favourable posture on cryptoassets. Several initiatives being explored include creating a strategic national Bitcoin reserve, positioning the US as a 'Bitcoin superpower' and promoting USD-backed stablecoins.

## Cryptoassets in the Malaysian market

In Malaysia, the cryptoasset market remains active but small compared to the overall size of the domestic financial market. Based on the cumulative net deposit outflow from banks to domestic registered Digital Asset Exchanges (DAX), cryptoassets represent less than 1% of the total banking system deposits as at end-2024 and around 0.4% of the market capitalisation of securities listed on Bursa Malaysia. Notwithstanding this, the cryptoasset market in Malaysia has been active. In 2024, total trading volume increased to RM13.9 billion (2023: RM5.4 billion).

The number of domestic cryptoasset players and the variety of services provided have also expanded. In 2024, there were 15 entities regulated by the Securities Commission Malaysia (SC), covering DAXs, custodians, initial exchange offering operators and cryptoasset funds (2019: three DAX players).

The involvement of banks in Malaysia in direct cryptoasset activities mainly entails the provision of services to registered digital asset players. This includes offering operating or trust accounts and facilitating payments and withdrawals for customers who buy and sell cryptoassets. While several banks seem open to increasing their exposure, most remain cautious of the heightened volatility and associated fraud risks. This limits the transmission of risks to the broader financial system.

## Regulatory landscape for cryptoassets in Malaysia

Cryptoassets are not recognised as legal tender and not a regulated means of payment in Malaysia. Their valuation is highly volatile, which makes them unsuitable to be used for payments (i.e. medium of exchange), for setting prices for goods and services (i.e. unit of account) and to be reliably saved, stored and retrieved (i.e. store of value). To facilitate responsible innovation and support orderly development of the digital asset market, BNM and the SC have in place coordinating arrangements to oversee digital asset activities. This arrangement aims to ensure systemic risk and financial integrity as well as investor protection measures remain effective. The 'same activity, same risk, same regulation' approach ensures that players are subject to equivalent regulatory standards based on the risks they pose. While risks to monetary and financial stability currently remain limited in Malaysia, BNM closely monitors the developments in this space to ensure any spillovers to the broader financial system is contained.

## Global landscape for asset tokenisation in the financial sector

Beyond cryptoassets, there is increasing recognition of the potential of the underlying technology (i.e. DLT) to support greater efficiency gains in the financial system. Against this backdrop, regulators and financial institutions have a growing interest in exploring asset tokenisation.<sup>3</sup> This allows for financial assets to be represented on a programmable platform such as a blockchain network. Market observers have suggested that the total tokenised market capitalisation (excluding cryptoassets) could reach around USD2 trillion by 2030.<sup>4</sup> In particular, tokenised assets in fund management and settlement assets have gained traction. This is seen in the emergence of solutions such as Kinexys Digital Assets platform and the tokenised fund, BUIDL.

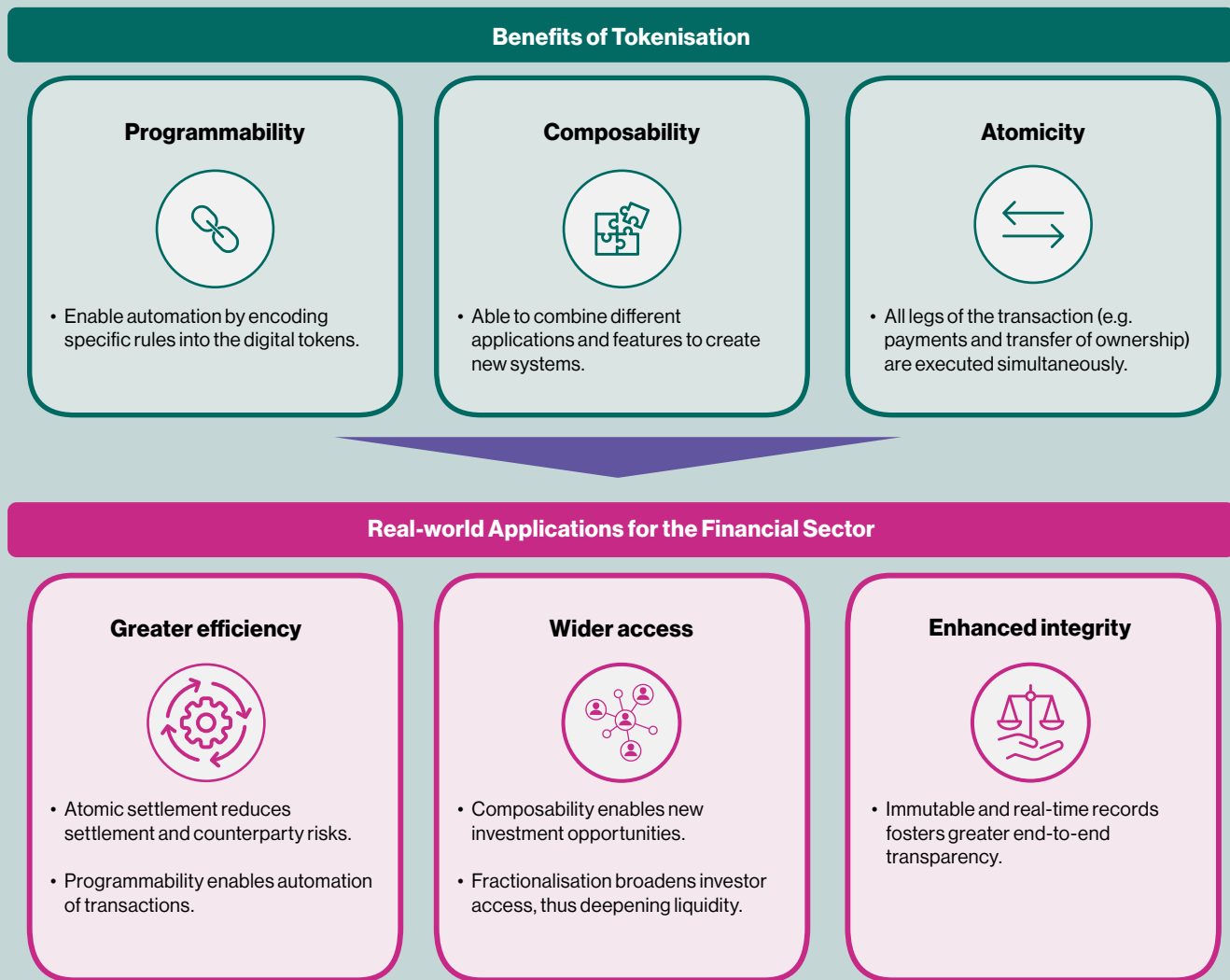
To this end, asset tokenisation within the regulated financial sector is creating new opportunities by enabling programmability, composability and atomicity. Key features such as atomic settlement, fractionalisation and immutable real-time records can improve efficiency, widen access to financial services and enhance integrity. These benefits are increasingly seen in use cases such as investable real-world assets, on-chain liquidity and lending solutions.

<sup>3</sup> The Bank for International Settlements (BIS) defines tokenisation as the 'process of generating and recording a digital representation of traditional assets on a programmable platform'.

<sup>4</sup> Refer to McKinsey's article 'From ripples to waves: The transformational power of tokenising assets'. (<https://www.mckinsey.com/industries/financial-services/our-insights/from-ripples-to-waves-the-transformational-power-of-tokenizing-assets>) for more information.



Diagram 1: Tokenisation of the Financial Sector



Source: Bank Negara Malaysia

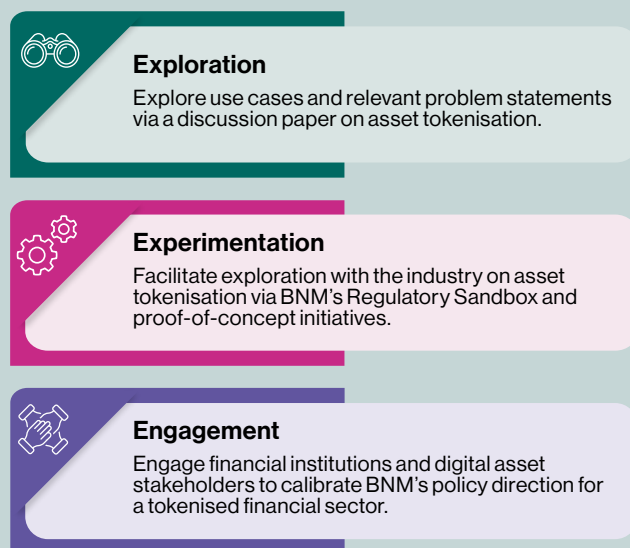
BNM sees the potential for asset tokenisation to drive innovative use cases, as outlined in the Financial Sector Blueprint (2022–2026). This will complement BNM's research and exploration on domestic and cross-border CBDC.<sup>5</sup>

Among others, BNM sees the potential for tokenised deposits to serve as a credible on-chain settlement asset to complement wholesale CBDC. Like traditional commercial bank deposits, tokenised deposits issued by regulated financial institutions are a claim against an issuing bank. These banks would still be subject to BNM's prudential requirements on liquidity and capital. As such, tokenised deposits allow commercial bank money to benefit from programmability and atomic settlement, while preserving the trust in the existing financial system.

Beyond tokenised money, BNM is exploring the potential for broader tokenisation of real-world use cases for the financial sector. This exploration will involve collaboration with key stakeholders such as the SC and the private sector. These use cases may include, but are not limited to, programmable payments, supply chain finance, and treasury and liquidity management. To facilitate this exploration, BNM aims to issue a discussion paper on asset tokenisation in 2025. The discussion paper will outline high level principles and use cases to guide the industry to explore and participate in tokenisation initiatives. In addition, BNM's Regulatory Sandbox also facilitates the live testing of innovative solutions that use DLT and have the potential to enhance Malaysia's financial system, in a controlled environment.

<sup>5</sup> Refer to 'Promoting Safe and Efficient Payment and Remittance Services' chapter in Annual Report 2024 for further details on BNM's research and exploration into CBDC.

Diagram 2: Key Initiatives to be Pursued in 2025



Source: Bank Negara Malaysia

## Outlook

The digital asset landscape is set to evolve further in 2025. While BNM has no intention to recognise cryptoassets as legal tender now, BNM will continue to monitor developments in this space. This is to ensure that monetary and financial stability risks are contained and the integrity in the financial system is preserved.

At the same time, BNM aims to support responsible innovation through asset tokenisation in the financial sector. This will be alongside exploration work of domestic and cross-border CBDC as well as emerging technologies. Moving forward, collaboration with the private sector is expected to gather pace. This will inform the approach Malaysia will be taking to capitalise the benefits of tokenisation while managing related risks.

# Issuing Currency

BNM is the sole issuer of ringgit banknotes and coins, the only legal tender in Malaysia. BNM's mandate is to ensure that there is sufficient supply of ringgit banknotes and coins to meet public demand and maintain the quality and integrity of currency in circulation (CIC).

In 2024, BNM continued to ensure that the currency ecosystem in Malaysia is self-sustaining. This includes centralising operations in Peninsular Malaysia and enabling financial institutions and registered currency processors<sup>1</sup> to undertake the distribution and recirculation of currency. This is consistent with BNM's role as an issuer, shaper and regulator of the currency landscape.

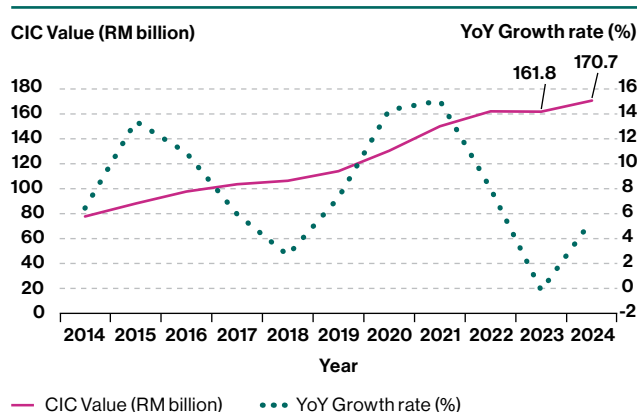
## Currency in Circulation (CIC)

Although the payment landscape has changed considerably in recent years with the growth of e-payments, cash remains an important means of payment.

As at 31 December 2024, Malaysia's CIC increased by 5.5% year-on-year (2023: -0.2%) to RM170.7 billion from RM161.8 billion last year (Chart 1).

BNM foresees that demand for cash will continue, even with the rise in e-payments, driven by factors such as economic growth, the holding of cash for emergencies and as a means of payment in areas where e-payments are not available.

Chart 1: Annual CIC Value and Growth



## Currency Operations

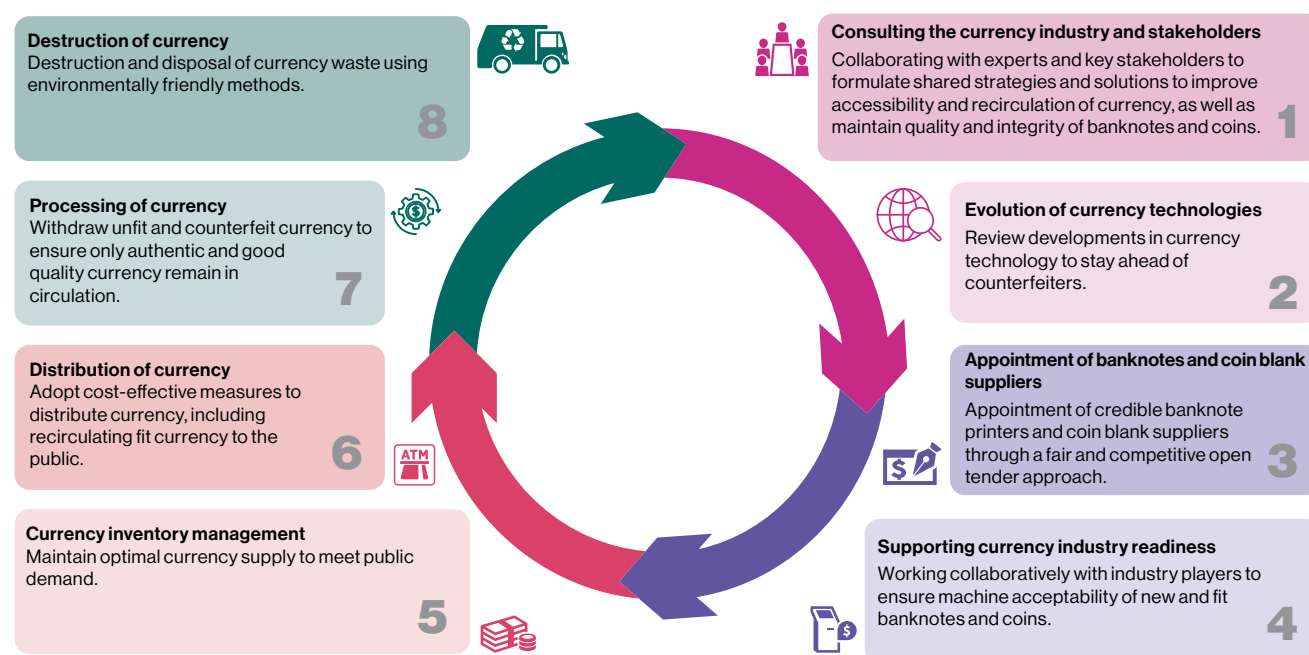
BNM's currency operations include the management, distribution and circulation of banknotes and coins in Malaysia. Ringgit banknotes are currently procured from commercial banknote printers, while coins are minted by BNM's Malaysia Mint (MyMint). MyMint also stores and distributes coins to meet nationwide demand. In its first full year of operations after redevelopment works in 2023, MyMint has achieved improvement in operational effectiveness compared to the previous year, largely due to decreased downtime arising from enhanced occupational safety and reduced defects from the automation of processes. MyMint staff have also been accredited as Certified Practitioners in Lean Management (Manufacturing) by the Malaysia Productivity Corporation.

### Recirculation of fit banknotes and coins

BNM is also tasked to preserve the quality and integrity of banknotes and coins in circulation. To ensure currency industry players circulate only clean and fit banknotes

<sup>1</sup> Registered currency processors are business entities registered with BNM under Currency Act 2020 to carry out currency processing business.

**Diagram 1: Overview of Malaysia's Currency Cycle**



Source: Bank Negara Malaysia

and coins, they will need to adhere to standards which BNM has outlined in the policy document on Quality and Integrity of Currency issued in September 2023.

Any unfit, defaced and counterfeit banknotes are withdrawn from circulation during BNM's processing activities. BNM then replaces them with new or fit banknotes. This ensures only authentic and good quality currency remain in circulation. Limp, soiled or crumpled banknotes are

classified as unfit, while banknotes that have been torn, dye-stained or inscribed are classified as defaced. Similarly, coins are deemed worn if they are corroded and stained, and tampered if they are dented, burnt, broken or have holes.

BNM encourages the public to exchange any unfit or defaced banknotes, or worn, or tampered coins at any financial institution in Malaysia.



*Fit banknotes are used banknotes that meet acceptable quality standards for recirculation*

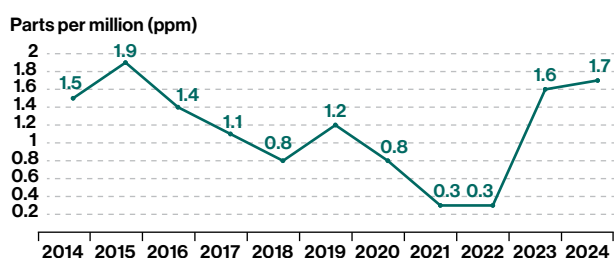


*Unfit banknotes are detected by high-speed sorting equipment and withdrawn from circulation*

### Integrity of Malaysian Currency

BNM constantly monitors and assesses emerging counterfeit threats and trends to ensure the integrity of CIC. As at 31 December 2024, Malaysia's counterfeit index stood at 1.7 parts per million (ppm), a slight increase from 1.6 ppm in 2023. Despite this, Malaysia's counterfeit index remains comparatively lower than other benchmarked countries.<sup>2</sup>

Chart 2: Counterfeit Index



Source: Bank Negara Malaysia

### Engagement with key stakeholders

BNM continues to increase public awareness and elevate competency of currency industry players through education programmes and technical training. BNM

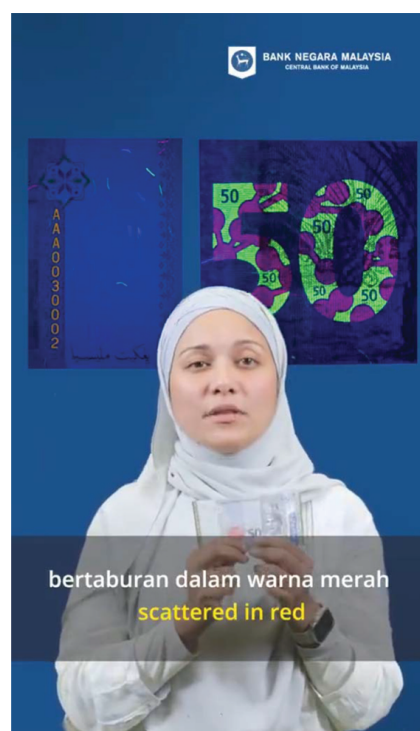
conducted 66 engagement sessions with the public, government, enforcement agencies as well as currency industry players in 2024.

BNM also actively educates the public through social media posts on recirculating fit banknotes and how to identify genuine banknotes.

On the international front, BNM actively engages counterparts to exchange knowledge in currency processing and automation, particularly surrounding the innovative infrastructures of BNM's Automated Cash Centre (ACC) and MyMint. BNM also teams up with international currency industry players to understand the market trends and future needs of the currency ecosystem.

### Aligning currency operations with sustainability goals

In line with Malaysia's target to reach net-zero emissions by 2050, BNM has embarked on several sustainable initiatives throughout the currency ecosystem. This includes prioritising the issuance of fit banknotes, to be supplemented with new banknotes, especially during festive seasons. In 2024, BNM issued a total of 2.5 billion banknotes nationwide (2023: 2.6 billion), with fit banknotes comprising 66% of this volume (2023: 67%).



Social media post on identifying counterfeit banknotes

<sup>2</sup> The counterfeit rate of benchmarked countries range between 3 and 25 ppm. (Source: Websites and annual reports of respective central banks).



In 2024, BNM issued a total of 632 million coins nationwide, with recirculated coins comprising 6.4% of coins distributed. Efforts to improve coin recirculation are ongoing and will expand further in 2025. BNM urges the public to use their coins or deposit unused coins at the nearest coin deposit machine (locations available at: [www.bnm.gov.my/currency/codm-locations](http://www.bnm.gov.my/currency/codm-locations)).

For the destruction of banknotes, BNM uses waste-to-energy (WTE) method to incinerate old and unfit banknotes to generate energy. In 2024, disposal of banknotes through WTE generated about 448,179 kWh of

energy, which could power 60 Malaysian households for an entire year.

To adopt a truly circular currency ecosystem, BNM is exploring other methods to recycle banknote waste, which will give the material a new lease on life prior to energy extraction from incineration. Recycled polymer and paper banknotes can be used to create products in lieu of using virgin polymer and wood pulp respectively.

Unlike regular plastic and wood pulp paper, recycling banknotes is complex. This is due to the presence of

Diagram 2: BNM’s Sustainable Initiatives for Currency Waste



Shredded polymer banknote waste converted into polymer pellets can be used to make plastic products like flower pots and traffic cones, thus significantly reducing the need for virgin plastic.

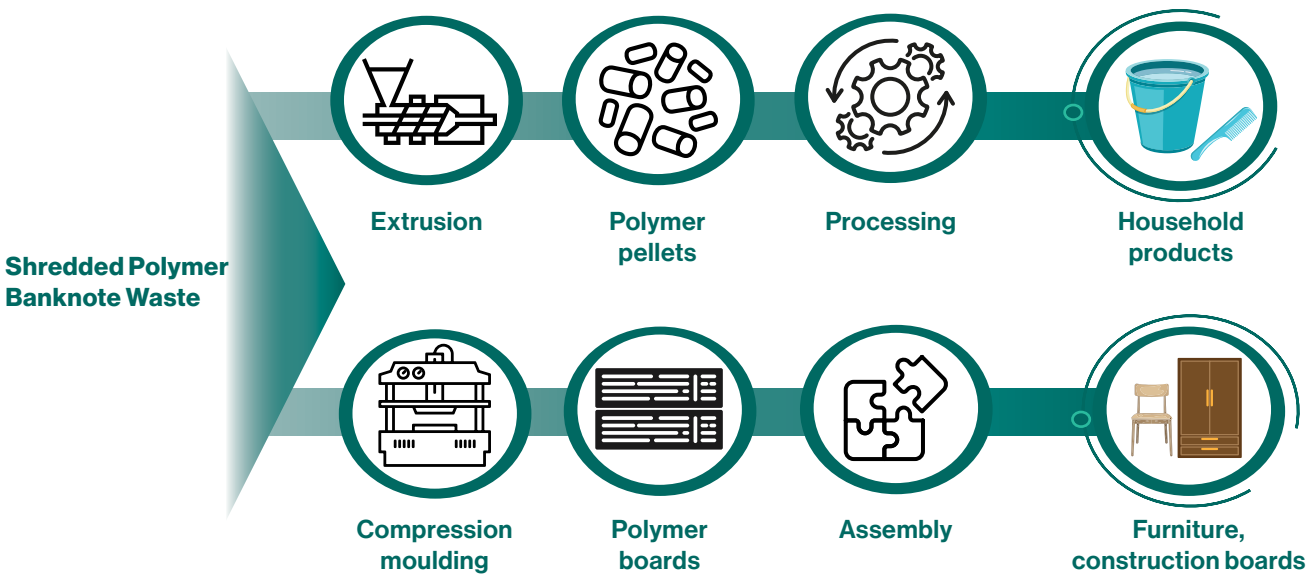


Conversion of shredded polymer banknote waste into polymer boards, used for furniture-making.



Reprocessing of paper banknote waste into recycled paper not only reduces waste but also conserves natural resources required to produce new paper.

Diagram 3: Process Flow of Converting Polymer Banknote Waste into Plastic Material



Source: Bank Negara Malaysia

other elements, such as ink and security features in the banknotes. Nevertheless, BNM has successfully conducted a proof of concept to recycle Malaysia's polymer banknotes into polymer boards and pellets.

### Transformation of the Malaysian Currency Ecosystem

As cash will remain important for the foreseeable future, BNM has strengthened its collaboration with currency industry players to transform the overall value chain of the currency ecosystem. This effort leverages on the overall improvement of the industry's nationwide currency distribution network and BNM's experience in handling the COVID-19 pandemic. These combined factors enable a more industry-led wholesale currency management model.

The main thrust of the transformation efforts is to centralise currency withdrawal and deposit activities in

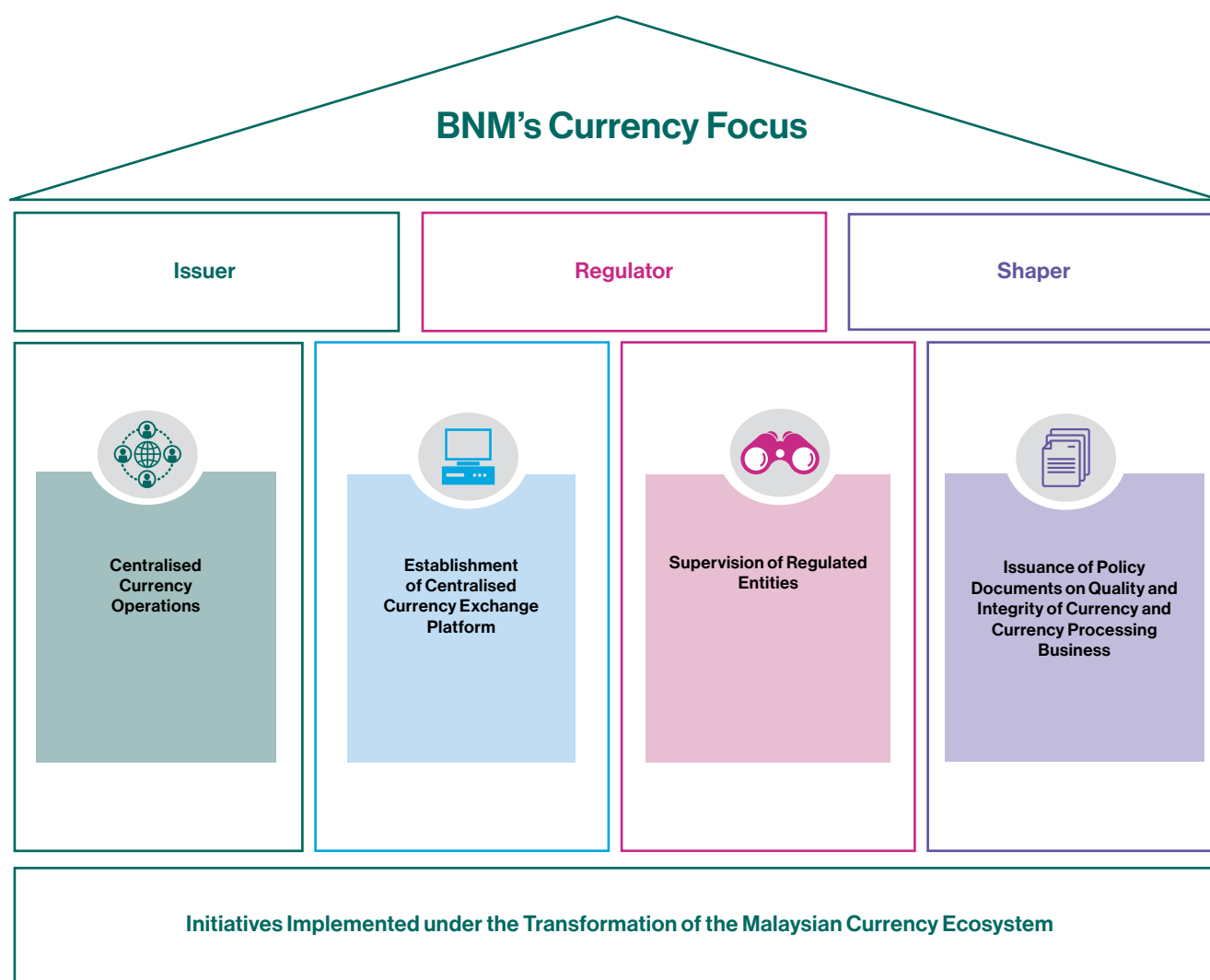
Peninsular Malaysia, leveraging on BNM's ACC reserve capacity beginning January 2025.

To promote more efficient management of currency amongst financial institutions, BNM led the development of a centralised currency exchange platform. This system allows financial institutions to effectively manage their currency needs by exchanging fit currency amongst themselves, before tapping on the currency supply from BNM. This is also aligned with BNM's goals to encourage use of fit currency.

### Regulation of key entities

Under the Currency Act 2020, BNM is responsible to ensure industry players' continued adherence to strict quality and integrity standards via supervision of regulated entities. Moving forward, BNM will continue ensuring that rigorous standards are maintained by

**Diagram 4: BNM's Focus in the New Currency Landscape**



Source: Bank Negara Malaysia

industry players to ensure that unfit, damaged or counterfeit currency is removed from circulation. This serves to maintain public trust in our currency and the currency ecosystem as a whole.

In 2024, BNM published a policy document on Currency Processing Business. The policy document sets out standards and guidelines aimed at promoting professionalism, integrity, accountability and transparency among registered currency processors. Among other things, they are accountable to manage and control all material risks associated with the conduct of the currency processing business, including operational, financial and security risks.

### Numismatic activity

BNM issues commemorative coins for significant international, national and state occasions as well as landmark milestones. In 2024, BNM issued commemorative coins in conjunction with the installation of His Majesty Seri Paduka Baginda Yang di-Pertuan Agong XVII, the 50th Anniversary of Malaysia-China

Diplomatic Relations and the 50th Anniversary of Rubber Industry Smallholders Development Authority (RISDA).

BNM conducts auctions of ringgit banknotes with special serial numbers with repetitive prefixes<sup>3</sup> and numbers through an appointed auctioneer. In 2024, BNM conducted the 17th and 18th Auctions of the 4th series Malaysian Banknotes with Special Serial Numbers. The auctions attracted a total of 285 and 311 bidders respectively. The highest bid sold for RM40,000, with a total of RM1.7 million collected from the 17th auction and RM1.5 million from the 18th auction.<sup>4</sup>

## Going Forward

BNM will continue to monitor developments in the currency ecosystem through supervisory and surveillance activities, as well as introduce new sustainable initiatives. We will also continue to innovate our operations and streamline work processes to ensure efficiency. BNM will continue to improve numismatic craftsmanship to produce currency that will showcase Malaysia's unique culture and heritage.

**Diagram 5: Commemorative Coins**



Source: Bank Negara Malaysia

<sup>3</sup> Ringgit banknotes are considered to have special serial numbers when they have repetitive prefixes with unique sequences such as the first ten numbers (e.g. AA0000001 to AA0000010), numbers in order (e.g. AA1234567), identical digits (e.g. AA8888888) or ten million (e.g. AA10000000).

<sup>4</sup> All income generated from auctions will be channelled to BNM's currency outreach efforts and improvement of the currency ecosystem.

# Maintaining Financial Integrity

Bank Negara Malaysia (BNM) continues to enhance efforts to combat financial crimes by strengthening compliance with international standards, optimising technology and widening stakeholder collaboration in implementing mitigation strategies.

## BNM's Role

BNM is the competent authority that oversees and administers the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA 2001). We act as the country's financial intelligence unit (FIU) and the anti-money laundering, countering financing of terrorism and countering proliferation financing (AML/CFT/CPF) supervisory authority for reporting institutions<sup>1</sup>. BNM collaborates with various stakeholders to ensure a holistic and robust national AML/CFT/CPF framework is in place, as well as aligned with international standards and best practices. To achieve this, we leverage the National Coordination Committee to Combat Money Laundering (NCC), a national inter-agency platform responsible for coordinating, implementing and monitoring Malaysia's AML/CFT/CPF initiatives.

In 2024, significant efforts were directed towards preparing for the Mutual Evaluation (ME) of Malaysia's effectiveness and compliance with the Financial Action Task Force's (FATF) standards. The ME is a peer review process focusing on risk management, international cooperation, supervision, preventive measures and enforcement. The results can affect a country's reputation, influence investor confidence, ease of doing business and cost of compliance. Countries with poor ME ratings

are listed as jurisdictions with weak measures to combat financial crimes and may cause financial institutions to face difficulties in dealing with foreign correspondent banks and conducting international transactions due to heightened scrutiny. BNM, as the competent authority collaborated with various agencies<sup>2</sup> in conducting internal assessments to analyse gaps and areas of improvements to strengthen the domestic landscape. Preparation sessions and targeted engagements with over 20 agencies were held, leading up to the on-site visit. This, together with all our other initiatives during the year demonstrates Malaysia's commitment to enhancing the national AML/CFT/CPF framework and safeguarding the integrity of the financial system.

One of the key AML/CFT/CPF initiative was the passage of the AMLA 2001 amendments in December 2024, which enhances and provides clarity on (a) investigation and prosecution procedures; and (b) supervision and regulation of reporting institutions. The amendments are aimed at implementing recommendations from the gap analysis conducted by the NCC on AML/CFT/CPF implementation issues and challenges, addressing areas raised in Malaysia's last ME report in 2015, and aligning with the latest FATF standards and methodology, which were revised between 2020 and 2024. In addition, legislative amendments were also undertaken to streamline the scope and coverage of AML/CFT/CPF obligations for dealers in precious metals or precious stones (DPMS) across Malaysia.<sup>3</sup> Further enhancements have been made to the supervisory frameworks for financial institutions and designated non-financial businesses and professions (DNFBPs), as well as to the beneficial ownership reporting framework. Efforts were undertaken to foster greater understanding of money laundering, terrorism financing and proliferation financing (ML/TF/PF) threats, vulnerabilities and emerging risks amongst the agencies. This was achieved through initiatives by

<sup>1</sup> Reporting institutions are defined in the First Schedule of AMLA 2001. It includes the financial institutions, non-bank financial institutions and designated non-financial businesses and professions, i.e. lawyers, company secretaries, accountants, dealers in precious metals or precious stones, registered estate agents, trust companies, casino and licensed gaming outlets.

<sup>2</sup> These include the Attorney General's Chambers, Companies Commission of Malaysia, Immigration Department of Malaysia, Inland Revenue Board of Malaysia, Labuan Financial Services Authority, Malaysian Anti-Corruption Commission, Ministry of Domestic Trade and Cost of Living, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Home Affairs, Ministry of Investment, Trade and Industry, National Anti-Financial Crime Centre, Registrar of Societies, Royal Malaysia Police, Royal Malaysian Customs Department and Securities Commission Malaysia.

<sup>3</sup> Further added under the First Schedule of the AMLA 2001 and to be subjected to reporting obligations under Part IV of the AMLA 2001.



the National Scam Response Centre (NSRC)<sup>4</sup> and the National Financial Crime Intelligence System (NFIS), as well as broader efforts like public-private partnerships and joint supervisions that enable smoother sharing of tactical intelligence on cases, issues and trends between law enforcement and reporting institutions.

In the second half of 2024, the new NCC Roadmap 2024-26 (new Roadmap) was endorsed and implemented, setting clear milestones and guiding parameters with measurable targets for prioritisation and effective monitoring. The new Roadmap continues Malaysia's comprehensive strategy to combat financial crimes by focusing on:

- strengthening the deterrence and disruption of financial crimes;
- heightening the compliance culture among reporting institutions;
- enhancing the understanding of emerging risk areas based on global and domestic developments; and
- sustaining awareness and capacity building efforts amongst NCC members.

The new Roadmap incorporates key recommendations from the latest National Risk Assessment 2023 (NRA) and five thematic risk assessments<sup>5</sup>. These risks assessments collectively provide a holistic understanding of Malaysia's ML/TF/PF risk landscape. Further details on the NRA can be found in the feature article on 'Malaysia's Fifth National Risk Assessment (NRA)'. The new Roadmap ensures that AML/CFT/CPF efforts remain effective and fit-for-purpose in addressing Malaysia's risk exposures amid national, regional and global developments. There are action plans in the areas of risk, prevention, enforcement, legal, regulation and coordination, as well as capacity building and awareness.

## Strengthening AML/CFT/CPF Measures through Coordinated National and Regional Efforts

In August 2024, the Asian Institute of Chartered Bankers (AICB), in collaboration with the Compliance Officers' Networking Group (CONG), organised a two-day International Conference on Financial

Crime and Terrorism Financing (IFCTF). Over 700 participants attended 13 plenary and masterclass breakout sessions. The sessions offered insights into aligning AML/CFT/CPF international standards with the domestic landscape, as well as national, thematic and institutional risk assessments. Speakers from BNM and both domestic and international partner agencies shared valuable perspectives particularly on effective strategies and best practices in addressing ML/TF/PF risks. The conference facilitated greater understanding and collaboration among stakeholders to strengthen Malaysia's AML/CFT/CPF regime.

Concurrently in the same month, BNM hosted the inaugural AML/CFT/CPF Supervisory College for the banking sector. The event was attended by representatives from regional supervisory authorities, including the Hong Kong Monetary Authority (HKMA), Otoritas Jasa Keuangan Indonesia (OJK) and the Monetary Authority of Singapore (MAS). The Supervisory College provided an avenue to enhance cooperation and coordination among different supervisory authorities with the oversight of financial institutions operating in multiple jurisdictions. This preserves the integrity of the financial system and supports global efforts to combat financial crimes.



2024 AML/CFT/CPF Supervisory College

In November 2024, BNM co-hosted the 25th Typologies Workshop with the Asia/Pacific Group on Money Laundering (APG). The workshop was attended by over 150 delegates from 32 member countries, seven observers and over 60 private sector participants. The event comprised two streams, namely the abuse of legal persons and cyber-enabled fraud. This workshop enabled officials and subject matter experts from across the APG network to share experiences in understanding emerging trends and combating illicit financial flows in the region.

<sup>4</sup> NSRC, established in 2022, is a joint effort between the National Anti-Financial Crime Centre, BNM, Royal Malaysia Police, and Malaysian Communications and Multimedia Commission, as well as financial institutions and the telecommunications industry.

<sup>5</sup> These include the Proliferation Financing Risk Assessment (PFRA), the Legal Arrangements Risk Assessment (LARA), the Legal Persons Risk Assessment (LPRA), the Non-Profit Organisations Risk Assessment (NPORA) and the Virtual Assets Risk Assessment (VARA).





2024 APG Typologies Workshop

BNM continues to leverage the ASEAN Senior Officials Meetings on Transnational Crime (SOMTC) as it develops initiatives to prepare for Malaysia's ASEAN Chairmanship in 2025. Key efforts include the establishment of a working group under SOMTC focused on money laundering, with the aim of enhancing regional cooperation and capacity building in this critical area.

## Sharing of Financial Intelligence and Supporting Law Enforcement

BNM is committed to exchanging financial intelligence through its FIU function. The FIU works closely with domestic law enforcement agencies (LEAs) and foreign FIUs to support investigations into ML/TF/PF. This collaboration is essential for detecting and preventing the threats of financial crimes posed by criminals and terrorists that abuse the financial system.

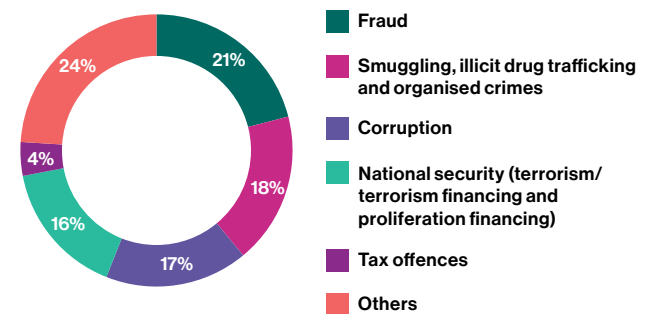
Reporting institutions continued to enhance their compliance and improve their detection mechanism in 2024. This has contributed to an increasing trend in the

reporting of Suspicious Transaction Reports (STRs). The reporting institutions had submitted 342,166 STRs in 2024 (2023: 317,435 STRs). The FIU continues to leverage data analytics to uncover patterns and insights in STRs, using network analysis and text mining to profile and prioritise them according to risk. Fraud was the most common suspected offence, accounting for 24% of all STRs. Other reported suspected offences include money laundering, tax offences and organised crimes.

In 2024, the FIU published a Suspicious Transaction Reporting Handbook which outlines key features of quality reports and offers practical guidance to assist the reporting institutions to submit quality STRs.

The FIU actively shared disclosures of financial intelligence<sup>6</sup> with domestic LEAs and more than 30 foreign FIUs in 2024, supporting cross-border financial investigations. About 70% of these disclosures were related to high-risk crimes<sup>7</sup> (Chart 1). The FIU also conducted two-way knowledge sharing and training sessions on financial intelligence analysis with relevant LEAs throughout the year. This is to foster better cooperation and understanding between agencies, ensuring continuous improvement in detecting and preventing the threats of financial crimes.

**Chart 1: Financial Intelligence Disclosures by Serious Offences in 2024**



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

Source: Bank Negara Malaysia

<sup>6</sup> The sharing of financial intelligence to support law enforcement investigations into financial crimes.

<sup>7</sup> High-risk crimes include fraud, corruption, organised crimes, smuggling and drugs trafficking, as identified under the NRA 2023, as well as terrorism/terrorism financing and proliferation financing.

These disclosures, along with close FIU–LEA cooperation, supported investigations of major crimes such as fraud, drugs trafficking, corruption, smuggling and organised crimes. They led to arrests of more than 200 individuals and the freezing, seizure and recovery of criminal proceeds worth more than RM120 million. The disclosures also supported monitoring and investigation of cases related to national security.<sup>8</sup>

## Measures to Elevate and Coordinate Fraud Response

Fraud has consistently ranked as one of the top high-risk crimes in all four iterations of the NRA on ML/TF since 2013. The NSRC has continued to deliver swift tracing and responses to online financial scams, while adopting a more coordinated approach to recovering stolen funds. Diagram 1 highlights the NSRC's key outcomes in 2024.

To further strengthen efforts against online financial scams, BNM, Payments Network Malaysia Sdn. Bhd. (PayNet) and financial institutions have launched the National Fraud Portal (NFP). The NFP enhances the NSRC's ability to adapt to evolving scam tactics by leveraging PayNet's shared payment system. This collaboration fortifies Malaysia's defences against online financial scams through several key features, including:




- i. Faster fund tracing across banks, aided using artificial intelligence (AI) and automation which reduces the time needed for financial institutions to identify suspected fraud transactions by 75%, giving a more comprehensive picture of fund flows.

- ii. Timely interventions by financial institutions through swift validation of reported scam transactions and enhanced ongoing case monitoring. This has led to a 47% increase in the average monthly earmarked<sup>9</sup> sum of fraudulent cases.
- iii. The NFP helps share information and analyse fraudulent funds by integrating transactions and mule account data from multiple sources. This comprehensive collection of data enables the NSRC to perform enhanced analysis and detection of mule accounts, shown by a 65% increase in the number of mule accounts identified by the NSRC.
- iv. The NFP's implementation is further supported by an industry agreed protocol for reporting and handling of mule accounts.<sup>10</sup> The protocol facilitates swift action by financial institutions to prevent further fraud using identified mule accounts. It also ensures a more consistent treatment of mule accounts across financial institutions to preserve continued access to basic financial services for mule account holders.

Future enhancements to the NFP will include shorter tracing times, broader data integration and the use of predictive analytics for improved detection of fraud and mule accounts.

As part of continuous and joint efforts to achieve higher recovery rate for stolen funds, amendments to the Penal Code and Criminal Procedure Code were passed by the Parliament in July 2024 and came into effect in October 2024. These amendments were introduced to establish mule account activity as an offence and allowing LEAs to seize or prevent transactions involving suspicious funds

Diagram 1: NSRC's Key Outcomes in 2024

NSRC's Key Outcomes in 2024	
	Opened 9,588 investigation papers involving cheating and freeze orders on targeted collection accounts amounting to RM8 million
	Identified and disrupted 71,037 suspected mule accounts, reducing opportunities to layer transactions to conceal the origin of stolen funds
	Attended to 95,449 calls on online financial scams from the public, of which 40,010 calls were from scammed victims

Source: NSRC

<sup>8</sup> National security covers terrorism/terrorism financing and proliferation financing.

<sup>9</sup> The earmark amount is referring to the amount temporarily withheld by the financial institutions while waiting for the issuance of an enforcement order by the Royal Malaysia Police.

<sup>10</sup> More information on this can be found in the 'Promoting Safe and Efficient Payments and Remittance Services' chapter.

in suspected mule bank accounts, thereby strengthening the overall response to online financial crime incidents.

## Promoting Sustainable AML/CFT/CPF Compliance of Financial Institutions and DNFBPs

BNM remains committed in driving a sustainable AML/CFT/CPF compliance culture among over 20,000 reporting institutions across the financial and DNFBP sectors. To achieve this, we continue to employ a range of supervisory tools and enhance our risk-based supervisory activities, including leveraging supervisory technology (SupTech) to improve efficiency and effectiveness. In addition to an ongoing focus of supervision on ML/TF/PF risk and controls in financial institutions regulated by BNM, we conducted two thematic reviews focusing on anti-bribery and corruption measures, and effectiveness of countering TF/PF. We also continued to strengthen the supervision of DNFBPs.

In 2024, we expanded on-site supervision of DNFBPs by 12% from 2023, covering 181 reporting institutions with a focus on higher risk sectors (e.g. lawyers, DPMS, company secretaries, accountants and registered estate agents). This includes joint supervisory activities with the Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia, SSM) and the Malaysian Institute of Accountants. Our off-site assessments i.e. the Data and Compliance Report

2024 (DCR) were also expanded to cover 12,000 reporting institutions across five sectors. In addition, we strengthened governance expectations by requiring the board and senior management of larger reporting institutions to demonstrate commitment and allocate necessary resources to drive the AML/CFT/CPF compliance culture of their institutions.

We continue to monitor and enforce regulatory standards to uphold the integrity and stability of Malaysia's financial system. In line with this commitment, DNFBP supervisors have initiated punitive enforcement actions against non-compliant institutions, including by imposing compound for failure to promptly submit STRs.

To further promote a strong compliance culture, BNM continues to participate in industry-driven engagements and forums. Informative articles are also regularly published to keep financial institutions and DNFBPs updated on compliance expectations and regulatory developments.

## Going Forward

In 2025, we will focus on demonstrating Malaysia's ability to effectively implement AML/CFT/CPF international standards through the FATF's ME process, enhancing collaboration with LEAs to combat financial crimes, and leveraging technology and SupTech to ensure continued resilience and compliance in the face of evolving challenges.

## Malaysia's Fifth National Risk Assessment on Money Laundering and Terrorism Financing 2023 (NRA 2023)

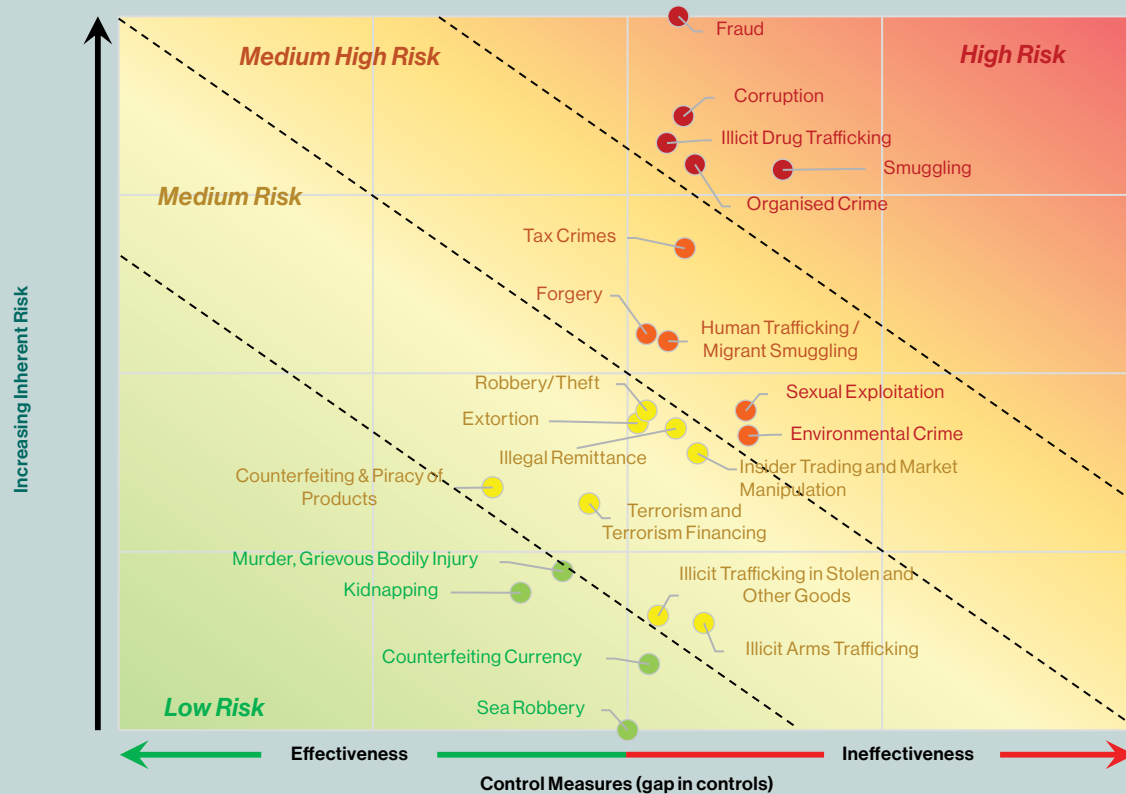
The National Risk Assessment (NRA) is a process to assess and facilitate the understanding on the money laundering (ML) and terrorism financing (TF) risks in Malaysia. It is an initiative by the National Coordination Committee to Counter Money Laundering<sup>1</sup> (NCC) to improve understanding of ML/TF threats, vulnerabilities and its interconnectedness. To achieve this, it examines ML/TF related threats such as crimes that generate illicit proceeds and terrorism activities, as well as vulnerabilities of financial and non-financial sectors to ML/TF risks.

BNM, as the chair and secretariat to the NCC, collaborated with key partners to conduct the fifth edition of assessment, known as NRA 2023. This assessment leverages information from ministries and government agencies, supervisory and regulatory authorities, reporting institutions, foreign attaché, law enforcement agencies and civil societies. Information from foreign law enforcement agencies is also relied upon, given the nature of cross-border crimes and the flow of illegal proceeds. The NCC deliberated and endorsed the results of the NRA 2023 in August 2024.

This edition of the NRA reveals that fraud, corruption, illicit drug trafficking, organised crime and smuggling remain the most prevalent crimes that pose high ML risk. These high-risk crimes generate a high volume of illicit proceeds that increase ML risks amidst insufficient control measures, including inadequate ML investigations and prosecutions. NRA 2023 also finds that there has been an improvement in the terrorism and TF risk, given continued national, regional and international efforts to counter terrorism. This is supported by effective preventive and enforcement measures by relevant enforcement agencies.

The assessment also finds that the banking, money services businesses, non-bank issuers of designated payment instruments (DPI Issuers), legal, company secretarial and dealers in precious metals or precious stones (DPMS) sectors are more exposed to ML/TF risks. This observation is attributed to these sectors' intermediation role, coupled with the convenience and speed of transaction facilitated. The provision of professional services also provide anonymity which criminals may misuse to launder illicit proceeds through client accounts and set up companies as fronts to obscure ownership. In addition, high value products offered by DPMS could also be misused to store value of illegal proceeds. Nevertheless, there are control measures being put in place to reduce the vulnerability of these sectors to the ML/TF risks such as intensified supervisory activities to improve awareness and compliance towards Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) requirements. Key findings on serious crimes, financial and non-financial sectors are summarised in Diagram 1.

<sup>1</sup> NCC is a high-level committee established in 1999 to coordinate, implement and monitor Malaysia's anti-money laundering and counter-financing of terrorism (AML/CFT) initiatives. There are 17 members in the NCC consisting of ministries and government agencies from supervisory and regulatory authorities, law enforcement agencies and policy-making ministries, with Bank Negara Malaysia as the chair and secretariat for the NCC.

**Diagram 1: Key Findings on Serious Crimes, Financial and Non-Financial Sectors**


Source: National Coordination Committee to Counter Money Laundering

## Financial Sectors

		Control Measures			
Inherent Risk	ML	Strong	Acceptable	Marginal	Weak
	High		Banking Institutions*		
	Medium High		Capital Market Intermediaries (including Digital Asset Exchanges (DAX))		
	Medium		<ul style="list-style-type: none"> <li>Money Services Businesses</li> <li>DPI Issuers</li> <li>Labuan Banking Institutions</li> <li>Non-Bank Financial Institutions</li> </ul>	<ul style="list-style-type: none"> <li>Insurance and Takaful Operators</li> <li>Moneylenders</li> </ul>	Labuan Money Brokers
	Low		<ul style="list-style-type: none"> <li>Pawnbrokers</li> <li>Labuan Insurance and Takaful Operators</li> </ul>	<ul style="list-style-type: none"> <li>Insurance Intermediaries</li> <li>Banking Intermediaries</li> <li>Leasing</li> <li>Factoring</li> </ul>	<ul style="list-style-type: none"> <li>Labuan Capital Market Intermediaries</li> </ul>
	TF				
	High				
	Medium High		<ul style="list-style-type: none"> <li>Banking Institutions</li> <li>DPI Issuers</li> </ul>	<ul style="list-style-type: none"> <li>Money Services Businesses</li> </ul>	
	Medium		<ul style="list-style-type: none"> <li>Capital Market Intermediaries (including DAX)</li> </ul>	<ul style="list-style-type: none"> <li>Insurance and Takaful Operators</li> </ul>	Labuan Money Brokers
	Low		<ul style="list-style-type: none"> <li>Pawnbrokers</li> <li>Non-Bank Financial Institutions</li> <li>Labuan Banking Institutions</li> </ul>	<ul style="list-style-type: none"> <li>Labuan Insurance and Takaful Operators</li> <li>Moneylenders</li> </ul>	<ul style="list-style-type: none"> <li>Insurance Intermediaries</li> <li>Banking Intermediaries</li> <li>Leasing</li> <li>Factoring</li> </ul>

\* Banking institutions high net risk is driven by its size as the largest financial sector, widest coverage with branches located throughout the country, as well as the nature of business providing key financial products.

Source: National Coordination Committee to Counter Money Laundering



## DNFBP Sectors

Inherent Risk		Control Measures			
		Strong	Acceptable	Marginal	Weak
ML	High				
	Medium		Casino	Lawyers	DPMS
	High		Labuan Trust Companies	• Company Secretaries • Registered Estate Agents • Accountants	
	Medium				
TF	Low		• Trust Companies • Licensed Gaming Outlets		
	High				
	Medium				
	High				
TF	Medium		Casino		
	Low		• Trust Companies • Licensed Gaming Outlets • Labuan Trust Companies	• Company Secretaries • Lawyers	• Registered Estate Agents • Accountants
					DPMS

Source: National Coordination Committee to Counter Money Laundering

The NRA 2023 also put forward a number of recommendations to further strengthen Malaysia's response to ML/TF risks. These recommendations leverage on existing collaborative initiatives, and includes the sharing of information between stakeholders such as case referrals from law enforcement agencies to the supervisors to enhance risk-based supervision. There will also be more industry-led initiatives to elevate the compliance culture of reporting institutions. These includes the establishment and/or strengthening of industry networking groups to enhance collaboration and coordination.

These recommendations will be monitored by the various sub-committees under the NCC. The executive summary of the NRA 2023 can be accessed at <https://amlcft.bnm.gov.my/>.



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# Managing Bank Negara Malaysia



# Managing Bank Negara Malaysia

## People

Bank Negara Malaysia (BNM) continues to nurture and develop its people to ensure the delivery of our mandates with high standards of excellence and professionalism.

### Introduction

At BNM, we strive to create a conducive environment for a high-performance and engaged workforce. To that end, we continuously explore new ways of working and adapt to evolving norms, while upholding our longstanding traditions of integrity, professionalism and excellence. In 2024, our people management priorities were aimed at ensuring our teams are appropriately resourced in terms of headcount and competence, in addition to streamlining our operations through the introduction of the Digital Operations Platform (DOP). This allowed us to shift our focus towards more robust data driven decision making on people matters. We continued to place strong emphasis on career development initiatives to secure a sustainable talent pipeline for the future.

### Improving Productivity and People's Engagement in the Digital Era

In 2024, BNM made significant strides in transforming and modernising our Human Capital Management system through the adoption of DOP, a cloud-based integrated procurement, finance and human resource (HR) platform offering scalable solutions to align HR policy to business objectives. This initiative is aimed at streamlining BNM's operations to best practices as well as enhancing overall organisational efficiency and experience. The DOP

is designed to empower our workforce with the tools that enhance their experience and professional growth including by enabling direct access to information, performance tracking and learning pathways that foster continuous development.

As we continue to adopt a flexible approach to working arrangements, equal emphasis was placed on encouraging more in-person interactions. We organised and launched BNM Open Day, an event exclusive for staff. The aim was to provide an avenue to establish meaningful connections between staff across various departments while understanding better how collectively everyone contributes to our overall mandate. The event also provided an opportunity to crowdsource suggestions for the improvement of our operational services.

Further, we continue to uphold our tradition of celebrating key festivals with staff, sports events and the annual treasure hunt, in which we extended the invite to our retirees via the established Alumni society.





Throughout 2024, the well-being of our people remained a key focus. We continued to provide access to counselling services and stepped-up efforts to raise awareness on mental and physical health with over 34 programmes and events held.

## Driving Results Through Culture

Building on efforts in preceding years to raise staff awareness of the desired culture, the focus for 2024 was to integrate and further embed the culture of accountability into organisation-wide frameworks, such as the business planning process. This encouraged a greater sense of shared purpose, helping staff see how their respective roles contribute to the BNM's broader mandates. This enables staff to exemplify a deeper understanding and appreciation of culture, as seen in day-to-day norms and behaviours. During the year, staff were introduced to new tools and frameworks to elevate the culture of feedback seeking and feedback giving, including within and across teams. Importantly, BNM's initiatives to foster a strong organisational culture aims to further strengthen core values of integrity, collaboration, diversity and excellence to enhance its ability and capacity to effectively discharge its mandates.

In discharging our mandates, we continued to ensure that our staff are familiar with and abide strictly by our Code of Conduct (COC) in performing their duties. Staff are required to annually refresh their knowledge of the code through online education and assessment tools and also complete an annual asset declaration exercise. This is to ensure that our staff embody the highest standards of integrity, excellence and professionalism as established in our COC.



## Talent and Career Development

At BNM, we seek to maintain a sustainable talent pipeline and timely interventions for mission critical positions. Central to our organisational philosophy is the cultivation of talent through strategic succession planning. Decentralised platforms are leveraged via the Mini Talent Councils (mTCs) to ensure that talent decisions and development interventions are taken at appropriate levels to maintain high-performing teams, in line with our ethos of a high performing and engaged workforce.

Investing in emerging leaders is paramount for BNM's organisational sustainability. With the success of the launch at the mid management level in 2023, we extended the Future Leaders Development Programme (FUEL) to our senior leadership to further strengthen and reinforce BNM's cultural beliefs and effective leadership skills, including stakeholder management and fostering a collaborative workplace culture.

In addition to FUEL, executive coaching continues to play a pivotal role in nurturing our emerging leaders. At BNM, we deploy a tailored approach to executive coaching that offers a supportive environment for emerging leaders to explore their strengths, address their development areas and refine their leadership style. This is further supplemented by mentoring sessions and skip level engagements. This

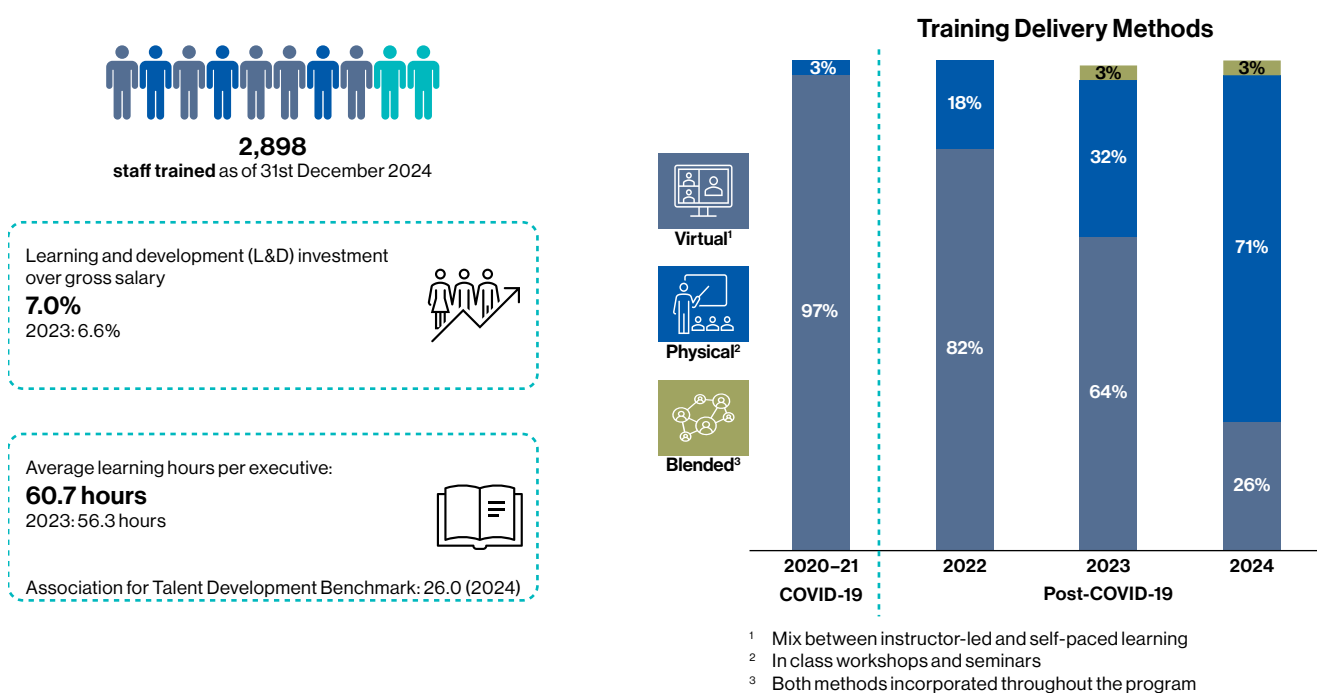
multifaceted approach offers our emerging leaders unique opportunities for continuous learning throughout the organisation, with the goal of expediting their preparedness for future leadership positions.

At BNM, we place equal emphasis on enhancing our technical learning, given the unique nature of some of our functions. To achieve this, we have established dedicated learning tracks for core central banking areas to ensure quicker time to competence. In addition to this, we continued to encourage our staff to pursue professional certifications across a broad range of disciplines. Currently, 634 staff members hold memberships from various professional bodies. We also continued to provide staff scholarships in emerging and future areas, including sustainability management and artificial intelligence. This investment in professional

development not only enhances individual competencies but also enriches our collective expertise, enabling us to meet the evolving demands of our dynamic environment and deliver our mandates effectively. In ensuring effective delivery of our training, we have started to explore blended learning options to drive maximum absorption, empowering staff to learn at their own pace. Further statistics on our learning & development are as highlighted in Diagram 1.

As we embrace new ways of working and technology adoption, traditional roles, especially administrative functions, continue to be reviewed. We are committed to upskilling and reskilling our administrative staff and those affected from the digitisation efforts. Key training areas include digital literacy, office management, communication and stakeholder relationships.

**Diagram 1: Continuous Development for Staff Through Various Channels**



Source: Bank Negara Malaysia

## Talent Attraction and Resource Optimisation

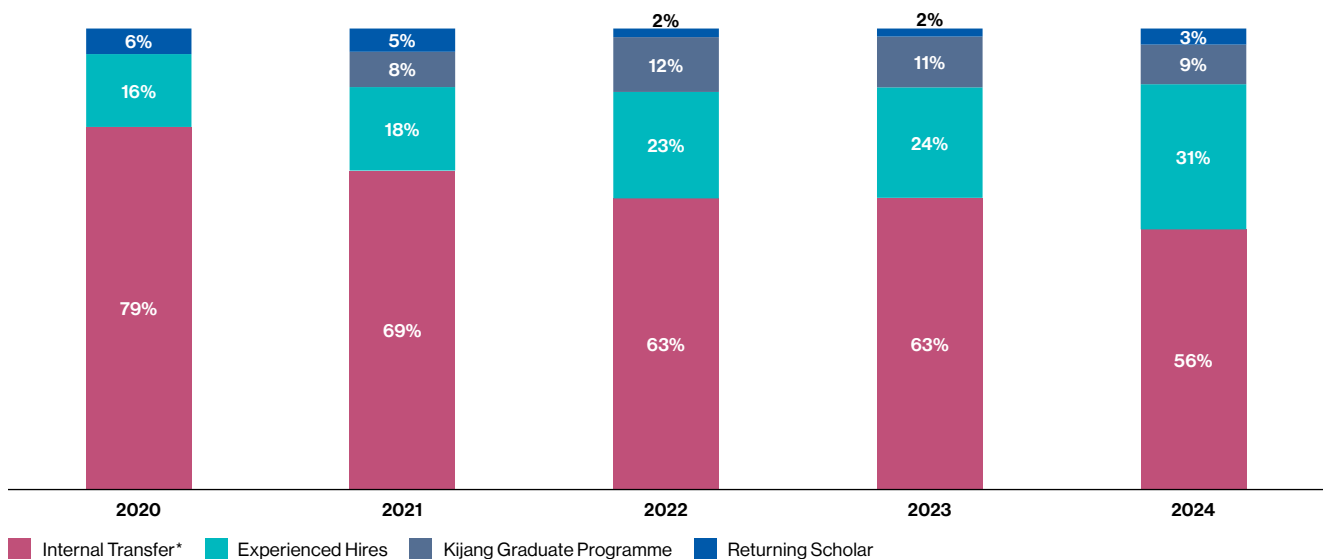
Central to our talent attraction initiatives are our branding efforts to continue attracting top talent in the country. In 2024, BNM was recognised as one of the top employers in the country by receiving ten HR awards, including Best Employer Brand by LinkedIn, Life at Work Award by Talent Corporation and GRADUAN Brand Awards. These awards were all earned organically through a combination of public votes, online engagement and jury assessments. Our participation in 13 career fairs throughout 2024 further enhanced our efforts in diversifying our talent sourcing strategies (refer Diagram 2).

We believe in the potential of the younger generation as future leaders who will drive our organisation and the nation forward. Our Kijang Graduate Programme (KGP) exemplifies our commitment to nurturing and empowering talent. This year, the KGP was recognised as Malaysia's

Most Preferred Graduate Management Programme, winning two prestigious awards. This recognition highlights the programme's success in developing young talent through its distinctive purpose, rigorous selection process, comprehensive 18-month structure and strategic onboarding process. By fostering growth and leadership development, the KGP aims to build an agile, broad-based talent pool with skills applicable across the organisation, shaping the leaders of tomorrow. In 2024, we successfully recruited 92 KGPs in addition to 37 returning scholars from our long-standing scholarship programme for high potential students. This continues to provide a stable source of high-quality talent to meet BNM's talent needs.

With a staff strength of 3,543, we maintained a fairly balanced distribution between the genders across the different job levels (see Diagram 3). This diversity not only enriches our workplace culture but also enhances our ability to address the complex challenges of the financial sector, through deeper stakeholder understanding.

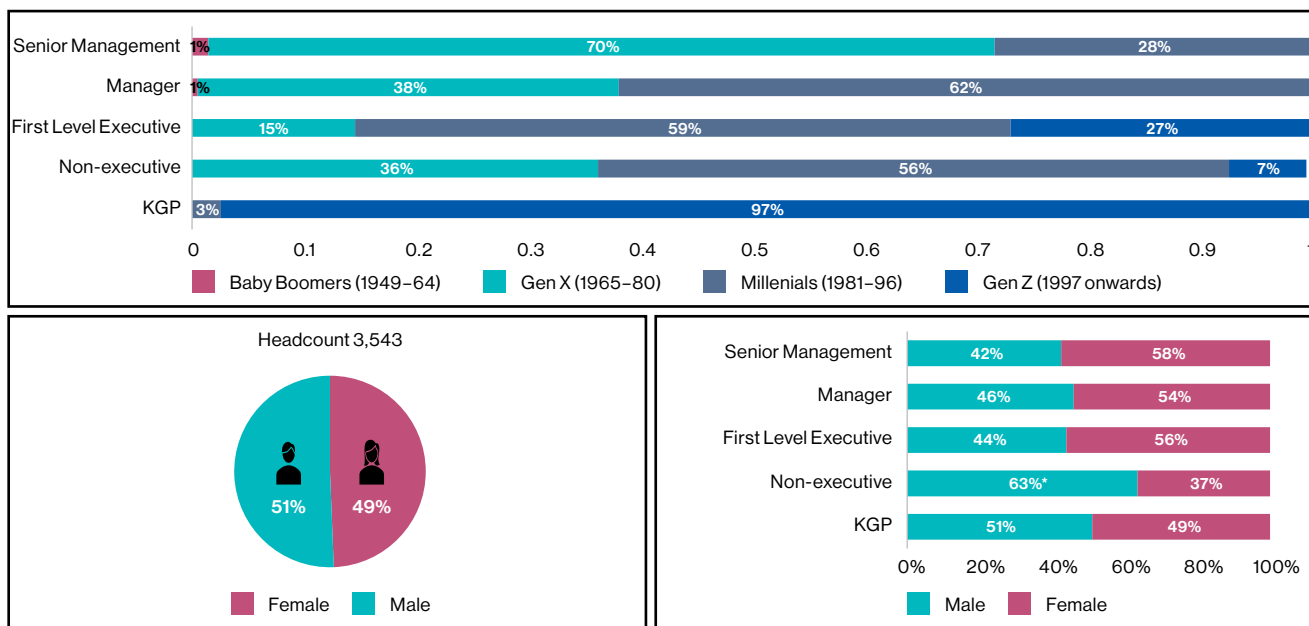
Diagram 2: Our Source of Talent



\* Vacancies filled through promotion and transfer within departments.

Source: Bank Negara Malaysia

Diagram 3: Gender Balanced and Multi-generational Workforce



\* Higher percentage of male non-executive staff is attributed to our Auxiliary Police.

Source: Bank Negara Malaysia

As part of our commitment towards ensuring an optimised workforce and appropriately resourced teams, we concluded the strategic workforce planning exercise for all functions in BNM in 2024. We recognised that our manpower strength had remained mostly unchanged in the past ten years, despite the significant increase in mandate and scope. At the same time, strategic priorities of BNM in response to the changing financial and economic landscape, in the medium and longer term have called for new skills and a modest expansion in the workforce to support BNM's key functions. The exercise also accounted for continuous efforts in digitisation, optimisation of structures and process improvements to ensure that we fully optimise the use of resources. In addition to ensuring adequate resources, the exercise also includes compiling the skills of each job function in BNM and mapping out interchangeabilities. This allows us to strategise our sourcing efforts and plan career pathways for our talent to ensure better readiness in assuming mission critical roles.

## Going Forward

The backbone of BNM is its people and we strive to ensure that our people can be at their best to effectively deliver our mandates. This includes providing the necessary support in terms of resources and development. With the completion of the strategic workforce planning exercise in 2024, we have the right baseline set to support our manpower planning efforts going forward to meet the demands and priorities of BNM. To ensure effective and timely recognition of staff contributions and achievements, we are reviewing our performance management frameworks to be more agile yet customised to the needs of the various job levels. Separately, we are also embarking on a foundational reassessment of our work architecture to make career paths for progression and mobility clearer for our people so that they can build meaningful and engaging careers in BNM.

# Towards a Greener Financial System

The financial sector is a key enabler to Malaysia's just and orderly transition. With a robust ecosystem largely in place, efforts have been intensified to translate policies into actionable steps. Focus was accorded to climate disclosure, development of climate finance solutions, enhancing data accessibility and capacity-building to unlock growth opportunities to support sustainable development. These efforts are beginning to yield progressive outcomes, reinforcing the financial sector's role in fostering a resilient and sustainable economy.

## Introduction

Malaysia, like many other countries, continues to face a range of climate-related events. Floods, heatwaves and extreme weather patterns are some of the common ones. These events have affected businesses and households in many ways. In some cases, they have caused substantial losses and displacement. With climate-related events rising in frequency and severity over the years, the economic and financial stability impacts are likely to be more significant going forward. BNM plays a pivotal role in fostering a climate-resilient financial system. Our aim is for financial institutions to be able to manage climate risks while supporting the economy to adapt to climate change. Since embarking on this journey in 2018, we have strengthened our climate actions for the industry and our organisation. Key pillars are in place to serve as a strong foundation for climate risk management. In building the capabilities of the financial sector, we remain focused on actions that drive impactful outcomes (Diagram 1).

In 2024, we stepped up efforts to further improve and integrate the climate agenda into our internal operations and in delivering BNM's functions and mandates. This

includes committing to improve our climate-related reporting and disclosures. Efforts on this front are guided by the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).<sup>1</sup>

## Strengthening Our Climate Governance

Climate and environment-related goals are organisational priorities for BNM. To help achieve this, we have put in place a clear and robust governance structure and framework (Diagram 2).

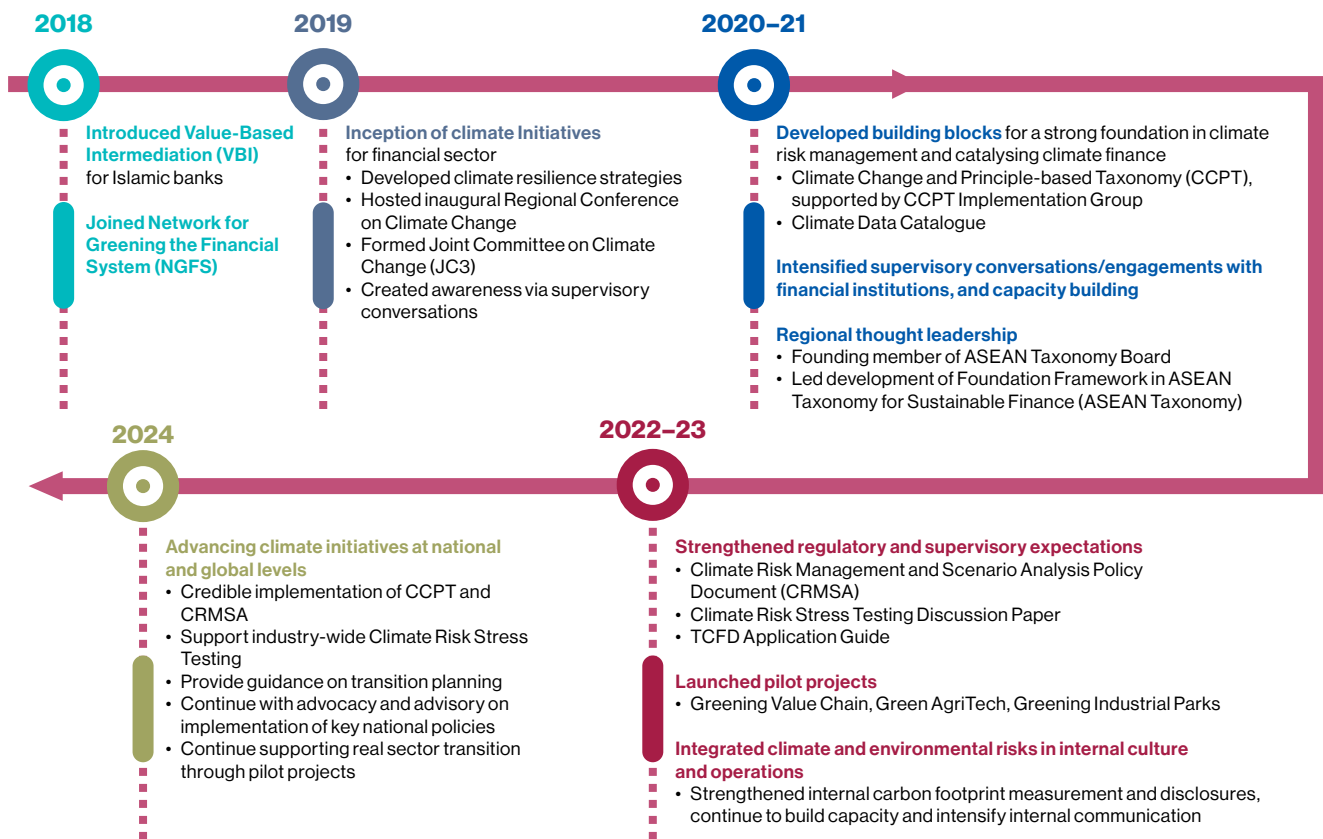
Climate matters are integrated into board-level oversight. The board provides strategic guidance and monitors our efforts to build our climate resilience as well as that of the financial sector. Twice yearly, the board receives updates on progress of BNM's plans and management of our climate and environment-related risks and initiatives across its various roles and functions. From the guidance provided by the board, we can also better allocate our budget and resources in response to the evolving climate landscape.

At the management level, the Management Committee oversees the implementation and coordination of BNM's climate and environment-related strategies and goals. This is supported by the Sustainability Unit, formed in 2021. Updates to the Management Committee happen twice yearly, covering progress, issues and challenges in relation to the identified strategies and initiatives. The fast-evolving nature of this topic also requires us to adjust our responses from time to time. This is based on the collective inputs from the cross-functional teams within BNM to implement and monitor progress. Climate and environment-related issues are also discussed within the scope of key policy committees when strategic guidance is needed. This includes the Financial Stability Committee, the Risk Management Committee and the Financial Policy Working Group. In 2024, we began climate reporting for our physical operations to the Operations Management Committee.

<sup>1</sup> A globally recognised framework to help public companies and other organisations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

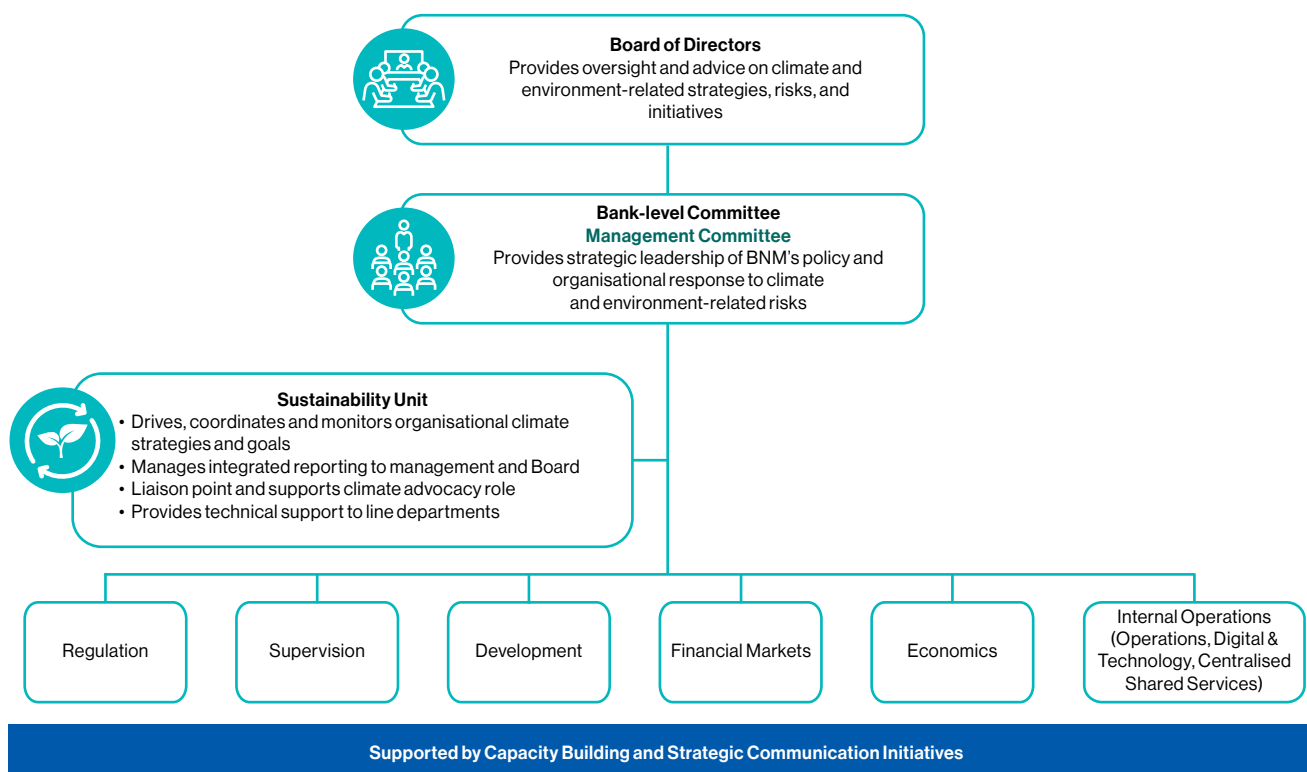


Diagram 1: BNM's Climate Journey



Source: Bank Negara Malaysia

Diagram 2: BNM's Climate Governance Structure



Source: Bank Negara Malaysia

During the year, the Sustainability Unit also worked on improving communication to help staff be better informed and understand our climate and sustainability initiatives. This includes issuing newsletters, podcasts and forum posts. We observe increasing appreciation and understanding on climate and environment-related risks, and the role of BNM in managing the risks. The Climate Change Directors Forum is another platform that meets twice a year. It keeps senior officers updated on national and organisational climate and environment-related developments. The Forum enables senior officers to discuss issues and challenges faced in pursuing climate and environment-related initiatives within their respective areas. This also helps the different teams to better align and work together on their climate and environment-related initiatives.

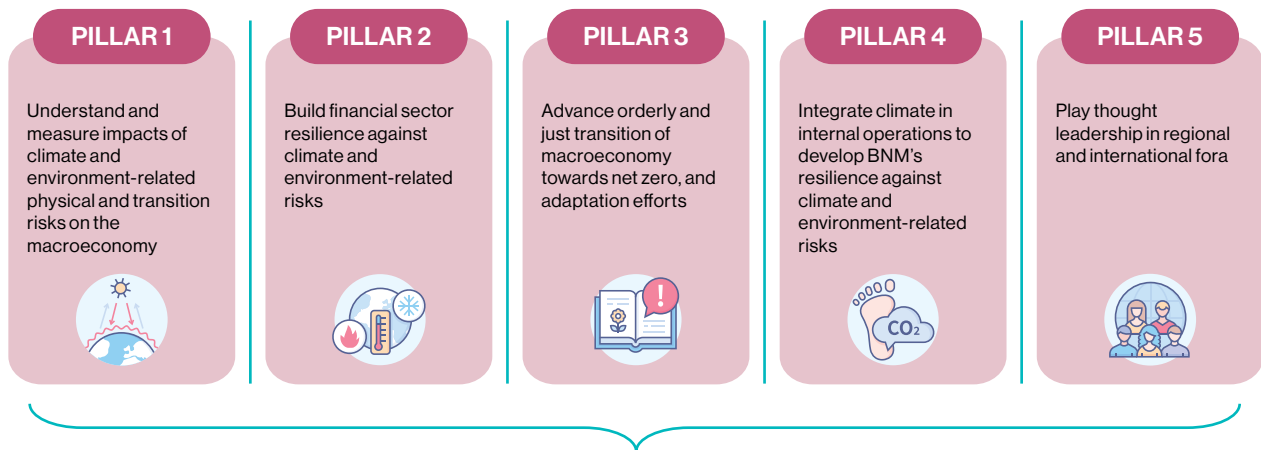
## Steady Progress in BNM's Climate and Environment-related Strategies

Our climate and environment-related strategies are guided by five key pillars (Diagram 3) that cover the core functions of BNM. They are also aligned to BNM's business plans and long-term strategic plans such as the Financial Sector Blueprint 2022–2026. A dashboard is used to monitor progress of these strategies and identify challenges that may impact our climate and environment-related deliverables. It is shared with senior management and issues are discussed where further guidance is needed.

In 2024, our regulatory focus was to support the effective implementation of standards and supervisory expectations on managing climate risks. Through the Joint Committee on Climate Change (JC3) platform, we continued to improve the credibility and consistency of financial institutions' reporting under the Climate Change and Principle-based Taxonomy (CCPT). The CCPT Due Diligence Questions (DDQ) and Guidance Notes were issued in January. During the year, the third cohort of the Value-based Intermediation (VBI) sectoral guides was also issued. This comprises guidance for agriculture, mining and quarrying, road transportation and waste management activities. The guidance serves to reduce the risk of greenwashing by financial institutions by providing additional guidance on climate and environmental metrics for specific economic sectors and activities. We also actively engaged with the industry to assess their readiness in implementing the climate risk management standards (i.e. Climate Risk Management and Scenario Analysis Policy Document, CRMSA). In 2025, financial institutions will conduct the first industry-wide climate risk stress testing exercise. In preparation for the climate risk stress testing, we engaged with the industry and partnered with the World Bank to run workshops. Guidance on development of transition plans by financial institutions was also issued in 2024 to assist financial institutions in developing credible transition strategies. We also supported transition of the real sector through pilot projects<sup>2</sup> such as Greening Value Chain, Green AgriTech and Greening Industrial Parks.

<sup>2</sup> Implementation via the Joint Committee on Climate Change (JC3). Details of pilot projects are in Diagram 6: Progress and Deliverables of JC3 in 2024.

Diagram 3: Key Pillars of BNM's Climate and Environment-related Strategies



**EXPECTED OUTCOMES**



A resilient and vibrant financial sector to support an orderly and just transition to a low carbon economy

- Financial system is **resilient** against climate and environment-related risks
- Financial system **enables and facilitates** real economy transition in an orderly and just manner
- BNM leads by example** through its own sustainable operations

Source: Bank Negara Malaysia

Diagram 4: Climate Change and Principle-based Taxonomy (CCPT) Classification Table

CLASSIFICATION		Economic Activity		Overall Business	
		GP1	GP2	GP3	GP4
<b>Supporting</b> Activities with positive impact on climate change, and causing no significant harm to the environment	C1	GP1 and/or GP2		✓	
<b>Transitioning</b> Activities causing significant harm to the environment, but remedial measures taken to reduce harm	C2	GP1 and/or GP2		X	✓
	C3	X		X	✓
<b>Watchlist</b> Activities causing significant harm to the environment, and no remedial measures taken to reduce harm	C4	GP1 and/or GP2		X	X
	C5a	X		X	X
	C5b	X		✓	

Note: GP1 – Climate change mitigation  
GP2 – Climate change adaptation  
GP3 – No significant harm to the environment  
GP4 – Remedial measures to transition

Source: Bank Negara Malaysia

Diagram 5: Progress of Key Initiatives in 2024

**PILLAR 1****Understand and measure impacts of climate and environment-related physical and transition risks on the macroeconomy****Enhancing macroeconomic surveillance and forecasting**

Deepened understanding of physical and transition risks impact on macroeconomic variables that matter for monetary policy.



Developed country-level modelling tools to support assessment and scenario analysis of climate change impact on the macroeconomy.

**PILLAR 2****Build financial sector resilience against climate and environment-related risks****Building a facilitative regulatory landscape and enhancing climate resilience in the financial sector**

- Enhancing management of climate and environment-related risks
  - Issued guidance on development of transition plans by financial institutions.
  - Continued improving credibility and consistency of CCPT<sup>1</sup> reporting.
  - Developed guiding questions for CRMSA<sup>2</sup> supervisory review and conducted targeted engagements with financial institutions on implementation of CRMSA.
  - Issued and socialised the Methodology Paper on CRST<sup>3</sup> and conducted workshop to accelerate preparations for upcoming industry-wide CRST.
- Facilitating management of exposures to borrowers
  - Issued the Large Exposures Limit Exposure Draft. Proposed requirements include allowing banks to take on an additional 10% of Tier 1 Capital (on top of the allowed Large Exposure Limit of 25% of Tier 1 Capital) for exposures to TNB and Petronas and their connected counterparties.<sup>4</sup>
- Increasing understanding on flood risk
  - Published a research report on managing flood risk, in collaboration with the World Bank.
- Supporting understanding of nature-related risks
  - Initiated pilot application of the nature-related assessment framework issued by TNFD<sup>5</sup> jointly with the World Bank and UNDP Malaysia to support financial institutions and businesses to identify impact, risks and opportunities.

**Joint Committee on Climate Change (JC3)**

- Continued to support the financial sector's response to climate change through collective efforts in capacity building, data initiatives, and the development of implementation guidance for financial institutions (Diagram 6).
- Coordinated initiatives between BNM, Securities Commission Malaysia (SC), industries and relevant Government ministries and agencies in scaling up climate finance.

**PILLAR 3****Advance orderly and just transition of macroeconomy towards net zero, and adaptation efforts****Advocacy and advisory on execution of national policies**

Provide financial sector perspectives to better align efforts and support national climate priorities via:

- Member of Technical Working Committees for:
  - Long-term Low Emission Development Strategy (LT-LEDS)
  - Nationally Determined Contribution (NDC) Roadmap
- Member of Technical Working Groups for:
  - National Carbon Pricing Policy
  - Climate Change Bill
  - 13th Malaysia Plan
  - Circular Economy

**Green finance and investment**

Facilitated financial flows towards green and climate-related initiatives, including support for small and medium enterprises (SMEs) in their transition to sustainable practices.



Diagram 5: Progress of Key Initiatives in 2024

## PILLAR 4

Integrate climate consideration in internal operations to develop BNM's resilience against climate and environment-related risks

### Reducing BNM's Carbon Footprint & Building Internal Capacity

#### • Carbon footprint measurement and data validation for

SCOPE

1

2

3

EMISSIONS

#### • Reducing our energy usage



Set indoor air-conditioning temperature at 24–25 °C for main and selected premises.



Lights off at 7pm for main premises (manually switch on if needed).



Limit operational duration of 296 water dispensers at main premises to 12 hours daily.

#### • Greening our currency operations



Issued fit notes during festive seasons, and, when necessary, supplemented by new notes. (66% of all issued banknotes in 2024 being fit instead of new).



Implemented waste-to-energy<sup>6</sup> method for disposal of banknotes, capturing as much as 448,179 kWh energy generated.



Successfully conducted proof of concept (POC) for the recycling of polymer banknotes (POC paper banknotes is underway).

#### • Recycling of electronic waste



Recycled over 184.5 kg of electronic waste, 29.5% increase from 2023.



#### • Greening our travel policies

Limit number of attending staff for international travels guided by Guideline on Sustainable Business Air Travel.

#### • Factoring in sustainability in our investments

1

Investment portfolios are internally measured across a range of available ESG metrics (i.e. ESG scores and Paris-aligned greenhouse gas emissions targets).

2

Gradual increase in exposures to ESG-label instruments<sup>7</sup> in line with market developments.

3

Keeping abreast with latest market landscape and actively engaging with various central banks, including involvement in the NGFS publications on sustainable and responsible investment, as well as disclosure guides for central banks.

#### • Increasing internal technical expertise

Incorporated climate as a learning topic in programme for new hires (Taking Off Programme) and supervisors (Supervisory School).

Rolled out Climate Change e-Module training for staff of all levels, including senior management.



#### • Active internal communication on climate and sustainability



Showcased climate and sustainability at BNM Open Day



Newsletters, podcasts and forum posts



Diagram 5: Progress of Key Initiatives in 2024

**PILLAR 5**

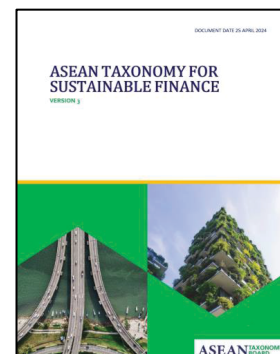
Play thought leadership in regional and international fora

**Plenary member in Central Banks and Supervisors Network for Greening the Financial System (NGFS)**

- Active participation in NGFS, offering valuable insights into transition challenges faced by emerging market economies (Diagram 7).
- Hosted the NGFS Asia Pacific Plenary Outreach on 5 December.
- Discussions on issues such as emerging areas of focus, progress and challenges faced, and regional priorities for NGFS.
- Sharing of experience on role of central bank in managing climate risk, and macroeconomic impacts of climate change.
- Sharing of supervisory experience, observations and insights from on-site reviews and climate-risk stress testing.

**Founding member of ASEAN Taxonomy Board**

- Published an updated version of the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy) Version 2 in February with final set of Technical Screening Criteria (TSC) for electricity, gas, steam and air conditioning supply sector (energy sector).
- Published version 3 of the ASEAN Taxonomy in March, with two more focus sectors - transportation and storage, and construction and real estate (Diagram 8).
- BNM led development of thresholds for the construction and real estate focus sector.
- In November, an integrated energy group secured the first domestic sustainability-linked loan designed in accordance with the ASEAN Taxonomy.

**Participation at 16th United Nations Biodiversity Conference (CBD COP16) in Cali, Colombia**

- Shared BNM's experience in exploring nature-related risks and opportunities using the TNFD LEAP<sup>®</sup> approach.
- Showcased BNM's thinking and explored partnerships with peer regulators and knowledge experts.

Assistant Governor Madelena Mohamed as a panelist at COP16

<sup>1</sup> Climate Change and Principle-based Taxonomy.

<sup>2</sup> Climate Risk Management and Scenario Analysis.

<sup>3</sup> Climate Risk Stress Testing.

<sup>4</sup> For exposures that meet certain requirements, i.e. (1) Exposures related to certain energy transition projects (specified in Appendix 1 of the Large Exposures Limit Exposure Draft) that are classified as C1/C2 in the CCPT, and (2) Must be incurred no later than 31 December 2030. (<https://www.bnm.gov.my/-/expo-sure-draft-on-large-exposure-limit>)

<sup>5</sup> Task Force on Nature-related Financial Disclosures.

<sup>6</sup> Waste-to-energy (WTE) method converts solid waste into usable forms of energy, such as heat and electricity. Further details on sustainability initiatives on currency are in the chapter on 'Issuing Currency'.

<sup>7</sup> As recognised by the International Capital Market Association.

<sup>8</sup> Locate, Evaluate, Assess and Prepare.

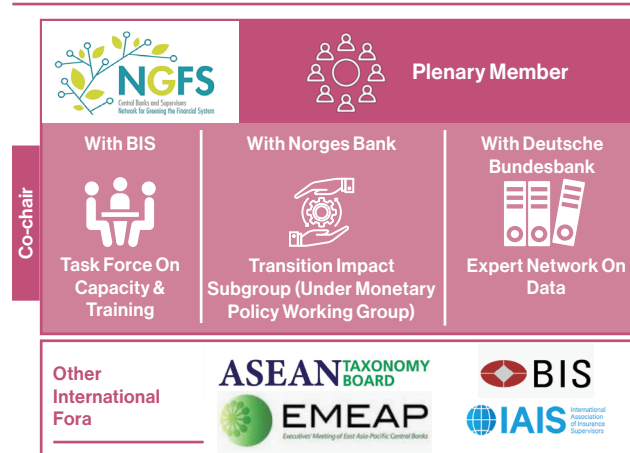
Source: Bank Negara Malaysia

Diagram 6: Progress and Deliverables of JC3 in 2024



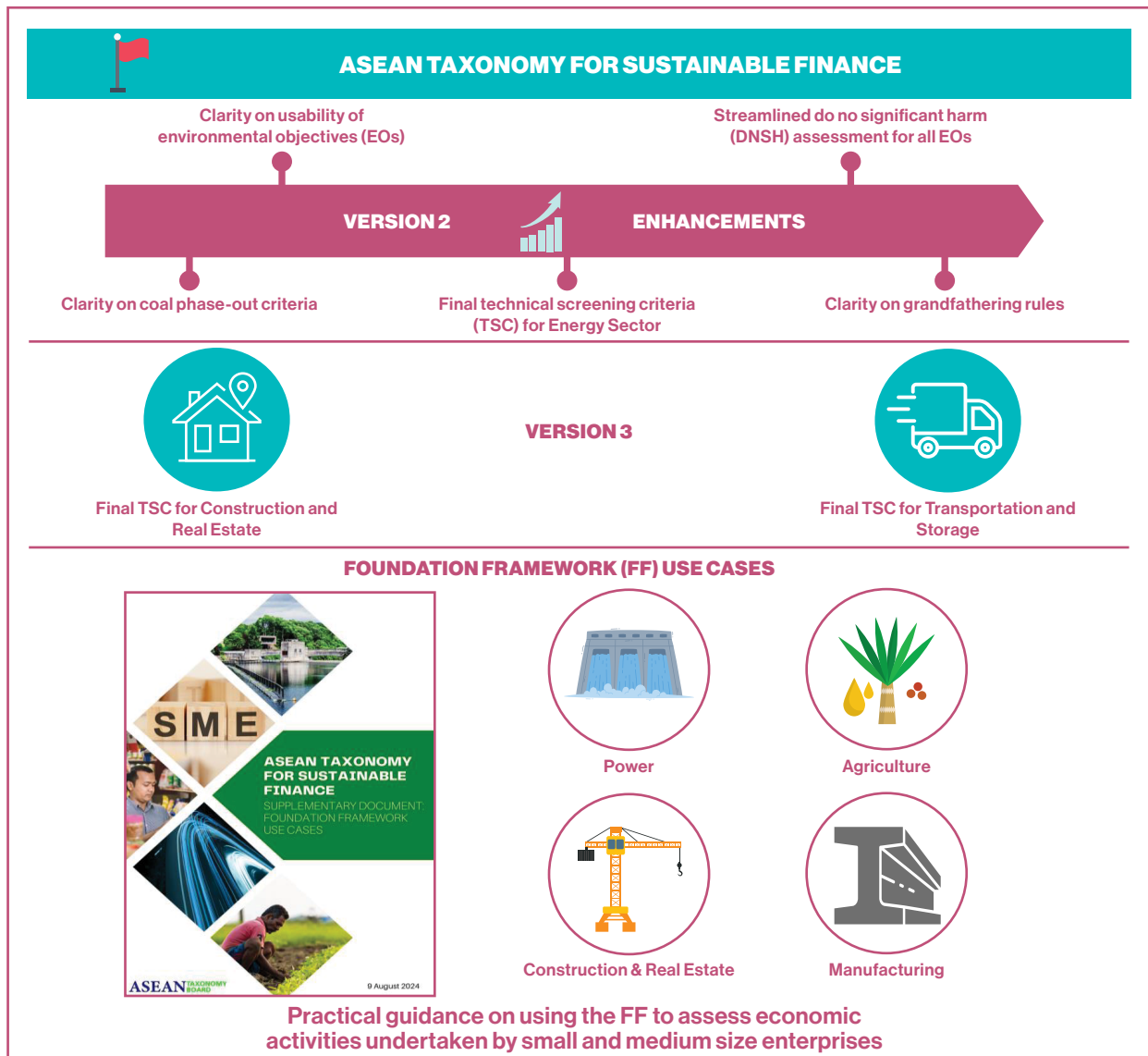
Source: Bank Negara Malaysia

Diagram 7: BNM's Participation in NGFS and Other International Fora



Source: Bank Negara Malaysia

Diagram 8: ASEAN Taxonomy for Sustainable Finance



Source: Bank Negara Malaysia



*Deputy Governor Jessica Chew delivering the keynote address at the National Climate Governance Summit 2024*



*Assistant Governor Dr. Norhana Endut delivering the keynote address at the launch of the World Bank-BNM Joint Report on Flood Risk Management: Leveraging Finance for Business Resilience in Malaysia*



*Assistant Governor Madelena Mohamed delivering the welcoming remarks at the National Energy Transition Roadmap (NETR) Engagement Session (organised by JC3 and Kementerian Ekonomi)*

## Advancing Climate Agenda

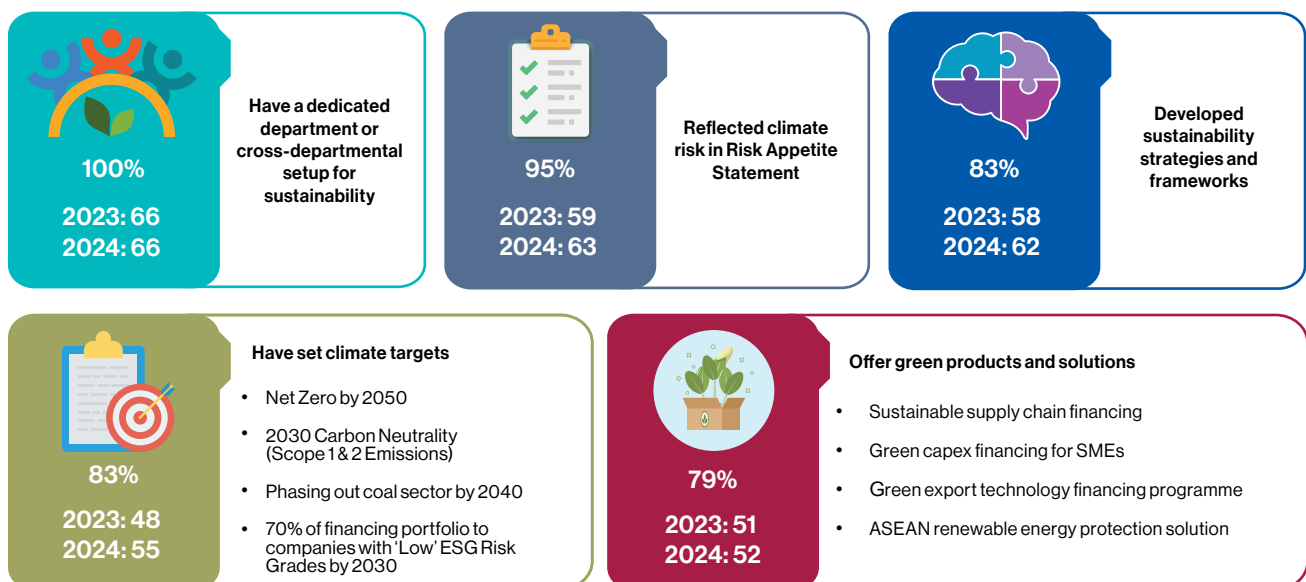
Financial institutions are making notable progress in driving the transition to a greener economy. We observe an increasing number of financial institutions considering climate factors in their risk management, strategies, internal operations, business decisions and product offerings (Diagram 9). There is a steady increase in the use of the tools and frameworks developed to help them and their clients to transition and to finance climate-related projects. We also observed improved accuracy and consistency in the clarification and reporting of climate impacts from financial institutions' exposures under the CCPT. This also improves the way financial institutions engage and advise their clients. The implementation of the National Sustainability Reporting Framework (NSRF) beginning in 2025 will drive financial institutions to continue to enhance their climate-related disclosures. The evolution of the JC3 as a knowledge sharing platform to a platform for development of solutions or tools for the financial sector further supports financial institutions in their climate agenda (Diagram 10).

## Strengthening Climate and Environment-related Risk Management for BNM's Operations and Monitoring of Emissions

In 2024, we updated our Enterprise Risk Appetite Statement to better reflect how we are dealing with climate and environment-related risks. BNM faces these risks in both our physical and financial operations. This includes threats to our buildings and risks from our financial or investment activities. As such, we are committed to improving how we manage these risks. This is crucial to protect our buildings and financial assets, reduce operational disruptions from climate and environment-related events and ensure our employees' safety (Diagram 11).

We also focused on better managing emissions from our operations. We engaged an expert to build a more robust method for measuring, tracking and reporting our emissions from physical and currency operations. This will help us create a transition plan with strategies and actions to meet our climate and environment-related goals.

Diagram 9: Progress Observed in the Financial Industry in 2024



Note: 66 financial groups (seven groups comprising conventional and Islamic banks, four groups comprising conventional and Islamic banks, insurers and takaful operators, 12 groups comprising insurance and takaful operators, one group comprising development financial institutions, 42 standalone banks/development financial institutions/insurance and takaful operators).

Source: Bank Negara Malaysia



Diagram 10: Evolution of JC3

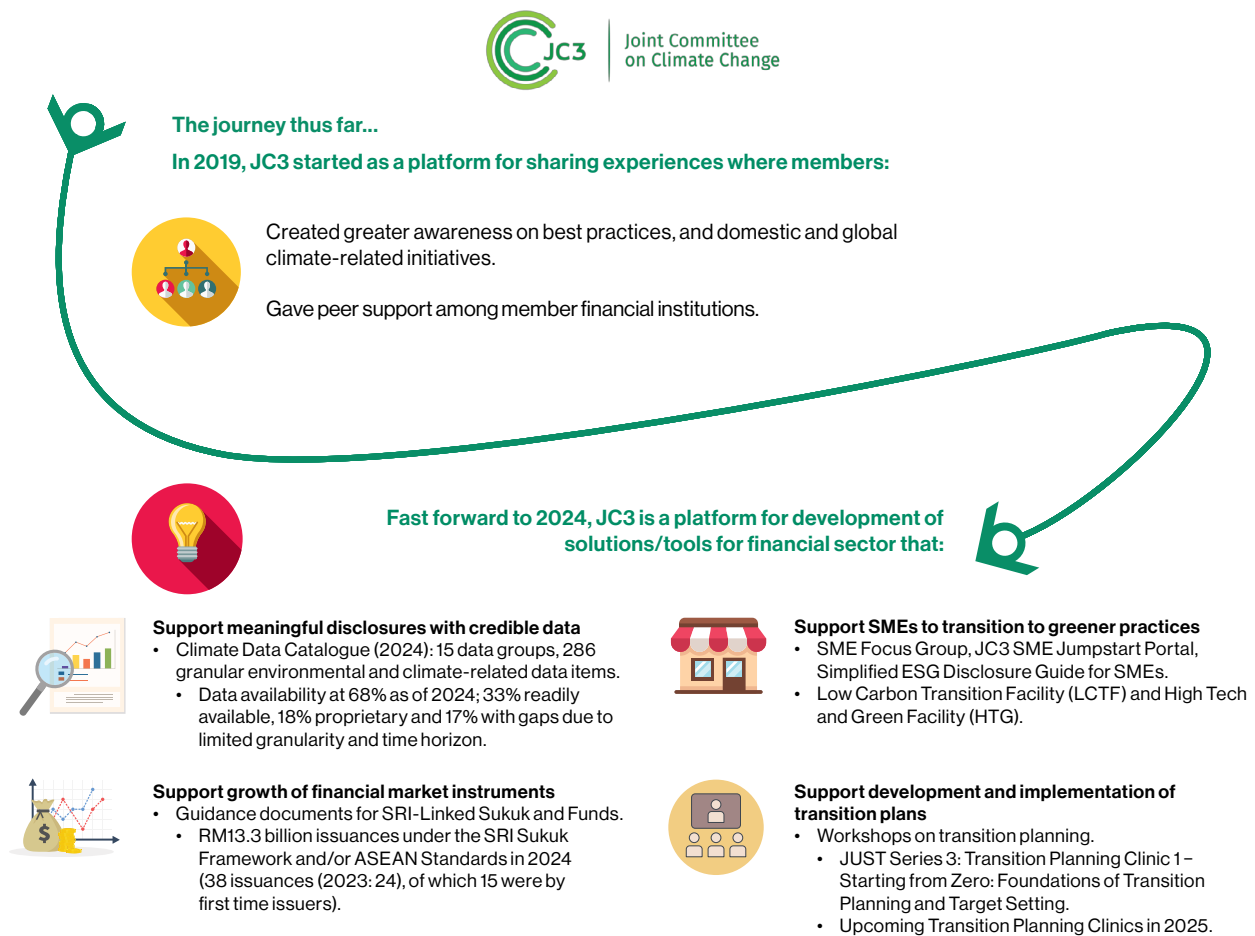
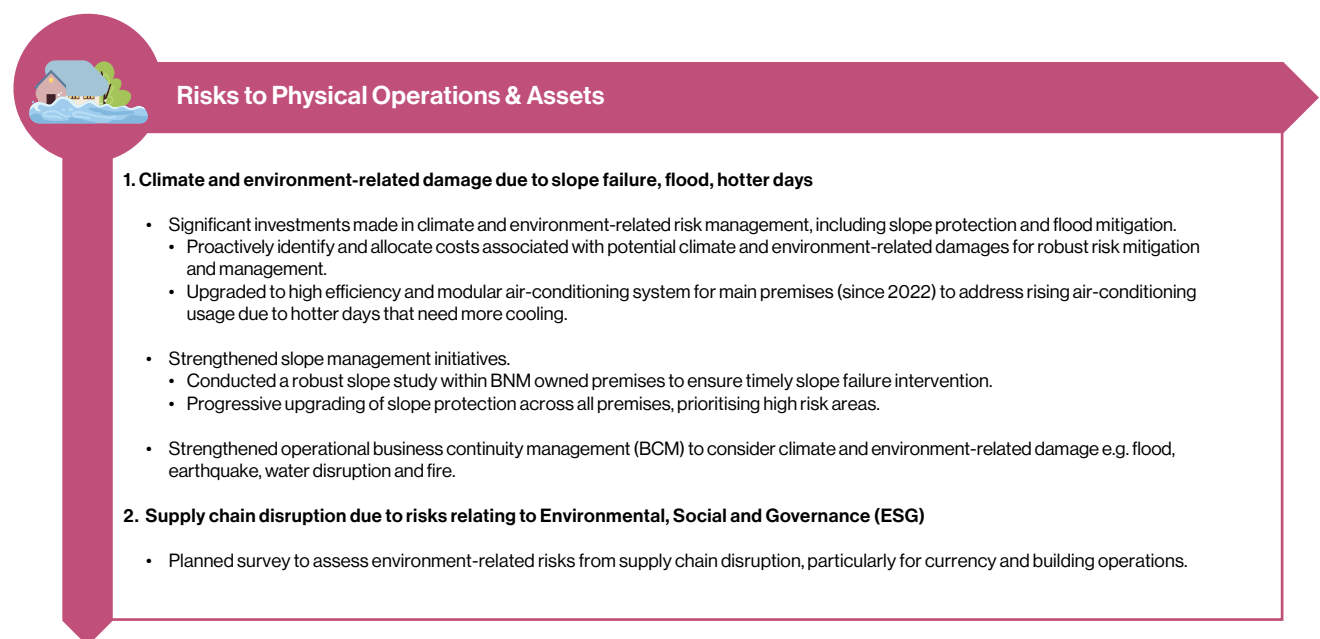


Diagram 11: Climate and Environment-related Risk Management Initiatives for BNM's Operations

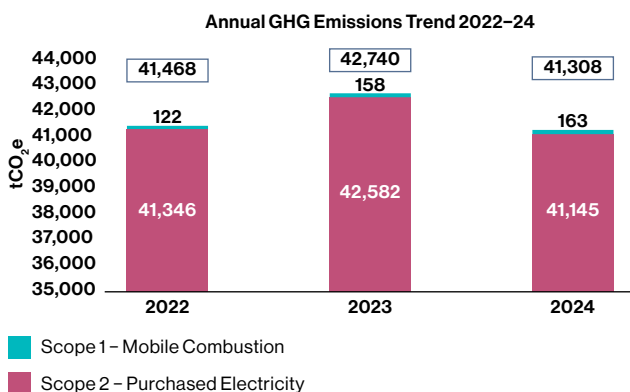


Source: Bank Negara Malaysia

In 2024, our emissions from mobile combustion of our fleet (Scope 1)<sup>3</sup> and purchased electricity (Scope 2)<sup>4</sup> is 41,308 tCO<sub>2</sub>e<sup>5</sup> (2023: 42,740 tCO<sub>2</sub>e,<sup>6</sup> 2022: 41,468 tCO<sub>2</sub>e). The implementation of multiple carbon reduction initiatives across our organisation and disposal of assets have contributed to a reduction of 3.3% (1,431.4 tCO<sub>2</sub>e) in our carbon footprint during the year (Chart 1).

In managing our Scope 2 emissions from purchased electricity, we have implemented several carbon reduction initiatives. These include improving energy efficiency, running sustainability awareness programs, and investing in energy-saving technologies. With these, we reduced our Scope 2 emissions by 3.4% from 2023. Additionally, we are subscribing to the Green Electricity Tariff (GET) for several main premises including Sasana

**Chart 1: BNM's Gross Carbon Footprint for Physical Operations (Scope 1 and Scope 2), 2022 to 2024**



- Note:
1. BNM adopted an operational control-based approach to define the organisational boundary for its GHG emissions, aligned with methodology described in GHG Protocol. We are currently enhancing data collection process for GHG emissions.
  2. Our disclosed emissions data is limited to Scope 1 emissions from mobile combustion and Scope 2 emissions from purchased electricity (gross emissions without offsetting), due to data availability. Scope 1 emissions are calculated based on emission factors from Department for Environment, Food & Rural Affairs (DEFRA) 2024. Scope 2 emissions are market-based and calculated based on location specific emission factors.
  3. We are currently refining our methodology and data gathering.

Source: Bank Negara Malaysia

Kijang, Automated Cash Centre, and BNM Headquarters. This subscription offsets our electricity emissions by 52% (21,478.14 tCO<sub>2</sub>e of total offset) in 2024.

We have identified two challenges in reporting our emissions. First, the completeness of emission data. Second, the absence of data from subsidiaries that have yet to account for their emissions, which we are working to address. We are committed to minimising our carbon emissions and to fully disclose our Greenhouse Gas (GHG) emissions in accordance with the GHG Protocol. We will also continue to enhance our reporting as part of our efforts to manage in-house GHG emissions.

## Going Forward

Malaysia remains committed and is steadily working towards its goal of reaching net zero emissions by 2050. Key policies such as the National Energy Transition Roadmap and the New Industrial Master Plan are progressively being implemented. These policies, alongside new national policies like the climate change legislation, the national carbon market policy and the thirteenth Malaysia plan, will facilitate Malaysia in meeting its climate goal. Across the country, it is anticipated that carbon emissions could decrease further with carbon tax starting in 2026 on a targeted basis.

The financial sector remains important in supporting the nation's policies and roadmaps through its key roles in developing new financing and protection solutions to fund initiatives that are climate- and environment-friendly or support green transition. Recognising that nature and biodiversity are deeply intertwined with climate, we will also continue to give focus on these areas. Our aim is to create an ecosystem that will deliver an orderly transition of the economy as a whole. We acknowledge that climate is an evolving and complex topic. As such, we are also committed to strengthening research, building our expertise and raising awareness to foster a sustainable culture within our operations.

<sup>3</sup> Scope 1 emissions are direct GHG emissions from sources owned or controlled by BNM (as per GHG Protocol).

<sup>4</sup> Scope 2 emissions are indirect GHG emissions associated from the consumption of purchased electricity, heat or steam (as per GHG Protocol).

<sup>5</sup> This figure represents the best available data that covers majority of emissions from both Scope 1 and Scope 2, as aligned with the SBTi target setting recommendation. It excludes certain emissions from Scope 1 due to data limitation.

<sup>6</sup> The increase in emissions from 2022 to 2023 was primarily attributed to our new MyMint facility and changes in our working arrangements post-pandemic.

Diagram 12: BNM's Key Focus Areas for 2025



**Build financial sector resilience against climate and environment-related risks**

- Further enhance CCPT and explore threshold-based screening criteria.
- Ensure credible implementation of CCPT and CRMSA.
- Conduct industry-wide Climate Risk Stress Testing (CRST) including risk quantification and assessment.
- Strengthen climate and environmental surveillance and monitoring.
- Support credible transition planning by financial institutions.
- Review regulatory policies, where appropriate, to remove frictions to climate finance.



**Understand and measure impacts of climate and environment-related physical and transition risks on the macroeconomy**

- Continue to develop suitable models or tools to enhance forecasting and scenario analyses.
- Conduct research to deepen understanding of the interaction between climate, nature and economy, and nature-based solutions.



**Advance orderly and just transition towards net zero**

- Continue with advocacy, advisory and support on development and implementation of key national policies such as National Adaptation Plan, carbon pricing, circular economy, CCUS framework and etc.
- Continue to support real sector transition through pilot projects such as Greening Industrial Parks, Greening Value Chain, Green AgriTech and Protection Value Chain.
- Operationalise Climate Finance Innovation Lab (CFIL).
- Explore feasible financial structures for nature-based solutions.



**Integrate climate and environment in internal operations**

- Finalise and implement internal climate target and BNM's Transition Plan, including internal framework and policies for measurement and disclosures.
- Continue to build internal capacity on climate.
- Intensify internal communication and information flows on climate and sustainability initiatives.



**Offer thought leadership in regional and international fora**

Actively engage in international fora via NGFS, ASEAN Taxonomy Board, ASEAN Chairmanship etc.

Source: Bank Negara Malaysia

# Risk Management and Internal Controls

Bank Negara Malaysia (BNM) is exposed to various risks arising from its daily activities and operations. Risk events, should they occur, may impede BNM from achieving its policy objectives, create financial losses or business disruptions, and in turn lead to adverse impacts on BNM's reputation. To address this, BNM implements the Enterprise Risk Management (ERM) Framework.

The ERM Framework facilitates a systematic identification, assessment, monitoring and management of risks. It sets up the necessary oversight, control, and discipline to foster a robust risk culture (Diagram 1). The ERM Framework also serves to align BNM's risk management frameworks, policies, processes and systems across the organisation.

## Ensuring Our Risk Oversight and Governance are Robust and Effective

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

BNM's Board of Directors, supported by the Board Risk Committee, oversees our risk management frameworks and practices. The Board of Directors also sets the 'tone

from the top' in promoting the desired risk culture across the organisation.

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

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

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

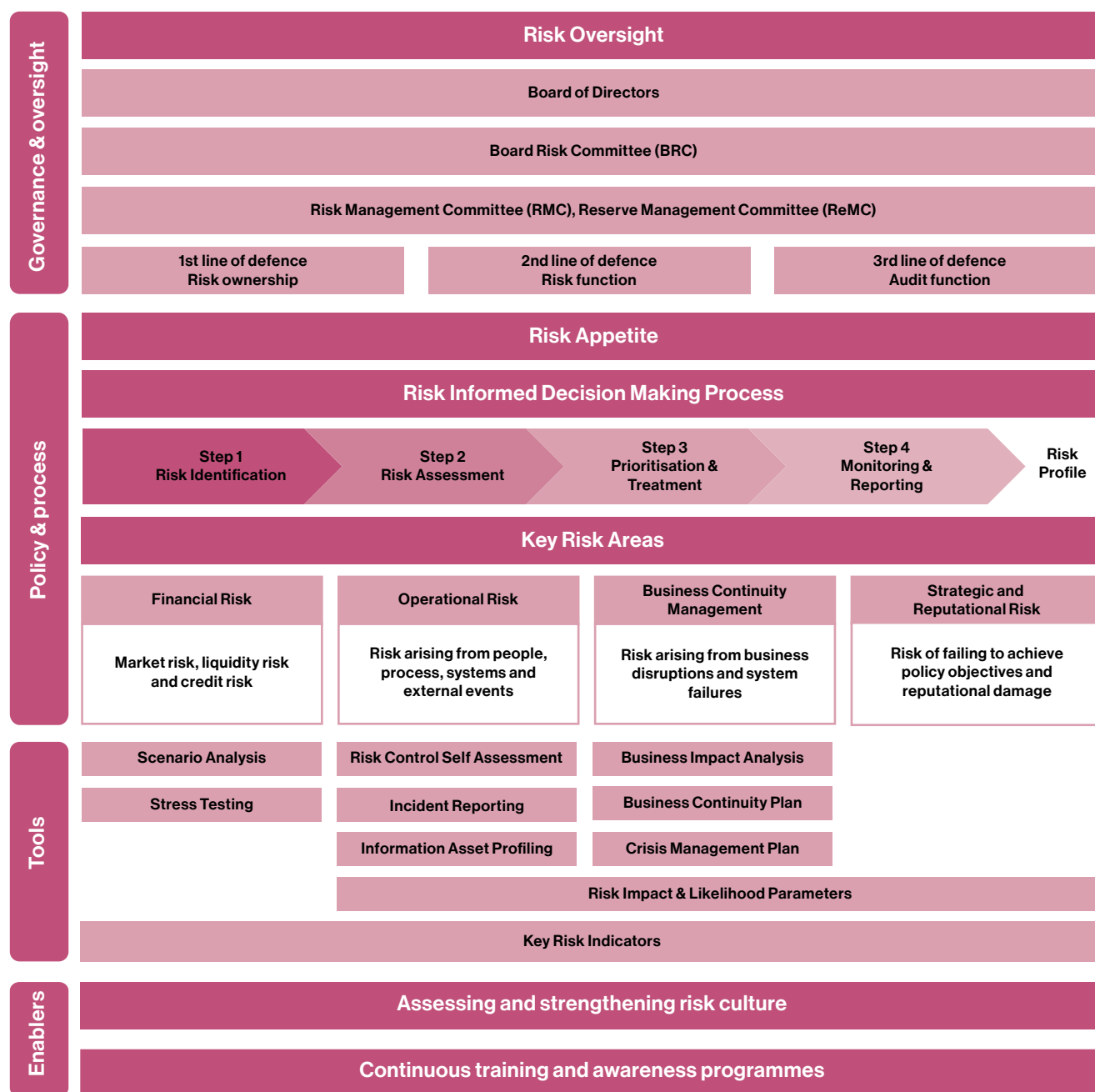
- Business units are the 'first line' of defence. They are responsible for evaluating the risk environment, establishing controls and ensuring that these controls are implemented effectively.
- The 'second line' function is carried out by the Risk Management Department. For reserves management and investments, this function is carried out by a dedicated Treasury Risk Management Section within the Treasury Risk and Infrastructure Unit that reports directly to a Deputy Governor.<sup>1</sup> This set-up supports the independent assessment and monitoring of risks facing BNM. It also reinforces the adoption of sound risk management practices by business

<sup>1</sup> Up until 31 January 2025, this Unit was under the Investment Operations and Financial Markets Department.

units through appropriate frameworks, policies and tools. The Risk Management Department supports Senior Management and has a direct reporting line to the Board Risk Committee in monitoring risk developments and issues at an organisation level.

- The 'third line' of defence is the Internal Audit Department that provides independent assurance of the effectiveness of risk management policies and measures. The Internal Audit Department reports directly to the Board Audit Committee.

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



Source: Bank Negara Malaysia



Diagram 2: Risk Management Governance Structure



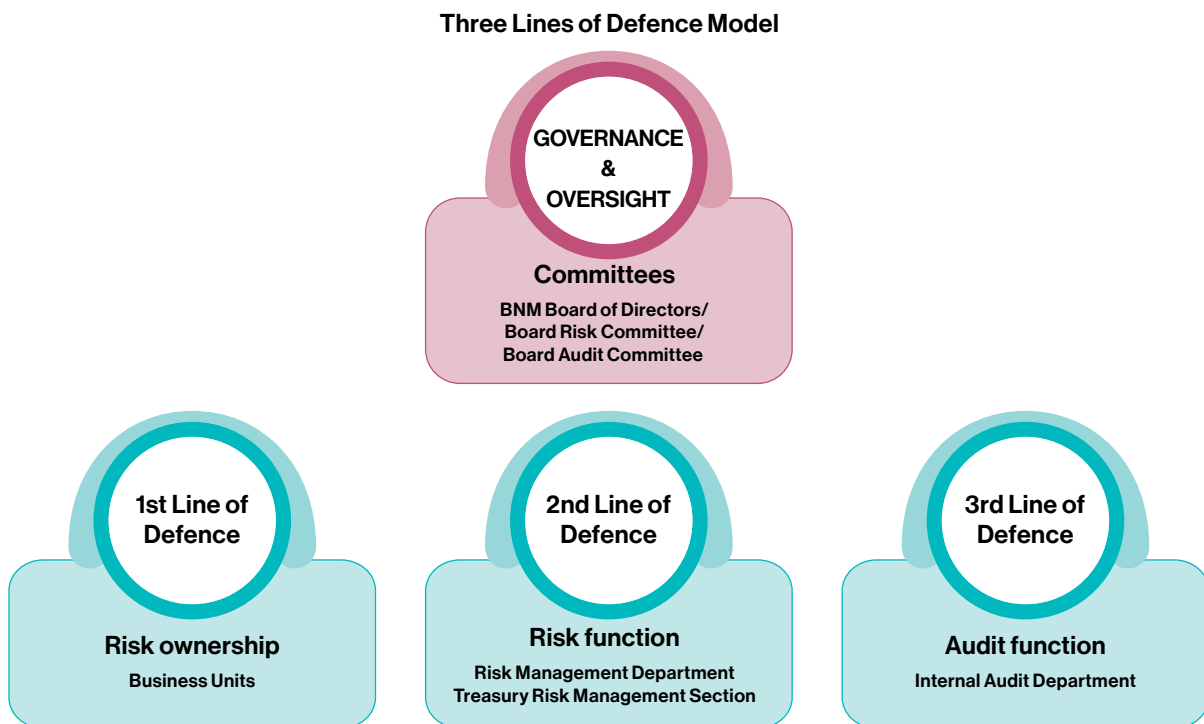
<sup>1</sup> Chaired by an Independent Non-Executive Director of BNM

<sup>2</sup> Chaired by Governor

<sup>3</sup> Chaired by Deputy Governor

Source: Bank Negara Malaysia

Diagram 3: Three Lines of Defence Model



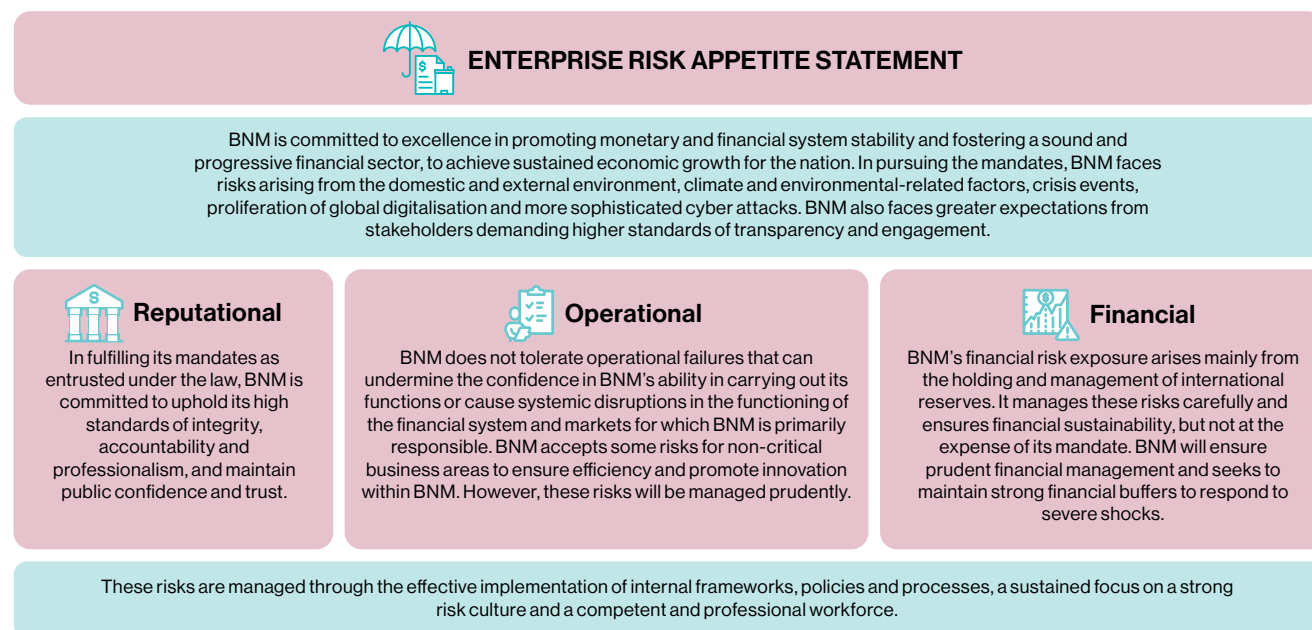
Source: Bank Negara Malaysia

## Managing Risks Through the Enterprise Risk Appetite Statements

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

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

**Diagram 4: Bank Negara Malaysia's Risk Appetite Statements**



Source: Bank Negara Malaysia

In complementing this risk awareness culture, consequence management actions to deal with events of breaches are taken to promote compliance and ensures accountability at all levels of the organisation.

## Managing BNM's Key Organisational Risks Throughout the Year

Throughout 2024, we strived to improve our risk management processes, while also putting into practice our risk management framework when responding to challenges. We also worked closely with relevant authorities to ensure that we remain in compliance with the regulatory and legal requirements applicable to BNM and continue to achieve our strategic objectives and discharge our obligations as a central bank.

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

Monetary policy decisions reside with the Monetary Policy Committee.

We strived to continuously engage with wide-ranging stakeholders on prevailing issues facing the economy and financial system; and on BNM policies. These engagements aim not only to share BNM's views and responses but also to seek feedback to deepen our understanding of our stakeholders' perspectives. Some of the key areas that required sustained engagements were on the developments on the ringgit exchange rate and financial scams. BNM also intensified its external engagements on the implementation of co-payment requirements and premium repricing for medical and health insurance and takaful products. As a public institution, we place importance on providing transparency and explaining our actions and policies to encourage better understanding by our stakeholders and to achieve the intended policy objectives.

On treasury-related financial risks, BNM is exposed to market, credit and liquidity risks. These risks are closely monitored and managed against the investment benchmark and risk controls approved by the Board of Directors. We continued to leverage various tools to mitigate financial risks, including the Pre-Emptive De-Risking Mechanism (PRISM) which is designed to limit investment portfolio volatility during potential periods of prolonged market stress.

Risks from other non-treasury financial operations, including budgeting, procurement, and payments, are controlled through strictly enforced policies and procedures to ensure transparency, accountability, and compliance with relevant regulations. We adhere to a robust budgeting and management accounting process that is underpinned by forward planning, forecasting and spend analysis. The budget is closely monitored by the Board of Directors. Procurement risks are managed through appropriate procurement strategies that are driven by the risk impact to BNM's operations, complexity of the goods or service to be procured and value of the procurement. In addition, the Board of Directors approved the establishment of a Staff Integrity Framework which complements BNM's Code of Conduct to manage integrity-related risks in procurements. As part of continuous efforts to achieve greater transparency and efficiency in procurements, we have embarked on a digital transformation to modernise and digitalise the end-to-end procurement process.

As in previous years, we continue to intensify measures to safeguard our critical infrastructure, systems and data against technology and cyber security risks. BNM's technology function is governed by the Technology and Cyber Security Working Group (TCSWG), chaired by a Deputy Governor and with its membership made up of senior management from technology, risk management, and business units. The TCSWG's mandate encompasses the management and oversight of technology and cyber security risks, the overall efficiency and effectiveness of IT services, and the prioritisation of technology initiatives across BNM.

In 2024, BNM achieved its three-year Cybersecurity Management Assessment Program (CMAP) milestones by meeting the target maturity level in the related cyber security domains and areas. We adopt industry best practices and proactively manage risks through the implementation of relevant processes and technology to ensure the continuous operational resilience of our critical infrastructure and systems. The readiness aspects of our people are equally important. In this regard, various awareness and education programs as well as cyber drill exercises were implemented across BNM. As cyber threats evolve, we will strive to continuously improve our cyber security management strategies, secure the protection and resilience of our digital eco-systems and operations, and foster a cyber-aware culture. We proactively engage and collaborate closely with relevant

authorities to ensure that BNM complies with the regulatory and legal requirements with respect to data and cyber security. We also have a Data Protection Officer (DPO) responsible for ensuring that we comply with the Personal Data Protection Act 2010 (PDPA).

Similarly, effective risk management of Financial Market Infrastructures (FMIs), particularly the Real Time Electronic Transfer of Funds and Securities System (RENTAS) and the Fully Automated System for Issuing/Tendering (FAST), is crucial for maintaining financial market stability. The oversight body responsible for ensuring the stability and security of FMIs is the Financial Market Infrastructure Committee (FMIC), which BNM established in 2021. FMIC is chaired by a Deputy Governor with committee membership composed of Assistant Governors and the Chief Information Officer, along with external experts in payments, financial market infrastructures, risk, and technology. The FMIC's responsibilities include overseeing policies and strategies related to risk management, setting the strategic direction for our FMIs, as well as ensuring the efficiency, reliability and effectiveness of our financial market infrastructures as a catalyst, enabler and facilitator for the growth of our financial markets and financial system.

## Strengthening BNM's Business Continuity Management

Ensuring the continuity of critical business functions remains a top priority for BNM. As part of our business continuity and crisis management, we conduct crisis simulation exercises to test and improve our ability to respond and recover from disruptions. In 2024, three physical scenario exercises were conducted. These were a fire drill and a bomb threat drill at the Kuala Lumpur office, and a field training exercise on armed robbery and bomb threat at the BNM Regional Office Kuala Terengganu (BNMKT) in collaboration with relevant agencies. Separately, we conducted a cyber drill which simulated a variety of scenarios to test and improve our cyber security preparedness, incident response capabilities and overall resilience. Observations from cyber drill exercises conducted serve as input to the ongoing testing and refinements of our Cyber Crisis Communications Playbook which guides communications across all BNM's key stakeholders in the event of a cyber incident.





Field Training Exercise was successfully conducted on 28 September 2024 at BNMKT through great support from internal and external collaborators.

## Internal Audit

The Board Audit Committee (BAC) is responsible for overseeing the adequacy and effectiveness of BNM's internal controls and integrity of the financial reporting process. In discharging its responsibilities, the BAC is supported by the Internal Audit Department.

The Internal Audit Department serves as an independent function that provides risk-based and objective assurance to the BAC and Senior Management on the adequacy and effectiveness of BNM's governance, risk management, and internal controls. Additionally, the Internal Audit Department provides the Minister of Finance with an independent quarterly report of BNM's international reserves management activities. This is to assure the Minister that international reserves have been managed in accordance with policies and guidelines approved by the Board of Directors.

Audit priorities in 2024 were established by taking into account key and emerging organisational risks, as well as BNM's strategic objectives. Integrated insights from key stakeholders, including the BAC, Senior Management, the Risk Management Department and various business units, shaped the audit focus and scope of coverage (Diagram 5). A total of 25 audits were conducted during the year, including reviews on the overseas representative offices and affiliate institutions. The Internal Audit Department also undertakes thematic reviews to assess the implementation of cross-cutting controls across BNM's functions and departments. The outcome of these reviews led to specific recommendations that were implemented to further enhance BNM's governance and risk controls.

During the year, audit recommendations supported several improvements made to key controls in the areas of cyber security hygiene, IT infrastructure and crisis

preparedness to ensure BNM's mandates are performed efficiently. Improvement opportunities were also identified to further strengthen BNM's ethics and risk culture to promote sound risk management behaviours and strong internal control practices.

In 2024, the Internal Audit Department continued to harness the benefits of digitalisation and automation to further enhance operational efficiency. The deployment of automated tools enabled swift and comprehensive assessments of prevalent control gaps, facilitating effective resolutions. Additionally, the development of interactive and intuitive data analytic dashboards has enabled more effective continuous auditing through the monitoring of key risk and control indicators. It also provided the foundation for a more integrated approach in the monitoring and assessment of BNM's internal controls. The upskilling of the Internal Audit Department's staff in data analytics and generative AI played a key role in achieving its technology enablement objectives.

During the year, the Internal Audit Department undertook an exercise to align its audit framework and practices with the revised Institute of Internal Auditor's (IIA) Global Internal Audit Standards. This is to ensure readiness in implementing the new requirements and continued conformance to the standards. Refinements were also made to the audit framework to enhance the accuracy of assessments and facilitate effective communication of audit outcomes to key stakeholders.

Going forward, the Internal Audit Department will increase its adoption of advanced data analytics and artificial intelligence tools, building on traditional audit methods. The Internal Audit Department will also continue to improve its engagements with line departments and other stakeholders, affirming its role in providing value-added assurance on BNM's governance processes, risk management, and internal controls.



Diagram 5: Focus and Coverage of Audits Conducted in 2024



Source: Bank Negara Malaysia

# Engaging Malaysians

Our policies and actions affect all parts of society in Malaysia. We, therefore, engage stakeholders widely to enhance their understanding of our roles and policies.

## Introduction

In 2024, we continue to engage and forge connections with our stakeholders. We are committed to explaining our mandates, policies and actions as well as address complex matters. We do so through transparent communication, easy-to-understand content and collaborative initiatives with various stakeholders. This approach allows Malaysians to better understand what we do and the reasons behind it.

## Explaining Our Mandates

During the year, key issues such as ringgit, financial scams, medical and health insurance, cost of living, among others, attracted greater public interest.

We therefore intensified our outreach efforts around these issues and topics related to our mandates by conducting various educational initiatives to enhance our stakeholders' understanding. We organised media workshops to provide more insights on insurance/takaful, digital payments, and sustainability. We also provided updates on the economy, medical cost inflation and Islamic finance to the respective Parliamentary Select Committees and parliamentarians. Beyond in-person engagements, we expanded our reach through social media, on-the-ground programmes and exhibitions.

We are committed to improve public understanding of our policies. When it comes to our policy design process, the general practice is to publish exposure drafts or discussion papers that explain our case for policy action, thoughts or options, and invite feedback that helps us refine these policies further. Once this process is

complete, the finalised policies will be formalised into comprehensive policy documents. In 2024, we published 13 exposure drafts, three discussion papers and 18 policy documents on our website. In addition, we published our Enforcement Approach document. This document details our enforcement regime and enhances transparency on our enforcement actions. We also publish enforcement actions taken against regulatees and non-regulatees on our website.

## Strengthening the Economy

Preserving confidence in our economy and ringgit remained our key priorities in 2024. To help the public better understand our economic and ongoing developments that affect the ringgit, we had more media interviews and produced more articles and bite-sized explainers on social media. Along with the Ministry of Finance, we embarked on a series of roadshows to showcase Malaysia's economic potential and the Government's commitment to policy reforms. We engaged with corporates and businesses to encourage more consistent repatriation and conversion of their foreign currency earnings. In collaboration with the Government, the InvestMalaysia portal was launched to showcase Malaysia as a competitive and attractive investment destination.



Governor Rasheed speaking on the economy and ringgit with TV3 Money Matters in September 2024



Finance Minister II Datuk Seri Amir Hamzah Azizan and Governor Rasheed at the launch of InvestMalaysia portal, a platform to connect investors and opportunities in Malaysia

## Intensifying Public Engagement

Our Annual Report (AR), the Economic and Monetary Review (EMR) and Financial Stability Review (FSR) are our flagship publications that explain our assessments, policies and operations. We also engage with a wide range of audiences through forums, workshops, and interviews in television, radio and newspaper. These engagements have allowed us to gain a deeper understanding of realities on the ground, which help inform our policies. As part of our commitment to improve our engagements, we regularly seek feedback from stakeholders on our performance and areas for improvement.

### Engaged diverse group of stakeholders in conjunction with AR 2023, EMR 2023 and FSR 2H2023

- Government ministries and agencies
- Diplomatic corps
- Banking
- Insurance and takaful
- Payment providers
- Economists, banking analysts and fund managers
- Businesses (including SMEs)
- Media



Our senior management engaging various stakeholders in conjunction with the release of AR 2023, EMR 2023 and FSR 2H2023



Leveraging the media to ensure widest reach



## Sasana Symposium – Structural Reforms: Making It a Reality for Malaysia

We held the Sasana Symposium (SS2024) on 12 and 13 June 2024 with the theme 'Structural Reforms: Making It a Reality for Malaysia'. In 2024, we expanded our flagship event for greater reach and broader discussions on key macro- and socio-economic issues.

SS2024 featured 24 panel sessions, fireside chats and workshops. The sessions spotlighted over 70 panellists, including ministers, government officials, BNM officials, economists, academics and industry leaders. Notably, the workshops on financial literacy, counterfeit currency, sustainability, monetary policymaking and banking supervision improved participants' understanding by 20%.<sup>1</sup>



*A panel session on 'Navigating Economic Cycles: Interactions Between Monetary and Fiscal Policies'*



*Assistant Governor Abd. Rahman sharing BNM's enforcement approaches at one of the Fireside Chats*



*Workshop on the behind the scenes of the monetary policymaking was a crowd favourite*

In addition to the dialogue sessions, we also introduced our first immersive exhibition that showcases our various roles and functions. Another key highlight was the iTEKAD Marketplace. The marketplace showcased ten successful microentrepreneurs who benefitted from the iTEKAD social finance programme.



*The exhibition covers monetary stability, international reserves, financial stability, Islamic finance, financial inclusion, digitalisation, currency and sustainability*



*BNM staff sharing the video highlights of the immersive exhibition depicting our role and mandates to Finance Minister II, Datuk Seri Amir Hamzah Azizan*



*iTekad Marketplace showcased the offerings by microentrepreneurs who benefitted from the iTekad programme*

<sup>1</sup> Surveys were conducted before and after each session to measure the level of understanding of attendees on a particular topic.

## Countering Financial Scams

Financial scams remain a concern for many Malaysians. To protect the public from falling victim to such financial crimes and to preserve confidence in our financial sector, we continued our efforts to improve public awareness on identifying scam tactics and modus operandi. We posted weekly content on scam tactics and scam awareness on BNM's official social media platforms and our dedicated Amaran Scam Facebook page. Aside from weekly

postings, we rolled out festive-themed campaigns which garnered over 18 million views. Of note, our Merdeka and Hari Malaysia campaign 3-episode series titled *Jangan Scam Hatiku* reached 2.3 million viewers, along with favourable public feedback as evidenced by the number of shares and positive comments.

Beyond the digital space, we also engaged lawmakers to raise awareness and highlight the financial industry's efforts to fight financial scams.



Our signature financial scam festive campaigns garnered millions of views on social media



#JanganKenaScam exhibition at Parliament visited by Minister of Agriculture and Food Security, Datuk Seri Haji Mohamad bin Sabu (left) and Speaker of House of Representatives, Tan Sri Dato' Johari Abdul (right)



## Bolstering Outreach with Digital Presence

Over the years, we have invested to strengthen our digital presence, particularly on social media. In 2024, we focused more on video content across our seven-signature series. Our signature series, such as 'BNM Explains' and 'Anda Tanya, BNM Jawab' simplify complex issues and policies. Meanwhile, 'Time Travel', 'Did You Know', 'Financial Bites' and 'Quote Series' leverage teachable moments to deliver knowledge. We tailored and diversified our content based on current topics and policies of public interest to provide deeper insights. We also tapped into trending videos to engage with wider audiences.

Close monitoring of the metrics and engagements of our posts helps us understand our audience's interests, manage expectations gaps and stay agile in our approach. This helps us plan our social media content better. In 2024, BNM's six social media platforms recorded an average follower growth rate of 9%, reaching over one million people. Instagram was our biggest growing platform, with a 30% increase in followers.

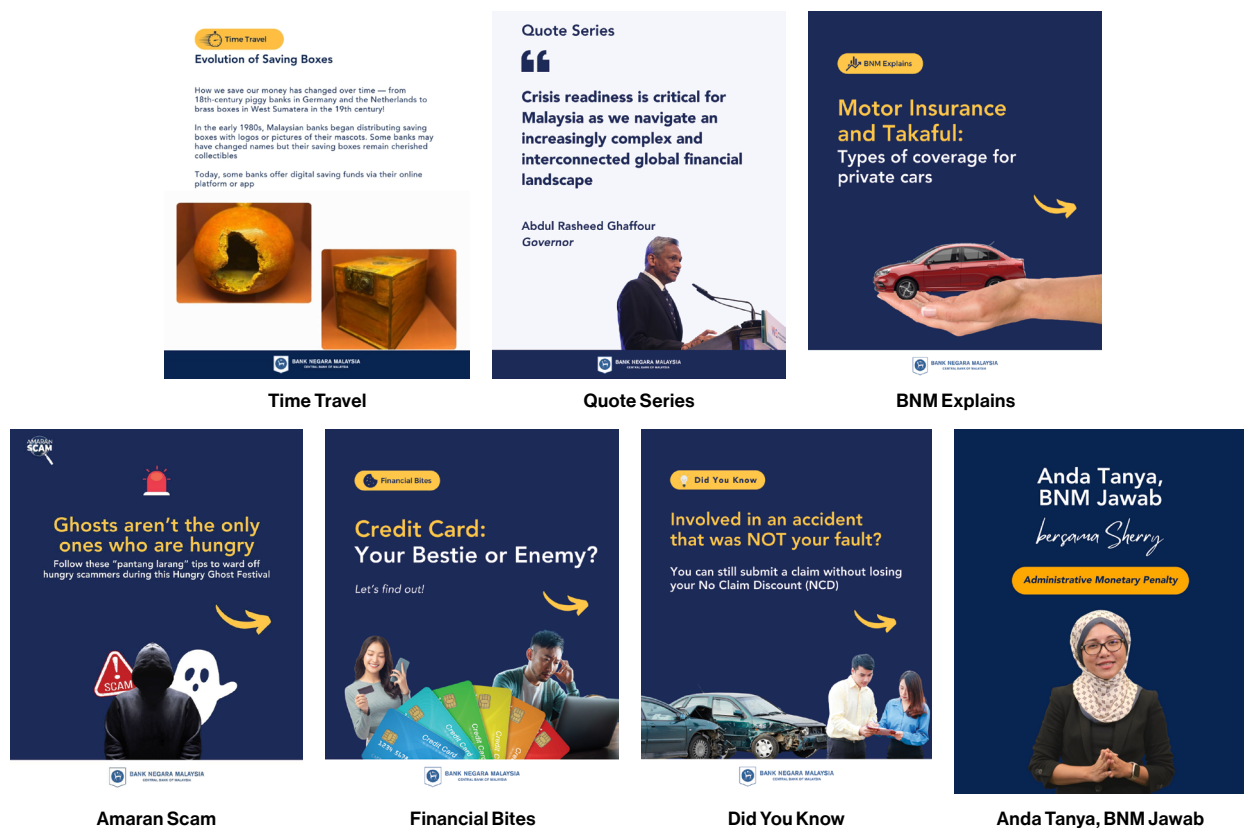
## Promoting Islamic Finance

In 2024, building on Malaysia's position as a global leader in Islamic finance, we led initiatives to further support the growth of Islamic finance domestically and internationally.

Under the patronage of the Ministry of Finance, we organised the Global Forum on Islamic Economics and Finance (GFIEF) in May 2024 at the Kuala Lumpur Convention Centre. GFIEF was held in collaboration with the Securities Commission Malaysia (SC), Labuan Financial Services Authority (LFSA), the International Islamic Liquidity Management Corporation (IILM), the Islamic Development Bank (IsDB), the Islamic Financial Services Board (IFSB) and the World Bank Group. Over 2,300 industry leaders and practitioners participated to discuss policy actions and solutions based on Islamic principles.

We also co-organised the MIFC-UK Business Forum with the MIFC Leadership Council (MLC) in September 2024, in London, along with the Islamic Finance Council United Kingdom (UKIFC), TheCityUK, and UK Islamic Finance-Halal Economy Hybrid Group as supporting partners. The Forum explored opportunities and challenges in green investments using Islamic finance solutions.

Diagram 1: Our Social Media Signature Series



Our signature social media series leveraged trending audio and visuals to enhance engagement and reach

Source: Bank Negara Malaysia



Governor Rasheed at GFIEF emphasising values-based reforms to support global economic resilience



Governor Rasheed's CNBC interview at GFIEF discussing Malaysia's economic growth, monetary policy, ringgit outlook and the advancements of Islamic finance

## Advancing Financial Literacy through Public Outreach

BNM is committed to enhancing financial inclusion and literacy across communities, including youth, microentrepreneurs and rural communities. We conducted various outreach programmes to help them acquire the skills needed to make informed financial decisions, stay safe from scams and improve their financial health.

In 2024, Karnival Celik Kewangan (KCK) events in Pahang and Sarawak were held to promote financial awareness.

KCK's mission is to educate the public on financial matters. This aligns with national goals to nurture Malaysians who are more financially savvy and adept at managing challenging financial situations (See Diagram 2).

At KCK Sarawak, we launched **Program Pengurusan Kewangan Peribadi untuk Guru-Guru<sup>2</sup>** to equip teachers with financial literacy and personal development skills. The programme which started in Sarawak aims to reach over 5,000 teachers across Malaysia by 2025. As of December 2024, eight organisations agreed to fund this programme.<sup>3</sup>






KCK brings together regulators, government agencies and the financial industry to provide the public with free access to financial education, and financial products and services

<sup>2</sup> A pilot programme involving a public-private partnership with the Ministry of Education, Financial Industry Collective Outreach and the financial industry.

<sup>3</sup> These institutions are Ambank Group Malaysia, Bank Muamalat Malaysia Berhad, Bank Simpanan Nasional, CIMB Foundation, Hong Leong Bank Berhad, Public Bank Berhad, RHB Bank Berhad and Shopee Malaysia.

Diagram 2: Karnival Celik Kewangan

	KCK Pahang 6–7 July 2024	KCK Sarawak 15–17 November 2024
	17.5K visitors 222K reach online	22K visitors 225K reach online
	22 <b>interactive</b> educational activities	19 <b>interactive</b> educational activities
	627 financial transactions amounting to >RM6 million*	2,446 financial transactions amounting to >RM75 million*

\* The total amount collected from deposit, financing and insurance/takaful by the financial service providers onsite in their transactions with the public.

Source: Bank Negara Malaysia

Financial Literacy Month (FLM), an annual event designed to raise financial awareness and capability among vulnerable segments and diverse target groups (See Diagram 3) was held in October 2024. Several educational programmes were rolled out during the month.

The FLM Nationwide Roadshow, undertaken by the Financial Literacy Squad,<sup>4</sup> visited 98 locations and connected with nearly 41,000 Malaysians (see Diagram 4). We met with groups at the grassroots level to offer financial advice to meet their unique needs.

Diagram 3: Focus Areas for FLM 2024

			
<b>Solutions with Targeted and Inclusive Approach</b>	<b>Access to Meaningful Financial Services</b>	<b>Awareness with a Clear Communication Strategy</b>	<b>Better Application of Measured Initiatives and Reporting</b>
Financial Education (FE) intervention was tailored to meet the unique needs of target groups, ensuring its relevance and impactfulness.	The initiative focused on offering inclusive financial products and services, facilitating access to essential financial resources for diverse groups.	Communication focused on simple, practical, and timely messaging, such 'rules of thumb' and 'just-in-time' education. This ensures better understanding and retention, allowing individuals to take immediate actions.	FLM2024 prioritised robust measurement of its initiatives. This data-driven approach provided valuable insights, ensuring informed decision-making and continuous improvement of strategies.

Source: Financial Education Network

<sup>4</sup> The Squad is represented by BNM on digital financial literacy and scam awareness, Credit Counselling and Debt Management Agency (AKPK) on financial and debt management, Employees Provident Fund on retirement planning, Malaysian Takaful Association and Life Insurance Association of Malaysia on personal risk management, the Social Security Organisation (SOCO) on social protection and Credit Guarantee Corporation Malaysia Berhad on business and financing ecosystem for microentrepreneurs.



Diagram 4: FLM 2024 Nationwide Roadshow at as Locations



#### Areas covered and advisory provided at FEN members' counters

- Personal financial management
- Early planning for retirement
- Digital financial literacy (DFL), including financial scams
- Insurance and takaful
- SME financing ecosystem for microentrepreneurs
- Advisory and redress mechanisms

#### Participation by key segment in Financial Education (FE) Structured Programme

- ☐ Youth: 9,409 (82%)
- ☐ Microentrepreneurs: 740 (7%)
- ☐ Government officers: 591 (5%)
- ☐ Low-income women:\* 378 (3%)
- ☐ Orang Asli community: 300 (3%)

\* Majority of the women represented here are self-employed.

Source: Financial Education Network



Financial Literacy Squad Roadshow reached out to vulnerable segments by offering targeted financial education interventions to address their unique needs

Assessments conducted during the roadshows revealed that participants' knowledge improved after attending the financial education programmes. Additionally, the digital financial literacy survey findings highlight high awareness of mule accounts and good password management practices among respondents (See Diagram 5).

Diagram 5: Digital Financial Literacy Survey: Answered Correctly\*



91%

Aware of mule accounts modus operandi



60%

Agree that using public Wi-Fi for on-line banking is unsafe



84%

Do not share password with close friends and family members

\* 6,275 survey samples throughout FLM Financial Literacy Squad Roadshow.

Source: Financial Education Network

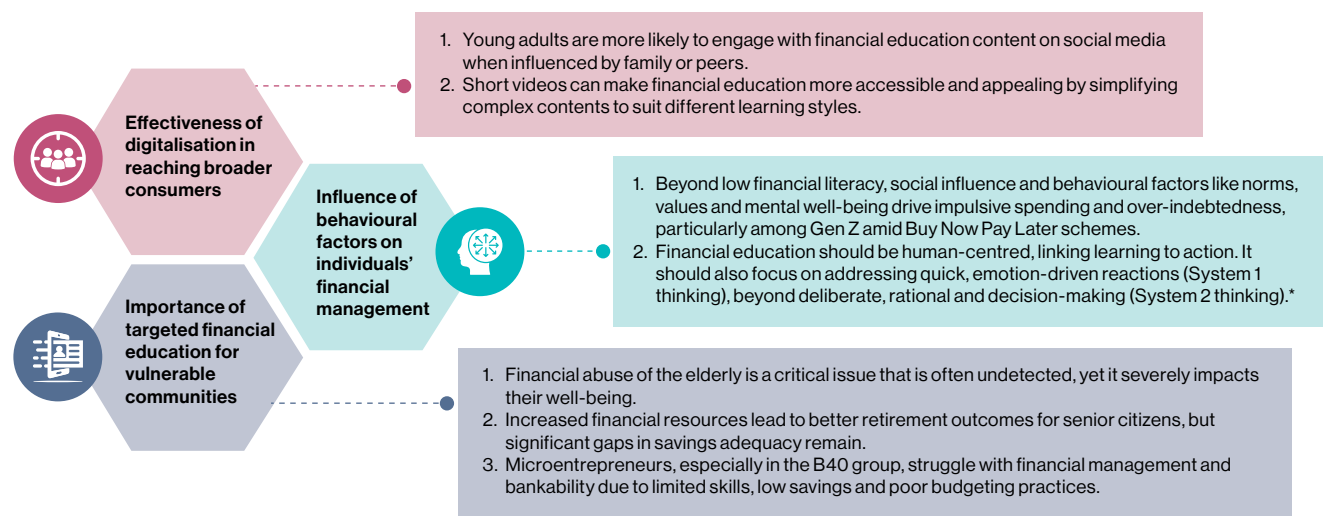
The third National Financial Literacy Symposium (NFLS)<sup>5</sup> held during FLM discussed initiatives to improve financial literacy and inclusion across various communities in Malaysia. NFLS included talks, discussions and research paper presentations. Refer Diagram 6 for key insights from NFLS.

Overall, FLM 2024 reached over 10.5 million Malaysians both in person and online through a mixture of exhibitions, workshops and on-the-ground activities for various groups (See Diagram 7).

As co-chair of the Financial Education Network<sup>6</sup> (FEN), BNM collaborates with FEN members and partners to implement initiatives that enhance the financial knowledge of Malaysians.

Throughout the year, over 12.8 million users engaged with FEN's financial literacy content on its social media channels.<sup>7</sup> FEN's website ([www.fenetwork.my](http://www.fenetwork.my)) provided over 800 financial education resources and tools which were accessed more than 60,000 times.

**Diagram 6: Key Insights from the NFLS**



\* Refers to the two distinct modes of cognitive processing introduced by Daniel Kahneman in his book, *'Thinking, Fast and Slow'*.

Source: Financial Education Network



NFLS offering insights into socioeconomic, environmental and digital risks that could impact financial well-being

<sup>5</sup> NFLS was organised in October 2024 at Sasana Kijang in collaboration with the Employees Provident Fund, the Credit Counselling and Debt Management Agency (AKPK) and the Malaysian Economic Association. It gathered almost 600 policymakers, researchers, practitioners and non-governmental organisations.

<sup>6</sup> FEN is co-chaired by Bank Negara Malaysia and Securities Commission Malaysia. Other members are Ministry of Education, Ministry of Higher Education, Employees Provident Fund, Perbadanan Insurans Deposit Malaysia, Permodalan Nasional Berhad, and the Credit Counselling and Debt Management Agency (AKPK).

<sup>7</sup> Facebook, Instagram, TikTok and YouTube channels



Diagram 7: Key Financial Education Initiatives and Engagements during FLM 2024

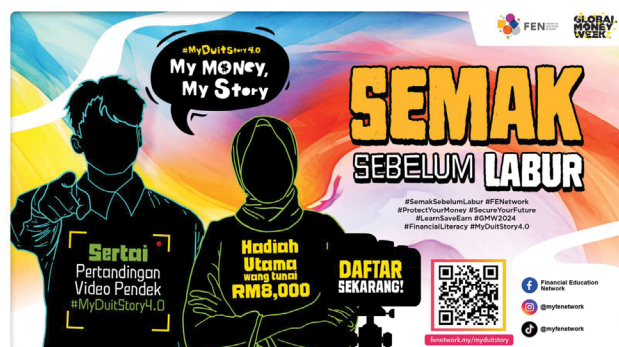


Source: Financial Education Network

One key focus is to help the youth become financially savvy. We equip them with tools to make sound financial choices. The fourth series of MyDuitStory Short Video Competition (MDS 4.0), organised in collaboration with the financial industry, was part of ongoing efforts to raise youth awareness about investment scams. This initiative garnered over 1.4 million social media impressions,<sup>8</sup> mainly from students in higher learning institutions<sup>9</sup> (See Diagram 8).

We also partnered with the Ministry of Rural and Regional Development, the Ministry of Youth and Sports, and the Social Security Organisation (SOCSO) to reach out to students in Technical and Vocational Education and Training (TVET) institutions, youth, employees across various sectors, rural communities and small business owners.

Diagram 8: MDS 4.0 Short Video Competition



Source: FEN social media platforms (Facebook, Instagram and TikTok)

<sup>8</sup> The total number of times the content was shown and appeared in the social media feed.

<sup>9</sup> MDS4.0 garnered participation from public and private universities, Technical and Vocational Education and Training (TVET) institutions under Ministry of Youth and Sports and Ministry of Rural and Regional Development and Institut Pendidikan Guru under Ministry of Education nationwide.

## Expanding Our Reach Across Malaysia with the Transformation of Mini BNMs and Establishment of the Central Region Office

The transformation of BNM offices and the newly established Central region office will further strengthen BNM's outreach across the regions

BNM expanded our reach on the regional level by transforming our BNM offices across Malaysia into 'Mini BNMs'. These offices now take on enhanced roles, adding focus on policy surveillance and advocacy in their regions.<sup>10</sup> This transformation amplifies on-the-ground surveillance on economics, financial inclusion, electronic payments, and SME credit risks. As a result, we gained a better understanding of economic and financial conditions that helped us make more informed policy decisions. In 2024, 'Mini BNMs' played a key role in supporting outreach efforts to encourage repatriation and conversion of foreign currency proceeds by businesses.

'Mini BNMs' also placed greater emphasis on playing a developmental role. With increasing collaborations with regional stakeholders, BNM is poised to better promote financial inclusion and adoption of e-payments in underserved communities. In the meantime, BNM intensified efforts to enhance and protect the public's financial well-being by raising awareness of prudent financial management and financial scams.

Recognising the effectiveness of on-the-ground engagement and reach, BNM will establish a Central region office to cover Selangor, Negeri Sembilan, Wilayah Persekutuan Kuala Lumpur and Wilayah Persekutuan Putrajaya in 2025. This will increase the number of BNM offices nationwide to six.

<sup>10</sup> The five BNM offices include BNM Regional Office Pulau Pinang, BNM Regional Office Johor Bahru, BNM Regional Office Kuching, BNM Regional Office Kota Kinabalu and BNM Regional Office Kuala Terengganu.

## Blending Arts and Culture with Finance

BNM Museum and Art Gallery achieved a significant milestone of reaching one million visitors since 2011 and will remain committed to educating children and the general public through creative and innovative learning experiences.

In 2024, BNM Museum and Art Gallery (BNM MAG) continued to attract visitors from all over Malaysia. In January 2024, BNM MAG hit a milestone of one million visitors since it opened in 2011. We continued to combine

finance, art, and culture in immersive exhibits and programmes. We curated experiences that turned learning into fun adventures.

In 2024, we launched 'MAG In Your Pocket'. This app is a digital guide to make visiting the museum more fun and convenient.

Beyond the walls of BNM MAG, we also partnered with other galleries, universities and the museum industry for a wider reach.

Additionally, we also collaborated with the Financial Services Library (FSL). The FSL provides real-time learning and tailored research for BNM and the financial services industry. These efforts include book fairs, author talks and workshops to help support talent development. In 2024, BNM MAG and FSL received 555,920 in-person visitors.

## Diagram 9: Highlights of BNM MAG's Programmes in 2024

### Never Too Late: Make Hay While the Sun Shines

- The financial literacy exhibition made learning about money to be fun. There were over 100 savings boxes, engaging replicas and interactive games. Programmes such as Thrift Kitchen and Thrift Fiesta taught visitors about sustainable practices and responsible financial management.



Finance Minister II, Datuk Seri Amir Hamzah Azizan, accompanied by Governor Rasheed inaugurated the 'Never Too Late' exhibition



One of the artists, Hariz Hamdan, explaining his artwork at the 'Jiwa Membumi' exhibition

### Jiwa Membumi: The Soul of the Land

- BNM MAG became a platform to showcase natural beauty of Malaysia, captured through the lenses of 12 local artists. This exhibition featured the breathtaking landscapes of the Peninsula Malaysia, reminding visitors of the treasures that bind us to our roots. By juxtaposing photography, time-lapse videos, paintings and installations, the exhibition celebrated the beauty and resilience of Malaysia.

### Batik: Melirik Larik

- BNM MAG reimagined the art of batik in this exhibition featuring BNM's extensive batik-themed art collection. Visitors explored batik's evolution from traditional apparel to visual art, uncovering the intricate techniques that bring this heritage to life. This showcase was not just about preserving batik – it was about inspiring its reinvention.



BNM MAG organised a 'Batik' exhibition in August 2024, celebrating the nation's independence through the rich heritage of traditional art



### Mutiara Utara: Celebrating Northern Artists

- BNM MAG extended its reach to the northern region by collaborating with Galeri Melayu Pulau Pinang. Mutiara Utara featured a beautiful collection of artworks since the 1960s. By showcasing BNM's art collection of artists originating from the Northern region, the exhibition honoured a rich cultural legacy while building a bridge between financial and artistic realms.

Governor Rasheed with other governors from Bank of Thailand, Hong Kong Monetary Authority, Bangko Sentral ng Pilipinas, Reserve Bank of Australia, Monetary Authority of Singapore and Reserve Bank of New Zealand, as well as deputy governor from People's Bank of China after the Executives' Meeting of East Asia Pacific Central Banks

### International Museum Day and BNM MAG Booth in Karnival Celik Kewangan Series

- BNM MAG explored creative ways to engage visitors during the International Museum Day in Penang and Karnival Celik Kewangan. Under the whimsical Sekolah Magik Kewangan theme, visitors embarked on interactive journeys like the OPR Potion Class and Magical Forest of Artworks. These programmes proved that learning about financial management can be exciting, earning BNM MAG an award for creativity and effectiveness.



A thematic exhibition, inspired by magical school concept, educating the public on, among others, the history of currency, financial scams, financial literacy and artwork from Penang's artists



Minister of Unity, Datuk Aaron Ago Dagang accompanied by Deputy Governor Marzunisham Omar and Assistant Governor Abd. Rahman at the closing ceremony of 'Overnight @ Museum' event

### Overnight @ Museum with Jabatan Muzium Malaysia and 'MAG In Your Pocket' Mobile App

- In collaboration with Jabatan Muzium Malaysia, BNM MAG organised the Overnight @ Museum. It co-hosted the closing ceremony, during which participants from 33 museums all over Malaysia united for a night of discovery.
- This event set a Malaysia Book of Records title for the Largest Participation in Patriotic-Themed Poster Making. During the event, BNM MAG also launched the 'MAG In Your Pocket'. This app allows users to access engaging content and interactive features such as augmented reality, in-app games and guided audio tours. It enables self-paced exploration both at home and in the museum.

### Art Bazaar 2024: Rai Rieng Ria

- BNM MAG's flagship programme, Art Bazaar returned with the theme 'Rai Rieng Ria', celebrating young talents and affordable art. The event showcased colourful pieces, creating a platform for 17 emerging artists while cultivating an appreciation for art among Malaysians.



Assistant Governor Dr. Norhana Endut toured the art bazaar and engaged with the emerging artists



The inaugural 'Hotspot Kewangan' initiative, which include exhibits about the currency, was held in conjunction with UPM's convocation week

### Hotspot Kewangan with Universiti Putra Malaysia

- In partnership with Universiti Putra Malaysia (UPM), BNM MAG interacted with over 550 students. They conducted interactive workshops and engaging sessions like 'Jangan Kena Scam', a career talk with BNM and a book talk on scams. This programme empowered young minds, equipping them with tools to navigate financial challenges.

Source: Bank Negara Malaysia

## Going Forward

In 2025, we will continue to invest in engaging a broader range of audiences on our mandates and policies. These efforts are important so that we can better improve public understanding and preserve

public trust. Anchoring expectations on the economy amidst expected global uncertainties will also be key. In addition to that, we will continue our engagement on various issues of public interest such as medical cost inflation, financial scams and financial literacy.



# International Engagements

In 2024, Bank Negara Malaysia (BNM) intensified our international engagements to support BNM's mandates and advance our strategic interests. Throughout the year, we achieved significant milestones across different platforms. These reaffirmed BNM's position as an active partner in strengthening cooperation and deepening financial integration both regionally and globally. These efforts were also critical in laying the foundation for Malaysia's ASEAN 2025 Chairmanship.

## Strengthening Partnerships in a Polarised Global Landscape

With the continued uncertainties in the global economy amid an increasingly polarised landscape, BNM's priority is to strengthen our collaboration with our peers and key forums and institutions to strengthen economic and financial resilience and explore new opportunities. Throughout 2024, BNM actively engaged with regional peers bilaterally and at regional forums such as ASEAN, ASEAN+3 and EMEAP, and with global institutions such as the International Monetary Fund (IMF), the World Bank and the Bank for International Settlements (BIS).

At the bilateral level, we agreed on greater collaboration in Islamic finance, sustainability and digitalisation with the Hong Kong Monetary Authority, Bank Indonesia, Monetary Authority of Singapore and the Financial Services Authority of Indonesia (OJK). Overall, these bilateral engagements helped deepen cooperation on



*BNM senior management with their counterparts of the Hong Kong Monetary Authority during a bilateral meeting on 24 May 2024 in Kuala Lumpur, Malaysia.*



*BNM senior management with their counterparts of OJK during a bilateral meeting on 27 September 2024 in Jakarta, Indonesia.*

mutual priorities, reinforce financial sector resilience and explored solutions for shared challenges on strategic areas.

At the regional level, the focus was to reduce the region's vulnerability to volatility in major currencies and facilitate greater trade and investment. To this end, BNM collaborated with ASEAN peers to establish the ASEAN Local Currency Transaction (LCT) Framework. The framework guides members in enhancing accessibility and efficiency of local currency transactions and promotes its wider adoption by market participants in the region.





Governor Abdul Rasheed Ghaffour with the IMF Managing Director Kristalina Georgieva and Malaysia's Minister of Finance II, Yang Berhormat Senator Datuk Seri Amir Hamzah Azizan at IMF Annual Meetings, 21-27 October 2024.

Source: Melissa Lyttle | IMF Photo

On the global front, BNM leveraged engagements with the IMF Managing Director at the IMF Annual Meetings to emphasise the importance of preserving open trade globally. We highlighted the important role of the IMF to

continue highlighting the benefits of a fair, rules-based trading system and to ensure trade remains a key pillar of global growth by using its platform to discourage countries from imposing trade-restrictive measures.

## 29th EMEAP<sup>1</sup> Governors' Meeting and 13th Informal Meeting of EMEAP Governors and Heads of Supervisory Authorities

As the Chair of EMEAP Governors' Meeting and Informal Meeting of Governors and Heads of Supervisory Authorities in 2024, BNM hosted the 29th and 13th Meetings, respectively, in Penang on 15 July 2024. Both meetings, chaired by Governor Abdul Rasheed Ghaffour, brought together regional central bank governors and heads of supervisory authorities to exchange views on key challenges, including managing inflation, capital flow volatility, financial market stability, and regulation and supervision.

A major focus of the meeting was on enhancing initiatives to support regional trade and investment activities. One key issue discussed was the potential for Central Bank Digital Currencies (CBDCs) to enhance cross-border payments. The meeting also discussed challenges and solutions to encourage greater use of local currencies in the region. On supervision matters, the meeting considered challenges faced in implementing global regulations and standards, and tackling risks such as cybersecurity, scams, climate change and Artificial Intelligence (AI).



<sup>1</sup> EMEAP is a cooperative forum of eleven central banks and monetary authorities in the East Asia and Pacific region. It comprises the Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore and Bank of Thailand.

## Fortifying External Financial Safety Nets

To complement the range of tools to safeguard the country against external shocks, BNM pursued efforts on several fronts to strengthen Malaysia and the region's access to external financial safety nets. The focus in 2024 was to substantially improve the accessibility and usability of the existing financial safety net arrangements.

BNM renewed our bilateral swap agreements with Bank Indonesia<sup>2</sup> and the Bank of Korea<sup>3</sup> with enhanced terms, in particular to improve both parties' access to these facilities when needed.



Governor Abdul Rasheed Ghaffour and Governor Perry Warjiyo of Bank Indonesia (BI) at the renewal of the bilateral swap agreement between BNM and BI.

Regionally, BNM continued to advocate for improved accessibility of the Chiang Mai Initiative Multilateralisation (CMIM). A significant milestone this year was the establishment of the Rapid Financing Facility. This new facility, which is a component of CMIM, provides expedited emergency funds to member countries without conditions during periods of urgent balance of payments needs arising from sudden external shocks such as natural disasters and pandemics. In addition, BNM remained a strong advocate of efforts to further elevate CMIM's financing structure, working alongside other ASEAN+3 members to advance the work on this. In May 2024, ASEAN+3 Finance Ministers and Central Bank Governors recognised the benefits of transitioning the CMIM to a paid-in capital model, which will centralise lending resources, enable faster disbursement of funds, and thus significantly improve CMIM's effectiveness as a regional self-help arrangement.

<sup>2</sup> Signed 27 September 2024.

<sup>3</sup> Signed 13 May 2024.



BNM delegation representing Malaysia at the ASEAN+3 Task Force Meeting in Busan, Korea, 11-12 September 2024.



Deputy Governor Marzunisham Omar, representing BNM at the ASEAN+3 Finance Ministers and Central Bank Deputies' Meeting in Pyeongchang, Korea, 17-18 December 2024.

## Maximising Trade and Investment Opportunities

As Malaysia's lead negotiator for issues relating to financial services within international trade and investment agreements, BNM continued to leverage these agreements to accord greater outward expansion opportunities for domestic players, enhance access to a wider array of quality products and services as well as technical capacity, and reinforce Malaysia's global profile as an attractive market and investment destination.

BNM's efforts supported the conclusion of the Malaysia-United Arab Emirates Comprehensive Economic Partnership Agreement (MY-UAE CEPA), Malaysia's first agreement with the UAE. This agreement enhances cooperation in Islamic finance and creates opportunities for our financial players to expand in the UAE. Similarly, we contributed to the substantial conclusion of the ASEAN-China Free Trade Agreement (ACFTA) 3.0 Upgrade, which enhances an existing



agreement between ASEAN and China. The enhanced ACFTA contains modern commitments on sustainability and digitalisation, which are synergistic to the goals of BNM and Malaysia.

## Promoting Sustainability Initiatives

In promoting sustainability initiatives, advocating for a just and orderly transition to a greener economy remained an important agenda for BNM.<sup>4</sup> Crucially, the focus is to ensure that Malaysia and the region's perspectives are heard and well-represented at the global arena.

BNM continued to play a key role in shaping sustainable finance initiatives in the ASEAN region. As a founding member of the ASEAN Taxonomy Board, BNM contributed towards the publication of the ASEAN Taxonomy for Sustainable Finance Version 3. This version introduces a common framework for classifying sustainable economic activities for two more focus sectors, namely Transportation and Storage; and Construction and Real Estate.<sup>5</sup>

As a member of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), BNM hosted the NGFS Asia Pacific Plenary Outreach in December 2024. The Plenary Outreach facilitated dialogue amongst policy makers on key issues such as regulatory and supervisory experiences and regional priorities moving forward.

## Advancing Malaysia's Islamic Finance Agenda

During the year, continued efforts were made to enhance Malaysia's position as an international gateway for Islamic finance.<sup>6</sup>

We hosted the 2024 Global Forum on Islamic Economics and Finance (GFIEF), which featured policy discussions and initiatives to strengthen international cooperation. Key resolutions were reached, focusing on anchoring

values in development and reform agendas for a resilient global economy, along with embracing innovative solutions and strong partnerships in Islamic finance to drive growth in areas such as halal trade, infrastructure networks and talent development. In particular, the forum witnessed the exchange of Memorandums of Collaborations (MOC) between the Malaysia International Islamic Finance Centre Leadership Council (MLC) and industry representatives<sup>7</sup> from Indonesia, Hong Kong, Türkiye and the UK. These MOCs encourage product innovation, promote trade and financial activities, support capacity building and education within the Islamic finance ecosystem. The forum also witnessed the signing of the Murabahah Master Agreement between Islamic Development Bank (IsDB) and our Islamic financial institutions to facilitate fund placements across institutions and strengthen investment linkages.

BNM also hosted the Fourth Centralised Shariah Authorities Forum (CSAF) Working Group Meeting in Kuala Lumpur. The meeting deliberated on the governance of CSAF to enhance its credibility as a prominent reference source for financial regulatory authorities, global fatwa-issuing bodies, and international standards-setting organisations.

Islamic finance plays an important role in greening the economy. To this end, BNM launched the 'Green Halal Businesses (GHB)' pilot programme, a collaboration with the Ministry of Finance, IsDB and the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia. The GHB pilot programme supports greening efforts by domestic halal businesses, especially for Small-Medium Enterprises. This ensures that these businesses will continue to be competitive within the global halal supply chain.

From a regulatory standpoint, BNM continued to advocate for the alignment of global Islamic prudential standards. BNM actively participated in high-level seminars and workshops, and shared our experiences in the development of Islamic Financial Services Board (IFSB) standards related to takaful risk management and the development of risk management tools. BNM also contributed towards the publication of the IFSB flagship report on the Islamic Financial Services Industry Stability Report 2024.<sup>8</sup> These efforts are critical in shaping sound regulation among institutions offering

<sup>4</sup> Further details on BNM's sustainability efforts in 2024 can be found in the chapter 'Towards a Greener Financial System'.

<sup>5</sup> Version 1 of the ASEAN Taxonomy provides the overall framework of the ASEAN Taxonomy. Version 2 consists of the: (a) complete Foundation Framework comprising detailed methodologies for assessing economic activities; and (b) Technical Screening Criteria (TSC) for the first focus sector, i.e. Electricity, Gas, Steam and Air Conditioning Supply sector (Energy sector) under the Plus Standard. TSC aims to provide a common framework for classifying sustainable economic activities in the ASEAN region. Further information on the ASEAN Taxonomy can be found in the chapter 'Towards a Greener Financial System'.

<sup>6</sup> Further details on BNM's agenda on Islamic finance can be found in the chapter 'Promoting a Progressive and Inclusive Islamic Financial System'.

<sup>7</sup> Komite Nasional Ekonomi dan Keuangan Syariah of Indonesia (KNEKS), Hong Kong Trade Development Council (HKTD), Finance Office of the Presidency of the Republic of Türkiye (CBFO), and Islamic Finance Council UK (UKIFC).

<sup>8</sup> This Report provides a comprehensive assessment of the global Islamic finance industry's growth, development, resilience and future outlook.

Islamic financial services. Moving forward, BNM will continue ongoing efforts in supporting IFSB's strategic agenda as the Chair of IFSB's Executive Committee<sup>9</sup> for 2025–26. On the Islamic financial market front, BNM continued to support the International Islamic Liquidity Management Corporation (IILM)'s goals in providing the market with Shariah-compliant financial instruments for effective cross-border liquidity management. To this end, we supported IILM's efforts towards achieving a more sustainable asset growth by successfully completing the strategic initiative to upsize its Sukuk Programme from USD4 billion to USD6 billion. BNM also provided insights and development strategies to enhance the IILM's operational efficiency and market reach.<sup>10</sup>

### Driving Leadership in Digitalisation

We also continued to pursue advancements and international collaboration in the digitalisation of the financial sector. Overall, this led to greater regional connectivity, increased interoperability of payment systems, diversification of digital payment infrastructures and stronger digital readiness of Malaysia.<sup>11</sup>

A cross-border QR payment linkage between Malaysia and Cambodia was launched by BNM and the National Bank of Cambodia in 2024.<sup>12</sup> Beyond bilateral linkages, BNM also supported the work of the BIS Innovation

Hub on Project Nexus, an initiative to develop a scalable multilateral payment connectivity infrastructure by linking the instant payment systems of participating countries. In June 2024, a detailed roadmap was completed and published to bring Nexus closer to live implementation. At the ASEAN level, BNM with other signatory member states, welcomed the signing of the MOU on Regional Payment Connectivity (RPC)<sup>13</sup> by Brunei Darussalam Central Bank and Bank of the Lao PDR. The RPC initiative aims to enable faster, cheaper, more inclusive and transparent cross-border payments across ASEAN member states. These efforts underscore Malaysia's commitment to creating more inclusive and efficient cross-border payment systems to further advance payment connectivity across the region.

Additionally, BNM was actively involved in initiatives spearheaded by the BIS Innovation Hub to improve cross-border payments by leveraging on emerging technology. This also involved collaboration with other central banks.

Recognising the differing levels of development and innovation across the region, BNM also participated in knowledge-sharing initiatives with other central banks to address emerging trends and challenges in digitalisation. These include knowledge sharing on digital assets, multi-CBDC platforms and the risks and opportunities of AI.

*MoU exchange on 27 February 2024 between Governor Abdul Rasheed Ghaffour and Governor Chea Serey of the National Bank of Cambodia (NBC) witnessed by the Prime Minister of Malaysia, Yang Amat Berhormat Datuk Seri Anwar Ibrahim and the Prime Minister of the Kingdom of Cambodia, Samdech Moha Borvor Thipadei Hun Manet. This MoU promotes closer cooperation between BNM and NBC, and is the precursor to the launching of the cross-border QR payment linkage on 19 September 2024.*



<sup>9</sup> The Executive Committee advises the IFSB Council (comprising of Governors of member regulatory and supervisory authorities) on strategic matters and oversees administrative operations, including financial procedures, funding plans and staff regulations.

<sup>10</sup> Among others, we facilitated the formulation of strategies to scale up IILM and development initiatives such as asset transaction proposals and primary dealers' diversification.

<sup>11</sup> Further details on BNM's 2024 digitalisation efforts can be found in the chapter 'Promoting Safe and Efficient Payment and Remittance System'.

<sup>12</sup> Other countries that have established similar linkages with Malaysia are Indonesia, Singapore and Thailand.

<sup>13</sup> The RPC involves cooperation to implement cross-border payment connectivity to support and facilitate cross-border trade, investment, financial deepening, remittance, tourism, and other economic activities, as well as a more inclusive financial ecosystem in the region. To date, 8 out of 10 ASEAN member states are part of the RPC initiative – Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Brunei and Laos.

## Combating Money Laundering and Financial Crimes

BNM remained steadfast in our commitment to counter money laundering, fraud, and terrorism financing. As a member of both the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering (APG), BNM supported ongoing initiatives and strategic priorities of both platforms aimed at strengthening AML/CFT/CPF<sup>14</sup> regimes in the region. We actively participated in the peer evaluations of member country's measures to combat money laundering, terrorist and proliferation financing. Hosting the APG Typologies Workshop in 2024, BNM facilitated knowledge exchange on combating the abuse of legal entities and cyber-enabled fraud. Overall, we contributed actively towards the reinforcement of regional collaboration in addressing emerging financial crimes and ensured Malaysia's alignment with global best practices.<sup>15</sup>

## Looking Ahead

As the global economy navigates ongoing challenges, BNM will continue to leverage international engagements and collaborations to strengthen Malaysia's economic resilience and promote sustainable development. Specifically, in line with supporting Malaysia's ASEAN Chairmanship theme of Inclusivity and Sustainability, BNM will pursue several key initiatives including catalysing access to financing for bankable green projects in the region and fostering inclusive instant payment connectivity among ASEAN member states.

As co-chair of the ASEAN+3 Finance Process, Malaysia will strive to make meaningful progress for CMIM's transition towards a paid-in capital model to substantially improve its effectiveness and enhance the region's preparedness against future economic shocks. This includes conducting research and facilitating exchanges on the best paid-in capital model for the region.

<sup>14</sup> Anti-Money Laundering (AML), Countering Financing of Terrorism (CFT) and Countering Proliferation Financing (CPF).

<sup>15</sup> Further details on BNM's efforts in 2024 can be found in the chapter 'Maintaining Financial Integrity'.



# Governance

Board of Directors, Senior Management and  
Statutory Committees of Bank Negara Malaysia

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# Governance



# Governance

The governance arrangements of Bank Negara Malaysia (BNM) ensure that we continue to effectively discharge our mandates to promote monetary and financial stability conducive to the sustainable growth of the Malaysian economy. These arrangements are set out by statute in the Central Bank of Malaysia Act 2009 (CBA) and other laws that BNM administers, and internal policies developed over the years. Our governance framework continues to be aligned with global best practices and industry standards.

## Board of Directors

Under the CBA, the Board of Directors is responsible for overseeing the management and operations of BNM. This is to ensure that we deliver our mandates and remain financially and operationally sound, and our resources are utilised effectively and efficiently.

The Board comprises the Governor who is the Chairperson, three Deputy Governors, the Secretary General of the Treasury, as well as six Independent Non-Executive Members who form the majority of the Board. His Majesty the Yang di-Pertuan Agong appoints the Governor and Independent Non-Executive Members of the Board, while the Deputy Governors are appointed by the Minister of Finance. The Governor serves a five-year renewable term whilst the Deputy Governors and Independent Non-Executive Members each serve a three-year renewable term. The Secretary General of the Treasury remains a member of the Board for as long as he/she holds office.

In 2024, the Board continued to provide oversight and advice on our operations and the delivery of our mandates amid challenging global and domestic economic developments. The Board was continuously apprised of the developments surrounding ringgit, as well as measures taken to combat financial scams and mitigate the impact of premium repricing of medical and health insurance takaful products due to rising medical inflation. BNM had also engaged the Board on efforts to promote Islamic finance and strengthen the oversight of non-bank consumer credit activities as well as to collaborate with the Government on the implementation of structural reforms.

The overall performance of BNM, performance indicators for 2024 and our Business Plan priorities were approved by the

Board. The Board closely oversaw BNM's continuous efforts in managing risks, strengthening cybersecurity environment, modernising the information technology infrastructure to achieve greater productivity, reducing carbon footprint as well as reinforcing a strong working culture aligned with our key results and organisational values. The Board took active interest in BNM's priorities and plans for Malaysia's 2025 ASEAN and ASEAN+3 Chairmanship as well as the progress of the preparatory work for the 2025 Mutual Evaluation by the Financial Action Task Force to assess the effectiveness of Malaysia's anti-money laundering and countering financing of terrorism (AML/CFT) systems.

Several initiatives were undertaken during the year to strengthen the governance practices to ensure that BNM remains aligned with corporate best practices. This included enhancements to the framework for the appointment and reappointment of members of the Board that would preserve board independence and promote board effectiveness. The conflict of interests policy for the Board was also strengthened to further improve conflict management, complemented by clearly defined processes, which demonstrate our commitment towards ensuring transparency and greater accountability.















The Board also performed a self-assessment to measure its effectiveness at the Board and Board Committee level during the year. The Board was satisfied that overall, an effective governance framework is currently in place and the committees' operations are effective in supporting the Board's roles and responsibilities. Going forward, further plans to strengthen the Board's performance and effectiveness has been identified and will be carried out throughout the year.

## Board Committees

The Board is supported by three committees – the Board Governance Committee, the Board Audit Committee and the Board Risk Committee. These committees consist only of Independent Non-Executive Members. Each committee is governed by its own Terms of Reference that is intended to support the Board and provide internal checks and balances on the management and operations of BNM.

In 2024, the Board Committees discussed matters of importance including board succession and initiatives to strengthen the governance framework for the Board of Directors, the effectiveness of our enterprise risk management and business continuity plans, risk controls and manpower audit, refinement of the audit frameworks and approaches as well as greater adoption of technology, particularly data analytics.

Diagram 1: Board Committees

	Board Governance Committee (BGC)	Board Audit Committee (BAC)	Board Risk Committee (BRC)
<b>Chair</b>	 Tan Sri Mohamed Azman Yahya	 Puan Chin Suit Fang	 Dato' Dr. Nirmala Menon a/p Y.B. Menon
<b>Members</b>	 <ul style="list-style-type: none"> <li>• Puan Chin Suit Fang</li> <li>• Dato' Dr. Nirmala Menon a/p Y.B. Menon</li> </ul>	 <ul style="list-style-type: none"> <li>• Dr. Nungsari Ahmad Radhi</li> <li>• Dato' Sheranjiv a/l M Sammanthan</li> </ul>	 <ul style="list-style-type: none"> <li>• Tan Sri Mohamed Azman Yahya</li> <li>• Dr. Nungsari Ahmad Radhi</li> <li>• Puan Siti Hurairah Sulaiman</li> </ul>
<b>Roles and Responsibilities</b>	 Oversees BNM's governance framework and practices.   Reviews and recommends to the Board on BNM's budget, business plan and remuneration policies.   Recommends the appointment and reappointment of members of the Board and other legislated committees of BNM such as: <ul style="list-style-type: none"> <li>• Monetary Policy Committee</li> <li>• Financial Stability Executive Committee</li> <li>• Shariah Advisory Council</li> <li>• Monetary Penalty Review Committee</li> </ul>	 Oversees the integrity of BNM's accounts and financial statements.   Oversees the adequacy of BNM's internal controls and compliance with legal requirements and internal policies.   Reviews and approves BNM's audit framework, audit charter, internal audit plan and reports, and oversees management actions to address material findings.	 Oversees the implementation of BNM's enterprise risk management framework.   Oversees BNM's management of financial, operational, reputational and IT and cybersecurity risks, including risk governance, structure and accountabilities in these areas.

Source: Bank Negara Malaysia

The Board is statutorily required to meet at least once a month. In 2024, the Board recorded an attendance rate of 95% for Board meetings and 98.3% for Board Committee meetings, as illustrated in the following table:

Designation	Members	Board	BGC	BAC	BRC
<b>Chairperson</b>	Dato' Seri Shaik Abdul Rasheed Abdul Ghaffour	12/12			
<b>Ex officio Member</b>	Datuk Jessica Chew Cheng Lian	12/12			
	Dato' Marzunisham Omar	12/12			
	Encik Adnan Zaylani Mohamad Zahid	12/12			
	Datuk Johan Mahmood Merican (Secretary General of the Treasury)	7/12 <sup>2</sup>			
<b>Independent Non-Executive Member</b>	Puan Chin Suit Fang	12/12	5/5	8/8	
	Dato' Dr. Nirmala Menon a/p Y.B. Menon	11/12 <sup>2</sup>	5/5	1/1 <sup>3</sup>	4/4
	Tan Sri Mohamed Azman Yahya	12/12	5/5		4/4
	Dr. Nungsari Ahmad Radhi	12/12	1/1 <sup>3</sup>	8/8	4/4
	Dato' Kamarulazman Muhamed <sup>1</sup>	12/12	2/2 <sup>3</sup>	8/8	3/4 <sup>2</sup>

<sup>1</sup> Retired on 31 December 2024.

<sup>2</sup> Absent due to unavoidable commitments.

<sup>3</sup> Non-members attending by invitation, to update the non-members on specific matters under consideration by the Committees.

Source: Bank Negara Malaysia

**Note of Appreciation:**

The Board of Directors wishes to extend its appreciation and gratitude to Dato' Kamarulazman Muhamed for his contributions to BNM and the Board since 1 January 2022.

## Board Induction and Development

The Independent Non-Executive Members comprise senior and experienced individuals from diverse professional backgrounds. These include economics, accounting and finance, banking and insurance, risk management and audit. BNM benefits from the collective wisdom and guidance of the Board members as well as their in-depth understanding of issues in the financial, business and public sectors that has continued to support effective oversight of BNM's operations and contributed towards informing appropriate policy responses.

Throughout the members' tenure, they participated in development programmes on contemporary themes and engaged in policy discourse with BNM's management and staff on core issues affecting central banks. These include specific topics of interest such as treasury operations, reserves management and swap operations, financial market infrastructure, as well as generative artificial intelligence and data analytics that would assist board members in deepening their knowledge and performing their oversight role effectively.



# Board of Directors



*Front row (seated from left to right)*

**Dato' Dr. Nirmala Menon a/p Y.B. Menon**  
*Independent Non-Executive Member*

**Datuk Jessica Chew Cheng Lian**  
*Ex officio Member*

**Dato' Seri Abdul Rasheed Ghaffour**  
*Chairperson*

**Puan Chin Suit Fang**  
*Independent Non-Executive Member*

**Puan Siti Hurairah Sulaiman**  
*Independent Non-Executive Member*

*Back row (standing from left to right)*

**Dato' Sheranjiv a/I M Sammanthan**  
*Independent Non-Executive Member*

**Encik Adnan Zaylani Mohamad Zahid**  
*Ex officio Member*

**Dato' Marzunisham Omar**  
*Ex officio Member*

**Datuk Johan Mahmood Merican**  
*Ex officio Member*

**Dr. Nungsari Ahmad Radhi**  
*Independent Non-Executive Member*

**Tan Sri Mohamed Azman Yahya**  
*Independent Non-Executive Member*

# Board of Directors



## Dato' Seri Abdul Rasheed Ghaffour

### Chairperson

Appointed to the Board: 16 July 2016

### Qualifications

- Master of Business Administration, University of Oxford, United Kingdom
- Bachelor of Economics, University of Malaya, Malaysia
- Fellow Chartered Banker, Asian Institute of Chartered Bankers

### Key Appointments and Directorships

- Chairperson, Board of Directors of The SEACEN Centre
- Member, Board of Governors of The SEACEN Centre
- Council Member and Chairperson of Executive Committee of Islamic Financial Services Board
- Member, Board of Directors of Malaysia Deposit Insurance Corporation
- Member, Governing Board of International Islamic Liquidity Management Corporation

### Past Experiences

- Deputy Governor and member of Board of Directors, Bank Negara Malaysia
- Assistant Governor, Bank Negara Malaysia
- Alternate Executive Director, Southeast Asia Voting Group Office of the International Monetary Fund



## Datuk Jessica Chew Cheng Lian

### Ex officio Member

Appointed to the Board: 1 January 2018

### Qualifications

- Bachelor of Commerce (Accounting and Finance), University of Melbourne, Australia
- Chartered Banker Institute (Scotland)
- Asian Institute of Chartered Bankers
- CPA Australia

### Key Appointments and Directorships

- Chairperson, Board of Directors of Danamodal Nasional Berhad
- Alternate Member, Board of Directors of Malaysia Deposit Insurance Corporation

### Past Experiences

- Assistant Governor, Bank Negara Malaysia
- Advisor, Board of Directors of Malaysia Accounting Standard Board
- Chairperson, Board of Directors of Finance Accreditation Agency Berhad
- Member, Board of Directors of Agensi Kaunseling dan Pengurusan Kredit
- Member, Board of Directors of Credit Guarantee Corporation Malaysia Berhad
- Member, Investment Panel of Employee Provident Fund

# Board of Directors



## Dato' Marzunisham Omar

### Ex officio Member

Appointed to the Board: 15 June 2020

#### Qualifications

- Master of Arts (Economics), University of Cambridge, United Kingdom
- Bachelor of Arts (Economics), University of Cambridge, United Kingdom

#### Key Appointments and Directorships

- Member, Board of Directors of ASB Management Sdn. Bhd.
- Member, Board of Governors of Asia School of Business
- Member, Board of Directors of Malaysian Investment Development Authority (MIDA) and Chairperson of Board Audit Committee
- Member, Board of Directors of The SEACEN Centre
- Chairperson, National Coordination Committee to Counter Money Laundering
- Member, Advisory Board of National Anti-Financial Crime Centre
- Adjunct Professor, Universiti Utara Malaysia

#### Past Experiences

- Assistant Governor, Bank Negara Malaysia
- Executive Director, South East Asia Voting Group of the International Monetary Fund



## Encik Adnan Zaylani Mohamad Zahid

### Ex officio Member

Appointed to the Board: 1 September 2023

#### Qualifications

- Master of Public Policy, Blavatnik School of Government, University of Oxford, United Kingdom
- Master of Science in Global Market Economics, London School of Economics and Political Science, United Kingdom
- Bachelor of Science in Economics, London School of Economics and Political Science, United Kingdom
- Chartered Professional in Islamic Finance

#### Key Appointments and Directorships

- Member, Board Executive Committee of International Islamic Liquidity Management Corporation
- Member, Board of Directors of Retirement Fund (Incorporated)
- Member, Board of Directors of International Centre for Education in Islamic Finance (INCEIF) University
- Member, Leadership Council of Malaysia International Islamic Finance Centre
- Adjunct Professor, Universiti Malaysia Terengganu

#### Past Experiences

- Assistant Governor, Bank Negara Malaysia
- Authority Member, Labuan Financial Services Authority
- Member, Board of Directors of Credit Guarantee Corporation Malaysia Berhad
- Member, Board of Directors of Maybank Venture Capital Company Sdn. Bhd.
- Member, Executive Committee of Islamic Financial Services Board
- Member, Investment Panel of Employee Provident Fund

# Board of Directors



## Datuk Johan Mahmood Merican

### Ex officio Member

Appointed to the Board: 27 February 2023

*Secretary General of the Treasury, Ministry of Finance*

### Qualifications

- Bachelor of Arts (Economics), University of Cambridge, United Kingdom
- Associate Chartered Accountant, Institute of Chartered Accountants in England and Wales

### Key Appointments and Directorships

- Chairperson, Board of Directors of Inland Revenue Board of Malaysia
- Chairperson, Board of Directors of Retirement Fund (Incorporated)
- Chairperson, Board of Directors of Public Sector Home Financing Board
- Chairperson, MySalam
- Member, Board of Directors of Permodalan Nasional Berhad
- Member, Board of Directors of Malaysia Deposit Insurance Corporation

### Past Experiences

- Deputy Secretary General of Treasury (Policy), Ministry of Finance
- Director of National Budget Office, Ministry of Finance
- Chief Executive Officer, Talent Corporation Malaysia Berhad (TalentCorp)
- Principal Private Secretary to the Minister in the Ministry of Finance and Economic Planning Unit
- Deputy Director General (Human Capital), Economic Planning Unit



## Puan Chin Suit Fang

### Independent Non-Executive Member

Appointed to the Board: 1 November 2019

### Qualifications

- Malaysian Institute of Accountants
- Malaysian Institute of Certified Public Accountants

### Key Appointments and Directorships

- Member, Monetary Penalty Review Committee

### Past Experiences

- Partner, PwC Malaysia
- Markets Leader for PwC Malaysia and PwCMYVN (Malaysia & Vietnam)
- Corporate Responsibility and Diversity & Inclusion Leader, PwC Malaysia
- Member, PwC Global Gender Advisory Council
- Mentor for Women in Leadership Malaysia by ICAEW & TalentCorp Malaysia

# Board of Directors



## Dato' Dr. Nirmala Menon a/p Y.B. Menon

### Independent Non-Executive Member

Appointed to the Board: 16 March 2020

#### Qualifications

- Postgraduate qualifications in Insurance Medicine
- Bachelor in Medicine, University of Mysore, India

#### Key Appointments and Directorships

- Member, Board of Directors of Sime Darby Berhad
- Member, Board of Directors of Aviva Singlife Holdings Private Limited (Singapore)
- Member, Board of Directors of Amanat Lebuhraya Rakyat Berhad
- Member, Board of Directors of Sistem Penyuraian Trafik KL Barat Sdn. Bhd.
- Member, Board of Directors of Lingkaran Trans Kota Sdn. Bhd.

#### Past Experiences

- Member, Board of Directors of AXA Affin General Insurance Berhad
- Member, Board of Directors of Khazanah Nasional Berhad
- Member, Board of Directors of Avicennia Capital Sdn. Bhd.
- President and Chief Executive Officer, ING Malaysia Berhad
- Executive Vice President, Head of Designated Markets & Health Asia, MetLife Asia Pacific Limited
- Head of South Asia, ING Asia Pacific Limited
- Medical Officer, Hospital Kuala Lumpur



## Tan Sri Mohamed Azman Yahya

### Independent Non-Executive Member

Appointed to the Board: 1 June 2020

#### Qualifications

- Bachelor of Science (Economics), London School of Economics and Political Science, United Kingdom
- Institute of Bankers Malaysia
- Institute of Chartered Accountants in England and Wales
- Malaysian Institute of Accountants

#### Key Appointments and Directorships

- Chairperson, Board of Directors of Symphony House Sdn. Bhd.
- Chairperson, Board of Directors of Sepang International Circuit Berhad
- Member, Board of Directors of Beringin Land Sdn. Bhd.
- Member, Board of Directors of Azman & Sons Sdn. Bhd.

#### Past Experiences

- Chairperson, Board of Directors of Ranhill Utilities Berhad
- Chairperson, Corporate Debt Restructuring Committee
- Chairperson, Board of Directors of Pengurusan Danaharta Nasional Berhad\*
- Member, Board of Directors of Khazanah Nasional Berhad
- Member, Board of Directors of Sime Darby Berhad
- Member, Board of Directors of AIA Group Limited
- Member, Board of Directors of PLUS Expressways Berhad
- Member to PEMUDAH, Financial Reporting Foundation, Capital Market Advisory Group, Malaysia Special Economic Committee

\* Also served as the Managing Director of Pengurusan Danaharta Nasional Berhad prior to his appointment as Chairperson.



# Board of Directors



## Dr. Nungsari Ahmad Radhi

### Independent Non-Executive Member

Appointed to the Board: 15 February 2023

#### Qualifications

- Doctor of Philosophy (Economics), Purdue University, United States of America
- Master of Science (Mathematics), Southern Illinois University, United States of America
- Bachelor of Arts (Economics and Mathematics), Southern Illinois University, United States of America

#### Key Appointments and Directorships

- Chairperson, Board of Directors of Malaysia Airports Holdings Berhad
- Member, Policy Advisory Committee to the Prime Minister
- Director, Ratulin Sdn. Bhd.
- Director, Koperasi Tunas Muda Sungai Ara Berhad
- Member, Board of Trustees of Khazanah Research Institute
- Member, Board of Trustees of Yayasan Rahimah binti Yusof

#### Past Experiences

- Executive Chairperson, Malaysia Aviation Commission
- Executive Director, Research and Strategy of Khazanah Nasional Berhad
- Managing Director, Prokhas Sdn. Bhd.
- Principal Officer, Board of Directors of DanaInfra Nasional Berhad
- Principal Officer and Member, Board of Directors of Pengurusan Danaharta Nasional Berhad
- Principal Officer and Member, Board of Directors of Syarikat Jaminan Kredit Perumahan Berhad
- Member, Board of Directors of Commerce Tijari Bank/CIMB Islamic Bank Berhad
- Member, Board of Directors of Bank Pertanian Malaysia



## Dato' Sheranjiv a/I M Sammanthan

### Independent Non-Executive Member

Appointed to the Board: 1 January 2025

#### Qualifications

- Bachelor of Commerce (Accounting), University of Birmingham, United Kingdom
- Fellow of Institute of Chartered Accountants in England and Wales
- Fellow of Institute of Corporate Directors Malaysia

#### Key Appointments and Directorships

- Independent Non-Executive Director, S.P. Setia Berhad
- Co-Founder and Executive Director of Fitrah Capital Associates LLC
- Director, Battersea Project Holding Company Limited
- Trustee, Yayasan Munarah

#### Past Experiences

- Partner/Executive Director/Senior Manager, PwC Kuala Lumpur and PW/PwC London
- Executive Director, Managing Director's Office of Khazanah Nasional Berhad
- Director, Khazanah Europe Investment Limited
- Representative for Khazanah Nasional Berhad, Institutional Investor Council of Malaysia
- Executive Director, Taman Tugu Project Development Sdn. Bhd.
- Non-Executive Director, Malaysia Aviation Group Berhad
- Non-Independent Non-Executive Director, UEM Sunrise Berhad
- Non-Independent Non-Executive Director, UEM Land Berhad
- Audit Committee Member, M+S (Pte) Limited, Singapore
- Trustee, Yayasan Hasanah

# Board of Directors

**Puan Siti Hurrairah Sulaiman****Independent Non-Executive Member**

Appointed to the Board: 1 January 2025

**Qualifications**

- Degree in Mechanical Engineering, Imperial College London, United Kingdom

**Key Appointments and Directorships**

- Country Chair of Shell Malaysia
- Senior Vice President for the Shell Upstream and Integrated Gas Business in Malaysia
- Director on the Board of various Shell entities in Malaysia

**Past Experiences**

- Shell Group
  - Vice President, Technical Asset Operations (Global)
  - Vice President, Integrated Gas Ventures East (Regional)
  - General Manager, Global Operations Commercial Services in Shell's Trading and Supply United Kingdom
  - Asset Manager and Director, Sabah Shell Petroleum Company Limited
- Representative for Shell as Director on the Board of Brunei LNG (Brunei), Shell Middle Distillate Synthesis (Malaysia) and the ex-British Gas Companies (India)

# Senior Management

As provided by the Central Bank of Malaysia Act 2009, the Governor is responsible for the management of BNM in discharging its mandates. In performing these duties, the Governor is assisted by a senior management team consisting of Deputy and Assistant Governors. BNM's organisation structure is designed to promote clear lines of reporting and accountability across its wide-ranging functions.

Various management committees are established to enable the senior management team and other senior officers to deliberate on BNM's business, and in particular those involving the organisation's strategy and top-most priorities. These management committees include policy committees such as the Financial Stability Committee and the Joint Policy Committee, a committee tasked to deliberate cross-cutting issues and coordinate policies that may have impact on the financial system and the broader economy. The management committees enable BNM to draw on diverse functional backgrounds and insights across the organisation to arrive at well-informed decisions through open and candid deliberations.

Supported by these structures, senior management sets internal policies and leads the operations of BNM to ensure that it gives effect to its objects, carries out its functions and uses its resources in a manner that is effective, prudent and consistent with the interests of BNM, for the benefit of the nation.

# Management Committee



*Front row (seated from left to right)*

**Adnan Zaylani Mohamad Zahid**  
*Deputy Governor*

**Jessica Chew Cheng Lian**  
*Deputy Governor*

**Abdul Rasheed Ghaffour**  
*Governor*

**Marzunisham Omar**  
*Deputy Governor*

**Aznan Abdul Aziz**  
*Assistant Governor*

*Back row (standing from left to right)*

**Abd. Rahman Abu Bakar**  
*Assistant Governor*

**Suhaimi Ali**  
*Assistant Governor*

**Fraziali Ismail**  
*Assistant Governor*

**Dr. Norhana Endut**  
*Assistant Governor*

**Mohamad Ali Iqbal Abdul Khalid**  
*Assistant Governor*

**Madelena Mohamed**  
*Assistant Governor*

## Senior Officers

<b>Governor</b>	Abdul Rasheed Ghaffour
<b>Deputy Governor</b>	Jessica Chew Cheng Lian
<b>Deputy Governor</b>	Marzunisham Omar
<b>Deputy Governor</b>	Adnan Zaylani Mohamad Zahid
<b>Assistant Governor</b>	Aznan Abdul Aziz
<b>Assistant Governor</b>	Fraziali Ismail
<b>Assistant Governor</b>	Dr. Norhana Endut
<b>Assistant Governor</b>	Abd. Rahman Abu Bakar
<b>Assistant Governor</b>	Suhaimi Ali
<b>Assistant Governor</b>	Mohamad Ali Iqbal Abdul Khalid
<b>Assistant Governor</b>	Madelena Mohamed
<b>Assistant Governor</b>	Abu Hassan Alshari Yahaya (appointed as Head of the Consumer Credit Oversight Board Task Force)
<b>Secretary to the Board</b>	Suhanna Omar
<b>Governor's Office</b>	—
<b>Internal Audit</b>	Kamarul Nazim Yop Ahmad
<b>Risk Management</b>	Beh Cheng Hoon
<b>Ethics and Integrity Office</b>	Santamarie Shamni Arulanandam
<b>Legal</b>	Mohd Sofiyuddin Ahmad Tabrani
<b>Sustainability</b>	Raja Syamsul Anwar Raja Mohammed Affandi
<b>Strategic Communications</b>	Shasha Kartini Ridzam
<b>Financial Intelligence and Enforcement</b>	Mohd Fuad Arshad
<b>Financial Surveillance</b>	Daniel Chin Shen Li
<b>Prudential Financial Policy</b>	Cindy Siah Hooi Hoon
<b>Consumer and Market Conduct</b>	—
<b>Payment Services Policy</b>	Qaiser Iskandar Anwarudin
<b>Financial Conglomerates Supervision</b>	Hong Chin Pheng
<b>Banking Supervision</b>	Mohd Zabidi Md Nor
<b>Insurance and Takaful Supervision</b>	Hoo Hon Shiong
<b>Risk Specialist and Technology Supervision</b>	Hew Ee-Lu
<b>Payment Services Oversight</b>	Zarifa Izan Zainol Abidin
<b>Financial Development and Innovation</b>	Lau Chin Ching
<b>Islamic Finance</b>	Nurul Izza Idris
<b>Financial Inclusion</b>	Nor Rafidz Nazri
<b>LINK and BNM Offices</b>	Thomas Tan Koon Peng



<b>Investment</b> <b>Market Operations and Development</b> <b>Treasury Risk and Infrastructure</b> <b>Foreign Exchange Policy</b>	Shahredza Minhat Nurashiqin Asri Muhamad Jamil Fathi Jamaludin Albert See Choon Kwang
<b>Economics</b> <b>Monetary Policy</b> <b>International</b> <b>Data Management and Statistics</b>	Idwan Suhardi Hakim Dr. Mohamad Hasni Sha'ari Ida Harniza Johar Ong Li Ming
<b>Chief Information Officer</b> <b>Business Technology</b> <b>Digital Technology Infrastructure</b> <b>Cyber Security</b> <b>Financial Market Infrastructure</b>	Tay Gim Soon Victor Khor Eng Swee Ahmad Affzan Mokhtar Anuar Aizuddin Mohd Ghazali Noor Hazama Fadhilah Abdullah
<b>People</b> <b>Currency</b> <b>Finance</b>	Nurashikhin Md. Sharif Mohamad Zaini Ab Jabbar Toh Ying Ying
<b>Chief Services Officer</b> <b>Facility Management Services</b> <b>Hospitality and Museum</b> <b>Organisational Security Management</b> <b>Centralised Procurement</b> <b>Corporate Administration and Services</b>	Affendi Rashdi Razman Samsudin Noreen Zulkepli Ahmad Azaharudin Mohd Anuar Zulkippli Haron Hairi Adam
<b>Beijing Representative Office</b> <b>London Representative Office</b> <b>New York Representative Office</b> <b>BNM Regional Office Johor Bahru</b> <b>BNM Regional Office Pulau Pinang</b> <b>BNM Regional Office Kuching</b> <b>BNM Regional Office Kota Kinabalu</b> <b>BNM Regional Office Kuala Terengganu</b>	Mohd Faizal bin Md. Fathil Hasman Farid bin Mohd Ali Noh Ahmad Abrar Shamsuddin Rosnani Mahamad Zain Panimoli Kalidass Rantai ak Naga Adlis Khairil Sazli Mohd Zaini Zambre Ismail

# BANK NEGARA MALAYSIA

## Organisation Structure



As at 24 March 2025

## Statutory Committees

In certain areas, the responsibility for decision-making is placed beyond the direct remit of the Board or Management. These matters are reserved for specific organs created by statute.

### Monetary Policy Committee

The primary objective of monetary policy in Malaysia is to maintain price stability while giving due regard to developments in the economy. Under the Central Bank of Malaysia Act 2009 (CBA 2009), the Monetary Policy Committee (MPC) of BNM is responsible for formulating monetary policy and the policies for the conduct of monetary policy operations. The MPC decides on the policy interest rate, also known as the Overnight Policy Rate (OPR), that influences other interest rates in the economy.

In carrying out this mandate, the MPC determines monetary policy based on its assessment of the balance of risks to both Malaysia's inflation and growth outlook. The MPC also monitors risks of financial imbalances given their destabilising implications on the economy. The MPC meets at least six times a year to decide on the OPR and publishes its Monetary Policy Statement (MPS) after each meeting to explain its decisions.

The MPC comprises the Governor, the Deputy Governors, and not less than three but not more than seven other members. These include external members who are appointed by the Minister of Finance, as recommended by BNM's Board Governance Committee. The MPC currently has ten members, three of whom are external members. The membership of the MPC seeks to bring together a diverse range of experiences and expertise that is critical for sound monetary policy decision-making.

### Members\*

**Dato' Seri Abdul Rasheed Ghaffour (Chairperson)**

**Datuk Jessica Chew Cheng Lian**

**Dato' Marzunisham Omar**

**Adnan Zaylani Mohamad Zahid**

**Dr. Norhana Endut**

**Fraziali Ismail**

**Mohamad Ali Iqbal Abdul Khalid**

**Nor Zahidi Alias (*External Member*)**

**Lim Chee Sing (*External Member*)**

**Datuk Yogeesvaran Kumaraguru (*External Member*)**

\* As at 24 March 2025

## Financial Stability Executive Committee

The Financial Stability Executive Committee (FSEC) was established in 2010 pursuant to Section 37 of the Central Bank of Malaysia Act 2009 (CBA 2009). The FSEC supports BNM's statutory mandate of preserving financial stability through its powers to decide on specific policy measures that may be taken by BNM to avert or reduce risks to financial stability.

In carrying out this mandate, the FSEC reviews, assesses and decides on proposals tabled by BNM to:

- issue orders to a person or financial institution that is not regulated nor supervised by BNM to undertake specific measures in the interest of financial stability;
- extend liquidity assistance to a financial institution that is not regulated nor supervised by BNM, or to the overseas operations of a licensed financial institution in Malaysia; and
- provide capital support to a licensed financial institution in Malaysia that has ceased to be viable or is likely to become non-viable.

This serves to ensure continuous and effective financial intermediation, including the orderly functioning of the money market and foreign exchange market, and preserve public confidence in the financial system.

The FSEC consists of seven members, a majority of whom are non-executive members who are independent of BNM's Management. Members are subject to the FSEC Code of Ethics and Conflict of Interest, which serves to preserve the integrity of the FSEC's decisions. In 2024, the FSEC met twice to discuss developments and assessments on financial stability risks amid a global environment of heightened volatility arising from the ongoing uncertainties surrounding policies from major economies and developments in geopolitical conflicts.

### Members\*

**Dato' Seri Abdul Rasheed Ghaffour (Chairperson)**

**Dato' Marzunisham Omar**

**Datuk Johan Mahmood Merican (*Independent non-executive member*)**

**Dato' Mohammad Faiz Azmi (*Independent non-executive member*)**

**Rafiz Azuan Abdullah (*Independent non-executive member*)**

**Dato' Abdul Rauf Rashid (*Independent non-executive member*)**

**Wong Chee Lin (*Independent non-executive member*)**

\* As at 24 March 2025

## Shariah Advisory Council

The Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM) was established in May 1997 as the highest Shariah authority for Islamic financial institutions in Malaysia. The Central Bank of Malaysia Act 2009 (CBA 2009) outlined the roles and functions of the SAC as the authority for the ascertainment of Islamic law for the purposes of Islamic financial business which are supervised and regulated by BNM.

The Shariah rulings of the SAC serve as a reference for Islamic financial institutions in ensuring their business operations comply with Shariah principles. The rulings also serve as a reference for the courts and arbitrators. In this regard, the SAC specifies the principal requirements taking into consideration various Shariah views, research findings, as well as custom and market practices. The SAC is therefore central to promoting certainty of Shariah practices and sustaining public confidence in the Islamic financial system.

The SAC members are appointed by His Majesty the Yang di-Pertuan Agong. Currently, the SAC has seven members comprising Shariah scholars and practitioners with vast experience, domestically and abroad in the areas of Shariah, law, Islamic economics and finance.

In 2024, the SAC met ten times to deliberate and address pressing issues and measures to strengthen long-term developmental impact on the Islamic finance ecosystem in Malaysia.

### Members\*

**Prof. Dr. Ashraf Md Hashim (Chairperson)**

**Prof. Dr. Engku Rabiah Adawiah Engku Ali (Deputy Chairperson)**

**Sahibus Samahah Dato' Setia Prof. Madya Dr. Haji Anhar Haji Opir**

**Datuk Prof. Dr. Mohamad Akram Laldin**

**Dr. Marjan Muhammad**

**Dr. Ahmad Basri Ibrahim**

**Burhanuddin Lukman**

**Zainal Abidin Jamal<sup>1</sup>**

**Tan Sri Mohd Zawawi Salleh<sup>2</sup>**

<sup>1</sup> Term ends on 31 October 2024.

<sup>2</sup> Term ends on 31 December 2024.

\* As at 24 March 2025



## Monetary Penalty Review Committee

The Monetary Penalty Review Committee (MPRC) is an independent committee established under section 238 of the Financial Services Act 2013 (FSA) and section 249 of the Islamic Financial Services Act 2013 (IFSA). The MPRC considers appeals from persons (individuals or institutions) against the administrative monetary penalties (AMPs) or pecuniary remedies imposed by BNM in exercising its administrative enforcement powers under the FSA, the IFSA, the Development Financial Institutions Act 2002 and the Currency Act 2020 (CA).<sup>1</sup>

The MPRC provides an independent avenue for aggrieved parties to appeal against BNM's decisions. The MPRC may decide to either confirm BNM's decision or require BNM to reconsider and reach a decision in accordance with the findings of the MPRC. The members of MPRC are appointed by the Minister of Finance from among the Independent Non Executive Board Members of BNM or other external persons upon recommendation by BNM.

### Members\*

**Tan Sri Hasan Lah (Chairperson)**

**Chin Suit Fang**

**Goh Ka Im**

<sup>1</sup> For the CA, the appeals would only be against the AMPs imposed by BNM.

\* As at 24 March 2025



# Our Finances

Statement of Financial Position as at 31 December 2024	201
Income Statement for the Year Ended 31 December 2024	202
Notes to the Financial Statements for the Year Ended 31 December 2024	203

# Our Finances



# Our Finances

Bank Negara Malaysia (BNM) supports its day-to-day operations from income generated from the investments of the country's international reserves and other general operations of BNM. In doing so, we are committed to being responsible, prudent and disciplined in managing our finances to ensure that we have sufficient financial resources to discharge our mandates effectively.

For the financial year ended 31 December 2024, BNM recorded a net profit after tax of RM13.16 billion (2023: RM7.16 billion) on the back of a higher total income of RM14.98 billion (2023: RM8.77 billion), net of costs associated with managing the reserves portfolio and monetary operations. The higher income was largely contributed by stronger investment returns of the international reserves and portfolio activities in the foreign exchange and global securities markets. Organisational expenses amounted to RM1.78 billion in 2024 (2023: RM1.57 billion), with staff costs accounting for about half of the expenses.

Of the RM13.16 billion net profit, RM7.91 billion (2023: RM4.31 billion) will be transferred to the Risk Reserve, which stood at RM147.90 billion as at end-2024 (2023: RM151.25 billion). As our international reserves are in

foreign currency, building sufficient financial buffers is important to cushion against future financial market volatility and shocks as well as managing the risk of exchange rate fluctuations in an uncertain global landscape. The remaining net profit of RM5.25 billion will be paid as dividend to the Government (2023: RM2.85 billion).

Total assets as at 31 December 2024 decreased to RM621.54 billion (2023: RM631.74 billion). International reserves continued to account for the bulk of our assets at 84% (2023: 82%).

Our liabilities comprised mainly currency in circulation and deposits by financial institutions, amounting to RM170.72 billion and RM131.92 billion respectively as at end-2024 (2023: RM161.82 billion and RM176.66 billion respectively).

<sup>1</sup> Risk Reserve are financial buffers comprising cumulative transfers of net profits, unrealised gains or losses on translation of foreign currency assets and liabilities and fair value changes from securities carried at fair value

Note: Page numbers '3 to 21' in the Certificate of the Auditor General refer to pages 201 to 215 in this Report.





**CERTIFICATE OF THE AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF  
BANK NEGARA MALAYSIA  
FOR THE YEAR ENDED 31 DECEMBER 2024**

**Certificate on the Audit of the Financial Statements**

**Opinion**

I have audited the Financial Statements of the Bank Negara Malaysia. The financial statements comprise the Statement of Financial Position as at 31 December 2024 of the Bank Negara Malaysia and the Income Statement for the year then ended, and notes to the financial statements, including a summary of material accounting policies, as set out on pages 3 to 21.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank Negara Malaysia as at 31 December 2024, and of its financial performance for the year then ended in accordance with the Malaysian Financial Reporting Standards (MFRS) and the Central Bank of Malaysia Act 2009 requirements to the extent that it is, in the opinion of the Board of Directors, appropriate to do so, having regard to the objects and functions of the Bank.

**Basis for Opinion**

The audit was conducted in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my certificate. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

*Independence and Other Ethical Responsibilities*

I am independent of the Bank Negara Malaysia and I have fulfilled my other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

## **Information Other than the Financial Statements and Auditor's Certificate Thereon**

The Board of Directors of the Bank Negara Malaysia is responsible for the other information in the Annual Report. My opinion on the Financial Statements of the Bank Negara Malaysia does not cover the other information than the financial statements and Auditor's Certificate thereon and I do not express any form of assurance conclusion thereon.

## **Responsibilities of the Board of Directors for the Financial Statements**

The Board of Directors is responsible for the preparation of Financial Statements of the Bank Negara Malaysia that give a true and fair view in accordance with the Malaysian Financial Reporting Standards (MFRS) and the Central Bank of Malaysia Act 2009 requirements to the extent that it is, in the opinion of the Board of Directors, appropriate to do so, having regard to the objects and functions of the Bank. The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the Financial Statements of the Bank Negara Malaysia that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements of the Bank Negara Malaysia, the Board of Directors is responsible for assessing the Bank Negara Malaysia's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the Financial Statements of the Bank Negara Malaysia as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Certificate that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

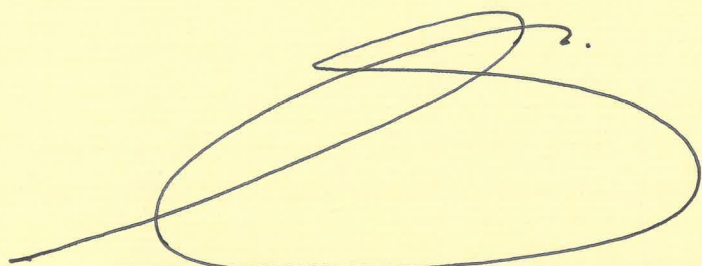
- a. identify and assess the risks of material misstatement of the Financial Statements of the Bank Negara Malaysia, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank Negara Malaysia's internal control;
- c. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- d. conclude on the appropriateness of the Board of Directors's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank Negara Malaysia's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my Auditor's Certificate to the related disclosures in the Financial Statements of the Bank Negara Malaysia or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of Auditor's Certificate. However, future events or conditions may cause the Bank Negara Malaysia to cease to continue as a going concern; and
- e. evaluate the overall presentation, structure and content of the Financial Statements of the Bank Negara Malaysia, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The Board of Directors has been informed regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I have identify during the audit.



## Other Matters

This certificate is made solely to the Board of Directors of the Bank Negara Malaysia in accordance with the Central Bank of Malaysia Act 2009 requirements, and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.



**(DATO' SERI WAN SURAYA BINTI WAN MOHD RADZI)**  
AUDITOR GENERAL  
MALAYSIA



PUTRAJAYA  
10 MARCH 2025

# BANK NEGARA MALAYSIA

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## STATEMENT BY DIRECTORS

We, Abdul Rasheed Ghaffour and Chin Suit Fang, being the Chairman and one of the Directors of Bank Negara Malaysia, do hereby state that, in the opinion of the Directors, the financial statements are drawn up so as to give a true and fair view of the financial position of Bank Negara Malaysia as at 31 December 2024 and financial performance for the financial year then ended, in accordance with the Central Bank of Malaysia Act 2009 and the Malaysian Financial Reporting Standards (MFRS) to the extent that it is, in the opinion of the Directors, appropriate to do so, having regard to the objects and functions of Bank Negara Malaysia.

On behalf of the Board of Directors,



**ABDUL RASHEED GHAFFOUR**  
CHAIRPERSON

25 FEBRUARY 2025  
KUALA LUMPUR



**CHIN SUIT FANG**  
DIRECTOR

25 FEBRUARY 2025  
KUALA LUMPUR



## BANK NEGARA MALAYSIA

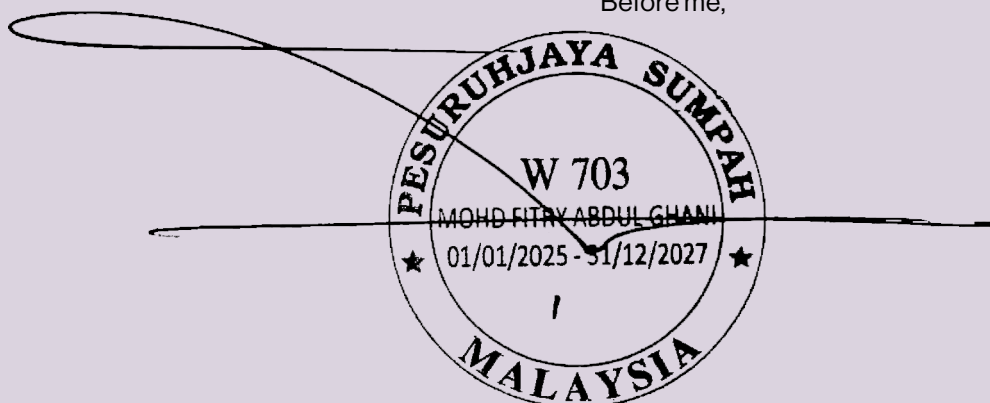
### DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF BANK NEGARA MALAYSIA

I, Toh Ying Ying, being the officer primarily responsible for the financial management of Bank Negara Malaysia, do solemnly and sincerely declare that the financial statements for the year ended 31 December 2024, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared )  
by the abovenamed at Kuala Lumpur )  
on 25 February 2025. )

*Ying*

Before me,



NO. 58A, JALAN BUKIT RAJA  
TAMAN SEPUTEH,  
58000 KUALA LUMPUR

# BANK NEGARA MALAYSIA

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2024

		2024 RM million	2023 RM million Restated
<b>ASSETS</b>	<b>Note</b>		
Gold and Foreign Financial Assets	3	489,309	487,960
International Monetary Fund Reserve Position and Holdings of Special Drawing Rights	4	30,821	32,905
Malaysian Government Papers	5	12,805	13,009
Deposits with Financial Institutions	6	-	1,202
Loans and Advances	7	26,310	24,234
Land and Buildings	8	4,598	4,610
Other Assets	9	57,697	67,822
<b>Total Assets</b>		<b>621,540</b>	<b>631,742</b>
<b>LIABILITIES AND CAPITAL</b>			
Currency in Circulation		170,720	161,816
Deposits from: Financial Institutions		131,918	176,659
Federal Government		5,233	3,526
Others	10	79,866	40,075
Bank Negara Papers	11	12,431	29,235
Allocation of Special Drawing Rights	4	28,185	29,738
Other Liabilities	12	3,121	3,268
<b>Total Liabilities</b>		<b>431,474</b>	<b>444,317</b>
Capital	13	100	100
General Reserve Fund	14	28,888	28,888
Risk Reserve	15	147,896	151,251
Unappropriated Profits	16	13,182	7,186
<b>Total Capital and Reserves</b>		<b>190,066</b>	<b>187,425</b>
<b>Total Liabilities and Capital</b>		<b>621,540</b>	<b>631,742</b>

The accompanying notes form an integral part of the financial statements.

## BANK NEGARA MALAYSIA

### INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2024

		<b>2024</b> <b>RM million</b>	<b>2023</b> <b>RM million</b>
	<b>Note</b>		
<b>Total Income</b>	17	<b>14,978</b>	<b>8,772</b>
Less:			
Recurring Expenditure	18	(1,647)	(1,441)
Development Expenditure	19	(128)	(126)
<b>Total Expenditure</b>		<b>(1,775)</b>	<b>(1,567)</b>
<b>Net Profit Before Tax</b>		<b>13,203</b>	<b>7,205</b>
Less: Taxation	20	(41)	(43)
<b>Net Profit After Tax</b>		<b>13,162</b>	<b>7,162</b>

The accompanying notes form an integral part of the financial statements.

# BANK NEGARA MALAYSIA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

### 1. General Information

Bank Negara Malaysia (BNM) is a statutory body established under the Central Bank of Malaysia Act 1958 which has been repealed by the Central Bank of Malaysia Act 2009. The principal place of business is located at Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur.

The principal objects of BNM are to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. In this regard, BNM's primary functions are as follows:

- (a) to formulate and conduct monetary policy in Malaysia;
- (b) to issue currency in Malaysia;
- (c) to regulate and supervise financial institutions which are subject to the laws enforced by BNM;
- (d) to provide oversight over money and foreign exchange markets;
- (e) to exercise oversight over payment systems;
- (f) to promote a sound, progressive and inclusive financial system;
- (g) to hold and manage the foreign reserves of Malaysia;
- (h) to promote an exchange rate regime consistent with the fundamentals of the economy; and
- (i) to act as financial adviser, banker and financial agent of the Government.

### 2. Accounting Policies

#### 2.1 Basis of Preparation of Financial Statements

- (a) The financial statements have been prepared in accordance with the Central Bank of Malaysia Act 2009 and the applicable Malaysian Financial Reporting Standards (MFRS). Section 10 of the Central Bank of Malaysia Act 2009 provides that BNM, in preparing its financial statements, shall comply with the MFRS to the extent that it is, in the opinion of the Directors, appropriate to do so, having regard to the objects and functions of BNM. The Directors, having considered BNM's responsibilities for managing effective monetary policy and promoting financial stability, are of the opinion that, it is appropriate to differ, in some respects, from the MFRS.
- (b) The preparation of the financial statements on the basis stated in 2.1 (a) requires the management to exercise its judgements in applying the accounting policies. It also requires the use of estimates and assumptions, based on available information, that may affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial year. Although these estimates are based on the management's best knowledge of current events and actions, the actual results could differ from these estimates.

## BANK NEGARA MALAYSIA

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- (c) The financial statements have been prepared under the historical cost convention and on an accrual basis, except as otherwise disclosed.

### 2.2 Change in Accounting Policy

During the financial year, BNM changed its accounting policy for land and buildings to better reflect the purpose of holding these properties, which were mainly for internal use. Following this change, BNM remeasured its land and buildings, which were previously carried at revalued amount and nominal cost of RM10 each respectively, using a cost model.

The impact of the change in accounting policy is shown in Note 25.

### 2.3 Foreign Currency Translation

- (a) The financial statements are presented in Ringgit Malaysia, BNM's functional currency, and rounded to the nearest million, unless otherwise stated.
- (b) Transactions in foreign currencies are measured at the exchange rate prevailing at the date of transaction. Foreign currency gains or losses resulting from the settlement of such transactions are recognised in the Income Statement.
- (c) Assets and liabilities denominated in foreign currencies are translated into Ringgit Malaysia using the exchange rate prevailing on the balance sheet date. Foreign exchange differences arising from the translation are recognised in the Risk Reserve.

### 2.4 Consolidation

#### (a) Subsidiaries

Subsidiaries are entities over which BNM has control. BNM controls an entity when BNM is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

#### (b) Associates

Associates are entities over which BNM has significant influence but not control or joint control, and generally accompanying a shareholding of between 20% and 50% of the voting rights of the entity.

BNM does not consolidate the financial performance of its subsidiaries and associates as these entities were established for developmental and financial stability purposes. Investment in subsidiaries and associates are carried at cost and adjusted for impairment.

### 2.5 Gold

Gold is stated at fair value. Unrealised gains and losses from changes in the fair value of gold are recognised in the Risk Reserve. Realised gains or losses from the sale of gold are recognised in the Income Statement.

### 2.6 Foreign Financial Assets

Foreign financial assets, comprising fixed income securities and equities, are stated at fair value. Changes in the fair value are recognised in the Risk Reserve or the Income Statement while realised gains or losses for the sale of financial assets are recognised in the Income Statement.



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### 2.7 Repurchase and Reverse Repurchase Agreements (Repos and Reverse Repos)

Repos and Reverse Repos are treated as collateralised borrowing and lending. The securities sold under Repos and securities purchased under Reverse Repos are not derecognised and remain on the Statement of Financial Position while the corresponding amount borrowed and lent are reported under Other Liabilities and Other Assets respectively. The difference between sale and repurchase price under Repos and Reverse Repos is recognised as interest expense and interest income respectively in the Income Statement.

### 2.8 Land and Buildings

Land and buildings are stated at cost less accumulated depreciation and impairment losses, if any. The cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are added to the asset's carrying amount, or recognised as a separate asset as appropriate, only when it is probable that they will generate future economic benefits to BNM and the cost can be reliably measured. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Freehold land is not depreciated. Leasehold land and buildings are depreciated on a straight line basis over their estimated useful lives as follows:

	Useful Life
Leasehold land	Period of the lease
Buildings on freehold land	50 years
Buildings on leasehold land	50 years or remaining lease period (whichever is shorter)
Building improvement	Remaining useful life of the building

On disposal of land and buildings, the difference between the net disposal proceeds and the net carrying amount is recognised in the Income Statement.

### 2.9 Other Fixed Assets

All other fixed assets are fully expensed in the year of purchase.

### 2.10 Impairment of Non-Financial Assets

Assets are assessed for impairment when there is indication that the asset's carrying amount may not be recoverable. If such indication exists, the recoverable amount of the asset is estimated to determine the amount of impairment loss. The impairment loss is recognised in the Income Statement.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the assets no longer exist. The reversal is recognised in the Income Statement.

### 2.11 Currency in Circulation

Currency in circulation (CIC) represents banknotes and coins, including commemorative banknotes and coins, and demonetised currency, that have been issued by BNM for use in the economy. The CIC is recognised in the Statement of Financial Position at face value when they are placed into circulation and derecognised when they are withdrawn from circulation. Expenses incurred in the purchase and production of banknotes and coins are recognised in the Income Statement.

### 2.12 Net Profit

The net profit of BNM is appropriated in accordance with section 7 of the Central Bank of Malaysia Act 2009.

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### 3. Gold and Foreign Financial Assets

	2024 RM million	2023 RM million
Gold	14,556	11,884
Securities	359,576	401,489
Deposits and bank balances	104,752	61,532
Others	10,425	13,055
	<u>489,309</u>	<u>487,960</u>

### 4. International Monetary Fund (IMF) Reserve Position, Holdings of Special Drawing Rights (SDR) and Allocation of SDR

The reserve position comprises Malaysia's paid-up portion of IMF Quota and loans granted by BNM under the IMF's Financial Transaction Plan (FTP) and New Arrangements to Borrow (NAB). Both FTP and NAB programmes are used by IMF to provide loans to its member countries.

	2024 RM million	2023 RM million
IMF Reserve Position	5,440	6,229
Holdings of SDR	25,381	26,676
	<u>30,821</u>	<u>32,905</u>
Allocation of SDR	(28,185)	(29,738)
Net position with IMF	<u>2,636</u>	<u>3,167</u>

### 5. Malaysian Government Papers

Malaysian Government Papers refer to holdings of Government debt instruments that are among the instruments that can be used in BNM's monetary policy operations.

	2024 RM million	2023 RM million
Malaysian Government Securities	11,249	11,177
Malaysian Government Investment Certificates	1,556	1,832
	<u>12,805</u>	<u>13,009</u>

### 6. Deposits with Financial Institutions

Deposits with financial institutions comprise deposits placed by BNM with financial institutions under section 75(i) of the Central Bank of Malaysia Act 2009.

### 7. Loans and Advances

Loans and advances include financing extended by BNM to participating financial institutions under various funds established pursuant to section 49 of the Central Bank of Malaysia Act 2009 to promote financial inclusion.

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	2024 RM million	2023 RM million
BNM's Fund for small and medium-sized enterprises (SME)		
Fund to promote growth and development for SME	5,655	4,452
Special Relief Facility for SME affected by COVID-19	18,206	17,441
PENJANA Tourism and Automation & Digitalisation Financing for SME affected by COVID-19	1,154	1,030
Fund for Affordable Homes	975	1,000
Others	320	311
	<u>26,310</u>	<u>24,234</u>

### 8. Land and Buildings

2024	Freehold Land	Leasehold Land	Buildings on Freehold Land	Buildings on Leasehold Land	Total
	RM million	RM million	RM million	RM million	RM million
<b>Cost</b>					
As at 1 January	3,327	5	1,226	450	5,008
Addition	-	-	24	-	24
Disposal	(2)	(1)	(1)	-	(4)
As at 31 December	<u>3,325</u>	<u>4</u>	<u>1,249</u>	<u>450</u>	<u>5,028</u>
<b>Accumulated Depreciation</b>					
As at 1 January	-	2	261	135	398
Depreciation charge	-	-	25	9	34
Disposal	-	(1)	(1)	-	(2)
As at 31 December	<u>-</u>	<u>1</u>	<u>285</u>	<u>144</u>	<u>430</u>
Net carrying amount	<u>3,325</u>	<u>3</u>	<u>964</u>	<u>306</u>	<u>4,598</u>

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<b>2023 Restated</b>	<b>Freehold Land</b>	<b>Leasehold Land</b>	<b>Buildings on Freehold Land</b>	<b>Buildings on Leasehold Land</b>	<b>Total</b>
	<b>RM million</b>	<b>RM million</b>	<b>RM million</b>	<b>RM million</b>	<b>RM million</b>
<b>Cost</b>					
As at 1 January	4,011	151	-	-	4,162
Effect of change in accounting policy	(681)	(135)	1,226	450	860
As restated	3,330	16	1,226	450	5,022
Disposal	(3)	(11)	-	-	(14)
As at 31 December	3,327	5	1,226	450	5,008
<b>Accumulated Depreciation</b>					
As at 1 January	-	20	-	-	20
Effect of change in accounting policy	-	(18)	237	126	345
As restated	-	2	237	126	365
Depreciation charge	-	2	24	9	35
Disposal	-	(2)	-	-	(2)
As at 31 December	-	2	261	135	398
Net carrying amount	3,327	3	965	315	4,610

### 9. Other Assets

	<b>2024 RM million</b>	<b>2023 RM million</b>
Reverse Repurchase Agreements	50,728	62,149
Investments in Shares and Bonds:		
Subsidiaries	4,257	4,257
Associates	37	37
Other investments	95	95
Others	2,580	1,284
	<u>57,697</u>	<u>67,822</u>

### 10. Deposits from Others

These deposits include deposit placement by other central banks and government agencies.

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### 11. Bank Negara Papers

Bank Negara Papers are papers issued as part of BNM's market operations to manage liquidity in the domestic money market.

### 12. Other Liabilities

	2024 RM million	2023 RM million
Accruals	1,462	1,728
Repurchase Agreements	1,104	1,121
Others	555	419
	<u>3,121</u>	<u>3,268</u>

### 13. Capital

BNM's capital is wholly-owned by the Government of Malaysia.

### 14. General Reserve Fund

Appropriations of net profits to the General Reserve Fund and dividends to the Government are recognised upon the approval from the Board of Directors and the Minister pursuant to section 7 of the Central Bank of Malaysia Act 2009. There was no transfer to the General Reserve Fund during the financial year ended 31 December 2024 and 31 December 2023.

### 15. Risk Reserve

The Risk Reserve are financial buffers comprising cumulative transfers of net profits, unrealised gains or losses on translation of foreign currency assets and liabilities and fair value changes from securities carried at fair value.

	2024 RM million	2023 RM million Restated
As at 1 January	151,251	116,610
Effect of change in accounting policy	24	1,190
Movements during the year	(3,379)	33,451
As at 31 December	<u>147,896</u>	<u>151,251</u>



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### 16. Unappropriated Profits

	2024 RM million	2023 RM million
As at 1 January	7,186	6,986
Less:		
Transfer to Risk Reserve	(4,336)	(4,236)
Dividend paid to the Government	(2,850)	(2,750)
	-	-
Current year	13,162	7,162
Add: Profit transfer from Land Revaluation Reserve	20	24
As at 31 December	13,182	7,186

Upon approval from the Board of Directors and the Minister, the appropriation of profits will be recognised in the financial statements of the next financial year.

The dividend paid to the Government for the financial year ended 2023, amounted to RM2.85 billion, was approved by the Minister on 21 March 2024.

For the financial year ended 31 December 2024, the Board of Directors approved the transfer of RM7.91 billion to the Risk Reserve and recommended a dividend of RM5.25 billion to the Government.

### 17. Total Income

		2024 RM million	2023 RM million
Operating Income	(a)	14,655	8,472
Loans and Advances Income	(b)	33	34
Other Income	(c)	290	266
		14,978	8,772

#### (a) Operating Income

Operating income includes interest, dividends, gains or losses on disposal of securities and net of monetary operations cost.

#### (b) Loans and Advances Income

	2024 RM million	2023 RM million
BNM's Fund for SMEs	16	17
Fund for Affordable Homes	10	10
Others	7	7
	33	34

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(c) **Other Income**

Included in other income are income from currency processing charges and sales of commemorative banknotes and coins.

18. **Recurring Expenditure**

		<b>2024</b>	<b>2023</b>
		<b>RM million</b>	<b>RM million</b>
Human Capital	(a)	(872)	(771)
Currency Operations	(b)	(197)	(176)
Information Technology	(c)	(153)	(131)
Utilities and Maintenance	(d)	(176)	(145)
General and Administrative	(e)	(215)	(218)
Depreciation	(f)	(34)	-
		<u>(1,647)</u>	<u>(1,441)</u>

(a) **Human Capital**

Human capital costs include salaries, allowances, staff medical costs and employer statutory contributions.

(b) **Currency Operations**

Currency operations comprise expenditure incurred directly and indirectly in issuing currency banknotes and coins.

(c) **Information Technology**

Information technology are expenditures incurred to maintain IT infrastructure and equipment, including renewal of licences and purchase of IT consumables.

(d) **Utilities and Maintenance**

Included in utilities and maintenance are expenditures relating to the upkeep of BNM's office buildings and other premises.

(e) **General and Administrative**

General and administrative are expenditures incurred in the administration of BNM's day-to-day operations.

(f) **Depreciation**

Depreciation charges for leasehold land and buildings.

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### 19. Development Expenditure

Development expenditure are expenses incurred mainly to finance developmental and long-term projects undertaken by BNM that are in line with its principal objects and functions.

### 20. Taxation

BNM is exempted from payment of income tax and supplementary income tax as set out in the Income Tax (Exemption) (No. 7) Order 1989. Tax expenses relate to unclaimable withholding taxes on dividend and interest income earned from the foreign investments and capital gains taxes on sale of foreign investments.

### 21. Contingencies and Commitments

#### 21.1 Contingent Assets

Total contingent assets as at 31 December 2024 amounted to RM1,840 million. These comprise BNM's total funding to the International Centre for Leadership in Finance (ICLIF) Trust Fund of RM1,000 million and International Centre for Education in Islamic Finance (INCEIF) Trust Fund of RM840 million to finance activities related to training, research and development of human resource in banking and financial services managed by Asia School of Business (ASB) and INCEIF University, respectively. It is provided in the Trust Deeds that the total funding will be returned to BNM when these Centres become self-sufficient in the future.

#### 21.2 Legal Proceedings

A number of legal proceedings against BNM were outstanding as at 31 December 2024. For litigation exposure where a loss is probable, an appropriate provision shall be made. Based on available information as at 31 December 2024, the estimated contingent liability will not have any material impact on BNM's financial position and operations.

#### 21.3 Commitments

Total outstanding commitments of BNM are as follows:

	Note	2024 RM million	2023 RM million
Membership with International Monetary Fund (IMF)	(a)		
Unpaid Quota	(i)	15,769	16,409
New Arrangement to Borrow (NAB)	(ii)	3,969	4,183
Bilateral Borrowing Agreement (BBA)	(iii)	1,929	1,978
Swap Arrangements	(b)		
Bilateral Swap Currency Arrangement with Other Central Banks	(i)	170,704	142,540
Chiang Mai Initiative Multilateralisation	(ii)	40,745	41,787
Repurchase Agreement with Central Banks and Monetary Authorities	(iii)	22,378	22,950
Total Outstanding Commitments		<u>255,494</u>	<u>229,847</u>

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### (a) **Membership with IMF**

- (i) The Unpaid Quota represents the unpaid portion of Malaysia's quota in the IMF under the Articles of Agreement in which BNM has an obligation to pay to IMF in SDR or in other convertible currencies.
- (ii) The New Arrangements to Borrow (NAB) is a multilateral credit arrangement between BNM and the IMF to provide a supplementary source of financing to IMF for the purpose of safeguarding the stability of the international monetary system.
- (iii) The Bilateral Borrowing Agreement (BBA) involves bilateral contribution by BNM to the IMF for precautionary and financial crisis resolution purposes effective from 1 January 2021.

### (b) **Swap Arrangements**

#### (i) **Bilateral Swap Arrangement (BSA)**

BNM participates in BSAs with other central banks with the objective of promoting and facilitating trade settlement and direct investment in local currency between the two countries, and providing liquidity support for short-term balance of payments. BNM currently signed BSA with People's Bank of China, Bank of Korea, Bank Indonesia, Bank of Japan and Bank of Thailand.

#### (ii) **Chiang Mai Initiative Multilateralisation Arrangement**

BNM has participated in the Chiang Mai Initiative Multilateralisation (CMIM) which aims to provide financial support through currency swap transactions in US dollar or selected local currencies to ASEAN+3 member countries to address balance of payments and short-term liquidity difficulties in the region.

#### (iii) **Repurchase Agreement with Central Banks and Monetary Authorities**

BNM has entered into repurchase agreements with various central banks and monetary authorities under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) to provide liquidity assistance in times of emergency.

## 22. **Financial Risk Management**

The Reserve Management Committee oversees the assessment, measurement and the control of the investment risks in the management of reserves to be within acceptable levels to ensure that the objectives of capital preservation, liquidity and reasonable returns are met. In undertaking this function, the major risks of the investments fall into the following areas:

### (a) **Market Risk**

Market risk is the exposure of BNM's investments to adverse movements in market prices related to foreign exchange rates, interest rates and prices of bonds and equities. Market risk is assessed and monitored on a daily basis. A benchmark policy approved by the Board of Directors reflects the long-term objectives and acceptable risk-return profile of the investments. Investments may be made in instruments that are different from those in the benchmark. This deviation in investment is controlled through a set of risk management limits, governance arrangements and investment guidelines that are also approved by the Board of Directors.

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### (b) Credit Risk

Credit risk is the risk of default of the issuer of the debt or failure of the counterparty to perform its contractual obligation to BNM resulting in BNM not receiving its principal and/or interest that has fallen due in a timely manner. A comprehensive credit risk framework governs the permissible investments and the risk appetite of BNM, thus ensuring investments in issuers and with counterparties of good credit standing. The framework, which is approved by the Board of Directors, also incorporates market-based indicators and quantitative measures which supports a more forward-looking credit assessment.

### (c) Operational Risk

Operational risk is the risk of financial losses due to failed internal processes, inadequate controls and procedures, or any other internal or external events that impede operations. Operational risk is mitigated through a risk governance framework and effective implementation of risk controls and limits. A comprehensive operational risk surveillance mechanism is in place to support the identification of emerging risks in BNM's operations to allow for action to be taken in managing gaps and in mitigating financial losses.

### 23. Bank Negara Malaysia Staff Welfare Account (Medical Fund) (termed as the 'Medical Fund Account')

The Medical Fund Account was established on 21 June 2006 under section 15 (6) of the Central Bank of Malaysia Act 1958 and continue to exist under section 83 (4) and (5) of the Central Bank of Malaysia Act 2009.

The Medical Fund Account is governed under the Bank Negara Malaysia Staff Welfare Account (Medical Fund) Trust Directions 2006 and Supplementary Trust Directions 2017. The objective of the Medical Fund is to assist BNM to meet the medical expenses of eligible retirees and their dependents. As stipulated in the Bank Negara Malaysia Staff Welfare Account (Medical Fund) Trust Directions 2006, the Medical Fund shall be administered by a Medical Fund Committee. The Medical Fund Account is to be maintained separately and shall be audited in the same manner as BNM's Account.

### 24. Related Party Transactions and Balances

#### Government of Malaysia

BNM's capital is wholly-owned by the Government. BNM funds its own operations and maintains organisational and functional independence from the Government. In the normal course of its operations, BNM enters into transactions with related parties and significant balances are presented in these financial statements.

#### Significant Related Party Balances

	2024 RM million	2023 RM million
<b>Shareholder</b>		
Government of Malaysia		
Holdings of Malaysian Government Papers	12,805	13,009
Deposit placements from the Government	5,233	3,526



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### 25. Change in Accounting Policy and Prior Year Adjustment

The effect of the change in accounting policy was adjusted retrospectively for the earliest period presented as if the basis used had always been consistently applied.

#### Statement of Financial Position as at 31 December 2023

	As previously stated	Adoption of cost model	As restated
	RM million	RM million	RM million
<b>Assets</b>			
Land and Buildings	4,128	482	4,610
Total Assets	631,260	482	631,742
<b>Capital</b>			
Risk Reserve	150,061	1,190	151,251
Land Revaluation Reserve	708	(708)	-
Total Liabilities and Capital	631,260	482	631,742

### 26. Approval of Financial Statements

The Board of Directors approved the financial statements on 25 February 2025.