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PART A OVERVIEW

1. OBJECTIVE

1.1 The Guidelines aim to ensure that fees and charges levied on financial products and services offered to individuals and small and medium-sized enterprises (SMEs)[1] are equitable to both the consumer and the financial service provider (FSP).

1.2 With the issuance of this Guidelines, the previous guidelines and circulars in relation to fees and charges as stated in Appendix I are deemed withdrawn.

1.3 All approvals for fees and charges are deemed withdrawn effective from the date of prohibition as set out in the footnotes of these Guidelines.

2 APPLICABILITY

2.1 The Guidelines are applicable to the following FSPs:

- Banking institutions licensed under the Banking and Financial Institutions Act 1989 (BAFIA);
- Islamic banking institutions licensed under the Islamic Banking Act 1983 (IBA) except international Islamic banks;
- Development financial institutions prescribed under the Development Financial Institutions Act 2002 (DFIA)[2]**;** and
- Designated payment instrument issuers approved under the Payment Systems Act 2003 (PSA)[3].

[1] As per the definition of SME by the National SME Development Council, informed via Bank Negara Malaysia's circular dated 13 September 2005, entitled "Definasi Perusahaan Kecil dan Sederhana".
[2] For development financial institutions, the effective date of the Guidelines is 1 October 2007, unless otherwise specified.
[3] For designated payment instrument issuers approved under PSA, the effective date of the Guidelines is 28 December 2007.

3 SCOPE OF COVERAGE

3.1 The Guidelines are applicable to all fees and charges imposed on financial products and services including Islamic financial products and services offered to individuals and SMEs.

4 LEGAL PROVISION

4.1 The Guidelines are issued pursuant to:

- Section 126 of the BAFIA;
- Section 53A of the IBA;
- Section 126 of the DFIA; and
- Section 70 of the PSA.

PART B POLICY REQUIREMENTS

5 POLICY

5.1 The FSP is required to obtain Bank Negara Malaysia's approval prior to any upward revision of existing fees and charges or any introduction of new fees and charges imposed on SMEs and/or individuals. For a downward revision, no approval is required unless the proposed revision will result in a reduction in benefits and/or features of the financial products.[4]

5.2 The FSP must ensure that the fees and charges levied on all financial products and services offered to individuals and SMEs comply with the following guiding principles[5]:

[4] For BAFIA and IBA licencees, effective date of this requirement is 10 December 2004.
[5] For BAFIA and IBA licencees, effective date of this requirement is 15 July 2005.

5.2.1 Principle 1

The FSP should not impose charges that are part and parcel of enhancing the FSP's own internal operating processes and/or risk management practices on customers.

In recent years, FSPs have enhanced risk management processes through more thorough credit vetting, including checks with credit reporting institutions, stringent review of loans (or financing for Islamic products) such as annual review and proactive recovery efforts via reminder letters. However, the costs of enhancing such processes are passed on to the consumer via increased charges such as annual/periodic review fee, administrative fee, reminder letter fee and search fee of credit reporting institutions incurred. As these fees are incurred as part of the FSP's internal process enhancement and do not value-add to the financial products or services offered to the customer, such costs should be absorbed by the FSP.

Guidance notes:

Given that processes such as credit vetting, stringent review of loans, annual review of credit facilities and recovery efforts via various modes of reminder are integral part of the FSP's internal operations or part of risk management practices, and there is no value-add services offered to customers, such costs should not be passed on to the customers. Transactions conducted at non-home branch should be treated the same as transactions carried out at home branch. For instance, cash withdrawals conducted over-the-counter at non-home branch.

Examples of charges that are not allowed to be passed on to customers:

- *Annual/periodic review fee (including renewal fee);*
- *Reminder fee for all products (including notices on dormant account). The FSP is reminded not to substitute reminder notices with legal notices;*

- *Search fee (i.e. CCRIS, CCM);*
- *Cheque encashment by account-holder at non-home branch;*
- *Immediate credit of house cheque;*
- *Dishonoured cheque charges by card issuer[6];*
- *Administrative charges for processing of restructuring/ rescheduling of loan/financing facility[7]; and*
- *Administrative charges for processing of early termination of loan/financing facility[7].*

5.2.2 Principle 2

For ad-hoc[8] services, the amount of charges to be imposed should be based on actual direct costs incurred.

The customer may from time to time request for specific services that are not part of normal account transactions, for example, audit confirmation, photocopy of loan (or financing for Islamic products) documents, issuance of redemption statements, retrieval of documents, etc. As this is part of customer service, charges levied should commensurate with the actual direct costs[9] incurred.

Guidance notes:

The customer may request for specific services that are not part of the core features of a financial product, for example, additional statement request, account status confirmation, letter of reference, audit confirmation, sales draft retrieval, etc. Since this is a form of service to customers, charges levied should reflect actual direct costs incurred in the provision of such services. In addition, the FSP must provide the customer with details of the charges and the basis for such charges at the time the customer requests for the services. The information should

[6] The effective date for this requirement is 2 September 2009.
[7] The effective date for this requirement is 7 August 2009.
[8] Customer initiated transaction/request that is not part of normal account transactions for specific services (for example, audit confirmation, photocopy of loan (financing for Islamic products) documents, issuance of redemption statements, retrieval of documents, etc).
[9] Direct costs are the costs that are directly related to products/services provided and generally should be limited to variable costs only.

not be bundled under vague headings such as administrative fees or miscellaneous costs (if any, the charges must be itemised).

However, the following ad-hoc services should not be charged any fee:

- *Changing of coins and notes (for individuals) at all branches;*
- *Depositing of coins and notes (for individuals) at all branches; and*
- *Inward RENTAS third party payment.*[10]

5.2.3 Principle 3

Outsourcing should lead to more competitive and efficient pricing and thus should not result in additional charges imposed on the customer.

FSPs outsource primarily to reduce costs and to focus on core activities. By outsourcing functions that are cost-effectively and efficiently provided by third parties, the FSP directly or indirectly, enjoys greater savings and as such no additional charges should be imposed on the customer.

Guidance notes:

By outsourcing non-core functions, the FSP enjoys cost savings and as such no additional charges should be imposed on the customer, for example, collection of cheque book from branches where printing of cheque has been outsourced, debt collection charges, marketing and promotion costs, etc.

For services which could only be performed by external service providers, the FSP may be allowed to levy the charges on the customer, for example, legal fees, repossession fees, etc. However, the FSP must not inflate the charges and are required to disclose clearly the fees incurred.

[10] The effective date of this requirement is 1 June 2011.

The FSP should not pass on any legal costs incurred as a result of merger and acquisition, for example, for the change of name or titles and discharge of charge. Likewise, the FSP should not pass on costs incurred as a result of internal re-engineering or process improvement exercise, for instance, for the retrieval of legal documents from a centralised location.

5.2.4 Principle 4

If there is a convenient, cheap and effective alternative arrangement offered, the FSP may be allowed to impose charges on similar services/products offered.

Where the FSP has provided arrangements or channels that are more convenient, cheap and effective for customers, the FSP may impose charges on the alternative arrangement to promote migration to any cheaper, more convenient and effective arrangements or channels.

Guidance notes:

Where there are arrangements that are cheaper as well as more convenient and effective for the customer such as self-service machines, the FSP may impose charges on the alternative channels (i.e. performing similar transactions over the counter) to promote migration to these more efficient channels. Nevertheless, the FSP should ensure that the charges levied on the customer reflect the actual direct costs incurred. For example, for returned cheques or cheque books couriered to the customer at the customer's request, the FSP may impose courier charges based on the actual costs incurred.

Examples of charges that are not allowed:

- *Depositing of salary cheques at cheque deposit machines (the customer is already utilising the self-service channel); and*
- *Service charge on returned cheques if collected from branches by the customer.*

5.2.5 Principle 5

If the services offered are not part of the core features of the product, the FSP may be allowed to impose fees and charges on additional and/or value-added services offered.

The FSP has increasingly offered greater product differentiation and value-added services to gain competitive advantage. In this regard, value-added services such as standing instruction facility, over-the-limit facility for credit card, electronic share application, have been introduced. Given that such services add value to the total service offerings, the services may be offered for a fee.

Guidance notes:

Value-added services such as standing instruction facility, electronic share application and salary crediting have been introduced for the benefit of the customer. Such value-added services may be offered for a fee which should reflect the actual direct costs incurred. However, the FSP is required to provide details of the charges that apply to the services so that the customer is able to make well-informed decisions. Disclosure should clearly show the cost of each transaction/service and when the fee will be imposed. In addition, the customer should be informed of the availability of a free-of-charge option (if available), for example, collection of cheque book from branches.

Example of charges that should not be levied on the customer:

- *Card cancellation fee.*

5.2.6 Principle 6

For deposit products and services where protection is already accorded under the basic banking services framework, market forces will determine the pricing of similar products and services.

Basic banking services framework provides protection to the consumer by ensuring access to specific basic banking services for all Malaysians and permanent residents at minimal costs. With such protection in place for individuals and SMEs, the FSP is allowed to adopt a market-driven approach to pricing similar financial products and services.

Guidance notes:

With the basic banking services framework in place for individuals and SMEs, the FSP is allowed to adopt a market-driven approach to pricing similar financial products and services comprising additional or enhanced features. However, the customer must be informed of any minimum account balance requirement that will impact upon the need to pay a fee, for example, service charge imposed on a hybrid account (interest is paid) if the average balance falls below a certain threshold.

Examples of charges that are not allowed to be levied on the customer:

- *Maintenance fee for all savings accounts;*
- *Unclaimed moneys transfer fee;*
- *Dormant account reactivation fee; and*
- *Service fee for account classified as dormant for no withdrawal (with deposits only).*

5.3 Based on the above guiding principles, the FSP is required to moderate and/or to cease imposing existing fees and charges that are not in compliance with the above principles.

5.4 If Bank Negara Malaysia deemed certain charges to be excessive or inappropriate, Bank Negara Malaysia reserves the right to direct the FSP to moderate or cease imposing the charges or specify any other form of remedial actions, including refunding to customers charges that are not allowed to be imposed.

5.5 Applications must be submitted to Bank Negara Malaysia in writing, explaining the justification for the imposition of, or increase in, fees and charges, conditions under which these fees may be imposed, and enclose a communication plan.[11] The format of the application is as per Appendix II.

5.6 For Islamic financial products, the FSP is required to submit any proposed changes on the imposition of fees and charges via the Product Approval and Repository System[12] (PARS) after it is endorsed by the respective Shariah committee.

5.7 If Bank Negara Malaysia does not revert to the FSP within 14 working days from the date of acknowledgement of receipt of complete information, the FSP may proceed to introduce the fees and charges. In addition, the FSP must ensure that the customer is informed of any revised fees at least 21 days before the effective date. More importantly, the FSP must ensure that the frontline staff are aware of the changes made and the rationale for the changes.

5.8 Commitment fee[13]

5.8.1 The FSP is allowed to charge commitment fee of not more than 1% per annum on the unutilised portion of overdraft and revolving credit facilities. To discourage borrower from applying for multiple standby credit lines, the FSP is required to monitor the borrower who does not draw down on the credit facilities after 3 months from the completion of the necessary documentation. The FSP is required to write to the borrower to determine whether the credit facilities are still necessary. The borrower should give written confirmation that the credit facilities are still necessary, failing which the FSP reserves the right to withdraw the credit facilities. This is to ensure that the borrower does not seek financing in excess of the borrower's actual requirements as such actions may deprive other prospective genuine borrower from obtaining new credit facilities.

[11] For BAFIA and IBA licensees, effective date of this requirement is 10 December 2004.
[12] For BAFIA and IBA licensees, effective date of this requirement is 13 February 2006. The submission via PARS is not applicable to DFIs where the application submission is through the hardcopy.
[13] For BAFIA licensees, effective date of this requirement is 1 November 1999. For DFIs, the commitment fee is applicable to revolving credit facility only, to be made effective from 15 February 2008.

5.8.2 However, as decided by the Shariah Advisory Council (SAC) of Bank Negara Malaysia[14], the FSP is not allowed to impose commitment fee on the unutilised portion of *overdraft-i* and *revolving credit-i* facilities based on sales contract such as murabahah and tawarruq. Such imposition is inconsistent with the Shariah principles where the facility amount is owned by the customer.

5.9 Penalty charges on financial products

5.9.1 The FSP is allowed to charge a penalty rate of not more than 1% per annum (daily rest basis) on the instalment amount in arrears for conventional financial products (excluding credit card and hire purchase loans).

5.9.2 The FSP offering Islamic financial products may adopt the following penalty mechanism[15]:-

(i) Penalty may be imposed on new or existing financing, except if the agreement clearly specified that there is no penalty imposed on any customer who has defaulted his instalment payment on the financing;

(ii) The penalty to be imposed on any default payment on the financing, from the date of repayment until the maturity date, should **not be more than 1% per annum** on the overdue instalments on Islamic financial products (excluding credit cards and hire purchase financing). Please refer to the illustration in Appendix III;

(iii) The penalty to be imposed on any default payment on the financing which has exceeded the maturity date/due date, shall be the prevailing Islamic Inter-bank Money Market rate or the Islamic bank "r" rate (i.e. the gross dividend rate for the 12-months investment account) against the outstanding purchase price (principal balance). Please refer to the illustration in Appendix IV;

[14] As decided by the SAC of Bank Negara Malaysia on its 12th meeting on 24 February 2000. Compilation of the resolutions of SAC of Bank Negara Malaysia was issued to the financial service providers in 2001.
[15] For BAFIA and IBA licensees, the effective date of this requirement is 10 September 1998.

(iv) The total penalty charged shall not be compounded on the overdue instalments;

(v) The maximum amount of penalty that can be imposed on the non-performing financing shall not be more than 100 percent of the outstanding purchase price. For example, if the outstanding purchase price is RM50,000, the total penalty charged cannot be more than RM50,000;

(vi) The FSP shall accord due consideration and fair judgement to the customer with cash flow problems; the customer who has not abused the financing facilities; or cases with good merit, including any exemption from the penalty; and

(vii) Penalty earned from the non-performing financing shall be included in the bank's profit account and be shared between the FSP and the customer as per the FSP's prevailing profit distribution.

5.10 Imposition of fees for processing of applications[16]

The FSP is required to cease the imposition of fees for the processing of loan (or financing for Islamic products), including credit card balance transfer applications, except for approved housing loan (or Islamic house financing products) applications[17]. This is in line with Principle 1 of the Guiding Principles which stipulates that the FSP should not impose charges that are an integral part of the FSP's internal operations and/or its risk management practices.

6 DISCLOSURE REQUIREMENTS

6.1 The FSP is required to comply with the following disclosure requirements:[18]

[16] For BAFIA and IBA licensees, the effective date of this requirement is 1 September 2007.
[17] Housing loan applications include loans for the purchase of commercial and industrial properties. However, no fee should be imposed for processing of loan application for the purchase of land.
[18] For BAFIA and IBA licensees, effective date of this requirement is 1 February 2005.

6.1.1 Publish the rates of fees and charges being imposed on financial products and services offered to individuals and SMEs. The information shall be made available at all FSP's branches and websites for ease of reference.

6.1.2 For any changes to the fees and charges of any products and services, those changes and their effects shall be communicated to the relevant customer at least 21 days before the changes occur to allow him to make any adjustments to his banking arrangements. Changes must be informed through a personally addressed written notice where it is practical to do so. These changes shall at least be displayed prominently at banking halls and on the FSP's website.

6.2 The FSP's automated teller machine (ATM) screen is required to include a message on screen to prompt the ATM user on the charges applicable to each cash withdrawal transaction (i.e. the relevant network charges). This message must appear before the user commits to making the cash withdrawal. The user can then decide whether to proceed with, or to cancel the transaction. This requirement is also applicable to cash withdrawal using credit card, international debit and prepaid card. [19]

For example: When Bank A's customer makes a cash withdrawal at Bank B's ATM, Bank B's ATM must prompt the person through a message on the screen, displaying the applicable network charges, e.g. Malaysian Electronic Payment System 1997 (MEPS) charges or a message informing that charges will apply for withdrawals performed via Visa or Mastercard network.

6.3 Bank Negara Malaysia will, from time to time, conduct surveillance to ensure that the FSP complies with the disclosure requirements, and take appropriate enforcement action in the event of any non-compliance.

[19] The effective date of this requirement is 1 January 2010.

APPENDIX I

Withdrawal of Guidelines or circulars

Guidelines/ Circular	Title	Effective Date
2201/015/5/2/1/ RMI	Pengenaan Penalti Bagi Pembiayaan Perbankan Islam	10 December 1998
82/BI/99	Commitment Fees Charged on Unutilised Credit Facilities	1 November 1999
51/2004/CB/FC	Imposition of Fees and Charges on Banking Products and Services	10 December 2004
JPIT/25/2004/IB	Imposition of Fees & Charges on Banking Product and Services	10 December 2004
BNM/RH/GL/002-16	Imposition of Fees and Charges on Banking Products and Services for Islamic Banks	10 December 2004
22/2005/BAFIN/ CB/FC	Imposition of Fees and Charges on Banking Products and Services	15 July 2005
JPIT/11/2005/IB	Imposition of Fees & Charges on Banking Product and Services	19 July 2005
22/2006/CB	Imposition of Fees and Charges on Banking Products and Services	2 August 2006
34/2006/CB	Imposition of Fees and Charges on Banking Products and Services	20 October 2006
BNM/RH/CIR 011-1	Imposition of Fees and Charges on Banking Products and Services	1 September 2007
39/DFE/2007	Pengenaan Bayaran dan Caj bagi Produk dan Perkhidmatan Perbankan	1 October 2007

APPENDIX II

Information Submission for Revision or Introduction of Fees and Charges

Please provide detailed response in boxes provided as per examples (in italics) shown below. For each product or service, you may list all related charges in the same template. Please use separate template for different financial products and services.

Information to be submitted	Remarks
1. Name of product or service	*ABC Savings Account*
2. Type of product or service & brief features	*Savings account* ***Standard features** - Minimum deposit RM20, with ATM & debit card to withdraw cash & make payment for purchases* ***Additional features** - No passbook. Electronic-based account where customers can view their monthly statement online.*
3. Information on proposed fees & charges	

Type of fees & charges	Existing fees & charges[1] (RM)	Proposed fees & charges[1] (RM)	Rationale	Detailed cost breakdown	Comparison with other financial service providers as at (date)[2]
(i) Annual fee	*RM4.00 per annum*	*RM8.00 per annum*	*To recoup increased cost of providing e-statement*	*System development cost RM4.50 per customer* *System maintenance cost RM3.80 per customer* ***Total estimated cost incurred**: RM8.30*	***Bank A** - RM8 per annum* ***Bank B** - RM10 per annum* ***Bank C** - RM15* ***Bank D** - waived*
(ii) ATM withdrawal fee via MEPS/HOUSe	*RM0.50 per withdrawal (for the fourth withdrawal onwards in a month)*	*RM1.00 per withdrawal (for the fourth withdrawal onwards in a month)*	*To recoup charges imposed by MEPS/HOUSe & acquiring bank*	*MEPS/HOUSe - RM0.50 per withdrawal* *Acquiring bank - RM1.00 per withdrawal* ***Total cost incurred**: RM1.50 per withdrawal*	***Bank A** - RM1 per withdrawal* ***Bank B** - RM1 per withdrawal* ***Bank C** - RM0.50 per withdrawal*
(iii) Hardcopy statement	*nil*	*RM1.00 per statement*	*To recoup cost of extracting hardcopy statement*	*Cost of retrieving the statement RM0.50* *Printing cost RM0.30 per page* *Postage RM0.70 per statement* ***Total cost incurred**: RM1.50 per statement*	***Bank A** - RM1 per hardcopy statement* ***Bank B** - RM1.50 per hardcopy statement* ***Bank C** - RM0.50 per page of hardcopy statement*

4. Target implementation date	*15 June 2011*
5. Communication plan to public	*Media conference, to update new/revised fees in FSP's website, letter to individual customers*

Officers responsible for information submission:

Officer 1				Officer 2			
Name		**Phone Number**		**Name**		**Phone Number**	
Designation		**E-mail**		**Designation**		**E-mail**	
Signature		**Date**		**Signature**		**Date**	

1/ Please also state the conditions in which fee and charge may be imposed (if any).
2/ Please provide comparison with at least 3 financial service providers (exclude financial service providers within the same group).

APPENDIX III

Islamic financial products
Illustration: Penalty of 1% per annum on the overdue instalments

Bank's purchase price	:	RM100,000
Bank's selling price	:	RM158,520
Monthly instalment	:	RM1,321
Financing profit rate	:	10% p.a (monthly balance)

1. Customer failed to pay monthly instalments for the months of May, June and July 2006. In the month of August 2006, customer makes repayment for the 3 overdue instalments including the instalment for the current month. The calculation for the penalty on late payment are as per the following table:-

Month	Bal. Overdue Instalments (RM)	Penalty Rate on Late Payment (% p.a.)	Penalty on Late Payment (RM)	Total Accumulated Penalty (RM)
May 2006	1,321	1.0	1.12	1.12
June 2006	2,642	1.0	2.17	3.29
July 2006	3,963	1.0	3.37	6.66

2. Formula on penalty charge on late payment are as follows:-

$$\text{Overdue Instalments X Penalty Rate X } \frac{\text{No. of Overdue day(s)}}{365}$$

Example calculation for the month of May 2006:-

RM1,321 X 1% X 31/365 = RM1.12

APPENDIX IV

Islamic financial products
Illustration: Penalty after the maturity date

Financing	:	*Murabahah*
Financing amount	:	RM1,024,658
Outstanding financing (principal balance)	:	RM1,000,000
Repayment period	:	3 months
Prevailing IIMM[19] rate	:	8% per annum

1. Formula on penalty charge on late payment are as follows:-

$$\textbf{Amount of late payment X IIMM X } \frac{\textbf{No. of Overdue day(s)}}{\textbf{365}}$$

2. Assuming the customer did not make payment on the balance of financing within the specified period. If the customer wishes to settle the overdue financing after 31/3/06, the penalty on late payment is as follows:-

On the date	Outstanding Financing	IIMM Rate (% p.a.)	No. of Overdue Day	IIMM Cost (RM)	Accumulated IIMM Cost (RM)
1.4.06 – 30.4.06	1,000,000	8.0	30	6,575	6,575
1.5.06 – 31.5.06	1,000,000	8.0	31	6,795	13,370
1.6.06 – 30.6.06	1,000,000	8.0	30	6,575	19,945
1.7.06 – 31.7.06	1,000,000	8.0	31	6,795	26,740

Based on the above example, if the customer wishes to settle the overdue instalments on 1 May 2006, the customer is required to pay the penalty for late payment amounting to RM6,575. If the customer wishes to settle the financing on 1 June 2006, the penalty for the late payment to be repaid is RM13,370.