Institute for
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Research
Malaysia

Insights on COVID-19

Lessons During Difficult Times & What's on the Horizon

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Executive Summary

- ❖ The world is undergoing a potentially catastrophic pandemic which cuts across multiple dimensions- health, social, economic and markets. While the 2008 crisis started in the financial sector and then spread to the real economy, this crisis started in the real economy with potentially wide-reaching and unprecedented spillover effects to the other sectors. At the point of writing, there is no indication regarding its magnitude and duration.

- ❖ The utmost priority for governments currently is the containment of the pandemic and on minimising the economic and social dislocations. In doing so, Malaysia has responded with a breadth of policy responses including fiscal, monetary and financial regulation and stabilisation policies. For financial markets, both Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SC) have also stepped in with a combination of both broad-based and targeted measures to increase accessibility to credit and provide liquidity and stability to the financial markets in order to reduce financial vulnerabilities in the economy, to the extent possible. We have included in the Appendix of this paper a summary of these measures, cognisant that policy measures and recommendations are ongoing and rapidly developing.

- ❖ In response to the immediate challenges of this unprecedented situation, we also need to keep in mind the constraints on the scope of capital market intervention as well as the need to delicately balance and manage urgency in the short-term and complexity for the long-term.

- ❖ This paper presents insights observed on Malaysia's experience during this COVID-19 crisis with discussions around three main broad issues related to market-based interventions: first, the limited but growing access for SME's financing beyond the banking sector; second, the need for critical investments in ecosystem support measures beyond financing alone; and third, the need for reforms in other areas for the longer-term such as infrastructure financing, a stakeholder-based model for companies and investors and the need to address the spillover effects on longer-term savings.

1. Addressing short term challenges faced by smaller businesses through market-based financing

One of the immediate responses to a crisis is to leverage existing market-based mechanisms which are already in place; even as bank financing remains front and centre for smaller businesses.

- For high growth start-ups with limited access to bank financing, the government had earlier announced a co-investment fund of RM500 million between the public and private sectors on a matching basis. This could be used to provide the critically needed financing for seed and early-stage entrepreneurs. However, given the cyclical downturn, greater flexibilities in terms of the matching ratios with less restrictive conditions may be required and with a need to review the funding parameters. In order to ensure greater effectiveness, the pool of funds for grants, seed and early-stage investments should be consolidated to reduce duplication of funds application across multiple agencies and for better tracking and evaluation mechanisms

- Another option for deployment of co-funding for start-ups is for the government to issue convertible loans to provide bridge funding for the working capital needs of start-ups which are matched by private investors. A key feature would be for this to be executed through a partnership with an existing financial institution or agency already familiar with the risk profile of start-ups and can accelerate the disbursement process, such as Malaysia Debt Ventures (MDV) or similar institutions.
- The use of fintech platforms could also be explored further as another channel to provide funding to smaller businesses and start-ups. P2P platform operators could extend credit with some form of safety net for their issuers. In addition, a fast-track approval process could be considered for the other ECF/P2P platforms not yet eligible under the Malaysia Co-Investment Fund (MyCIF) initiative for funding on a matching basis for smaller businesses and start-ups who do not have access to bank financing.

2. Critical investments in technology, people and a collaborative model

As the impact of COVID-19 unfolds, the structural transformations needed for the drivers of future development are even more important now. In addition to increasing access to financial capital for smaller businesses, especially for those without access to bank financing, there are three other interrelated critical elements for longer-term policies.

Firstly, the need to address a narrowing scope for technological catch-up. Secondly, to immediately scale up the re-skilling efforts of our talent especially in areas aligned to the acceleration of digital adoption, and lastly, to minimise fragmentation through platforms which can facilitate greater coordination and collaboration. All three aspects are collectively needed as key drivers to ensure our recovery from COVID-19 is sustainable in the longer-term.

i. Accelerating digital adoption efforts

- As traditional business models will increasingly pivot their existing models to one which leverages greater digital strategies, an *"Industry Partnership Incentive Programme"* could be introduced as a co-investment structure to accelerate greater digital adoption between financial institutions, such as the smaller asset management companies and fintech or other start-ups in order to reduce "time-to-market" or enhance digital commercialisation.
- In line with this, a *"Research and Training Incentive Programme"* for specific research institutions or for smart partnerships able to provide local knowledge transfer of emerging and disruptive technologies in the financial sector can further accelerate applications of Artificial Intelligence (AI) and data analytics and facilitate

the building of a research and training centre and a talent ecosystem for the future of financial services.

- These efforts can also be complemented by a government-led initiative for a *"Market Access Platform"* which links government agencies, government-linked companies and other private-sector partnerships as well as selected smaller businesses and start-ups to manage supply-side challenges related to COVID-19 with greater coordination, scale and reach. This can be further scaled-up to offer other types of non-financial support, from providing new market access and opportunities which smaller businesses and start-ups can offer government, government agencies and bigger corporates, to fast-tracked government procurement.

ii. Scaling up re-skilling efforts

- Having a "*subsidy-based re-skilling programme"* in the financial sector to help prepare low-mid-skilled employees in financial institutions to face the ongoing structural changes in the employment market, whereby such a training and re-skilling programme could offer a subsidy or cash incentive to the individuals who are able to complete a full certification or qualifications in selected Continuing Professional Education (CPE)-approved courses aligned for "future skillsets" that are needed in the financial sector.

- This can be complemented by a *"COVID-19 talent-sharing platform"* to support the transition of displaced workers from sectors impacted by COVID-19. This talent-sharing plan can be implemented over a centralised government platform or spearheaded as a "community-based initiative" by government agencies such as MAGIC or MDEC in partnership with the private sector, to collate a database of affected employees from their previous start-up employers and support alternative working arrangements with employers in other sectors with much-needed digital talent and expertise.

- At a national-level, the government could also consider leveraging e-wallets and education platforms to distribute subsidies for the purpose of re-skilling.

iii. Harnessing greater network coordination and collaboration

- The government could establish a one-stop centralised technology platform to champion the role of technology innovation. The platform, similar to Singapore's GovTech can first act as the authoritative voice for information on the pandemic and be used to ensure transparency of information on digital surveillance (if implemented). More importantly, it can also be used to generate valuable data and insights on the pandemic issue and other national-level campaigns as well as provide other types of support for smaller businesses such as financial workshops, mentoring and technical assistance to assist brick and mortar businesses from offline to online.

- Malaysia needs to be part of the conversation which is shaping global consensus and views in terms of the frameworks and regulations related to the digital economy. In line with this, a regional digital communication platform will strengthen the level of coordination for collective action, facilitate greater knowledge-sharing and mobilise the regional business community for emergency situations such as the COVID-19.

Several of the recommendations involve the development of new platforms to address challenges in specific areas. These platforms can be and should be integrated for greater effectiveness and efficiency. For example, a platform providing financing, grants and advisory support to start-ups and enterprises could be linked to training and certification to ensure greater synergies. As a benchmark, Tamkeen Bahrain is a public agency that provides training and certifications for individuals, while also providing financing, grants and advisory support to start-ups and enterprises- which enables this single-agency model to have a holistic view of both industry needs and existing talent capacity. As such, other models that allow similar streamlining can be explored.

3. Laying the groundwork for greater infrastructure spending

- While infrastructure projects may not seem like an immediate priority during this COVID-19 crisis, it does not mean we should overlook the foundational investments needed to rebuild our economy post-crisis- one which can create a stronger and more resilient national infrastructure system for the future. Moreover, the COVID-19 situation has clearly highlighted the need for more robust physical and social infrastructure support across various sectors especially those that provide essential services to our society.

- Infrastructure financing is a critical area where Malaysia's capital market can play an integral role to ensure adequate funding facilities are available; especially on the role of Islamic financing and the adaptation of the Public-Private Partnership (PPP) model. A newer PPP model could also increasingly evolve towards a more platform-based model as data becomes a more prominent asset for both the public and private sectors.

- In addition, given the unprecedented scale and impact of COVID-19 and the need for greater public spending to support our health systems and overall economy, it may be timely to conduct a comprehensive and careful assessment on the investment arguments for the unlocking of value from government-owned infrastructure assets, for instance through infrastructure listings as another potential source of financing for the government, cognizant of the timing, complexity and risks especially during a cyclical downturn.

- Post the COVID-19 crisis, the world will increasingly look towards China to take on a bigger leadership role and given that Malaysia is part of the Belt and Road Initiative network, we should further strengthen our ties with China to learn from their experience and tap on their technological capabilities as well as to offer our expertise in financing infrastructure projects through the capital market.

4. Ecosystem support through a stakeholder-based model

- The COVID-19 crisis is unique not least because the combination of supply and demand shocks amplify the interlinkages of firms to multiple stakeholders- their employees, outside contractors and suppliers, government relationships and creditors or financiers.
- We link a recent report by World Bank (Didier et al. 2020) which identifies these stakeholders of firms as an important intangible asset or "organizational capital" of a firm with the growing global call by prominent economists and institutions for reforming capitalism to a "stakeholder-based" model.
- The COVID-19 crisis presents us with an opportunity to fill the policy and/or implementation gaps in order to move the stakeholder-based model to the mainstream in which firms support all the stakeholders in their ecosystem and investors play an immensely critical role in providing the right signals as proper long-term stewards of capital in line with responsible investing.
- In tandem, the greater acceptance and reliance on technology platforms during COVID-19 will likely be part of the "new normal" post-crisis. Consumers will rethink traditional financial offerings, as technological platforms are able to offer a more integrated digital experience and a combination of financial and lifestyle services through partnerships with retailers and other service providers. Financial planning will also be transformed as it becomes more commonly integrated with online banking that offers personalized data tracking, further complemented by delivery of online financial literacy through social media and educational videos.

5. Addressing COVID-19's spillover effects on long term savings

- The government has announced a slew of measures to address some of the key demand-side challenges that have emerged from this crisis, including one-off cash transfers, loan moratoriums, reduction in mandatory contributions to the Employees' Provident Fund (EPF) and the ability to withdraw a portion of contributions from EPF and Private Retirement Scheme (PRS). While these short-term measures provide immediate financial relief, it has also brought to fore the bigger issue of the critical dependency of some individuals on their retirement fund as their primary savings for hardship and emergency situations. In the US and Australia, withdrawals from respective retirement funds have only been allowed for those who have been directly affected by the crisis. Without these specific qualifications and targeted flexibilities, it will not only lead to greater opportunity cost for individuals in the long term but will also inhibit reforms of the pension system from achieving a more inclusive and sustainable model.

- As Malaysia becomes a rapidly aging population, there is also a need to undertake a holistic review of the overall retirement and social protection framework with a view to strengthen social safety nets to ensure comprehensive retirement solutions which includes the need to critically close the gaps for the self-employed and informal workers. Currently up to 62% of working-age Malaysians are not covered by any retirement schemes and with the changing demographics and rising trend of gig economy and freelance jobs, this percentage will increase. These gaps can be addressed by greater coordination between different retirement schemes, improving access to retirement schemes, finding a way to mandate pension savings for this demographic group and making PRS a more attractive option.

- These efforts will have to be complemented by helping investors make better decisions. In order to increase participation in voluntary retirement schemes, there is a need to leverage on behavioural economics, for financial advisors to play a more significant role and for employers to play an active role in providing impartial financial wellness programmes for their employees.

Within the broad framework above, we recognise that some of the recommendations put forth are firstly, interconnected elements and can have greater impact if combined and secondly, can be initiated as a near-term intervention but can evolve and be scaled into a medium to longer-term programme in a timely manner. For the latter, we recommend the use of the “design-thinking’ process common for start-ups, where measures are developed expeditiously as a prototype or minimum viable product (MVP) to provide “small-scale” solutions which can be tested and modified as the situation evolves, highly relevant in this current situation.

Context

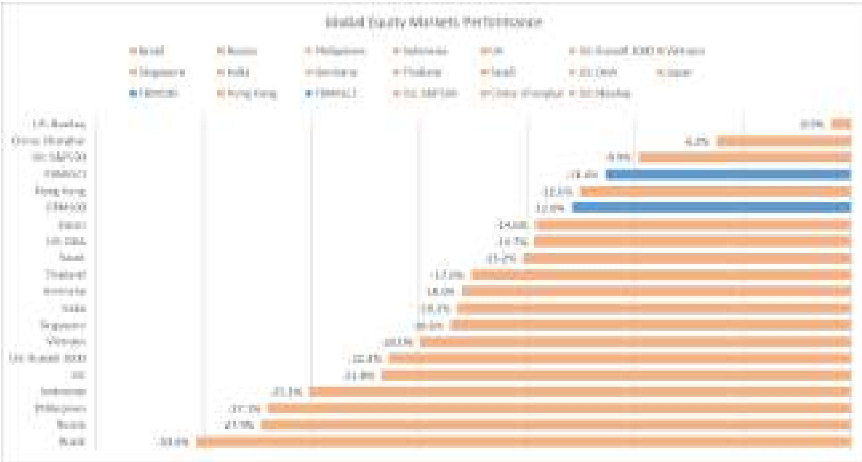
Confronting the impact of the current COVID-19 crisis is hard. The impact of this crisis will be significant as it cuts across multiple dimensions- economic, social, political and health. As the economy goes into hiatus, risk aversion in markets have increased. In a statement by IMF's Managing Director, Kristalina Georgieva on 23rd March 2020, the outlook for global growth in 2020 is negative and investors have already removed USD83 billion from emerging markets since the beginning of the crisis.

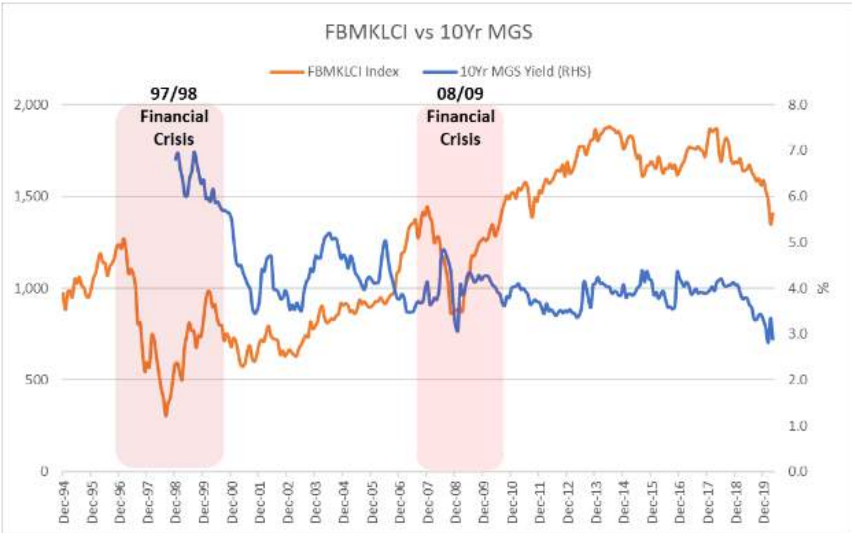
In line with slowdown in the global economy, BNM (during the launch of Annual Report 2019) has revised GDP growth projection for 2020 to be between -2% to 0.5%. Despite the short-term headwinds, BNM has given assurance that our economy remains resilient with ample liquidity in the system and Malaysia's current account has been in a surplus position since 1998. The stress tests conducted by BNM reaffirms the banking and insurance sectors' ability to withstand severe stress due to the strong capital buffers built in to absorb potential losses. Thus far, monetary easing measures by BNM resulted in short-term yields declining significantly (yields for 3 months maturity have declined from 3.07% on 1st March 2020 to 2.15% as at 15th May). Meanwhile, the 10-year yield curve spiked immediately after the MCO announcement to a peak of 3.64% on 24th March before easing back to 2.89% as at 15th May. The cost of borrowing may escalate due to expansion of the budget deficit. The increase in the supply of government bonds and government guarantees could exert pressures on private debt issuers in the medium term. Recently, Fitch Ratings affirmed Malaysia's rating at "A-" but revised the outlook from stable to negative, citing weaker economic growth from the ongoing COVID-19 pandemic, lower crude oil prices, political uncertainty and higher general government debt relative to peers within the "A-" rating group. As governments around the world wrestle with difficult policy choices needed to contain the spread of the coronavirus, the economic and financial wellbeing of emerging markets, especially, will be significantly impacted. With Malaysia's government affirming its commitment to provide clarity on their fiscal consolidation plans, it is hoped that rating agencies will take into account the necessary short-term deviations from their fiscal targets to support economic growth from slipping into a recession especially due to the unprecedented nature of this crisis whereby public debt concerns should be secondary to public health concerns.

Markets have remained volatile since the beginning of 2020 as the COVID-19 crisis is compounded by other factors such as the recent political uncertainties, the oil price war and further weakening of the ringgit. Our benchmark equity index, FBM KLCI declined significantly by 8.9% and 11.0% in March 2020 but rebounded in April 2020 by 4.2% and 4.6% in Ringgit and USD terms respectively, while market breadth remains negative (please refer to Figure 1). According to Bursa Malaysia, investors capital outflows are approximately RM 10.3 billion up to year-to-date April 2020, with the March outflow of RM5.5 billon being the highest monthly outflow since May 2018. At the time of writing, most of the sell-side analysts are projecting a base-case scenario of further downside risks in the near-future, based on bottom valuations and the shape of the recovery curve compared to the lows during the Asian Financial Crisis, Dotcom bubble, SARS and Financial Crisis 2008. However, one silver lining for Malaysian markets is its defensive nature during periods of crisis with a lower foreign holdings position compared to other ASEAN markets thus helping Malaysia outperform relative to its

ASEAN peers, as other ASEAN markets are down between 17% and 27% % in local currency terms year-to-date April 2020. Please refer to Appendix 1 for additional market charts.

Figure 1: Global Equities Market Performance (in local currency terms) and historical trend of FBMKLCI and 10-year MGS yields





Source: Bloomberg

A lesson learnt from the 2008 financial crisis is that coordinated liquidity-enhancing and stabilisation measures by central banks and financial market regulators will help us plough through a period of capital market volatility, bearing in mind that the recovery period is usually slower than the decline. (As a reference, the FBM KLCI declined sharply by 40% over 11 months hitting a bottom in October 2008 before seeing a 23-month upward recovery phase to regain its pre-crisis levels). This does not preclude the possibility that this crisis could be much more significant and longer lasting than the previous financial crisis due to various reasons, not least because the impact is on several dimensions such as an unprecedented large-scale real economy freeze.

International agencies are calling on governments to offer a breadth of coordinated responses- from aggressive fiscal stimulus to macro-financial policy actions, to tackle demand and supply shocks and liquidity and to offset financial stability risks. Please refer to Appendix

2 for a list of stimulus measures already announced by the Malaysian government and other major government bodies and agencies to date. Given the rapid pace at which this pandemic is developing and the growing consensus view that the impact of the pandemic could be prolonged with multiple contagion effects, we do need to anticipate an alternative scenario which calls for responses that are scalable and adaptable as the situation unfolds.

The COVID-19 crisis could not have hit at a worse time. The pandemic is set against a backdrop of a global economy not yet on very strong footing, a prolonged trade war and steep declines in the price of commodities. In fact, many countries around the globe are still facing structural overhangs from the 2008 financial crisis. The EU and Japan still have negative interest rates despite a decade of aggressive quantitative easing measures. Furthermore, the aftermath of this crisis needs to be managed alongside the underlying structural shifts which were underway even before the pandemic outbreak, for instance the impact of Industrial Revolution 4.0 (IR 4.0) causing technological disruptions to our normal business operations, and the need to tackle climate change and demographic challenges, among other things.

It is a very challenging time especially as we are in unchartered territory. The urgent priority calls for immediate responses to address containment needs and health recovery as well as mitigation of near-term economic and market shocks. However, how we respond now can have long-term consequences. There are already discussions on how this crisis could be a pivotal point towards a "new normal". We think it is too early to tell but we must consider the potential road ahead for us to see the opportunities which almost always presents itself in a crisis. In these trying times, a delicate balancing act is required to manage between the need for short-term urgent responses and complex but important measures, for the long-term.

At ICMR, we observed the unfolding of the COVID-19 crisis from various angles and distilled five (5) key areas which we feel present opportunities for positive reforms and greater capital market involvement in building a more inclusive and sustainable economy.

1 Addressing short term challenges faced by smaller businesses through market-based financing

The Small and Medium Enterprises (SMEs) are the backbone of the Malaysian economy, where 98.5% of establishments are SMEs employing 66.2% of total employment – an important locus of economic activity. The government announced several targeted measures to assist SMEs in the PRIHATIN package and various other measures have been announced for SMEs which includes tax deferments, ease of credit, rescheduling of employment benefits and wage subsidies. In addition, the government has set-up various SME Funds under Bank Negara Malaysia (BNM) i.e. the Special Relief Fund (SRF), Automation and Digitalisation Facility (ADF), Agrofood Facility (AF) and Micro Enterprise Facility (MEF). Through these initiatives, SMEs may have access to different channels as a temporary stopgap measure to overcome their cash flow challenges.

The question remains, however on the sufficiency of the subsidies provided to the small and micro businesses facing revenue and cash flow challenges aimed at reducing the risk of mass layoffs. A survey on Malaysian SMEs shows that about 70% of SMEs have cash flows that will only sustain them up to April 2020. While cognisant that SMEs tend to rely mostly on bank financing versus market-based financing, the COVID-19 impact on the SMEs and start-up community has also brought to fore the need to further explore a multi-disciplinary approach to provide support to smaller businesses, for instance through more market-based interventions.

(i) Leverage co-funding structures for nascent and early-stage entrepreneurs with no access to bank financing

In one of our earlier studies, we highlighted the critical need for greater co-funding structures between government venture capital (VC) and private VCs through selective matching mechanisms, a common VC model found globally. Studies and data have shown that institutional investors slow down their pace of investment and private investors focus more on later-stage start-ups during crisis periods, severely impacting capital formation. However, the process of innovation or "creative destruction" is heightened during crisis periods. As a reference, in recognition of start-ups as a growing part of the economy, the French government have announced a EUR4 billion support for start-ups to bridge between financing rounds. Their sovereign wealth fund Bpifrance is putting in EUR80 million to co-invest with private investors.

> *"Studies and data have shown that institutional investors slow down their pace of investment and private investors focus more on later-stage start-ups during crisis periods, severely impacting capital formation. However, the process of innovation or "creative destruction" is heightened during crisis periods"*

The Stimulus Package 2020 announcement had allocated a co-investment fund of RM500 million to be matched by private investors on a ratio of at least 1:3 for investment in early-stage and growth stage Malaysian companies. This could be used to provide much critically needed source of financing for the start-ups, especially as some private VCs are still sitting on a lot of dry powder. However, given the cyclical downturn, greater flexibility in the matching ratios may be required with less restrictive conditions given the current investment scenario. In fact, the SC, has just announced greater flexibilities with regards to the matching ratio of the co-investment fund under its purview.

There may also be a need to review the funding parameters - whereby the government acts as limited partner (LP) when co-investing with private venture capitalists in order to provide some degree of flexibility to the general partners (GP) in setting a mandate that suits their risks-return profile. This is similar to the Korean Venture Investment Corporation (KVIC) fund-of-funds model. In order to ensure greater effectiveness, the pool of funds for grants, seed and early-stage investments should be consolidated to reduce duplication of funds application across multiple agencies or entities and for better tracking and evaluation mechanisms.

> **Another option for deployment of co-funding for start-ups is for government to issue convertible loans to provide bridge funding for the working capital needs of the start-ups, which are matched by private investors.**

The matching elements are important to ensure that private investors have skin in the game, while the ratios would need to be contextually suited for a cyclical downturn environment.

This structure provides the government with greater flexibility in terms of repayment, whereby the loan can be repaid at maturity or alternatively, be converted into equity with a conversion discount rate. This is similar to the recently announced Future Fund by the UK government in partnership with the British Business Bank.

A key underlying feature of this measure is the government's partnership with a financial institution or agency which is not only already familiar with the risks of innovative, high-growth start-ups which are different than traditional businesses but is also able to accelerate the disbursement process. In Malaysia, this can be facilitated through Malaysian Debt Ventures, a government-backed venture debt financier with established networks in the venture capital ecosystem.

Post-COVID-19, a further study on measures to improve the overall investment environment linking both supply and demand side challenges especially for new industries – some of which will emerge during this crisis- is needed to promote a smooth industrial restructuring which includes SMEs especially the high-growth start-ups as part of the ecosystem.

We also recognise that for the current context, most capital market solutions will need to be carefully balanced with the risks involved and investor protection needs and may require greater in-depth analysis. In the meantime, we offer some suggestions, based on jurisdictional benchmarking of other markets for more near-term responses and for the local context:

(ii) Exploring greater use of digital financing platforms

We note that the delivery mechanisms for most of the SME funds announced are mostly managed by Participating Financing Institutions (PFIs). However, the role of fintech, digital currency and crowdfunding platform are less explored as vehicles to address the COVID-19 crisis. In response to COVID-19, more fintech applications initiatives are being explored globally. For example, Wefunder, an investment crowdfunding platform has launched emergency funding for businesses during the COVID-19 crisis. The loan can be structured in amounts ranging from USD20,000 to USD1 million with payment flexibilities depending on revenues which can be deferred until 2021. Such measures could benefit the start-ups, investors and digital platform companies while sharing the burden with the government.

For instance, the e-wallet Boost together with its parent company Axiata have launched a micro-financing initiative of up to RM10,000 to allow micro-SMEs to cope with the current COVID-19 outbreak. The financing programme is structured based on a 6-months loan breather period for eligible applicants. In addition, it leverages on Aspirasi, the first fully digital fintech financier's advanced digital technology platform that allows for a quick and easy online application process.

Studies (Tao C et al. 2019) of the role of fintech credit in micro and small medium sized enterprises (MSMEs) have suggested fintech applications can reduce operational volatility and improve the survival rate of SMEs. In Korea, among the list of government measures to provide assistance to SMEs and exporters is by purchasing their accounts receivable insurance in a bid to relieve their financial distress.

> ***Related to the above points, we suggest fintech platforms such as ECF and P2P are further leveraged on in the context of this epidemic.***

Our data checks show that over 80% of Malaysia's peer-to-peer (P2P) crowdfunding campaign raised funds for the purpose of trade-financing. Thus, P2P platform operators could alternatively extend credit with the provision of some form of safety-net for their issuers for example, through a government purchased accounts receivables insurance in order to help meet the needs for working capital, protect investors' confidence and minimise the risk of potential surges in default rates. Accounts receivable insurance protects a company against financial losses caused by damage to its accounts receivable records that may further impair a firm's ability to collect its receivables.

In addition, under Budget 2020, the Government had agreed to set aside RM50 million for Malaysia Co-Investment Fund (MyCIF) in order to provide financing for local businesses and start-ups. The fund will make joint investments on a “1:4 basis” in campaigns offered on equity crowdfunding (ECF) and P2P platforms, with a maximum investment in each campaign limited to RM500,000. In line with the abovementioned need for greater flexibility in the matching ratios with less restrictive conditions given the current investment scenario in 1(i) , the SC has also just announced greater flexibilities for the MyCIF initiative with the matching ratio reduced to a “1:2 basis”.

A further RM10 million was set aside for MyCIF under Budget 2020 specifically for social enterprises to raise funds via P2P financing platforms. Under this initiative, the fund will invest in P2P financing campaigns raised by Social Enterprises based on a “1:1 ratio” for every campaign raised by private investors on MyCIF participating platforms.

To date, the SC has approved 13 (out of the total 21 ECF/P2P platforms licensed by the SC) that are eligible under MyCIF initiative. If regulators can facilitate a fast-track approval process for the remaining ECF/P2P platforms to be eligible under the MyCIF initiative in lieu of the COVID-19 situation, the use of these fintech platforms could be further extended as another channel to provide funding to smaller businesses and start-ups who do not have access to bank loan financing.

2 Critical investments in technology, people and a collaborative model

Looking to the future, medium-to-longer-term policies will also need to reduce existing structural gaps in critical areas which support our capital market's intermediary functions to facilitate a more broad-based and inclusive economic recovery post-COVID-19. This requires further in-depth studies but fundamentally, there will be a need to revisit the existing frameworks we have in the financial industry for at least three critical elements- to address our narrowing scope for technological catch-up, our talent shortages and the need for a more collaborative model.

Firstly, the changing environment due to the COVID-19 crisis will inevitably lead to a ramp up in technological adoption with the digital economy expected to contribute more to our overall economy than before (as of 2018, it contributed 18.5% to our national economy). For instance, this pandemic is likely to catalyse growth in mobile-first banking and in financial advisors' shift to providing solutions online as opposed to face-to-face meetings; leading to a broadening of the scope of value and services that can be offered by a financial intermediary. The digital financial landscape will continue to evolve rapidly, from demand for more holistic and seamless digital financial solutions such as robo-advisory with micro-investing and mobile payment systems, to more complex applications of AI, data analytics and blockchain solutions.

Secondly, and equally if not more important, is how the framework which supports digital innovation initiatives are also aligned with augmenting our existing and new talent skillsets in the financial sector. The shortages of human capital will need to be addressed in an increasingly competitive environment where employers are already consistently reporting a skills gap between available labour and what the workplace requires as well as the emigration of many of Malaysia's most educated and skilled talent.

Thirdly, the only way to tackle complex challenges such as COVID-19 is through learning and coordinating with each other. The "new normal" will increasingly rely on a stronger collaborative model between all players - be it between public and private sector or leveraging on technological platforms for better coordination and communication, data collection and evaluation, or regional and global cooperation.

2.1 Accelerating digital adoption efforts

(i) An "Industry Partnership Incentive Programme" to accelerate digital adoption between FI and fintech or start-ups

In our report on the asset management industry, we had highlighted that asset managers can start tapping into accelerator programs within the fintech and venture capital community to deliver more innovate digital solutions to investors. In Singapore, the investment management association had launched a Digital

Accelerator Programme to leverage the fintech industry to bring about transformative leaps of technology in the investment management industry. This recommendation was on the basis that traditional business models such as the asset management industry will need to pivot their existing business models to one which leverages greater digital strategies.

With COVID-19, the need for greater partnerships between FIs and other start-ups and fintech is even more crucial. These collaborations could be accelerated and facilitated through an industry partnership incentive for adoption of digital solutions which can reduce “time-to-market” or enhance digital commercialisation.

A funding body such as the Capital Market Development Fund (CMDF) could provide a co-funding incentive scheme (a percentage provided by CMDF to allow for qualifying expenses incurred by FIs and start-ups and fintech platforms that partner up to accelerate greater use of digital solutions in their business models.

A benchmark for this programme is the “Industry Pilot” programme under the Monetary Authority of Singapore (MAS) Financial Sector Technology and Innovation (FSTI) Digital Acceleration Grant (DAG) scheme. This initiative supports Singapore-based smaller financial institutions and FinTech firms to adopt digital solutions to improve productivity, strengthen operational resilience, manage risks better, and serve customers better.

(ii) A “Research and Training Incentive Programme” to accelerate AI and data analytics applications

COVID-19 is likely to catalyse more prolific usage of transformative applications in technology such as adoption of AI, machine learning, predictive analytics and deep learning in the financial sector.

> ***There will a narrowing scope for technological catch-up and to fill the talent gaps needed to develop these advanced technological applications in the financial sector.***

Taking a leaf from benchmark programmes such as the “Research Track” under MAS’s FSTI’s Artificial Intelligence and Data Analytics Grant programme to support the strengthening of AI and data analytics ecosystem in Singapore’s financial sector, it is clear that there is a need to facilitate a temporary period of “knowledge leapfrogging” through smart partnerships across different sectors.

It is noteworthy that Malaysia has already launched numerous initiatives aimed at building an AI ecosystem under the National Policy on IR4.0 (Industry 4WRD). In 2019, the Centre of Artificial Intelligence for Future Industry (CAIFI) was launched by the Ministry of International Trade and Industry (MITI) and hosted by MIMOS, the national research and development agency. While MIMOS has identified fintech as one of its key focus areas, its applications are mostly for the RegTech and security software technology.

The more notable AI applications in Malaysia have been particularly focused on industrial applications in the manufacturing sector. Alongside that, Malaysia also boasts a thriving start-up ecosystem with a number of technology start-ups that develop various AI applications as part of its core business, from cognitive virtual agents and bot analytics (Hyperlab) to emotion AI technologies (Superceed) to using algorithms for fraud detection (FraudLabs Pro) .

Encouragingly, Malaysia already has a pool of home-grown talent with diverse technological innovations across industries. A "research and training incentive" for specific research institutions or for smart partnerships, from both local and foreign enterprises (with local partnerships) who are able to provide local knowledge transfer of emerging and disruptive technologies for applications in the financial services sector can facilitate the building of a research and training centre and a talent ecosystem for the future of financial services.

(iii) A market access platform for greater public-private partnership

One of the recommendations highlighted in our earlier study of supply-side VC funding ecosystem in Malaysia is the need to establish a centralised platform that connects the corporate sector, new businesses, institutional funds, along with other stakeholders (e.g. government agencies, trade bodies) within the ecosystem. The idea is to link government agencies and Government-Linked Investment Companies (GLICs) with the smaller businesses and start-ups by offering them support in multiple forms, from new market access and opportunities which smaller businesses and start-ups can offer government and bigger corporates, to fast-tracked government procurement.

The above recommendation can be recalibrated for the COVID-19 crisis especially as demand-side activities may take time to re-emerge to normal levels once the crisis abates.

> ***A government-led initiative for a "matching and market access platform" which links to government agencies, government linked companies and other private-sector partnerships as well as selected smaller businesses and start-ups can be used to manage supply-side challenges with greater coordination, scale and wider reach.***

For instance, the use of the platform to provide key services to ensure continuous supply of essential items related to food security or the continued flow of agricultural commodities while also addressing the financial requirements of doing so.

2.2 Scaling up our re-skilling efforts

The degree of COVID-19 impact will affect industry sectors and businesses differently, depending on their level of preparedness. However, the financial sector will not be spared as existing and future technologies will be key influencers of the new financial landscape. Thus, augmenting workforce skillsets to complement these emerging technologies in a way that enhances their productivity levels will be imperative. Here, we highlight a few policy initiatives which can be considered by the financial and capital market industry policymakers.

The programmes below can be designed for implementation in the short-to-medium term perspective to respond to the impact of COVID-19, with an option for a "step-up" or phased-in approach for greater scale and reach in the longer-term.

(i) A subsidy-based reskilling programme in financial sector

To help prepare low-mid-skilled employees in financial institutions to face the ongoing structural changes in the employment market, a training and reskilling programme could offer a subsidy or cash incentive (and for those still employed, through a co-funding structure with employers) to the individuals who are able to complete a full certification or qualifications in selected CPE-approved courses aligned for "future skillsets" needed in the financial sector.

This initiative could be undertaken by Malaysia's Securities Industry Development Corporation (SIDC), a capital market learning and development solutions provider for industry participants. SIDC has already identified the key skills needed in the financial industry through the Industry Competency Framework (ICF) that is comprised of 58 competency titles, including digital technology application, aimed at covering 105 job roles in the Malaysian capital market. SIDC currently provides innovation-centric introduction level webinars such as "Big Data 101" and "Cryptocurrency 101" which could be offered free of charge or at subsidised rates to encourage low to mid-skilled employees from multiple sectors to enter the financial sector.

This incentive programme should also be made available to support Malaysian employees outside of financial services and fintech sectors.

> *Faced with a growing talent and skills challenge, leaders in the financial sector will need to tap on a wider talent ecosystem, especially those in the technology sector as talent and skills development programmes for the new financial landscape will need to be more holistic.*

This would be similar to MAS' recent launch of a Training Allowance Grant to encourage FIs and FinTech firms to make use of the downtime in business activity and to Workforce Singapore's "Adapt and Grow initiative" working to create more avenues for jobseekers and workers affected by the COVID-19 situation.

(ii) A "COVID-19 talent-sharing platform" to support the transition of displaced workers from sectors impacted by COVID-19

In line with the co-funding incentive for re-skilling programmes, a short-to-medium term "talent-sharing plan" and initiatives to minimise short-to-medium term job dislocations can be initiated, in order to minimize job dislocations, to the extent possible. In China, platforms like Alibaba are championing this through a talent-sharing platform where short-term staff from temporarily affected sectors (restaurants and small scale non-essential businesses) are hired for flexible job openings in e-commerce and supermarkets.

Such a programme can be designed to support the transition of displaced workers especially the start-up employees laid off due to COVID-19 to quickly find new opportunities in other sectors such as the financial sector. This talent-sharing plan can be implemented over a centralised government platform or spearheaded as a "community-based initiative" by government agencies such as MaGIC or MDEC together with the private sector to collate a database of affected employees from their previous start-up employers and support alternative working arrangements with employers in other sectors with much-needed digital talent and expertise.

(iii) Launch of a fintech-enabled national-scale training subsidy programme

At a national-level, the government could also consider leveraging on e-wallets and education platforms to distribute subsidies for the purpose of re-skilling. A similar initiative has been launched in Jakarta in early-April 2020, where a pre-employment card programme is being extended to the unemployed (from pre-employed to those unemployed due to COVID-19) that offers them training courses by various institutions on a single platform to enhance their career mobility with more current skillsets, with training costs borne by the government

In undertaking these initiatives, due consideration must be given to the following:

- Reskilling reforms is a longer-term investment and will require the commitment of multi-year budgets to facilitate implementation in a tiered and scalable manner.

- An assessment of the funding structures for both broad and customised support programmes over the multi-year period. For instance, a national-level interdisciplinary "skills for future" fund which is complemented by specific sector-based programmes can be co-funded by public agencies and the private sector in the financial sector to ensure commitment by the companies and to mobilise scale and reach of the reskilling initiatives. Some comparable initiatives include Future Skills Centre Canada, which is a collaboration between the government of Canada, the private sector and academia to identify future skills and provide innovative solutions to address the gaps; or the Digital Hub, a public-private partnership under the Danish national Digital Growth Strategy that provides a matchmaking platform to improve companies' access to talent within emerging digital technologies like data and AI. To this end, the World Economic Forum launched the Reskilling Revolution in January 2020, a global multi-stakeholder platform that aims to connect and coordinate reskilling initiatives within specific countries, industries organisations and schools.

- Reskilling initiatives should be streamlined with a critical assessment of existing skillsets gaps in the industry against the most salient skillset needs for the future in order to develop more effective and customised training and reskilling support packages.

2.3 Harnessing greater network coordination and collaboration

(i) Government to set up centralised platform to champion the role of technology innovation

The government can also establish a one-stop centralised technological platform. Similar to Singapore's GovTech platform and the recent announcement by Malaysia's Science, Technology and Innovation Ministry, an app similar to "TraceTogether" in Singapore will be launched in Malaysia. This platform could potentially be enabled to play an essential role in:

- Ensuring information related to regulations and governance on digital surveillance and location-tracking technologies are transparent and accessible for the general public.

- Acting as a custodian for the management of information on the pandemic and other national-level campaigns. The platform can also act as the main point of reference to manage the spread of misinformation and false news during a period of uncertainty as only the government, selected agencies and relevant experts can provide information (we note that the website www.sebenarnya.my currently acts as a fact-checker website)

- Generating valuable data and insights on the pandemic issue to monitor impact of the outbreak on different businesses for more targeted measures. There are currently numerous types of surveys in circulation which could lead to overlaps and fragmentation of data.

- Creating consolidated solidarity to support microenterprises with cash flow problems to reduce overlaps in funding by separate agencies

- Providing other types of non-financial assistance to smaller businesses, as offered by other governments- from business mentoring, financial workshops and technical assistance to assist brick-and-mortar businesses from offline to online.

> ***When considering implementation, these types of collaborative digital platforms will need to apply the process of design-thinking, commonly used by start-ups***.

This means that they are built as a minimum viable product (MVP) to be agile enough to adapt to different circumstances and applications. A notable example is the launch of the "Spread the Word, Not the Virus" campaign by the United Nations Development Program (UNDP) which was expeditiously developed as a prototype and tested and modified as the situation evolved- highly relevant in this current situation.

(ii) Establishment of regional collaboration platform

Globally, the economy has become more substantially interconnected and the COVID-19 crisis has exposed our vulnerabilities and critical dependencies on the outside world not least due to the disruptions to our integrated supply chain channels, trade activities, commodity markets, financial markets and capital flows.

This pandemic has brought to fore the expeditious need to share information, resources and expertise on the management of the crisis.

> ***The establishment of a regional digital communication platform will strengthen the level of coordination for collective action, facilitate greater knowledge-sharing and mobilise the regional business community for emergency situations such as COVID-19.***

The platform can also be useful beyond public-health security issues and can be considered for other mid-to-long-term regional collaborative initiatives.

Several of the recommendations involve the development of new platforms to address challenges in specific areas. These platforms can be and should be integrated for greater effectiveness and efficiency. For example, a platform providing financing, grants and advisory support to start-ups and enterprises could be linked to training and certification to ensure greater synergies. As a benchmark, Tamkeen Bahrain is a public agency that provides training and certifications for individuals, while also providing financing, grants and advisory support to start-ups and enterprises, which enables this single-agency model to have a holistic view of both industry needs and existing talent capacity. As such, other models that allow similar streamlining can be explored.

3 Laying the groundwork for greater infrastructure spending

While infrastructure projects may not seem like an immediate priority during this COVID-19 crisis, spending on infrastructure is a common feature of stimulus packages to effectively expand domestic demand and generate multiplier effects for the overall economy. In the current stimulus package, undoubtedly the focus is more to overcome the near-term challenges. Nevertheless, one of the key announcements in the PRIHATIN stimulus includes the reiteration of the government's commitment to the planned infrastructure spending in Budget 2020, namely the ECRL, MRT 2 and National Fiberisation and Connectivity Plan. This is necessary for policy clarity, to sustain investors' confidence and to avoid speculation of any possible government backtracking.

The emergence and pressing demands of COVID-19 does not mean we should overlook the foundational investments needed to rebuild our economy post-crisis - one which can create a stronger and more resilient national infrastructure system for the future. Moreover, the COVID-19 crisis has clearly highlighted the need for more robust physical and social infrastructure support across various sectors especially those which provide essential services to our society.

(i) Greater need for capital market funding to support more robust physical and social infrastructure investments

Firstly, there is a need for us to build more robust physical and social infrastructures into other key sectors, especially those which provide essential services. What constitutes essential sectors will still depend on how we evolve out of this crisis, however, healthcare, information and communications technology and the energy sector are already apparent sectors. Aligned with how the digital economy will likely play a bigger role in the future, the COVID-19 crisis has again accentuated the need for Malaysia to invest in the Industrial Revolution 4.0 (IR4.0), i.e. big data analytics, robotics and Artificial Intelligence (AI) which are nearer term imperatives for business and society.

To support the technology upgrading among SMEs and to enhance their productivity and efficiency, BNM launched its Automation and Digitalisation Facility (ADF). This will hopefully prepare our country as it positions itself to become a total solutions provider for the manufacturing sector in Asia Pacific by 2025, in line with the National Policy on IR4.0 launched in October 2018.

In building a more robust national infrastructure system for the future, the role of our capital markets in supporting the nation's objectives is also pivotal to ensure adequate funding facilities for both the public and private sectors.

> *"The role of capital markets in supporting the nation's objectives is also pivotal to ensure adequate funding facilities are available to support the future infrastructure initiatives of both the public and private sector."*

In considering the role of capital markets, it is worth re-thinking the ways we can lay the groundwork for financing more modern and sustainable infrastructure for the future.

- The PPP model remains relevant to lessen the government's burden and improve efficiency in the delivery of public services. While the PPP model has its own implementation weaknesses, it is still supported by various research literature on development, especially for infrastructure development. There is still much work needed to design PPP frameworks that can ensure successful execution - from the need to better leverage private investment while adhering to stricter governance standards to promoting transparency in terms of data, evaluation mechanisms and engagement with all relevant stakeholders.

- Furthermore, related to our earlier point 2.3(ii) on the establishment of a regional collaboration platform, the new PPP model could also increasingly evolve toward a more platform-based model as data becomes a more prominent asset for both the public and private sectors. The regional platform has the potential to provide shared intelligence, datasets and technical expertise.

- Due to uncertainties surrounding the magnitude and duration of the COVID-19 crisis, the government's deficit spending to help our health systems and overall economy will inevitably deepen further. Given the unprecedented scale of this crisis, there would be a need to consider many complementary strategies and sources of financing and support. There may need to be a comprehensive and careful assessment of the investment arguments for the unlocking of value from government-owned infrastructure assets, for example through infrastructure listings as another potential source of financing for government, cognisant of the timing, complexity and risks during a cyclical downturn.

(ii) Build stronger links with China and its partners

All eyes were on China as it proved its capabilities to the world by successfully building new hospitals in a matter of days to relieve pressure on Wuhan's overburdened healthcare system. This has been a remarkable demonstration of how talent and technologies can be reconsidered, particularly the commonly held assumptions of speed, cost and environmental waste involved in building traditional infrastructure. China has inspired the world with its technological capabilities and their ability to manage and respond to the epidemic successfully.

Post COVID-19, the world will look toward China to take on a bigger global leadership role, as it will be able to share its knowledge, experience and technology to other countries. China's collaboration with the world through its ambitious "Belt and Road Initiatives" (BRI) has returned to the fore after it extended its hand to support BRI network countries affected by COVID-19 (i.e. Italy, Spain, Pakistan, Sri Lanka, etc) with medical and financial aid. China terms this support as its "Health Silk Road" initiatives. Given that Malaysia is part of the BRI network, we should further strengthen our ties with China, learn from their experience and tap into their technological capabilities. For instance, the ECRL project which will proceed as planned can be an opportunity for our local companies to learn and build stronger partnerships with their counterparts in China for greater multiplier effects to the economy.

4 Ecosystem support through a stakeholder-based model

The COVID-19 crisis is unique not least because the combination of supply and demand shocks amplifies the interlinkages of firms to multiple stakeholders i.e. employees, external contractors and suppliers, government relationships and creditors or financiers. A recent report by World Bank (Didier et al. 2020) identifies these stakeholders of firms as an important intangible asset or "organizational capital" of a firm which takes time to build, involve creation of knowledge and reputation. The survivability of firms crucially depends on the nature and flexibility of the interacting relationships and the contracts that support them.

We link the above argument to several important and parallel points. Firstly, to the growing global call by prominent economists and institutions for reforming capitalism to a "stakeholder-based" model and how these manifests in the interlinked relationships between firms and their stakeholders including their investors. Secondly, when considering the impact of COVID-19 on different firms, it is useful to distinguish between the larger corporates which use a combination of bank and capital market financing, and the SMEs which either rely on bank financing or do not even have access to bank financing. Thirdly, how COVID-19 will see our incumbent financial institutions being increasingly shaped by new dynamics of participation and collaboration with global technological platforms.

In Malaysia, while there are already concerted efforts by our policymakers and financial market regulators to promote the broader goal of "stakeholder capitalism" in its different forms through regulations, guidelines and disclosure requirements, the responses from the corporates and investors remain relatively nascent and uneven. The COVID-19 crisis presents us with an opportunity to fill the policy and/or implementation gaps needed to move the stakeholder-based model to the mainstream in which firms support all the stakeholders in their ecosystem and investors play a critical role in providing the right signals as proper long-term stewards of capital and also for a greater push on the convergence of the synergies between Islamic investing with sustainable responsible investing (SRI).

> *To strengthen the underlying inequities in our systems which existed before, and are now further exposed by the current pandemic, all stakeholders - the regulators and policymakers, investors, and corporations will play critical roles*.

(i) Larger corporates to extend support to their wider ecosystem

During the COVID-19 crisis, we observed the private sector standing in solidarity to help ease the government's burden and meet the pressing needs of the vulnerable communities. This crisis could be the catalyst for corporations to realise the depth of their responsibility as something that has evolved from undertaking a corporate social responsibility (CSR) initiative - which is seen as doing what is "above and beyond" the protection of their shareholder's interests, to a more permanent redefined role for corporations to support all their stakeholders in their ecosystem. This includes protecting the health and financial wellbeing of their employees, consumers, suppliers and communities.

> ***This reflects the influential and wide-reaching impact of the private sector and larger corporations. More importantly, the COVID-19 crisis also underscores what is possible when the government, business and the financial community come together to provide "whole-of-economy" support.***

In addition to the support by banks and other Government-Linked Investment Companies (GLICs) such as Tenaga Nasional Berhad and the big telecommunications companies announced under the PRIHATIN stimulus, other notable examples include TheEdge launching a COVID-19 Equipment Fund and a Healthcare Workers Support Fund gathering support and donorship from businesses and individuals, and private hospitals announcing a willingness to accept non-COVID-19 patients to relieve the burden on public hospitals. Some bigger companies for example, malls under Sunway Group and Ekovest Berhad have started to offer rent free or subsidised rental rates to non-essential retailers during the MCO period. These are only a few of the many examples of Malaysian corporations using their different corporate levers of influence and reach to respond to this crisis.

It is also noteworthy when considering the impact of COVID-19 on different firms to be able to distinguish between the larger corporates which use a combination of bank and capital market financing and the SMEs and start-ups which either rely more on bank financing or do not even have access to bank financing. While it is true that failure of larger corporations will have greater spillover effects on an aggregated level to the economy compared to individual SMEs, larger corporations will, in the same notion, have a stronger bargaining power with their stakeholders compared to smaller businesses. (World Bank, Didier et al 2020). Thus, those who have sufficient buffers and corporate levers should extend support to their stakeholders by evaluating existing contracts and relationships with their customers, suppliers and contractors to consider flexibilities or alternative arrangements for business continuity.

(As a reference, data analysis on the large companies on the FBMKLCI index, used as a proxy, show that the levels of cash and cash equivalent held by corporates have remained stable post the 2008 crisis even though it has declined as a percentage of total assets (as assets per share have increased by 5.1% over a 10-year compounded annual growth rate (CAGR). This indicates that some larger corporations may have built sufficient cash reserves over the last decade which can be used in a period of crisis.

In a related observation, a historical trend analysis of the share buybacks transactions of Malaysia's public listed companies shows that the yearly and monthly trends had been rising, peaking in July 2019 especially driven by sectors such as property and utilities. The charts are included in Appendix 1)

Globally, especially in the US, share buybacks have long been recognised as one of the key driving forces for the long-run bull market. COVID-19 has now brought the issue of share buybacks in focus again. While it may be positive in the short-run for investors, it is also a litmus test for companies in terms of how they utilize their cash buffers during this crisis- using it to aggressively buy their shares versus managing working capital needs and reducing debt and/or supporting their stakeholders in their ecosystem.

The recently announced BNM measures whereby banking institutions will be allowed to draw on their capital conservation and liquidity buffers built up over the years to support their core lending activities, and that these flexibilities given to banks should not be for discretionary use such as increased dividend payouts, share buybacks or bonus payments, provides a strong signal to financial institutions and should be emulated by all listed companies as responsible behaviour during the COVID-19 crisis management period, while still balancing their responsibilities to all stakeholders.

(ii) Technological platforms will reshape relationships with incumbent financial intermediaries and the nature of financial services

On a related point, the COVID-19 situation will also likely see our business models being increasingly shaped by new dynamics of participation and collaboration with global technological platforms as seen during this crisis. We believe the greater acceptance and reliance on technological platforms will not only be a part of the "new normal" post crisis but will reshape their relationships with incumbent financial intermediaries as well as transform the nature of financial services.

A survey by PWC in November 2019 revealed that 45% of Malaysians are looking for virtual banking service providers to offer a better mobile and digital experience. Evidently, COVID-19 will catalyse an even faster shift into virtual banking and cashless transactions for consumers and smaller businesses out of sheer necessity. BNM's announcement of its intention to award up to five (5) new digital bank licenses in 2021 will raise additional considerations for financial incumbents in terms of how they respond to the proliferation of these technological platforms into the virtual banking space, i.e. whether to establish transaction partnerships to leverage these platforms to promote and extend their business reach outside of Malaysia, or to focus on their own internal digital transformation process.

Furthermore, the on-going disruption with the rise of technological platforms in the virtual banking space is further complemented by demographic changes and shifts in investors' preferences reshaping what constitutes online financial services. First, the rise of millennials and their potential investment capacity represent a still largely untapped market for financial intermediaries such as asset managers. Second, the PWC survey also highlighted that 77% of the Malaysian respondents would like to receive services beyond just financial services.

This will clearly affect how consumers rethink of traditional financial offerings, as technological platforms are able to offer a more integrated digital experience and offer a combination of financial and lifestyle services through partnerships with retailers and other service providers. Financial planning will also be transformed as it becomes more commonly integrated with online banking that offers personalized data tracking, further complemented by delivery of online financial literacy through social media and educational videos.

(iii) Sustainable and Responsible Investing (SRI) will be a litmus test for investors

The case for investors to stay focused on companies which can balance multiple stakeholders' long-term interests remain as pertinent as ever during a crisis period. There is now a growing body of research which suggests companies which manage to longer horizons can outperform regardless of the economic cycle. Our ICMR report "Evolving Business of Asset Management: Malaysia's Perspective" highlighted that 77% of asset managers anticipate SRI funds to be the most sought-after product by investors in the coming five years. Thus, the COVID-19 crisis presents a litmus test that this is not seen as merely a fad for the investing community but instead highlights proper long-term stewards of capital providing support to companies which act in a sustainable and responsible manner, even if it may limit short-term returns.

5 Addressing COVID-19's spillover effects on long-term savings

The government has announced a slew of measures to address some of the key demand-side challenges that have emerged from this COVID-19 crisis, including one-off cash transfers, loan moratoriums, reduction in mandatory contributions to the Employees' Provident Fund (EPF) and the ability to withdraw a portion of contributions from the EPF and Private Retirement Scheme (PRS). While these short-term measures provide immediate financial relief to individuals, it has also brought to fore the bigger issue of the critical dependency of some individuals on their retirement fund as their primary savings for hardship and emergency situations.

This creates challenges for policymakers on multiple fronts, not least because of the trade-offs in the longer term, but also because the issue of lack of savings is one which has persisted for a long time and will only be further exacerbated by an ageing population, the growing presence of the gig economy and ongoing structural technological shifts which risk further job dislocations. Further complicating the situation is the risk that the economic impact of COVID-19 is prolonged and that current efforts to contain the epidemic may require further repeated interventions.

A study by Bank Negara Malaysia (BNM) has shown that 52% of Malaysians would face difficulty raising RM1,000 immediately in the event of an emergency (and this number goes up to 86% for B40 households). Furthermore, only 24% of respondents would be able to sustain living expenses for at least three months or more after losing their income. The lack of financial buffers is perilous during normal times and even more so in times of crisis, such as now.

From a retirement savings point of view, 60% of EPF's 7.3 million members have less than RM50,000 in their account, with the average retirement savings of members at age 54 being RM209,861, below the minimum threshold of RM240,000 (which equates to a monthly amount of RM1,000 over 20 years). EPF has recently highlighted that fund data shows 71.4% of those who are self-employed have less than one month's worth of savings, while 82.7% of those working in the private sector have only saved enough to support themselves for less than two months Similarly, more than 60% of the 455,000 PRS members have less than RM5,000 in their accounts.. This has broader implications both for the lack of immediate financial security and also on longer-term financial planning especially for the most vulnerable segments of our society.

As part of the overall COVID-19 stimulus package, two of the government's announcements involve allowing a partial withdrawal from retirement savings funds:

- EPF contributors are allowed to withdraw a portion of their savings from Account 2, up to RM500 per month for 12 months (to a total of RM6,000)

- PRS contributors are allowed a one-off withdrawal up to a maximum of RM1,500 from their Account B (per provider), without tax penalty

The concern on lack of long-term savings becomes even more acute when the figures are broken down based on income distribution. Research has shown that in 2014, the Gini coefficient for EPF stood at 0.658, higher than the figure for household income at 0.401. If EPF savings are used as a proxy for overall retirement savings, this implies that the lower-income households will be the majority group that opts for the partial withdrawals through this crisis period. This will raise further questions on the consequences of gaps in our retirement system for the longer-term. It is noteworthy, however, that the RM500 per month of EPF withdrawals encourages more rational distribution strategies enabling people to think through their options during a crisis period compared to one-off withdrawal strategies which can also pose market risks.[1]

In addition, a quick benchmarking exercise highlights that in other jurisdictions like the US and Australia, withdrawals from their respective retirement funds are only for those who have been directly affected by the crisis such as those who have been diagnosed with COVID-19, or have been laid off within a specific time period.

> *Without these specific qualifications and targeted flexibilities, it will not only lead to greater opportunity cost for individuals in the long term but also inhibit reforms of the pension system from achieving a more inclusive and sustainable model.*

(i) Importance of strengthening social safety nets for long-term retirement planning

COVID-19 has resulted in a great deal of short-term unanticipated financial challenges for many individuals and smaller businesses. While government measures can provide partial and temporary assistance, this crisis has underscored the need for a strengthening of social security nets to support inclusive growth and provide support to the most vulnerable segments of the society for better preparedness of future crises. The issue of social security nets are multi-faceted, however, retirement savings would form one important pillar.

Figure 2: World Bank pension conceptual framework

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[1] Total PRS NAV as of end 2019 stood at RM3.5billion, or 4.25% of total fund management NAV and only 0.25% of Bursa market capitalisation. As such, PRS withdrawals are not expected to have significant negative impact on the market.

The World Bank recommends a multi-pillar pension system to provide a holistic framework for retirement planning. This includes basic social protection from the State for the most vulnerable, mandated and voluntary retirement savings, as well as informal support, social programmes and ownership of other assets. Under this framework, the various pillars complement each other to provide sufficient social and financial protection in old age.

In the unique Malaysian context, this framework would cover not only EPF and PRS, but also government pensions for civil servants (Kumpulan Wang Persaraan or KWAP) and armed forces (Lembaga Tabung Angkatan Tentera or LTAT), schemes under the Social Security Organisation (SOCSO), as well as social aid programmes under various ministries and agencies. It will also include personal investments in government-linked schemes such as Amanah Saham Bumiputera or Tabung Haji, private investments and home ownership.

Adopting a holistic overview on the overall retirement and social protection can ensure that these various pillars effectively cater to their respective target groups. This may also require greater collaboration and public-private partnerships, as government ministries and agencies such as EPF, PNB, SOCSO, BNM and SC work together with industry players to provide comprehensive retirement solutions. Better coordination and centralised data collection are key towards full inclusion, more targeted benefits, and ensuring adequate coverage.

As Malaysia becomes an increasingly ageing population, it is imperative that individuals have a thorough understanding of the various options available to them. It is also important to note that any successful national pension framework will have to be underpinned by strong macroeconomic fundamentals and inclusive growth. Given that the overall retirement framework in Malaysia consists of many different players, each with different socioeconomic mandates, any review would have to be done holistically and to consider the complex interrelationships between our social protection issues, the sustainability of capital market returns and the overall economic impact.

(ii) Closing the gaps for the self-employed and informal workers

In line with the need to adopt a holistic approach to retirement savings, it is also important to ensure that no vulnerable groups fall through the gaps and fail to be covered by any retirement scheme. While EPF covers workers who are formally employed, EPF themselves have estimated that up to 62% of working-age Malaysians are not covered by any of the retirement schemes.

While changing demographics and the rising trend of gig economy jobs and freelance or contractual work will likely see this percentage increasing, the issue will only be exacerbated by the COVID-19 crisis. Further, the fact that many self-employed or informal jobs do not provide regular or consistent income and lack benefits such as medical insurance or paid sick leave, means that this group is even more vulnerable to financial distress.

Cognisant of this, EPF has introduced a few voluntary schemes. All voluntary contributions are capped at a maximum of RM60,000 per annum:

Scheme	What is it?
i-Saraan	• Voluntary contributions by the self-employed or informal workers • Additional government incentive of 15% of contribution (up to RM250 per annum) between 2018-2022
i-Suri	• Voluntary contributions by housewives and their spouses • Additional government incentive of up to RM480 per annum
Top-Up Savings Contributions	• A parent, child or spouse may top up contributions into the account of any EPF member
Self-contribution	• Additional voluntary self-contribution by any EPF member

As of end-2019, 137,000 individuals have registered for i-Saraan, while 88,500 registered for i-Suri. EPF has also announced collaborations with Grab to encourage its drivers and riders to sign up for i-Saraan, with Grab providing matching contributions of up to 5%.

PRS is also an avenue for the self-employed and informal workers to save for their retirement. However, as of end-2019, only 9% or around 40,000 of PRS members consist of the self-employed. In our report *The Evolving Business of Asset Management: Malaysia's Perspective*, we highlighted the need for PRS to be a more attractive option to investors in terms of returns and diversity, as many individual investors still see PRS as a trade-off for unit trust schemes, with the latter providing more flexibility. In February 2020, the SC announced additional flexibility in asset allocation for PRS funds, such as allowing conservative funds to invest in foreign markets and for PRS funds to invest in exchange-traded-funds based on physical gold to increase asset diversification into alternative investments.

However, given that voluntary contributions in EPF is now also an option for the self-employed and provides statutory-guaranteed returns, PRS providers will need to be even more innovative in their approach to attract the self-employed.

> ***This could include a more flexible withdrawal structure that can help smoothen out unstable income, or automatic contributions that are linked to technology platform providers.***

While significant efforts have been taken by both EPF and PRS to address the issue, the combined number of self-employed/informal workers who have signed up for either i-Saraan or PRS stands at 177,000 – this accounts for only 1.3% of the more than 13 million Malaysians who are not currently covered. This remains a global issue – a 2019 study by OECD highlighted the challenges many of its member nations have in addressing the self-employed or informal sector pension issue. Acknowledging that the uniqueness and complexity of every country's pensions system means it is difficult to accurately benchmark measures, OECD has recommended that any policy should consider a few key factors.

In the Malaysian context, this may require further in-depth study of the retirement landscape as a whole. The policy considerations recommended by the OECD to ensure protection for self-employed and informal workers include:

- Greater coordination between different retirement schemes, including mandated and voluntary schemes, as well as other forms of social protection and benefits
- Improving access to retirement schemes, particularly leveraging on big data from both public (e.g. tax declarations) and private (e.g. banking data) sources
- Finding a way to mandate pension savings for the self-employed and informal workers, in part due to acknowledged behavioural challenges that hinder voluntary take-up
- Better harmonisation of pension rules for formal and informal sector workers to minimise unequal outcomes, while acknowledging that full harmonisation may not be possible

(iii) Helping investors make better decisions

Given the gravity of the COVID-19 crisis, it is inevitable that investors may be in a state of distress or panic regarding their financial circumstances. It is important for investors to receive all the guidance that they can to navigate these uncertain times, and to build up their financial resilience.

- In our previous report on the asset management industry, we highlighted the need to leverage on behavioural economics to increase participation in voluntary retirement schemes. Research has shown that while financial education does have a positive impact, it is difficult to change deep-seated psychological behaviour via conventional knowledge-based education. Saving for retirement is particularly challenging due to a tendency to prioritise short-term gratification over long-term gain. As previously mentioned, the rational distribution strategy by EPF for the i-Lestari withdrawal employs an opt-in method, while also providing time for members to think through their choices. Moving forward, considerations to increase savings could include automatic diversion of new income towards retirement schemes and leveraging on micro-savings or micro-investing to build investment habits.
- Our report emphasized the need for unit trust agents to move up the value chain and take on the responsibility of providing holistic financial planning and promoting healthy investment behaviour. This has become now even more important, as financial advisors play a significant role in guiding clients through the current volatility. Financial advisors should harness digital tools to not only communicate with their clients in an era of social distancing, but also to provide visually effective

projections and personalised portfolio planning. The SC has announced recently that they will be looking at liberalising the advisory for financial planners.

- As the future of work rapidly evolves amidst the crisis, employers should play an active role in providing impartial financial wellness programmes for their employees. Financial stress has direct effects on physical and mental health, and can be linked to lower productivity, unplanned job absences and lower job performances. A 2019 report by PwC showed that not only was financial stress the leading cause of stress among its employees, but loyalty to their employer was influenced by how much the company cared about their financial well-being, particularly for the younger generation. As such, financial wellness programmes could be a means of talent retention, as well as a direct example of a stakeholder-value based model for the company.

Concluding Remarks

The COVID-19 crisis will be a defining moment in global history. How we respond to this potentially catastrophic and unprecedented crisis will shape the outcomes for our economy and society in the long-term. Lessons from previous crises have taught us that despite our best efforts, we have not been able to make the hard choices to fundamentally restructure our economy and society and our respective roles in it.

The COVID-19 crisis could turn out to be the "black swan" event which reshapes our thinking about the future. It may force us to take the long view and to start putting in the building blocks needed to build structural resilience to absorb shocks and to transform our future into a more inclusive and sustainable one.

This global pandemic will not be the only disruptive change our society will face in this lifetime. We are already faced with multiple "wicked" and complex challenges - from the impact of IR4.0 and climate change, to an ageing society and rising inequalities. The COVID-19 crisis has forced us to now confront multiple challenges at the same time. Once the crisis abates, we will need to confront the trade-offs between embracing change and opportunities which arise from the accelerating trends driven by the COVID-19 versus the need and inertia to remain status quo.

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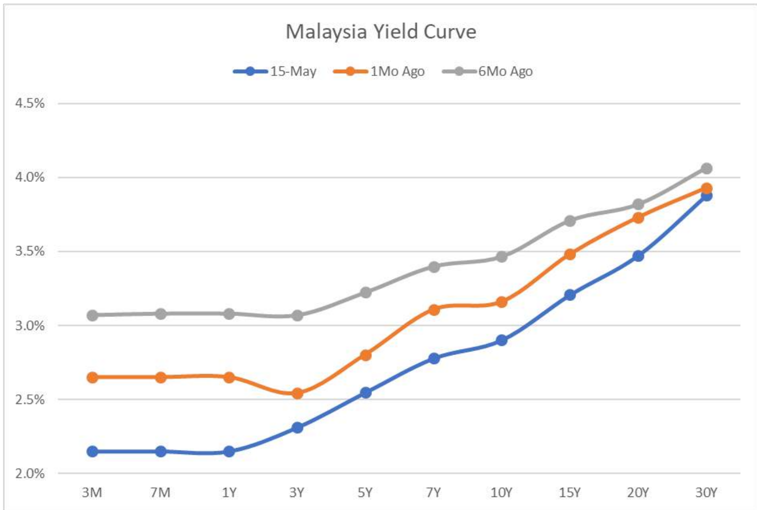
Appendix 1

Figure 1a: Malaysia Government Bonds - Yield Curve

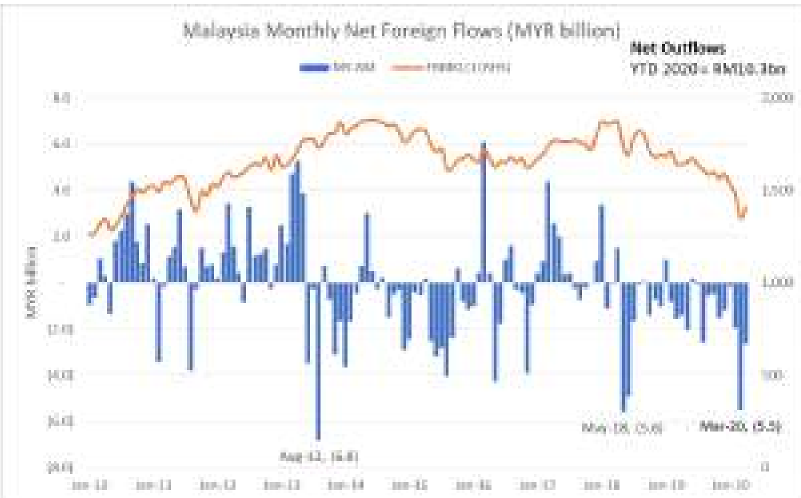


Source: Bloomberg, Bursa Malaysia, World Government Bonds

Figure 1b: ASEAN Equity Markets Performance (in Local Currency Terms)

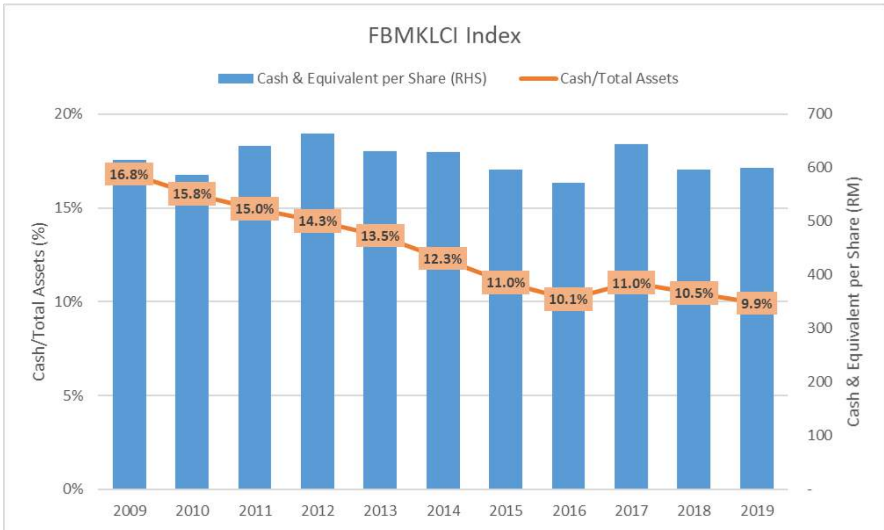
Source: Bloomberg, Bursa Malaysia, World Government Bonds

Figure 1c: FBMKLCI Index and Malaysia Monthly Net Foreign Flows



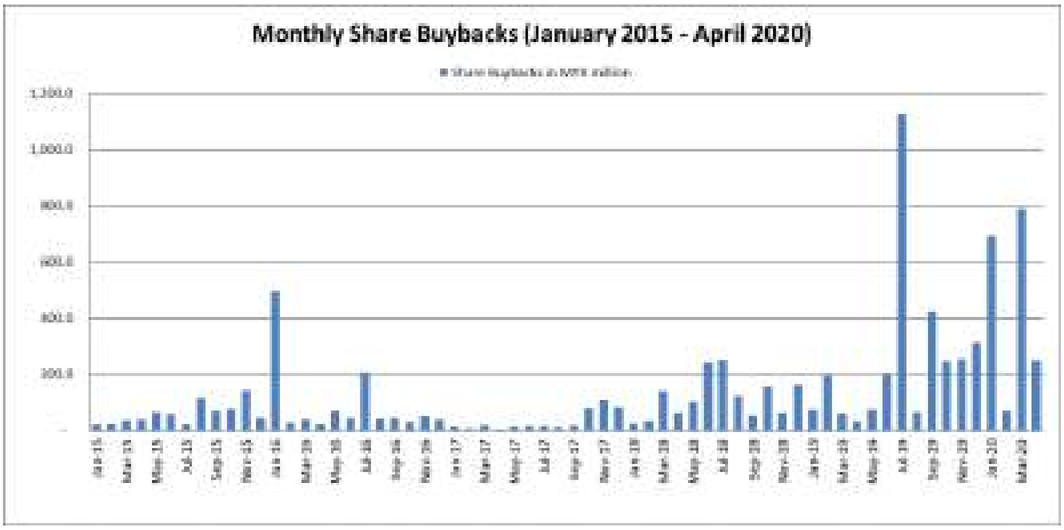
Source: Bloomberg, Bursa Malaysia, World Government Bonds

Figure 1d: FBMKLCI Index – Cash & Equivalents over Total Assets



Source: Bloomberg

Figure 1e: Monthly Share Buybacks (January 2015 – April 2020)



Source: Bloomberg

Appendix 2

Announced measures related to Covid-19 *[Last updated 2nd April 2020]*

Government				
CONTENTS	AMOUNT	DATE	SOURCE	TARGET GROUP
Mitigating impact of COVID-19: Easing Cashflow To assist businesses most adversely affected, the Government proposes for a period of 6 months beginning from April until September 2020: 1. To allow deferment of monthly income tax instalment payments for businesses in the tourism sector. In addition, companies affected by the COVID-19 to be allowed to revise their profit estimates for 2020 with respect to monthly income tax instalment payments without penalty 2. To provide 15% discount in monthly electricity bills to hotels, travel agencies, airlines, shopping malls, conventions and exhibitions centres; 3. To exempt Human Resource Development Fund (HRDF) levies for hotels and travel-related companies; and 4. To exempt the 6% service tax for hotels. However, this exemption will be made effective earlier, that is from March to August 2020		27-Feb-20	Stimulus Package 2020	Tourism sector
Provision of financing facilities for affected companies as follows: 1. Bank Negara Malaysia (BNM) will provide a Special Relief facility worth RM2 billion, particularly in the form of working capital for Small Medium Enterprises (SMEs) at an interest rate of 3.75%; and 2. Bank Simpanan Nasional (BSN) will allocate RM200 million in microcredit facility offering an interest rate of 4% to affected businesses. In addition, the approval process for existing loan funds will be further streamlined such as Bank Pembangunan's Tourism Infrastructure Fund of RM1.5 billion.	**SME Special Relief Facility:** RM2 Billion **BSN Microcredit facility:** RM200 Million	27-Feb-20	Stimulus Package 2020	Hotel operators
Easing cashflow for tourism sector related to Malaysia Airport Holdings Berhad (MAHB) Malaysia Airport Holdings Berhad (MAHB) will provide rebates on rental for premises at the airport as well as landing and parking charges.		27-Feb-20	Stimulus Package 2020	MAHB and related retailers
Assistance for affected individuals 1. The Government acknowledges lower tourist arrivals has negatively impacted those reliant on tourism. The Government will give a one-off payment of RM600 each to taxi drivers, tourist bus drivers, tourist guides and registered trishaw drivers 2. As a sign of appreciation to those in the front line protecting Malaysia from the contagion, Government staff directly involved in the containment efforts will be eligible for a special monthly critical allowance of RM400 for medical doctors and other medical personnel, as well as RM200 for immigration and related front line staff commencing February 2020 until the end of pandemic. 3. To date, the Ministry of Health has committed RM150 million to purchase the relevant equipment, medicine and consumables in the effort to contain the COVID-19 outbreak.	**One-off payment:** RM600 **Special allowance:** RM400 and RM200 **Commitment:** RM150 million	27-Feb-20	Stimulus Package 20	Taxi drivers, tourist related drivers Frontliners MoH

Government				
The Government will provide the necessary resources to ensure the COVID-19 outbreak is well managed.				
Human capital development 1. The Government encourages employers to further invest in raising the productivity of human capital during this economic slowdown period. Towards this, the Government will provide double deduction on expenses incurred on approved tourism-related training. The Government will also provide up to RM100 million on a matching grant basis to HRDF to fund an additional 40,000 employees from the tourism and other affected sectors. 2. The Government will also provide RM50 million to subsidise short courses in digital skills and highly skilled courses. This incentive is expected to benefit 100,000 Malaysians. 3. The Malaysian workers retrenched can rely on the Employment Insurance System (EIS) with a current fund of RM1.1 billion. Furthermore, EIS will increase the claimable training cost from RM4,000 to RM6,000 for the affected sectors. A daily training allowance of RM30 per day will also be provided to trainees under EIS.	**Grant:** RM100 million **Subsidy:** RM50 million **Daily training allowance:** RM30	27-Feb-20	Stimulus Package 2020	Rakyat, employees
To stimulate the tourism industry, the Government will introduce the following initiatives: 1. Personal income tax relied up to RM1,000 on expenditure related to domestic tourism 2. All Malaysians will be eligible for digital vouchers for domestic tourism of up to RM100 per person for domestic flights, railway and hotel accommodation. Additional matching grants for tourism promotion will be provided. An allocation of RM500 million is provided for the vouchers and tourism promotion 3. Relaxation of existing guidelines limiting use of hotels by Government agencies as part of mitigating the reduced demand	**Allocated amount:** RM500 million **Tax relief:** RM1,000 **Digital voucher:** RM100 per person	27-Feb-20	Stimulus Package 2020	Tourism industry
Catalysing rakyat centric economic growth rakyat's assistance 1. The minimum Employees Provident Fund (EPF) contribution by employees will be reduced by 4% from 11% to 7%, with effect from 1 April 2020 to 31 December 2020. This will potentially unlock up to RM10 billion worth of private consumption 2. A payment of RM200 to all Bantuan Sara Hidup (BSH) recipients scheduled for May 2020 will be brought forward to March 2020 3. An additional RM100 will be paid into the bank accounts of all BSH recipients in May 2020. Subsequently, an additional RM50 will be channelled in the form of e-tunai	**Private consumption unlocking:** RM10 billion **Additional relief BSH:** RM100 **Additional relied e-tunai:** RM50	27-Feb-20	Stimulus Package 2020	Rakyat, employees
Enhancing the income of rakyat and reduce cost of living, the Government will undertake the following initiatives: 1. Agrofood facility of RM1 billion will be provided by BNM at an interest cost of 3.75% to promote food production activities to meet domestic and export demand 2. RM10 million allocation to FAMA to provide food storage facilities to help reduce food prices 3. Grants of RM1,000 to 10,000 local entrepreneurs to promote sale of their products on e-commerce platforms 4. Allocation of RM20 million to Malaysian Digital Economy Corporation (MDEC) for Perkhidmatan e-Dagang Setempat	**BNM provision:** RM1 billion (3.75% interest cost) **Allocation to FAMA:** RM10 million **Grants:** RM1,000 to 10,000 local entrepreneurs	27-Feb-20	Stimulus Package 2020	Rakyat, employees

Government				
(PeDAS) programme to transform Pusat Internet Desa into e-commerce hubs	**Allocation to MDEC:** RM20 million			
Rural stimulus The government will allocate an additional RM2 billion for implementation of small infrastructure repair and upgrading projects nationwide especially in rural areas. The projects need to be implemented expeditiously in order to give positive impact in stimulating the economy. 1. Increase procurement threshold value for balloting from RM50,000 to RM100,000 and for quotations from RM500,000 to RM800,000; 2. Ensure Ministries channel sufficient allocations to respective implementing agencies by first quarter of 2020. MoF will oversee the compliance to procurement schedule to ensure projects are undertaken on a timely basis.	**Allocation:** RM2billion	27-Feb-20	Stimulus Package 2020	Rakyat
Promoting quality investments To bolster business confidence, the Government is committed to sustaining public investments and in particular, expedite in 2020 the tenders and implementation of development expenditure projects. In addition, agencies and Government linked companies (GLCs) will also accelerate planned investment projects for 2020, including: 1. Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) will open for bids quota of 1,400MW for solar power generation. This is expected to involve RM5 billion of private investments and generate 25,000 jobs 2. Malaysian Communications and Multimedia Commission (MCMC) will implement up to RM3 billion on works related to the National Fiberisation and Connectivity Plan (NFCP) 3. GLCs such as TNB will invest RM13 billion in 2020, including accelerating projects such as LED street lights, transmission lines and rooftop solar installations	**Private investment generation (MESTECC):** RM5 Billion **NFCP implementation:** RM3 Billion **TNB Investment:** RM13 Billion	27-Feb-20	Stimulus Package 2020	Infrastructure
Enhance greater national competitiveness, the Government will promote higher value-added private sector investments through: 1. A Co-Investment fund of RM500 million to be co-invested and matched by private investors on a ratio of at least 1 to 3 which will make the total funds amount to RM2 billion for investment in early-stage and growth-stage Malaysian companies 2. waiving of the listing fees by Securities Commission and Bursa Malaysia for one year for companies seeking listing on Leading Entrepreneur Accelerator Platform (LEAP) or Access, Certainty, Efficiency (ACE) markets, as well as companies with market capitalisation of less than RM500 million seeking listing on the Main Market; waiving of the listing fees by Securities Commission and Bursa Malaysia for one year for companies seeking listing on Leading Entrepreneur Accelerator Platform (LEAP) or Access, Certainty, Efficiency (ACE) markets, as well as companies with market capitalisation of less than RM500 million seeking listing on the Main Market 3. BNM will provide an SME Automation & Digitalization Facility of RM300 million at an interest cost of 3.75% 4. the Government will provide accelerated capital allowances over a two-year period on expenses incurred on machinery and equipment including ICT;	**Co-investment fund:** RM2 billion total (Government allocation RM500 million) **SME Automation & Digitalization Facility:** RM300 million (3.75% interest) **Tax deduction for renovation and refurbishment:** RM300,000	27-Feb-20	Stimulus Package 2020	Companies

Government				
5. The Government will provide a tax deduction of up to RM300,000 on renovation and refurbishment cost; and 6. Import duty and sales tax exemption on importation or local purchase of machinery and equipment used in port operations for 3 years commencing 1 April 2020.				
Allocation of fund for MOH: 1. Additional allocation of RM500 million to the Ministry 2. Additional RM1 billion to purchase equipment and services to contain COVID-10 which includes obtaining medical expertise from private healthcare	**Additional allocation:** RM500 million **Medical expertise and equipment allocation:** RM1 billion	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	MOH
Special fund to cover the costs incurred for COVID-19 screening: 1. Insurance and takaful fund of RM8 million 2. Costs incurred for screening of up to RM300 per policy holder 3. 3 month suspension on premiums by contributors whose source of income is affected by the pandemic	**Insurance and takaful fund:** RM8 million **Screening cost:** RM300 per policy holder	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Workforce/ EPF Depositors
Special allowance to frontliners: 1. From RM400 to RM600 effective 1 April 2020 until the end of the breakout 2. Special allowance of RM200 a month to military, police, customs, civil defence and RELA members directly involved in enforcing MCO	**Allowance:** RM600 **Special allowance:** RM200	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Frontliners
Bantuan Prihatin Nasional (allocation of RM10 billion) 1. RM1,600 to nearly 4 million households earning less than RM4,000 a month. Payment of RM1,000 will be made in April 2020 and the remaining in May 2020. 2. M1,000 to nearly 1.1 million households earning between RM4,000 and RM8,000 a month with RM500 paid in April 2020 while the balance in May 2020. 3. RM800 to 3 million single individuals aged 21 and above, earning less than RM2,000 a month. Payment of RM500 will be made in April 2020 and the remaining RM300 in May 2020. 4. RM500 to 400,000 single individuals aged 21 years and above, earning between RM2,000 and RM4,000 per month. The payment of RM250 will be made in April 2020 while the balance in May 2020.		27-Mar-20	Prihatin Rakyat Economic Stimulus Package	B40/M40
Bantuan Sara Hidup (BSH) programme to be paid on in July totalling RM3.2 billion	**Total allocation:** RM3.2 billion	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	BSH Receipients
Students at institutions of higher learning: 1. Total allocation of RM270 million to students at various levels of tertiary education 2. One-off cash assistance of RM200 per person	**Total allocation:** RM270 million **One off cash assistance:** RM200 per person	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Tertiary students
Vulnerable groups such as the elderly, children in shelters, the disabled, the homeless and orang asal allocation of RM25 million	**Total allocation:** RM25 million	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Vulnerable groups

Government				
Deferment of loan repayment for PTPTN and PTPK loan borrowers: 1. Total allocated sum of RM750 million, deferment period of 6 months 2. Total allocated sum of 149.2 million, deferment period of PTPK loan from 1 April 2020 to 30 September 2020	**Total allocation PTPTN:** RM750 million **Total allocation PTPK:** RM149.2 million	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	PTPTN and PTPK borrowers
mySalam hospitalised patients, including those infected with COVID- 19 can claim income replacement fee of RM50 per day for a maximum of 14 days. The Government agrees to extend this benefit to the quarantined B40 patients under investigation (PUI)	**Income replacement fee:** RM500 per day (Max 14 days)	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	mySALAM patients
Rental / Housing initiatives involving the Federal Government, Ministry of Housing and Local Governments (KPKT), and Kula Lumpur City Hall Projek Perumahan Rakyat (PPR) and Perumahan Awam tenants: 1. 6 months extension of rental 2. Cost borne by Government is RM3 million PPR Rent-to-own (RTO) units owners: 1. 6 month moratorium, totalling RM5.7million 6 month lease exemption on all premises owned by the Federal Government such as school, canteens, nurseries, cafeterias, convenience stores and others. *All other state governments, local authorities and GLCs are encouraged to do the same.*	**PPR rental subsidies government cost:** RM3 million **PPR RTO moratorium government cost:** RM5.7 million	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	PPR Residents
Private Retirement Scheme Government allows pre- retirement withdrawals from account B up to RM1,500 per member without any tax penalties between April and December 2020.	**Members wirthdrawal from Account B:** RM1,500	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Rakyat
Electricity Bills 1. Provide a 15% discount on electricity bill in the tourism sector as well as 2% for commercial, industrial, agricultural and household sectors in Peninsular Malaysia beginning 1 April 2020 2. The Government together with Tenaga Nasional Berhad – increase the allocation to introduce a tiered-discount with rates ranging between 15% and 50% according to electricity usage with a maximum limit of 600 kilowatt per month: i. 50% discount will be given to electricity consumption below 200 kilowatts ii. 25% for electricity consumption between 201 – 300 kilowatts iii. 15% for 301 – 600 kilowatts		27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Rakyat
Telecommunications and multimedia industries: 1. Free internet to all customers starting 1 April 2020 until the MCO ends (valued at RM600 million) 2. Additional sum will be invested to widen the network coverage and capacity, maintaining stable, high quality and availability of telecommunication services (valued at RM400 million)	**Free internet government borne cost:** RM600 million **Cost of upgrading telecommunication services:** RM400 million	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Rakyat
Civil servant welfare RM500 to more than 1.5million civil servants of grade 56 and below, including contract workers	**One-off assistance:** RM500	27-Mar-20	Prihatin Rakyat Economic	Civil servants

Government				
			Stimulus Package	
Wage Subsidy Programme Subsidies salary of RM600 monthly for every employee for 3 months. This programme is dedicated to workers earning less than RM4,000 and employers experiencing more than	**Subsidised salary:** RM600	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Rakyat
Assistance for e-hailing and taxi drivers 1. Provide a one- off cash assistance of RM500 to 120,000 e-hailing drivers 2. Taxi drivers will receive a one-off assistance of RM600	**E-Hailing one-off assistance:** RM500 **Taxi drivers one-off assistance:** RM600	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	E-hailing and taxi drivers
Assistance for government pensioners More than 850,000 government pensioners will be given a one-off RM500 assistance in April 2020	**One-off assistance:** RM500	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Governmen t pensioners
Allocation for Food Security Fund 1. Allocate RM1 Billion for Food Security Fund 2. The Government will continue to channel various assistance to farmers and fishermen, including agricultural inputs to increase domestic production 3. Provide RM100 million for the development of infrastructure for food storage and distribution as well as crop integration programme 4. Provide special funds between RM100,000 to RM200,000 each Pertubuhan Peladang Kawasan (PPK) and Pertubuhan Nelayan Kawasan (PNK) to develop short-term agrofood projects that can generate income within 3 to 6 months, ensuring sufficient food supply, worth an allocation of RM64.4 million	**Food Security Fund gov't allocation:** RM1 Billion **Infrastructure development and crop integration programme:** RM100 million **Funds for PPK and PNK:** RM100,000 – 200,000	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Food assistance (agriculture)
Workers of service contractors despite absence in MCO period Welfare of workers such as cleaning and food supply in schools, public higher learning and training institutions, as well as other government agencies, including statutory bodies involving RM100 million and extend period by one month	**Gov't allocation:** RM100 million	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Rakyat
Government and BNM related initiatives for SMEs 1. Providing additional funds under the Micro Credit Scheme, to a total of RM700 million for soft loans i. Administered by Bank Simpanan Nasional at 2% interest rate with no collateral ii. Loan eligibility requirements are also relaxed to a minimum of 6 months of operation iii. Maximum financing amount is also increased from RM50,000 to RM75,000 for each entrepreneur 2. SMEs with business records of less than 4 years can also leverage the BizMula-i and BizWanita-i schemes for financing up to RM300,000 under the Credit Guarantee Malaysia Berhad (CGC) 3. Syarikat Jaminan Pembiayaan Perniagaan (SJPP) will provide RM5 billion worth of guarantees and increase the guarantee coverage from 70% to 80% for SMEs that face difficulties in obtaining loans.	**Funds for soft loans:** RM700 million **SJPP allocation for guarantees:** RM5 billion	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	SMEs
Companies facing cashflow constraints: 1. EPF will introduce the Employer Advisory Services (EAS) programme on 15 April 2020. This service includes options for	**Estimated cashflow to SMEs:** RM10 billion	27-Mar-20	Prihatin Rakyat Economic	Employers / Corporates

Government				
deferral of payments, restructuring and rescheduling of employer contributions. The measure is expected to provide cashflow to employers which is estimated at RM10 billion, benefitting over 480,000 SMEs and affected companies while securing more than 8 million jobs. 2. Exempt payment for Human Resources Development Fund (HRDF) levy for all sectors for a period of six months beginning April 2020. This measure is expected to assist the company's cashflow with a total savings of RM440 million 3. Postponement of income tax instalment payments to all SMEs for a period of 3 months beginning 1 April 2020. This is in addition to the previously announced measures where the Government has postponed tax instalment payments to affected businesses in the tourism sector for 6 months beginning 1 April 2020.	**Cashflow from exemption of HRDF payment:** RM440 million		Stimulus Package	
B40 entrepreneurs and those unemployed due to COVID-19: 1. Social financing programme will be introduced in collaboration with Islamic banking institutions, the state Islamic religious council and key implementing partners. Social donations will be channelled in the form of initial capital for micro-entrepreneurs using zakat funds and matched with microfinancing at affordable rates. 2. The first phase of the collaboration between Bank Islam Malaysia Berhad and the Federal Territory Islamic Religious Council will commence in May 2020. Eligible entrepreneurs will be given training in entrepreneurship and financial management as well as support to develop their businesses.		27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Entreprene urs
Corporate sector relief 1. Government will also provide a RM50 billion guarantee scheme with a guarantee of up to 80% of the loan amount for the purpose of financing working capital requirements. The scheme will be managed and subject to credit evaluation by Danajamin. 2. The minimum guaranteed loan size is RM20 million per business. This facility will be available for application from 1 May to 31 December 2020 or until the fund is fully utilised.	**Gov't guarantee:** RM50 billion	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Corporates
Domestic investment activities The government has identified various aspects to spur domestic investments such as: 1. RM2 billion for small projects announced in the previous package will be implemented in April 2020. These projects include infrastructure projects in FELDA and other areas valued at RM600 million, upgrading dilapidated schools in Sabah and Sarawak (RM350 million) and upgrading the Perumahan Rakyat Termiskin (RM150 million). 2. Implementation of all projects allocated in the 2020 Budget including ECRL, MRT2 and the National Fiberisation and Connectivity Plan. This is in line with the Government's focus to ensure the sustainability of economic growth.	**Gov't allocation for small domestric projects:** RM2 billion	27-Mar-20	Prihatin Rakyat Economic Stimulus Package	Rakyat
Special PRIHATIN Grant for eligible micro-enterprises: Special PRIHATIN Grant amounting to RM2.1 billion will be established for eligible micro enterprises. A grant of RM3,000 will be provided to each company, benefitting almost 700,000 micro enterprises. The micro SMEs will have to register with LHDN to	**Grant:** RM3,000 to each company	06-Apr-20	Prihatin SME+ Economic Stimulus Package	SME / Employees

Government				
enjoy this assistance. The local authorities and SSM will provide the list of eligible micro enterprises to Government.				
An encouragement for money lenders to provide moratoriums for SMEs *The Government would like to urge the registered money lenders who offer credit facilities under the Money Lenders Act 1951, to provide moratoriums to SMEs for loan repayments for 6 months beginning April 2020.* *This is not a specific initiative with monetary value, more of an encouragement from the government.*		06-Apr-20	Prihatin SME+ Economic Stimulus Package	SMEs
Enhancement of the Micro-credit Scheme under Prihatin Rakyat Economic Stimulus Package: 1. Abolish the 2% interest rate to 0% under the Micro Credit Scheme amounting to RM500 million under Bank Simpanan Nasional (BSN). The soft loan scheme for micro enterprises is also extended to TEKUN Nasional with a maximum loan limit of RM10,000 at 0% for each enterprise. A total of RM200 million fund will be allocated for this purpose.	**Interest rate decrease:** From 2% to 0% **Allocation to TEKUN Nasional:** RM200 million, 0% interest rate	06-Apr-20	Prihatin SME+ Economic Stimulus Package	SMEs
Rental waivers or discounts on premises related to GLCs: Waive or provide discounts for rentals to SMEs in the retail sector which are operating on premises owned by Government-Linked Companies (GLCs). *Government urge owners of private premises to provide similar assistance to their tenants to reduce their rental rates* Owners of buildings or business spaces that provide rental reduction or waiver to tenants that consist of SMEs are given a further tax deduction which is equivalent to the amount of rental reduction for the months of April until June 2020. This further tax deduction is subject to the condition that the rental reduction is at least 30% of the original rental rate for that particular period.	**Companies given tax deduction equivalent to the amount of rental reduction**	06-Apr-20	Prihatin SME+ Economic Stimulus Package	SMEs/ Corporates
Reduction of foreign worker levy: Reduce the levy on foreign workers by 25% to all companies with work permits that will expire in the period of 1 Apr to 31 Dec 2020. *Levy not applicable to domestic helpers.*	**Reduction of foreign worker levy:** 25%	06-Apr-20	Prihatin SME+ Economic Stimulus Package	SMEs / foreign worker heavy industries
Extension for lodgement of financial statements to SSM: A 3-month extension will also be granted for the lodgement of financial statements for companies with financial year ended 30 September to 31 December 2019. Companies are required to apply to SSM for this extension with no fees imposed.		06-Apr-20	Prihatin SME+ Economic Stimulus Package	Companies
Special PRIHATIN Grant for eligible micro-enterprises: Special PRIHATIN Grant amounting to RM2.1 billion will be established for eligible micro enterprises. A grant of RM3,000 will be provided to each company, benefitting almost 700,000 micro enterprises. The micro SMEs will have to register with LHDN to enjoy this assistance. The local authorities and SSM will provide the list of eligible micro enterprises to Government.	**Grant:** RM3,000 to each company	06-Apr-20	Prihatin SME+ Economic Stimulus Package	SME / Employees

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CONTENTS	AMOUNT	DATE	SOURCE	TARGET GROUP
Monetary Policy Statement To reduce the Overnight Policy Rate (OPR) by 25 basis points to 2.75 percent. The ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 3.00 percent and 2.50 percent, respectively		22-Jan-20	BNM	Overall ecosystem
Measures to Assist Businesses and Households Affected by the Covid-19 Outbreak To assist businesses and households impacted by the Covid-19 outbreak, Bank Negara Malaysia (BNM) is allocating RM3.3 billion of financing facilities under BNM's Fund for SMEs: 1. ***Special Relief Facility (SRF)***, with an allocation of RM2 billion, to help alleviate the short-term cash flow problems faced. Eligible SMEs can obtain financing of up to RM1 million for a tenure of up to 5.5 years, including a 6-month grace period. The financing rate is capped at 3.75% p.a. 2. ***Agrofood Facility (AF)***, with an allocation of RM1 billion, to increase food production for Malaysia and for export purposes. Eligible SMEs can obtain financing of up to RM5 million for a tenure of up to 8 years. The financing rate is capped at 3.75% p.a. 3. ***SME Automation and Digitalisation Facility (ADF)***, with an allocation of RM300 million, to incentivise SMEs to automate processes and digitalise operations to improve productivity and efficiency. Eligible SMEs can obtain financing of up to RM3 million for a tenure of up to 10 years. The financing rate is at 4.00% p.a.	RM2 Billion RM1 Billion RM300 million	27-Feb-20	BNM	SMEs
Monetary Policy Statement Reduction of the Overnight Policy Rate (OPR) by 25 basis points to 2.50 percent. The ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 2.75 percent and 2.25 percent, respectively		3-Mar-20	BNM	Overall ecosystem
Decrease in Statutory Reserve Requirement (SRR) Ratio Statutory Reserve Requirement (SRR) Ratio will be lowered by 100 basis points from 3.00% to 2.00% effective 20 March 2020. In addition, each Principal Dealer is able to recognise MGS and MGII of up to RM1 billion as part of the SRR compliance. This flexibility to the Principal Dealers is available until 31 March 2021. These combined measures will release approximately RM30 billion worth of liquidity into the banking system.	RM30 billion liquidity	19-Mar-20	BNM	Banks

Bank Negara Malaysia				
Deferment and Restructuring of Loans/Financing Facilities 1. **Loans/financing to individuals and SMEs** Banking institutions will offer a deferment of all loan/financing repayments for a period of 6 months - applicable to performing loans, denominated in Malaysian Ringgit, that have not been in arrears for more than 90 days as at 1 April 2020. Outstanding credit card balances banking institutions shall offer borrowers the option to convert their card balances into a term/loan tenure of not more than 3 years and an effective interest / profit rate of not more than 13% per annum 2. **Loans/financing to corporations** Banking institutions will also facilitate requests by corporations to defer or restructure their loans/financing repayments in a way that will enable viable corporations to preserve jobs and swiftly resume economic activities when conditions improve. Corporations should approach their banking institutions to discuss their repayment plans and the restructuring of credit facilities. The Bank has provided appropriate time-bound flexibilities for banking institutions to report deferred/restructured facilities in the Central Credit Reference Information System (CCRIS), taking into account the temporary nature of disruptions faced by borrowers/customers.		25-Mar-20	BNM	Businesses & Individuals
Additional Supervisory and Prudential Measures Banking institutions may drawdown on the capital conservation buffer of 2.5%, operate below the minimum liquidity coverage ratio of 100%, and utilise the regulatory reserves that were set aside during periods of strong loan growth. The Bank fully expects banking institutions to restore their buffers within a reasonable period after 31 December 2020. The implementation of the Net Stable Funding Ratio will proceed as scheduled on 1 July 2020. However, the minimum NSFR will be lowered to 80% and banking institutions will be required to comply with the requirement of 100% from 30 September 202		25-Mar-20	BNM	Banking Institutions
Enhancements to financing facilities to assist affected SMEs, safeguard jobs and support growth: BNM is enhancing the existing financing facilities under the BNM's Fund for SMEs (the Fund), and increasing the allocation of the facilities by an additional RM4.0 billion to RM13.1 billion. These enhancements are aimed at providing assistance to more SMEs in sustaining business operations and preserving jobs, as well as to support economic growth. The enhancements under the Fund entail the following: 1. An increase in the allocation of the Special Relief Facility (SRF), from RM2 billion to RM5 billion, to provide relief assistance to more SMEs who are affected by the COVID-19 outbreak. The maximum financing rate is now lowered from 3.75% p.a. to 3.50% p.a. The enhanced SRF is available until 31 December 2020. 2. An increase in the allocation of the All Economic Sectors (AES) Facility, from RM5.8 billion to RM6.8 billion, to enhance access to financing for SMEs and to support growth. The maximum financing rate is also reduced from 8% p.a. to 7% p.a. In addition to the above, SMEs can also avail themselves to 3 other facilities under the Fund, namely the Automation and Digitalisation	RM4 billion	27-Mar-20	BNM	SMEs & Individuals

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Facility (ADF), Agrofood Facility (AF) and Micro Enterprises Facility (MEF). **Relief measures for affected policyholders and takaful participants** 1. **Deferment of payment of life insurance premiums and family takaful contributions** Life insurers and family takaful operators will allow affected policyholders and takaful participants an option to defer the regular premium/contribution payments due under life insurance policies and family takaful certificates for three months without affecting the policy coverage. 2. **Extension of flexibilities to reinstate or preserve life insurance and family takaful protection** Additionally, life insurers and family takaful operators will also provide the following assistance to the affected policyholders and takaful participants until 31 December 2020: i. Extend the period during which a policyholder and takaful participant can reinstate a policy/certificate that has lapsed; ii. Provide options to enable policyholders and takaful participants to continue to meet their premium/ contribution payments and maintain their policies/ certificates. This may include changes in the sum assured/ covered, adjustments to the premium/contribution structure and conversion into a paid up policy; iii. Waive fees and charges imposed for changes made to policies/certificates; and iv. Waive any penalties/consequences for late payments of premiums/contributions, particularly where policyholders/ takaful participants are unable to access electronic payment channels during the Movement Control Order. 3. **Flexibility to meet general insurance premiums and general takaful contributions** General insurers and general takaful operators will facilitate requests for flexibilities by affected policyholders and takaful participants to meet their premiums/contributions due during this period to ensure continued risk protection for their properties and businesses. This may include working with policyholders/takaful participants to restructure their policies/certificates so as to reduce the amount of premiums/ contributions payable. 4. **Expedited claims processing** All insurers and takaful operators will expedite and facilitate claims processes related to COVID-19. Priority will be given to the issuance of guarantee letters, waivers of applicable waiting periods and processing of claims payment 5. **Additional regulatory and supervisory measures** The Bank will be reducing the interest rate (IRCC) and profit rate (PRCC) stress factor caps applied under the Risk-Based Capital Framework for Insurers and Risk-Based Capital Framework for Takaful Operators (Frameworks), respectively. The IRCC and PRCC caps will be reduced from 40% to 30% with effect from 31 March 2020, to better reflect the changes in the prevailing market conditions since the stress factors were first set in 2009.				

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Capital market regulators grant flexibility for listed issuers on AGMs and Issuance of periodic reports 1. Listed corporations which may only hold their AGMs beyond the prescribed 6-month period as stipulated under the Companies Act 2016 can apply to defer their AGMs with the Companies Commission Malaysia ("SSM") 2. Granted a two-month extension for REITs managers of listed REITs with a financial year-end of 31 December 2019 to hold AGMs by 30 June 2020		17-Mar-20	SC	Corporates
SC grants regulatory flexibilities for market participants The regulator is extending deadlines for market participants to comply with requirements such as regulatory filings and submissions to the SC and fulfilment of training requirements.		20-Mar-20	SC	Capital market intermediaries
SC and BURSA suspend short-selling amid Covid-19 volatility Short-selling will be temporarily suspended until 30 April 2020.This suspension is introduced as part of the regulators' proactive measures to mitigate potential risks arising from heightened volatility and global uncertainties. It involves intraday short-selling (IDSS) and regulated short-selling (RSS), as well as intraday short-selling by proprietary day traders. The suspension does not however apply to permitted short-selling (PSS).		23-Mar-20	SC	Corporates and market participants
SC Announces further relief measures for capital market licensed entities To ease the cost burden of capital market participants, complement the wider relief effort under the Economic Stimulus Package 2020 (ESP 2020). The new relief measures are: 1. Waiver of the SC's annual licensing fees for 2020 on the core regulated activity of all Capital Markets Services Licence (CMSL) entities with Profit Before Tax of RM5 million or less during Financial Year 2019. A qualifying CMSL entity who has already made the payment prior to this announcement will be offered a credit to offset next year's licensing fees; 2. Waiver of the annual licensing fees for the Year 2020 for all individual CMSL holders and Capital Markets Services Representative's Licence (CMSRL) holders. A qualifying CMSRL holder who has already made the payment prior to this announcement will be offered a credit to offset next year's licensing fees; 3. Reduction of the minimum Continuing Professional Education (CPE) requirements to 10 CPE points from the current 20 CPE points effective 1 July 2020 for a period of 12 months for all CMSRL holders and Employees of Registered Persons (ERPs); 4. Reduction of the minimum training requirements to three days from the current five days effective 1 July 2020 for a period of 12 months for Trading Representatives and Marketing Representatives; and 5. One-off training subsidy for existing registered firms of Audit Oversight Board (AOB) with less than 10 audit partners, up to RM30,000 per firm for Approved Training Programmes conducted by the Malaysian Institute of Certified Public Accountants (MICPA).		24-Mar-20	SC	Capital market intermediaries
Margin financing flexibilities for capital market participants Between the period of 27 March to 30 September 2020 1. Brokers may, at their discretion, not make margin calls or impose haircuts on any collateral and securities purchased and carried in margin accounts.		26-Mar-20	SC	Capital market participants

Securities Commission Malaysia				
2. Brokers are empowered to exercise their discretion whether or not to impose force selling measures on clients - Previously, brokers were required to automatically liquidate clients' margin accounts if the equity in those accounts falls below 130% of the outstanding balance. 3. SC has also approved a broader list of accepted collaterals for margin financing.				
Enabling immediate opportunities 1. Digitalisation of capital markets through liberalising digitisation of investment products as well as advertising and promotions 2. Continued fundraising access: a. Liberalise ECF fundraising limit to RM10 million, and launch secondary trading for ECF/P2P b. Conduct feasibility study to facilitate greater access to funding for small & mid cap companies and SMEs including the issuance of debt instruments c. Ease fundraising for listed companies 3. Expand investment solutions: a. Facilitate waqf collective investment schemes and alternative investments for funds b. Liberalise advisory scope for financial planners		16-Apr-20	SC Annual Report	Capital market participants
Facilitating regulatory relief 1. For intermediaries, listed companies and issuers: a. Further extensions on audited reports and periodic reports 2. For listed companies and issuers only: a. Relief on the prospectus lodgement with Registrar of Companies b. Facilitate for virtual AGMs c. Facilitate alternatives to meet requirements of take-over rules d. PN17/GN3 companies to have longer time to regularise financials e. Review PN17/GN3 classifications amidst current landscape		16-Apr-20	SC Annual Report	Capital market participants