

Client Alert

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Bank Negara Malaysia Issues Policy Documents for Risk Management in Technology and Electronic Know-Your-Customer

As part of efforts to facilitate and regulate the application of technology in the Malaysian financial services industry, Bank Negara Malaysia (i.e., the Central Bank of Malaysia) ("**BNM**") has issued:

- (a) the Policy Document on Risk Management in Technology ("**RMiT Policy Document**"), with the updated RMiT Policy Document being effective retrospectively on 1 January 2020 (superseding the earlier version dated 18 July 2019); and
- (b) the Policy Document on Electronic Know-Your-Customer ("**e-KYC Policy Document**"), which came into effect on 30 June 2020.

Licensed financial institutions, money changers, remittance service providers, approved e-wallet providers and technology companies powering these institutions should familiarise themselves with the changes and developments as it will have an impact on the manner in which technology is deployed, and the "go live" date for the implementation of the digitalisation initiatives.

The new requirements have been summarised below.

RMiT Policy Document

The RMiT Policy Document has been refined to provide specific guidance on procedural requirements for financial institutions ("**FIs**") offering e-banking, internet insurance, and internet takaful services (collectively "**Services**"). FIs offering the Services must notify BNM and submit the necessary information prior to offering such Services. When enhancements are introduced to the Services, an assessment must be made to determine if it falls within the list specified in the RMiT Policy Document ("**Enhancement List**").

Enhancements falling within this list will be subject to the notification and submission of prescribed information requirement to BNM which includes a risk assessment of the proposed enhancements including the impact and measures to mitigate the risks that have been identified ("**Notification Process**").

A more liberalised approach is taken for the introduction of new services, and any enhancements to existing services outside the Enhancement List. In such instances, FIs must still notify BNM of the changes only, but prior to such notification, the FI must: (a) engage an independent external party to provide assurances that the FIs have addressed the relevant technology risks and security controls; and (b) provide a confirmation by the Chief Information Security Officer,



senior management officer or the chairman of the board or designated board committee on the FIs' readiness, in relation to the enhancements.

FIs can continue to introduce enhancements that do not materially alter the prior assessments and representations made by the FIs without prior BNM approval.

As there is no transitional period for the changes, FIs who have introduced enhancements to their Services must now immediately assess whether the changes in the Enhancement List will trigger the Notification Process.

e-KYC Policy Document

The e-KYC Policy Document governs the implementation of e-KYC solutions for the identification and verification of individuals by FIs, and money-changers, remittance service providers and approved e-wallet providers. We have set out below the primary requirements imposed prior to the implementation of e-KYC solutions. These requirements should be read alongside other requirements imposed by BNM, e.g., outsourcing and risk management in information technology.

1. Approval from the Board of Directors ("Board")

The Board's approval on the overall risk appetite and internal framework for the implementation of the e-KYC solution must be obtained. In particular, the framework must also address material risk scenarios; variations / exceptions to e-KYC products / methods; and any other instances that requires subsequent approval from the Board.

2. Approval from BNM

Licensed money-changers, remittance service providers and approved e-wallet providers are required to obtain prior written approval from BNM to implement e-KYC solutions. These participants must provide to BNM, amongst others, the detailed key features of the e-KYC, written assessment on effectiveness and description of key inherent risks of e-KYC solution (collectively, "**Information**").

This is in contrast with licensed banks and insurers who are merely required to provide, to BNM, a notification accompanied with the Information ("**Notification**"). The e-KYC solution can be soon after such Notification.

3. Automated e-KYC Solutions

If the intended e-KYC solutions uses artificial intelligence, machine learning or other forms of predicative algorithms to identify and verify individuals ("**Automated e-KYC Solutions**"), FIs are required to additionally conduct audits to ensure that the Automated e-KYC Solution is able to distinguish between genuine and non-genuine cases. The audit must be conducted on a monthly basis for the first 6 months of the implementation of the e-KYC solution and the FIs should aim to ensure the overall False Acceptance Rates ("**FAR**") does not exceed 5%.



If the FAR exceeds the prescribed threshold of 5% for any 3 months within a 6 month period, the relevant FI must notify BNM within 7 working days upon completion of the latest audit and detection of the FAR.

FIs using Automated e-KYC Solutions must also maintain a record of the performance of the Automated e-KYC Solutions on a monthly basis in accordance with the prescribed reporting template. Such records must also be made readily available to BNM and submitted on a half-yearly basis to BNM in accordance with the prescribed timelines.

Conclusion

The issuance of the documents reflects BNM's policy intention to impose appropriate safeguards to regulate the use of technology by FIs. The urgency has been amplified given the COVID-19 pandemic where businesses have adopted new technology and introduced digitalisation initiatives to enhance business continuity.

FIs are encouraged to review and revise their existing systems, plans and frameworks to ensure that they comply with the standards and requirements stipulated under the latest RMIT Policy Document and the e-KYC Policy Document. The coming into force of the e-KYC Policy Document is also timely as Malaysia seeks to issue licences to digital banks that will operate on a technology-first model.

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