



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# Personal Financing

Applicable to:

1. Licensed banks
2. Licensed Islamic banks
3. Prescribed development financial institutions
4. Approved issuers of a designated payment instrument
5. Approved issuers of a designated Islamic payment instrument

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## **PART A OVERVIEW**

### **1 Introduction**

- 1.1 A credit market that functions effectively contributes significant benefits to the economy, helping financial consumers capitalise on economic opportunities and build wealth, and businesses to grow and create jobs.
- 1.2 With intense competition in the retail credit market, changes are being observed in the lending practices of credit providers in the personal financing segment which are contributing to unaffordable borrowing by households. Of specific concern has been the emergence of new financing products that give the appearance of affordable borrowing, but actually encourage the imprudent accumulation of debt that borrowers cannot really afford without significant risk of hardship over the duration of the financing facility due to inadequate financial buffers.
- 1.3 While financial service providers (FSPs) are already required to conduct suitability and affordability assessments for each new and additional financing facility offered to financial consumers, more specific requirements are necessary to prevent unhealthy developments in the personal financing segment.

### **2 Policy objective**

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

### **3 Applicability**

- 3.1 This Policy Document is applicable to-
  - (a) with respect to paragraphs 9 and 10, a FSP as defined in paragraph 6.2 that offers a personal financing product as defined in paragraph 6.2(a);

- (b) with respect to paragraph 11, a FSP as defined in paragraph 6.2 that offers a personal financing product as defined in paragraph 6.2(b).<sup>1</sup>
- 3.2 This Policy Document is **not** applicable to the following financing products:
- (a) financing for the purchase of residential and non-residential property;
  - (b) vehicle financing;
  - (c) credit card and credit card-i;
  - (d) charge card and charge card-i;
  - (e) overdraft and revolving credit facilities with no fixed repayment or payment tenure;
  - (f) micro-financing product or financing to a sole proprietor for purposes of its business;
  - (g) financing for the purchase of securities<sup>2</sup>;
  - (h) financing granted to employees of FSPs; and
  - (i) pawnbroking or Ar-Rahnu.
- 3.3 A personal financing product for which the mode of repayment is facilitated through a salary deduction scheme is included within the scope of this Policy Document.

## 4 Legal provisions

- 4.1 The requirements in this Policy Document are specified pursuant to-
- (a) sections 47(1) and 123(1) of the Financial Services Act 2013 (FSA);
  - (b) sections 57(1) and 135(1) of the Islamic Financial Services Act 2013 (IFSA); and
  - (c) sections 41(1) and 42C(1) of the Development Financial Institutions Act 2002 (DFIA).
- 4.2 The guidance in this Policy Document is specified pursuant to section 266 of the FSA, section 277 of the IFSA and section 126 of the DFIA.

## 5 Effective date

- 5.1 This Policy Document comes into effect on 15 December 2023.

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<sup>1</sup> Licensed banks and licensed Islamic banks can only offer buy now pay later (BNPL) facility as part of their banking business and Islamic banking business. For prescribed development financial institutions, it is subject to their mandated roles.

<sup>2</sup> This includes units of funds managed by Amanah Saham Nasional Berhad and other unit trusts.

## 6 Interpretation

6.1 The terms and expressions used in this Policy Document shall have the same meanings assigned to them in the FSA, IFSA and DFIA, as the case may be, unless otherwise defined in this Policy Document.

6.2 For the purpose of this Policy Document-

**“S”** denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretive, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

**“G”** denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

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

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

**“personal financing product”** means the following-

- (a) a financing product that is offered either directly by a FSP or jointly with another entity, or through the FSP's intermediary to individuals for personal, domestic or household purposes; and
- (b) any buy now pay later arrangement, however designed or by whatever name called (BNPL)<sup>3</sup>, entered into between a financial consumer with a FSP, or in the case of a jointly provided product, with a FSP and the FSP's partner, for the purchase of goods or services where-
  - (i) the FSP pays the seller for such purchase and credit is provided to the financial consumer; and
  - (ii) the payment due from the financial consumer to the FSP is deferred and may be made in a single payment or by instalments over an agreed period of time in accordance with the terms and conditions of the arrangement;

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<sup>3</sup> For avoidance of doubt, BNPL does not cover any easy payment plan offered by an issuer of credit card/credit card-i to financial consumers by way of monthly instalments over a specific period of time, for the purchase of goods or services.

but does not include an arrangement comprising moneylending as defined in the Moneylenders Act 1951 and credit sales transaction as defined in the Consumer Protection Act 1999; and

**“repayment”** in the context of an Islamic personal financing product, shall include payment by a financial consumer to a FSP under the terms of the Islamic personal financing product.

## **7 Related policy documents**

- 7.1 This Policy Document must be read together with other relevant documents, guidelines and policy documents issued by the Bank, as amended from time to time, in particular-
- (a) Guidelines on the Imposition of Fees and Charges on Financial Products and Services issued on 10 May 2012 (BNM/RH/GL 016-2);
  - (b) Operational Procedures for Submission of Application for the Imposition of Fees and Charges on Financial Products and Services issued on 23 January 2017 (JKAP7500/POL/3/1);
  - (c) Guidelines on Late Payment Charges for Islamic Financial Institutions issued on 31 January 2013 (BNM/RH/GL 012-6);
  - (d) Guidelines on Product Transparency and Disclosure issued on 31 May 2013 (BNM/RH/GL 000-3);
  - (e) Policy Document on Risk-Informed Pricing issued on 16 December 2013 (BNM/RH/STD 028-3);
  - (f) Policy Document on Introduction of New Products issued on 7 March 2014 (BNM/RH/STD 028-5);
  - (g) Policy Document on Prohibited Business Conduct issued on 15 July 2016 (BNM/RH/PD 028-21);
  - (h) Policy Document on Responsible Financing issued on 6 May 2019 (BNM/RH/PD 028-79);
  - (i) Policy Document on Fair Treatment on Financial Consumer issued on 6 November 2019 (BNM/RH/PD 028-103);
  - (j) Policy Document on Merchant Acquiring Services issued on 15 September 2021 (BNM/RH/PD 028-119); and
  - (k) Shariah Resolutions in Islamic Finance (Second Edition) issued on 26 October 2010.

## **8 Policy document superseded**

- 8.1 This Policy Document supersedes the Policy Document on Personal Financing issued on 5 July 2013 (BNM/RH/GL 008-19).

## PART B POLICY REQUIREMENTS

### 9 Submission requirement (*Operational requirements for FSPs only*)

FSPs to refer Policy Document on Personal Financing as published in the Bank's Regulatory Handbook for requirements on product submissions.

### 10 General requirements

- S** 10.1 The tenure of a personal financing product shall not exceed **10 years**. This requirement applies to all new and additional personal financing applications received from the effective date. The requirement also applies to the restructuring or rescheduling of existing personal financing facilities which involve an increase in the amount of financing.
- G** 10.2 Paragraph 10.1 does not apply to existing personal financing products which are restructured or rescheduled based on the specific circumstances of a financial consumer (e.g. distressed borrower), provided that the restructuring or rescheduling does not involve an increase in the amount of financing.
- S** 10.3 A FSP is prohibited from offering any form of pre-approved personal financing product. Personal financing shall only be granted upon receiving a financial consumer's verbal or written acceptance of the offer and the FSP is satisfied based on affordability assessment, that the financial consumer has the capacity to repay.
- G** 10.4 The prohibition in paragraph 10.3 does not extend to sending promotional materials or informing pre-selected financial consumers of new personal financing products.
- S** 10.5 A FSP is prohibited from offering any personal financing product where the total or bulk of repayments, whether principal only or principal plus interest/profit, is due only at the end of the financing tenure and is to be repaid from the retirement funds of the financial consumer. Retirement funds include the Employees Provident Fund, pensions and gratuity payments.

### 11 Additional requirements on BNPL

- S** 11.1 Prior to granting BNPL to a financial consumer, a FSP shall assess the financial consumer's ability to make full repayment of the BNPL without resulting in undue financial hardship. At a minimum, the FSP must consider the financial consumer's repayment history on existing credit facilities.

- S** 11.2 For a financial consumer who does not have any credit repayment history, a FSP shall evaluate the financial consumer's repayment history on other recurring payment obligations, such as utility or telecommunication bills.
- S** 11.3 A FSP shall not offer a BNPL facility to financial consumers who have been declared bankrupt<sup>4</sup>.

### **Affordability assessment**

- S** 11.4 For a financial consumer who has a cumulative BNPL credit limit<sup>5</sup> of RM1,500 or above, a FSP is required to conduct an affordability assessment to ascertain the financial consumer's ability to fully repay the new BNPL facility by observing a prudent debt service ratio (DSR) as specified in the Policy Document on Responsible Financing.
- G** 11.5 In ascertaining the cumulative BNPL credit limit of a financial consumer, a FSP may refer to the Central Credit Reference Information System (CCRIS) for BNPL granted by other CCRIS participating institutions.
- G** 11.6 For BNPL granted by other providers not covered by CCRIS, the FSP may request the financial consumer to declare or may refer to other credit reporting agencies.
- G** 11.7 Notwithstanding paragraph 11.4, a FSP may set a lower cumulative BNPL credit limit for determining when an affordability assessment is required.
- S** 11.8 In carrying out the affordability assessment as required under paragraph 11.4, a FSP shall-
- (a) obtain and verify the financial consumer's income; and
  - (b) establish the financial consumer's overall indebtedness by obtaining information on the consumer's existing debt repayment obligations.

### **Fees and charges**

- S** 11.9 In determining the late payment charge (LPC) and any other fees imposed on financial consumers, a FSP shall comply with the following, as the case may be-
- (a) Guidelines on Imposition of Fees and Charges on Financial Products and Services issued on 10 May 2012;

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<sup>4</sup> The restriction does not apply to financial consumers who have been discharged from bankruptcy.

<sup>5</sup> This refers to the total credit limits on BNPL granted to a financial consumer by all BNPL providers, including the FSP.



- (b) Operational Procedures for Submission of Application for the Imposition of Fees and Charges on Financial Products and Services issued on 23 January 2017; and
- (c) Guidelines on Late Payment Charges for Islamic Financial Institutions issued on 31 January 2013.

- S** 11.10 In accordance with paragraph 5.1 of the Guidelines on Imposition of Fees and Charges on Financial Products and Services, a FSP shall obtain the Bank's approval prior to introducing any fees and charges on BNPL or increasing the current fees and charges on BNPL, including the LPC.
- S** 11.11 A FSP shall ensure the LPC is imposed at an amount that only covers the actual costs<sup>6</sup> incurred for recovering overdue instalments from financial consumers. In addition, a FSP must not set a minimum LPC.
- G** 11.12 The LPC is not subject to the cap of 1% per annum under paragraph 5.9.1 of the Guidelines on Imposition of Fees and Charges on Financial Products and Services. For an Islamic BNPL, the LPC is not subject to the cap of 1% per annum as specified in paragraph 5.2.2.A (i) of the Guidelines on Late Payment Charges for Islamic Financial Institutions.
- S** 11.13 A FSP shall observe the following principles and requirements to ensure that the LPC imposed on financial consumers is fair and reasonable-
- (a) the quantum of LPC shall not be excessive (i.e. disproportionate when compared to the actual costs incurred for recovering overdue instalments);
  - (b) the LPC shall exclude costs that are not relevant to the recovery of overdue instalments, such as cost of funding, marketing and advertising costs, opportunity costs or any other operating costs not attributable to late payments by financial consumers;
  - (c) any unpaid LPC shall not be added to the outstanding amount (i.e. there must not be any compounding when computing LPC for the next repayment cycle); and
  - (d) the FSP shall not consider LPC as an additional source of income for BNPL facility.
- S** 11.14 The basis for deriving the LPC shall be properly documented and supported with information relevant to the decision of a FSP. Such information shall be made available upon request by the Bank.
- S** 11.15 At the point of offering BNPL to financial consumers, a FSP shall clearly inform the consumers about the imposition of LPC if they fail to make payment by the

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<sup>6</sup> This is consistent with the concept of *ta'widh* under the Guidelines on Late Payment Charges for Islamic Financial Institutions, whereby an Islamic financial institution shall be compensated up to the amount of actual cost incurred as a direct result of the delay in repayment by the customer.

due date. The FSP shall also provide a simple illustration on when the LPC will be imposed and the LPC amount.

- S** 11.16 A FSP shall send a reminder to financial consumers at least three calendar days before the payment due date. In the reminder, the FSP shall clearly state the amount due and that a LPC will be imposed if the payment is missed, including a simple illustration on when the LPC will be imposed and the LPC amount.
- G** 11.17 The reminder specified in paragraph 11.16 may be made to financial consumers through the most effective communication channels such as short message service (SMS) or in-app notification.
- S** 11.18 In the event a financial consumer has missed up to three payments for a purchase, a FSP shall suspend the consumer's BNPL account from being further utilised for new transactions until the missed payments have been fully settled. In relation to paragraph 11.16, the reminder notification sent by the FSP must clearly state that the BNPL account will be suspended after a specified number of missed payments.
- G** 11.19 For the avoidance of doubt, a FSP may suspend a financial consumer's BNPL account from being further utilised even if the financial consumer has missed less than three payments for a purchase.

### **Shariah requirements on Islamic BNPL**

- S** 11.20 A FSP that offers an Islamic BNPL facility shall ensure compliance with Shariah, including the compliance with applicable rulings of the Shariah Advisory Council (SAC) at all times.
- S** 11.21 An Islamic BNPL facility shall be structured based on appropriate underlying Shariah contracts that are consistent with the business and operational models, product features and contractual terms of the Islamic BNPL facility.
- S** 11.22 For Shariah-compliant products which involve the application of a new Shariah contract<sup>7</sup>, a FSP is required to seek the approval of the SAC.
- S** 11.23 In addition to requirements in paragraphs 11.9 to 11.19, a FSP offering an Islamic BNPL facility shall seek the written approval of its Shariah Committee (SC) on the component of actual costs as *ta'widh* (compensation) for the LPC.
- S** 11.24 A FSP offering an Islamic BNPL facility is allowed to recognise the LPC on judgement debt decided by the court as *ta'widh* (compensation) that is

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<sup>7</sup> Refers to a Shariah contract that has never been introduced in the Malaysian market and there is no current SAC resolution on such contract.

equivalent to actual costs<sup>8</sup>. If the charge on judgement debt decided by the court is beyond the actual cost, the balance shall be channelled by the judgement creditor to a charitable organisation. The FSP shall seek the written approval of its SC prior to disbursing the balance to a charitable organisation.

### **Merchant requirement**

- S** 11.25 A FSP shall ensure that merchants do not set BNPL as the default payment option for financial consumers.
- G** 11.26 In complying with the requirement under paragraph 11.25, a FSP may consider stipulating the restriction in its Service Legal Agreement (SLA) with the merchants to ensure they fulfil their obligations in accordance with the SLA. In addition, the FSP may leverage on its existing complaint handling mechanism should there be any complaint on a breach of the requirement under paragraph 11.25 from financial consumers.

### **Reporting requirement**

- S** 11.27 A FSP shall report both conventional and Islamic BNPL in CCRIS as a facility named "Buy Now Pay Later".

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<sup>8</sup> This paragraph shall be read together with the SAC resolutions on "Method of Late Payment Charge on Judgement Debt" at the SAC's 50th meeting, 61st meeting and 100th meeting. Refer to paragraph 83 (page 133) of the Shariah Resolutions in Islamic Finance (Second Edition) issued on 26 October 2010.