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STRUCTURAL REFORMS
BUILDING A RESILIENT MALAYSIA

Workshop 1

How Do We Supervise and Regulate Banks and Insurers & Takaful Operators (ITOs)

Falahi Sarisatriya Firdaus, Senior Supervisor, Bank Negara Malaysia
Seow Qin Rui, Raymond, Senior Supervisor, Bank Negara Malaysia
Mohamad Imaduddin Jis Safri, Senior Supervisor, Bank Negara Malaysia

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Agenda

1. The Mandate
2. The Mission
3. The Mechanics
4. The Mandate in Action
5. Q&A

The Mandate: Financial Stability

*"Principal objects of BNM shall be to promote **monetary stability** and **financial stability** conducive to the sustainable growth of the Malaysian economy"*

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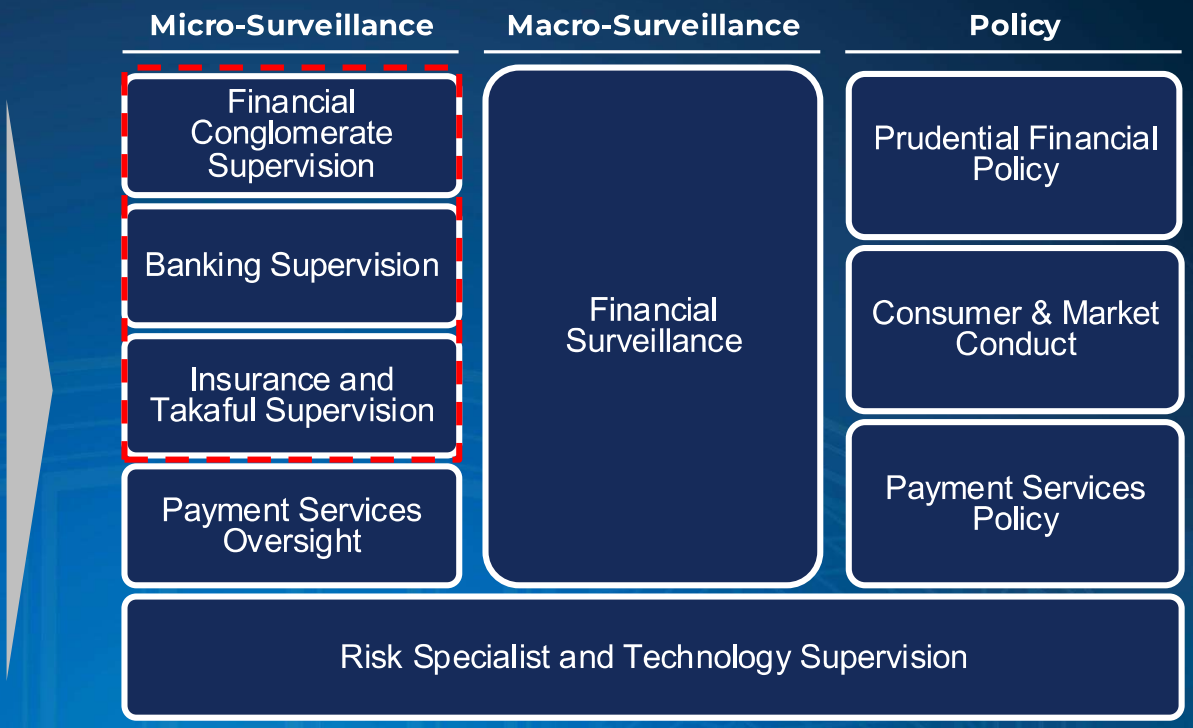
Central Banking Act 2009

"Financial Stability means a risk…disrupts…the **financial intermediation** process…or affects, or is likely to affect, **public confidence** in the financial system"



The Mission: Safeguarding Trust in Financial Institutions (FIs)

What is supervision?

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"Supervision involves **monitoring and examining** regulated FIs' compliance with laws and prudential requirements"

Supervised Institutions

- 8 Domestic Banking Groups
- 17 Locally Incorporated Foreign Banks
- 7 Standalone Islamic and Investment Banks
- 5 Digital Banks
- 6 Development Financial Institutions
- 23 General Insurer / Takaful Operators
- 25 Life Insurer / Family Takaful Operators
- 8 Reinsurers and Retakaful Operators

The Mission: Safeguarding Trust in Financial Institutions (FIs)

Ensuring the safety and soundness of FIs to support sustainable economic growth and safeguard depositors and policyholders

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Legal Frameworks



Central Banking Act (CBA) 2009
Power to prescribe FIs to ongoing regulation and supervision



Financial Services Act (FSA) and Islamic Financial Services Act (IFSA) 2013
Expanded rule-making and supervisory powers to address risks to financial stability in a more complex financial landscape

Prudential Supervision



Promoting Institutional Soundness for Financial Stability
Protect depositors and policyholders, fostering public confidence while assessing FIs' resilience to withstand economic shocks and support sustainable growth



Supervision in a Dynamic Financial Landscape
Navigating complexity and interconnectedness while mitigating emerging risks

The Mechanics: Behind the Supervisors' Lens

Risk-based prudential supervision: Dynamic, forward looking & proportionate

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Supervisory Focus Areas

Undertake Risk Assessment*

- primary risks include:

- ✓ Banks: Credit, Market & Operational
- ✓ ITOs: Insurance, Market & Operational

Assessing Quality of Risk Management*

- ✓ Operational management
- ✓ Board oversight
- ✓ Senior management
- ✓ Risk control functions
  - Risk management
  - Compliance
  - Internal audit

Assessing Financial Resilience

- ✓ Earnings
- ✓ Capital
- ✓ Liquidity

Other Assessments

- ✓ Culture
- ✓ AML/CFT
- ✓ Technology
- ✓ Climate
- ✓ Thematic reviews (e.g. emerging risks)

Focusing on the FI's **significant activities*

- *Bank – e.g., lending business, trading activities*
- *ITO – e.g., investment-linked, OL non-participating, motor, fire*

The Mechanics: Behind the Supervisors' Lens

Keeping compliance in check to safeguard trust in financial institutions

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Examples of key requirements enforced by BNM

	Banks	ITOs
Financial Resilience	• *Capital Adequacy Framework* • *Internal Capital Adequacy Assessment Process (ICAAP)* • *Liquidity e.g., Liquidity Risk, LCR & NSFR*	• *Risk-Based Capital Framework* • *Internal Capital Adequacy Assessment Process (ICAAP) for insurers*
Operational Resilience	• *Operational Risk* • *Outsourcing* • *Risk Management in Technology (RMiT)*	
Financial Integrity	• *AML/CFT* • *Fraud Countermeasures – for banks*	
Others	• *Market conduct related requirements e.g., Fair Treatment of Financial Consumers*	

The Mechanics: Behind the Supervisors' Lens

Different supervisory tools deployed to support supervisory activities

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How?

On-site examination

E.g. Validation of process, review of material samples, interviews and discussion

Off-site surveillance

E.g. Data collection & analytics, horizontal peer comparative assessment, introduction of new products and services, appointment of Board of Directors and CEOs

Close coordination and collaboration with other parties/authorities

- ***[Internal]*** *In-house specialists (e.g., IT supervisors, credit & market specialists and actuaries), market conduct supervisors,*
- ***[External]*** *Securities Commission, PIDM, external auditor, experts/specialised consultants on technical areas such as IT,*

The Mandate in Action: Why Supervision Matters?

Ensuring vulnerabilities are pre-emptively identified and managed to maintain the safety and soundness of financial institutions

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Safeguarding against risks and failures

- Pre-emptive detection of vulnerabilities to enable timely intervention and enforcement actions
  - On-going surveillance
  - Regular stress testing
  - Recovery plan as a tool for banks to restore financial strength in times of crisis

Enabling sustainable economic growth

Years of resilience-building place financial institutions in a position of strength

- Operationally and financially sound FIs will support economic growth via effective intermediation
- ITOs continue to function as a financial safety net for individuals and businesses

Preserve public confidence

- Maintain public confidence in the stability and integrity of the financial system
- Supervisory measures are designed with public in mind