

Malaysia

Kadir Andri & Partners

**Bolstering
Malaysia's
financial services
sector**

The Financial Services Act 2013 (FSA – a consolidation of the Banking and Financial Institutions Act 1989, Payment Systems Act 2003, Insurance Act 1996 and Exchange Control Act 1953) came into force on June 30 2013. The FSA gives Bank Negara Malaysia (the Malaysian Central Bank – BNM) increased

supervisory powers and flexibility to deal with risks – much needed in today's challenging global financial system.

Some key highlights:

Financial groups: for improved risk management, the FSA has expanded BNM's supervisory powers to cover financial holding companies (FHCs – companies with more than 50% of the interest in shares of a licensed entity, or any other entity that has control over the licensed entity). An FHC, and possibly other group entities, will be obliged to

comply with prudential requirements applicable to licensed entities (such as capital adequacy requirements) and its activities are restricted to holding investments in entities engaged in financial services.

Insurance industry: insurers can no longer operate both life and general insurance businesses simultaneously. Holders of composite licences are given five years to comply, and we are likely to see increased restructuring and M&A activity in this space.

Licensing and regulation: prudential requirements may now be imposed on

payment system operators (PSOs). Further, while entities carrying out leasing, factoring or hire-purchase businesses no longer come under BNM's direct supervision, BNM may regulate them if they pose a risk to financial stability. BNM has broad powers to issue wide-ranging directions to institutions (including licensed entities, FHCs and PSOs) such as prohibiting certain transactions and requiring capital-raising exercises to be undertaken.

With the FSA – and the complementary Islamic Financial Services Act 2013 – Malaysia now has a more robust and streamlined framework to regulate the conventional and Islamic financial sectors.

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