



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Personal Financing

Issued on: 5 July 2013

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PART A OVERVIEW

1. Introduction

- 1.1 With intense competition prevailing in the retail credit market, changes are being observed in the lending practices of credit providers in the personal financing segment which are contributing to unaffordable borrowing by households. The share of personal financing as a component of total household debt has also increased, adding to concerns that more risky behaviours in this segment will increase the vulnerability of households to adjustments in income levels or borrowing costs.
- 1.2 Of specific concern has been the emergence of new financing packages that give the appearance of affordable borrowing, but actually encourage the imprudent accumulation of debt that borrowers cannot really afford without significant risk of hardship over the duration of the financing facility due to inadequate financial buffers.
- 1.3 While financial service providers are already required to conduct suitability and affordability assessments for each new and additional financing facility offered to consumers, more specific requirements are assessed to be necessary to arrest unhealthy developments in the personal financing segment.

2. Policy Objective

- 2.1 This policy document aims to promote prudent and responsible financing practices with respect to the provision of personal financing by financial service providers, while encouraging responsible borrowing behaviours by consumers.
- 2.2 This policy document complements the policy document on Responsible Financing in promoting a sustainable retail credit market and a resilient household sector.

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3. Applicability

- 3.1 This policy document is applicable to financial service providers (FSPs) as defined in paragraph 7.2.

4. Scope

- 4.1 For purpose of this policy document, personal financing product refers to any financing product other than those set out in paragraph 4.2 which are offered to individuals by a FSP either directly or through the FSP's intermediaries.

- 4.2 This policy document is **not** applicable to the following financing products:
- (a) financing for the purchase of residential and non-residential property;
 - (b) vehicle financing;
 - (c) credit and charge cards;
 - (d) overdraft and revolving credit facilities with no fixed repayment or payment tenure;
 - (e) micro-financing products or financing to sole proprietors for purposes of its business;
 - (f) financing for the purchase of securities¹;
 - (g) financing granted to employees of FSPs; and
 - (h) pawnbroking or Ar-Rahnu.

The FSP shall continue to comply with the requirements in the policy document on Responsible Financing in the offering of the above products.

- 4.3 Personal financing products for which the mode of repayment is facilitated through salary deduction schemes are **included** within the scope of this policy document.
- 4.4 This policy document must be read together with:
- (a) the policy document on Responsible Financing;
 - (b) the disclosure requirements on loan and financing products in the Guidelines on Product Transparency and Disclosure; and

¹ This includes ASB units.

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(c) paragraph 4.3 of the Guidelines on Introduction of New Products².

5. Legal Provisions

5.1 The requirements in this policy document are specified pursuant to:

- (i) sections 47(1) and 123(1) of the Financial Services Act 2013(FSA);
- (ii) sections 57(1) and 135(1) of the Islamic Financial Services Act 2013 (IFSA); and
- (iii) sections 41 and 126 of the Development Financial Institutions Act 2002 (DFIA).

6. Effective date

6.1 This policy document comes into effect on 5 July 2013.

7. Interpretation

7.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and IFSA, as the case may be, unless otherwise defined in this policy document.

7.2 For the purpose of this policy document:-

“**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“**G**” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted; and

“**Financial service provider**” or “**FSP**” means-

- (a) a licensed bank under the FSA;

² The Guidelines on Product Transparency and Disclosure and Guidelines on Introduction of New Products are deemed standards specified pursuant to section 123(1) of the FSA and section 135(1) of the IFSA by virtue of section 272 of the FSA and section 283 of the IFSA.

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- (b) an approved issuer of a designated payment instrument under the FSA;
- (c) a licensed Islamic bank under the IFSA;
- (d) an approved issuer of a designated Islamic payment instrument under the IFSA; and
- (e) a prescribed institution under the DFIA.

“Repayment” in the context of an Islamic personal financing product, shall include payment by a customer to a FSP under the terms of the Islamic personal financing product.

PART B POLICY REQUIREMENTS

8. Approval Requirement

- S** 8.1 A FSP shall obtain the Bank’s written approval prior to introducing or offering any new personal financing product or any variation to an existing personal financing product.
- S** 8.2 An application for approval referred to in paragraph 8.1 shall be submitted to the Bank together with the information set out in Appendix 4 of the Guidelines on Introduction of New Products. The FSP must ensure that the information submitted is complete and accurate. The information shall be submitted to:
- Pengarah
Jabatan Konsumer dan Amalan Pasaran
Bank Negara Malaysia
Jalan Dato’ Onn
50480 Kuala Lumpur
- S** 8.3 A FSP shall not introduce or offer a new personal financing product or any variation to an existing personal financing product unless a written approval is given by the Bank.
- S** 8.4 A FSP is prohibited from offering any personal financing product where the total or bulk of repayments, whether principal only or principal plus

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interest/profit, is due only at the end of the financing tenure and is to be repaid from the retirement funds of the customer. Retirement funds include the Employees Provident Fund, pensions and gratuity payments.

9. Other Requirements

- S** 9.1 Tenure of personal financing products shall not exceed **10 years**. This requirement takes effect for all new and additional personal financing applications received from the effective date. The requirement also applies to the restructuring or rescheduling of existing personal financing facilities which involve an increase in the amount of financing.
- G** 9.2 For personal financing products approved before the effective date, the FSP can continue with the existing financing tenure.
- G** 9.3 Paragraph 9.1 does not apply to existing personal financing facilities which are restructured or rescheduled based on the specific circumstances of a distressed borrower, provided that the restructuring or rescheduling does not involve an increase in the amount of financing.
- S** 9.4 A FSP is prohibited from offering any form of pre-approved personal financing product. Personal financing shall only be granted upon receiving the customers' verbal or written acceptance of the offer and the FSP is satisfied based on affordability assessments, that the customer has the capacity to repay.
- G** 9.5 The prohibition in paragraph 9.4 does not extend to sending promotional materials or informing pre-selected customers of new personal financing products.