بروني دارالسلام سنترال بڠ
BRUNEI DARUSSALAM CENTRAL BANK

2021
Financial Stability Report

Information published in this report is based on non-audited data as of December 2021.

Contents

Abbreviations

AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN	Association of Southeast Asian Nations
AUD	Assets Under Distribution
AUM	Assets under Management
BAB	Brunei Association of Banks
BDCB	Brunei Darussalam Central Bank
BIBD	Bank Islam Brunei Darussalam
BND	Brunei Dollar
BSI	Business Sentiment Index
CAR	Capital Adequacy Ratio
CIS	Collective Investment Scheme
CMSL	Capital Markets Services Licence
CMSRL	Capital Markets Services Representative's Licence
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
DEPS	Department of Economic Planning and Statistics
ECB	European Central Bank
EU	European Union
FCY	Foreign Currency
GDP	Gross Domestic Product
GVA	Gross Value Added
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
MAT	Marine, Aviation and Transit
MOFE	Ministry of Finance and Economy
NPLF	Non-Performing Loans/Financing
ROA	Return on Assets
ROE	Return on Equity
RPPI	Residential Property Price Index
RSI	Retail Sales Index
S&P	Standard & Poor's
SGD	Singapore Dollar
SMO	Securities Markets Order, 2013
USD	United States Dollar
y-o-y	year-on-year

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Foreword
By the Managing Director

بسم الله الرحمن الرحيم
السلام عليكم ورحمة الله وبركاته

In 2021, the availability of vaccines against the COVID-19 virus provided some respite to the global community as it enabled people and economies to get back to some form of normalcy. However, the speed of recovery for various economies differ across the globe because of unequal access to the vaccines with developed countries having greater access than lower income countries. Furthermore, the emergence of new and stronger variants of the virus, namely Delta and Omicron, had reversed some of the recoveries made early in the year. While stock markets performed well, they had the opposite effect on the bond markets which experienced higher yields as the United States Federal Reserve was expected to start raising its interest rates on the back of surging inflation. Commodity prices, particularly that of oil, have picked up significantly by around 52% over the one-year period.

In the first half of the year, Brunei Darussalam's business and social environments were on track for a recovery and return to usual conditions. However, the country faced a second wave of COVID-19 infections starting early August 2021, which prompted the re-introduction of several strict measures to contain the spread of the virus such as social distancing rules and restrictions on some close contact activities including sports, tourism, shopping, restaurants and entertainment, as well as limits on social gatherings and outings. Alhamdulillah, by November 2021, the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam had begun to ease said measures after infection rates were assessed to have peaked and full vaccination rates among the adult population were deemed to be satisfactory enough to protect the vulnerable, such as elderly citizens and children. Cognisant of this development, the interim measures introduced by BDCB that allowed banks and finance companies to offer temporary assistance to affected customers due to the COVID-19 pandemic had been further extended from 30 September 2021 to 31 December 2021.

Brunei Darussalam's financial sector had shown resilience in the midst of various challenges faced in 2021. Banks maintained high capital adequacy and liquidity. Non-performing loans were also declining. Profitability took a bit of a toll from the higher operating costs and business disruptions during the pandemic as well as lower returns on their overseas placements and investments. Finance companies, takaful/insurance companies and capital market players continued to perform. While in money services businesses, money changers continued to experience downside to their business due to travel restrictions. On the other hand, remittance companies saw robust growth, both in the number and value of transactions, as foreign workers opted to continue their work contracts without having to go back to their home countries.

BDCB continues to monitor the health of the financial institutions through its offsite and onsite supervision as well as active macroprudential surveillance. Dialogues with the financial institutions have also risen in frequency during the pandemic to ensure their operational resilience in providing essential financial services. We hope that a transition towards the endemic phase in 2022 will bring a smooth recovery to the activities of the financial institutions and boost their growth in a sustainable manner.

With this, I am pleased to present the Financial Stability Report for 2021 which contains the performance as well as state of the financial sector in 2021. I would also like to take this opportunity to express my special thanks to the Regulatory and Supervision Department for their tireless dedication and commitment in monitoring the condition of the financial sector during the pandemic, and their contribution towards publishing this report.

Hajah Rokiah binti Haji Badar
Managing Director

Key Highlights

Major International Risks

Although the world economy recovers, there is still downside risks that needs to be mindful.

Access to COVID-19 vaccine

Increased inflation

Global supply chain disruptions

Domestic Economic Performance

Brunei Darussalam's economy saw a moderate declined in 2021 largely due to decline in the oil and gas sector

-1.6%

Overall Growth

-4.8%

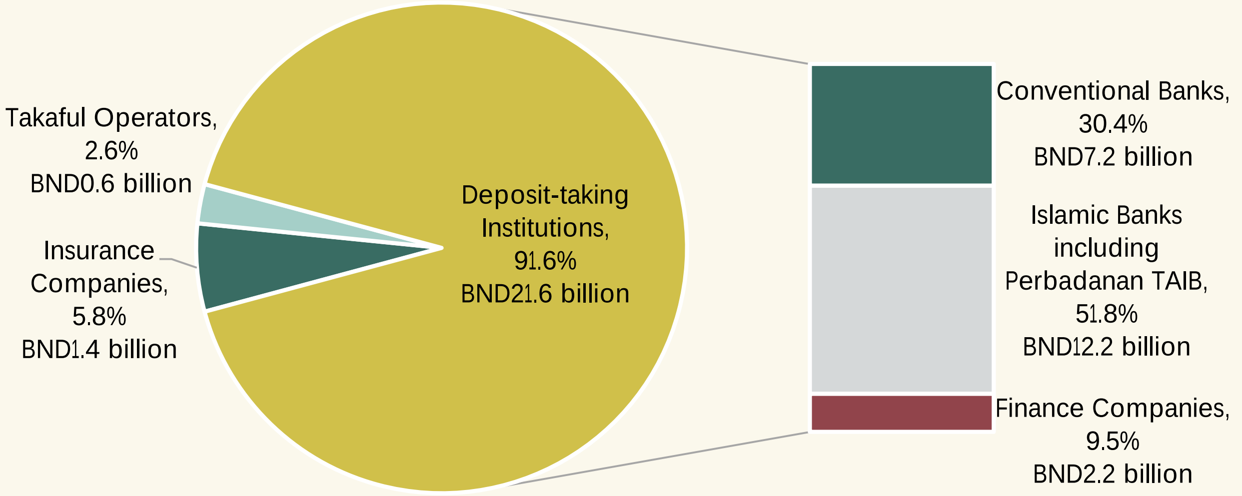
Oil and Gas Sector Growth

2.0%

Non-oil and Gas Sector Growth

Structure of the Financial System in Brunei Darussalam

A marginal growth in the total financial system assets by 5.5% y-o-y from BND22.3 billion to BND23.6 billion.



Key Highlights

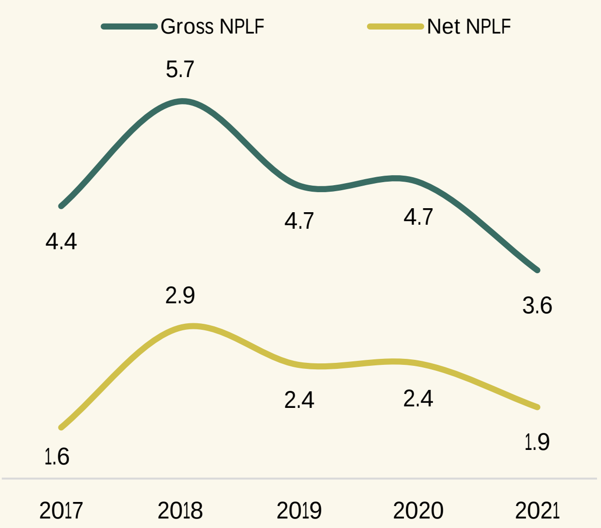
Domestic Banking Sector Performance

The banking industry remained healthy with high levels of capitalisation and liquidity with stable credit quality despite the uncertainties in the global and domestic economy and the unprecedented pandemic COVID-19.

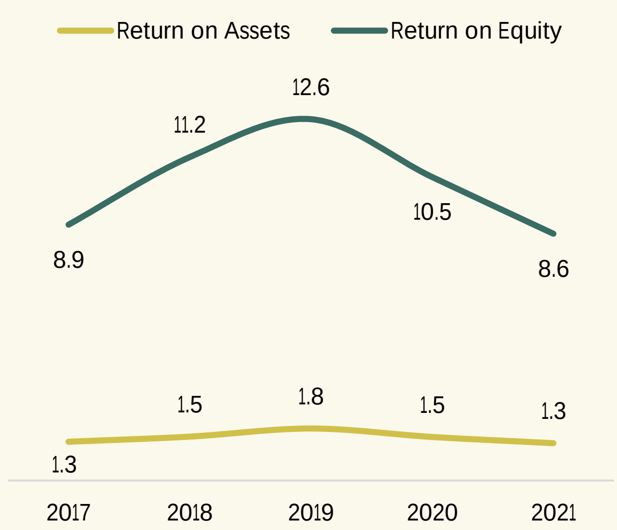
Key financial indicators remained stable

21.5%	37.3%	3.6%	1.3%	8.6%
Regulatory Capital to Risk Weighted Assets	**Loans/Financing to Deposit Ratio**	**Non-performing Loans/Financing Ratio**	**ROA (Before tax)**	**ROE (After tax)**
(2020: 21.5%)	(2020: 39.7%)	(2020: 4.7%)	(2020: 1.5%)	(2020: 10.6%)

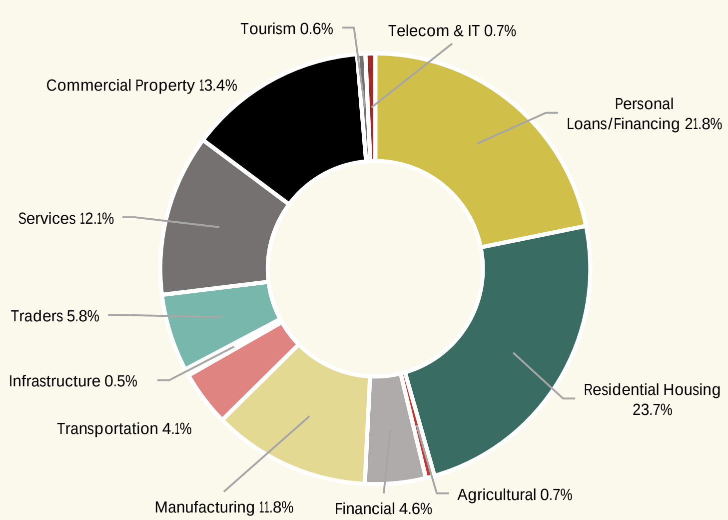
Ratio (in percent)



Ratio (in percent)



Direction of Lending/Financing as of 2021

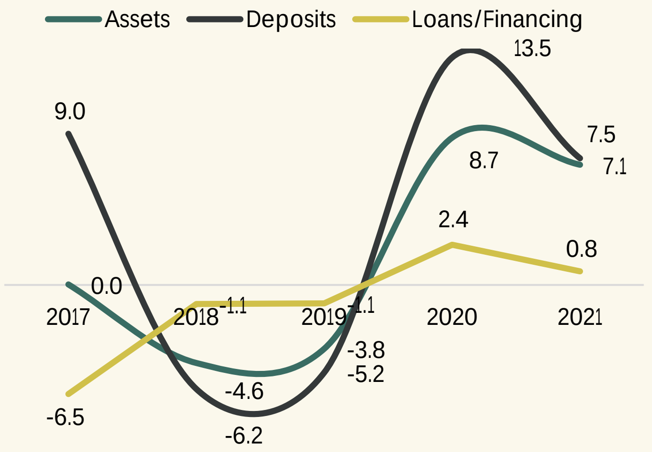


Key Highlights

Domestic Finance Companies Performance

Key financial indicators of finance companies remained stable.

Growth y-o-y (%)



11.9%
Total Capital Funds to Total Assets
(2020: 11.9%)

0.8%
Non-performing Loans/Financing Ratio
(2020: 1.4%)

3.2%
ROA (Before Tax)
(2020: 3.2%)

25.6%
ROE (After tax)
(2020: 19.8%)

Assets and deposits has increased whereas loans/financing has marginally increased in 2021

Automobile financing

(2020: BND1,515 million
2021: BND1,535 million)

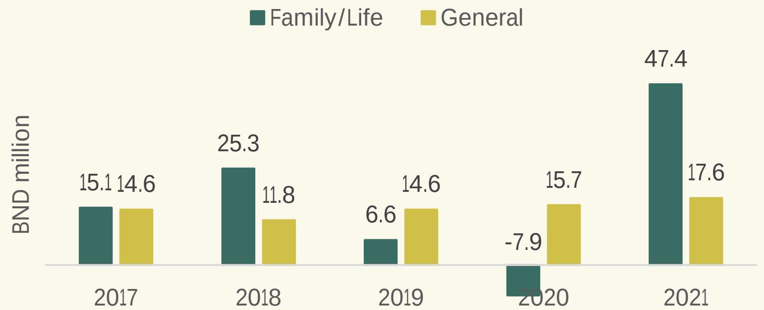
Consumer durable financing

(2020: BND43.2 million
2021: BND36.1 million)

Domestic Takaful and Insurance Sector Performance

Takaful/insurance companies maintained strong solvency and increased profitability levels in 2021.

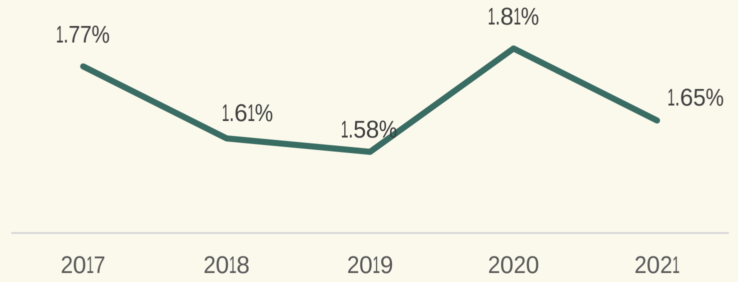
Profitability



37.6%
Claims/Loss Ratio
(2020: 44.7%)

153.0%
Solvency Margin Ratio
(2020: 154.0%)

Insurance Penetration Rate



77.6%
Combined Ratio
(2020: 83.4%)

Key Highlights

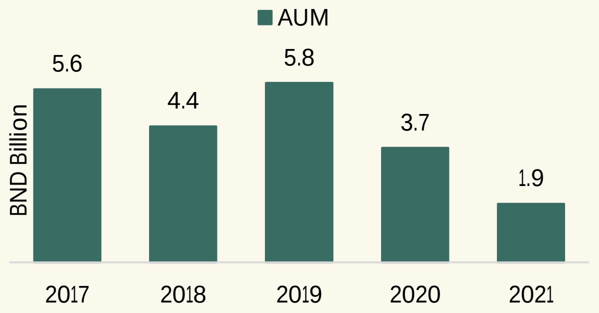
Domestic Capital Market Sector Performance

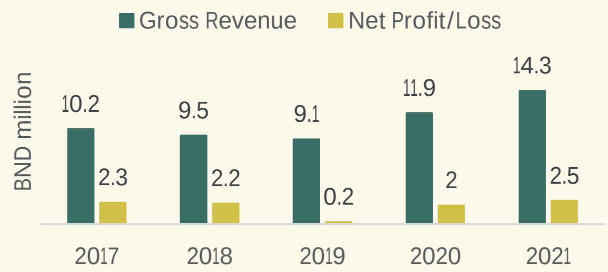
Despite the pandemic that may have brought about some operational disruptions in capital market intermediaries, the capital market sector remained stable.

7 CMSL Holders

148 CMSRL Holders

25 Collective Investment Schemes

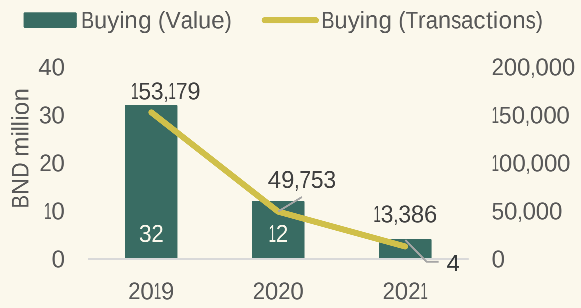


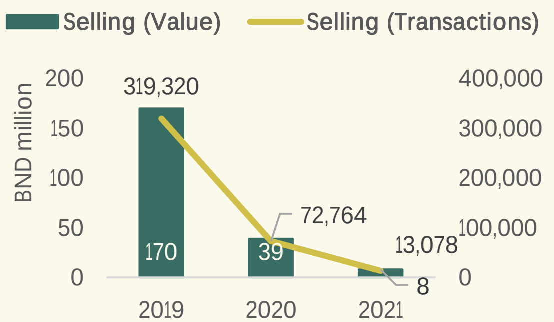


Domestic Money-Changing and Remittance Sector Performance

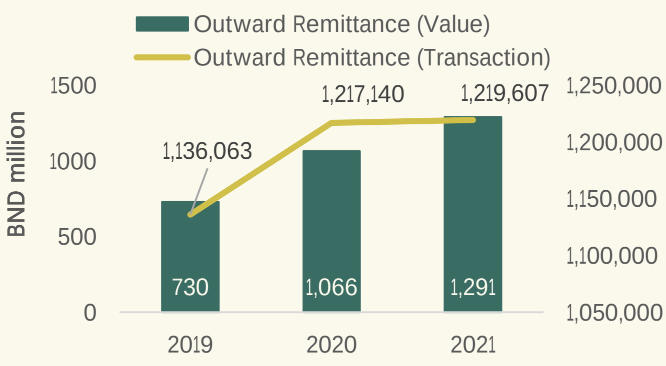
The money-changing sector is still affected by travel restrictions imposed by domestic and foreign authorities while the remittance sector remained resolute.

Buying and selling of foreign currencies declined both in terms of value and number of transactions.

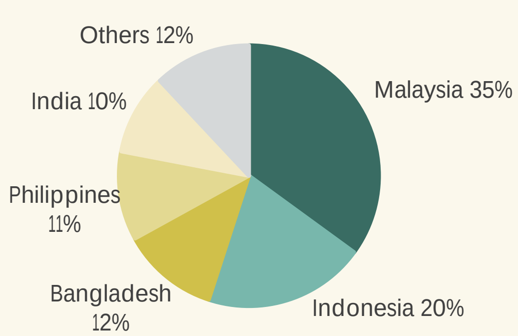




Funds continued to be mobilized into and outside of the country.



Top 5 Outward Remittance



Key Highlights

Supervising in a Pandemic

At the start of the second wave in August 2021, BDCB had focused on ensuring the operational resilience of insurers and takaful operators. BDCB also issued an advisory to the financial sector to ensure that social/physical distancing was implemented to protect their respective employees as well as customers while ensuring essential financial services continued to be available during the second wave containment period. To minimise physical interaction with customers and agents, some companies had introduced digital application processes to overcome challenges during the pandemic.

Licensed financial institutions were required to submit updates of their business continuity plan operations on a weekly basis and BDCB conducted virtual monthly meetings with the companies to ensure their operations, strategy and financial soundness were in order.

01

International and Domestic Macroeconomic Developments

1.1 External and Domestic Macroeconomic Risks

This section presents an assessment of external macroeconomic developments and risks as well as global financial developments in 2021.

1.1.1 International Macroeconomic and Financial Developments

The global economy had somewhat recovered from the COVID-19 pandemic that first became widespread in 2020. The IMF World Economic Outlook in April 2022 had indicated a global growth rate of 6.1% in 2021. However, said recovery was uneven as some countries were still experiencing new outbreaks of COVID-19, thus reversing many efforts back to normalcy. In addition, the fact that not all countries have equal access to the COVID-19 vaccines has led to delayed recoveries and mounting strain on fiscal and monetary authorities.

The United States recorded a rapid expansion of 5.7% in 2021, driven mainly by pandemic relief measures introduced by the government. Inflation – especially in the United States – was riding high, prompting the United States Federal Reserve to announce the possibility of at least three interest rate hikes in 2022. Other advanced countries and emerging economies were also experiencing higher inflation rates in 2021 as economic activity picked up after the height of the pandemic was over, in addition to global supply chain disruptions, increasing wage pressure and rising food and commodity prices.

However, monetary policy actions varied across the world indicating differences in inflationary, domestic employment conditions and political influence. The ECB held key interest rates low and continued with its asset purchase programme and pandemic emergency programme to ensure steady economic recovery from the COVID-19 crisis. The Bank of England raised interest rates by 0.15 percentage points in November 2021 to meet the central bank's 2% inflation target, despite initially not wanting to increase interest rates.

China's economy grew slower than expected in 2021 as it faced financial-related woes related to property developers and tepid increase in private consumption. In addition, China had imposed a zero-COVID policy in cities that reported positive cases, thereby halting economic activities and delaying recoveries.

The EU economy expanded by 5.3% in 2021 as the pandemic situation eased and vaccines became widely available to enable economic activities to resume. Continued fiscal and monetary support were also key to the recovery from the sharp decline in 2020. Among the initiatives rolled out by the EU was The Recovery and Resilience Facility which is aimed to mitigate the economic and social impact of the COVID-19 pandemic and at the same time allow member states to achieve the EU's priorities such as achieving climate neutrality by 2050 and establishing the path of digital transition in the EU. The Euro area was however not immune to the supply shocks due to the need to fulfill pent-up demand globally as well as the effects of higher energy prices which translated into higher inflation in 2021 at 2.6% compared to 0.3% in 2020.

On the global financial market, equity markets in the United States recorded gains in 2021. S&P 500 gained 26.9%, followed by the Nasdaq Composite by 21.4%, and The Dow Jones Industrial Average by 18.7% (Forbes, 2022). The driving force of the strong performance of the stock markets stemmed from optimism towards economic growth in the United States in 2021, as well as the recovery from COVID-19 as vaccines became widely available especially in advanced countries. On the other hand, bond markets saw yields rising as inflation continued upwards. Major bond markets, including in the United States, Germany, Britain, Italy and Australia, reported negative returns (Reuters). Oil prices began to pick up and Brent crude was at USD 77.78 per barrel in the last day of trading in 2021 compared to USD 51.29 per barrel in late-Dec 2020 (Bloomberg).

In ASEAN, the economy rebounded in Q1 2021. Halfway through the year, the region faced a resurgence of COVID-19 cases as the Delta variant became pervasive. Contact-intensive and tourism sectors were the most hard hit economic sectors during the pandemic. Many countries were constrained in terms of fiscal space. However, the region continued to give ample regulatory financial flexibility to assist the most affected businesses and individuals. Although inflation was rising, it remained manageable since the high global food price spillover was less pervasive in this region and many price ceilings, controls and subsidies still exist to support households' purchasing powers.

There are downside risks to global growth in 2022 arising from the possibility of worsening geopolitical instability, severe disruptions in energy, emergence of new and stronger virus strains, continued supply chain disruptions as well as unstable capital flows especially in emerging economies.

1.2 Domestic Macroeconomic Developments

This section presents an assessment of domestic economic conditions with respect to GDP growth, inflation, residential property price and business sentiment.

1.2.1 Economic Growth

Real GDP contracted by 1.6% in 2021 largely due to the 4.8% decline in the oil and gas sector. The contraction in the oil and gas sector was due to lower production of crude oil and LNG even though their prices were trending upwards since April 2021. **(Table 1)**.

The non-oil and gas sector grew by 2.0%, mainly attributed to expansions in Services sector activities such as land transport, air transport, finance, real estate, hotels, health services, business services, domestic services, and government services/public administration. The Agriculture, Forestry, and Fishery sector recorded buoyant growth of 16.9% due to expansions in livestock and poultry, forestry and fishery activities. On the Industry side, three areas recorded double digit growth namely manufacture of wearing apparel and textiles, manufacture of food and beverage products, and other manufacturing.

The Retail Sales Index (RSI) showed encouraging y-o-y growth in Q1 and Q2 2021 but dipped in Q3 and Q4 when the second wave of COVID-19 began in August 2021, prompting the re-imposition of social distancing measures, which caused operational and supply disruptions to businesses. The retail activities not affected during the second wave were Supermarket, Computer and Telecommunications Equipment, and Hardware, Paints and Glass in specialized store. The retail activity with the biggest share in the RSI, namely Department Store at around 28.5%, took a hit in Q3 and Q4 2021 during which its average growth rate fell by 6.4% compared to around 10% growth in the first half of 2021. The government

Table 1. Trends in GDP and CPI: 2018-2021

Year (in BND Million)	2018	2019	2020	2021
Nominal GDP	18,300.7	18,375.0	16,564.4	18,822.0
Nominal Oil and Gas Sector	10,546.2	10,415.3	7,995.3	9,330.7
Nominal Non-Oil and Gas Sector	8,047.3	8,268.2	8,867.5	9,789.9
Real GDP	18,387.1	19,098.5	19,315.0	19,007.8
Real Oil and Gas Sector	10,492.3	10,897.5	10,360.2	9,859.5
Real Non-Oil and Gas Sector	8,242.3	8,562.0	9,319.8	9,507.5
Year (Year-on-Year Percentage Change)	2018	2019	2020	2021
Real GDP	0.1	3.9	1.1	-1.6
Real Oil and Gas Sector	-1.5	3.9	-4.9	-4.8
Real Non-Oil and Gas Sector	2.1	3.9	8.9	2.0
Index	2018	2019	2020	2021
Consumer Price Index (Jan 2015=100)	99.4	99	100.9	102.7
Index	Q4 2018	Q4 2019	Q4 2020	Q4 2021
Residential Property Price Index (Q1 2015=100)	86.7	95.3	90.6	97.4

Source: Department of Economic Planning and Statistics (DEPS), MOFE alongside BDCB, introduced various interim measures to ensure businesses affected by the pandemic could weather the disruption. For financial sector, this includes BDCB supported the BAB in providing options for loan/financing repayment relief to those affected until 30 June 2022.

1.2.2 Inflation, Residential Property Price Index and Business Sentiment

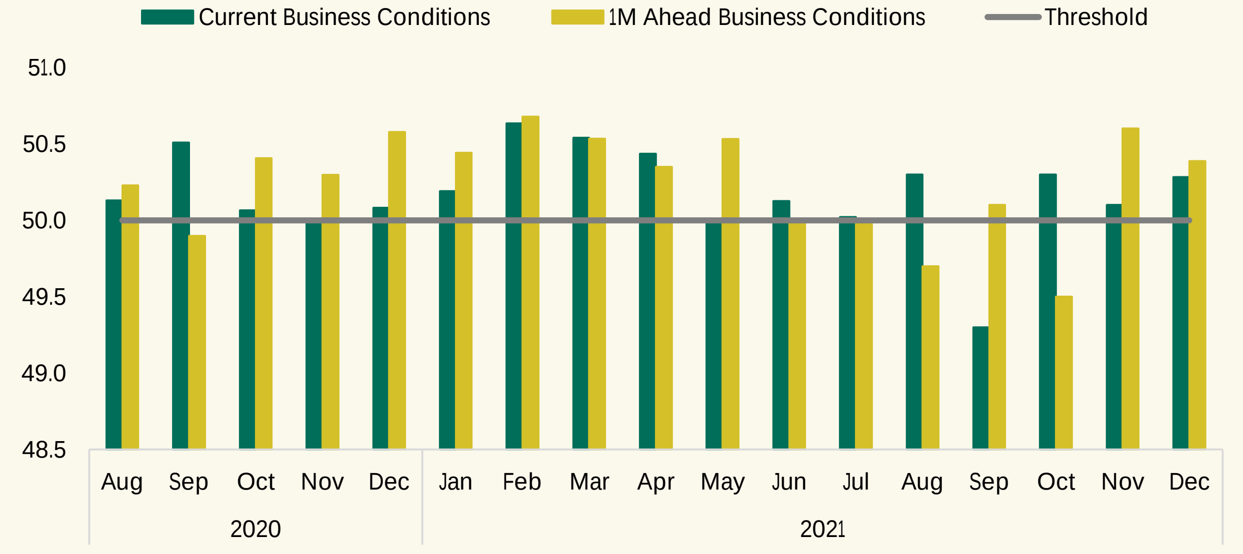
The overall Consumer Price Index (CPI) in 2021 increased to 102.7 (2015=100) and this translated to an inflation rate of 1.7% as compared to 1.9% in 2020. The major contributor to the CPI increase was from the Food & Non-Alcoholic beverages of around 2.4% y-o-y increase. The food items with rising prices were meat, vegetable, and oils and fats. As for the non-food items, the Transport category increased the most due to higher prices of cars, bicycles and air tickets due to limited flight schedules.

The Residential Property Price Index (RPPI) has shown to be rising since Q3 2020. From a low 84.62 in Q2 2020, the RPPI for Q4 2021 was at 97.41. The median purchase price for all types of properties have increased except for semi-detached houses. Number of transactions has declined by 6% y-o-y in all districts except for Tutong, and detached houses remain the preferred choice compared to other properties.

Business Sentiment Index (BSI) was first published by BDCB in 2021. It is a monthly index which is designed to measure the level of business confidence/sentiment in Brunei Darussalam and cover various aspects of the businesses where the general questions cover current and future business conditions, current and future investments, current and future employment of workers, as well as current and future costs of running the businesses. BSI serves as a leading macroeconomic indicator with its forward-looking element. If the BSI value is above 50, it is interpreted as expansion or optimism compared to the previous month. If the BSI value is 50, it means no change compared to the previous month while if the BSI value is below 50, there is contraction or less optimism compared to the previous month.

The BSI reading in December 2021 was 50.3, which was the third straight month of expansion following the contraction in September 2021 due to the second wave of COVID-19 infections (**Figure 1**). The commencement of the Transition Phase on 19 November 2021, followed by relaxation of certain measures, allowing some businesses to resume operations, brought about optimism in business conditions.

Figure 1. Business conditions



Source: BDCB

[1] The Residential Property Price Index (RPPI) measures the rate at which the prices of private residential properties purchased by households are changing over time. The RPPI is a useful macroeconomic indicator that can assess the state of the real estate market and can act as a financial stability/soundness indicator to measure risk exposure. The RPPI computed for Brunei Darussalam excludes cash-based transactions, non-household transactions, the various Brunei Government national housing schemes and Brunei Government's/non-financial corporates' internal housing loan schemes for employees.

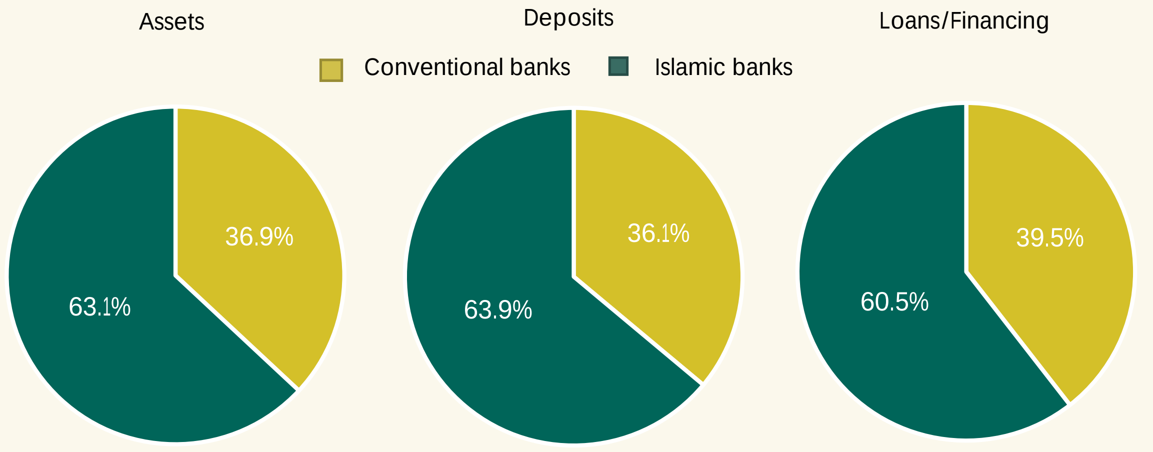
02
Banking Sector Developments

2.1 Balance Sheet Structure

As of year-end 2021, the Islamic bank and the Islamic trust fund continued to account for a major portion of total banking sector assets (63.1%), deposits (63.9%), and loans/financing (60.5%) as shown in **Figure 2**.

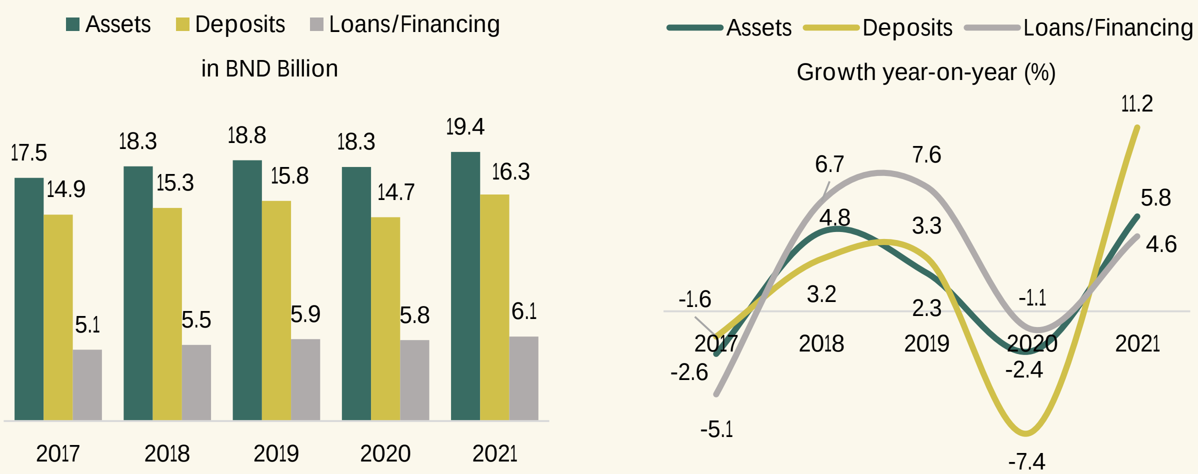
The overall assets, deposits and loans/financing of the banking industry has increased by 5.8%, 11.2% and 4.6% respectively compared to 2020. This constitutes as BND19.4 billion, BND16.3 billion and BND6.1 billion in amount respectively **(Figure 3)**.

Figure 2. Market Share of Assets, Deposits and Loans/Financing: 2021



Source: BDCB

Figure 3. Trends and Growth in the Assets, Deposits and Loans/Financing : 2017-2021



Source: BDCB

2.2 Assessment of Health

The health of the banking sector is assessed in the following four categories:-

1. Capital Adequacy;
2. Credit Quality;
3. Income, Expenses and Profitability; and
4. Liquidity.

The following sections present the assessment on the health of the banking sector in these four categories based on the financial soundness indicators in **Table 2**. This set of financial soundness indicators could indicate the changes in the risk profile of the banking sector.

Table 2. Trends in the Financial Soundness indicators : 2017-2021

Year	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)
Capital Adequacy					
Tier 1 Capital to Risk Weighted Assets	18.2	18.9	20.5	21.2	21.2
Regulatory Capital to Risk Weighted Assets	18.9	19.3	20.9	21.5	21.5
Non-Performing Loans/Financing (Net of Specific Provisions) to Capital Funds	4.4	7.8	6.5	6.1	4.9
Credit Quality					
Non-Performing Loans/Financing to Gross Loans/Financing	4.4	5.7	4.7	4.7	3.6
Net Non-Performing Loans/Financing to Gross Loans/Financing	1.6	2.9	2.4	2.4	1.9
Provision Coverage	62.8	49.5	48.1	48.2	47.5
Profitability					
Return on Assets (Before tax)	1.3	1.5	1.8	1.5	1.3
Return on Equity (After tax)	8.9	11.2	12.6	10.6	8.6
Efficiency Ratio	51.5	48.9	47.4	51.2	57.1
Liquidity					
Liquid Assets to Total Assets	51.0	51.7	46.8	48.3	45.5
Liquid Assets to Total Deposits	60.0	61.8	55.5	60.3	54.1
Liquid Assets to Demand and Savings Deposits (Non-bank customers)	115.2	126.0	102.9	95.9	84.1
Loans/Financing to Deposits Ratio	34.5	35.7	37.2	39.7	37.3

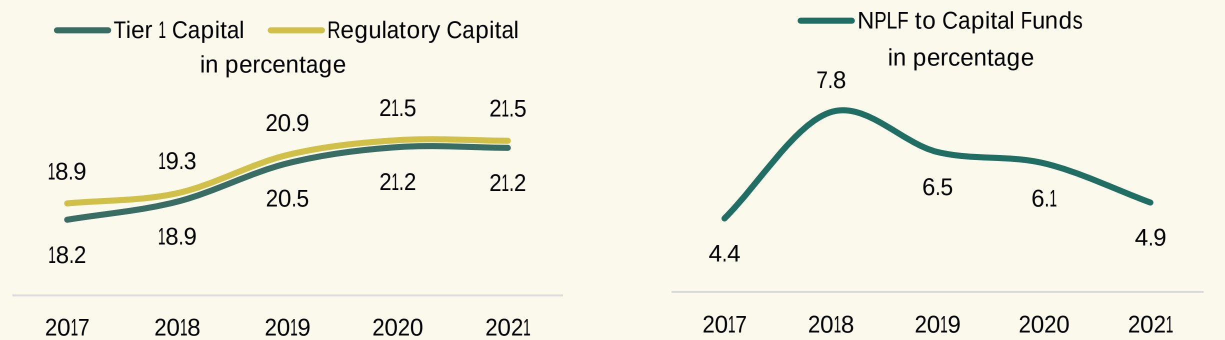
Note: Figures for 2017-2020 are updated using audited figures.
Source: BDCB

Capital Adequacy

In 2021, the performance of the banking industry remained resilient with strong and relatively stable regulatory capital position at 21.5% amid the COVID-19 pandemic. The CAR continued to be well above the minimum regulatory requirement of 10.0% set by BDCB and 8.0% set by Basel II on both solo and consolidated bases. Concurrently, the Tier 1 CAR also remained strong and stable at 21.2% in 2021.

The banks' net NPLF to capital ratio dropped to 4.9% from 6.1% in the previous year **Figure 4** due to write-offs of non-performing loans/financing in 2021.

Figure 4. Trends in the Capital Adequacy: 2017-2021

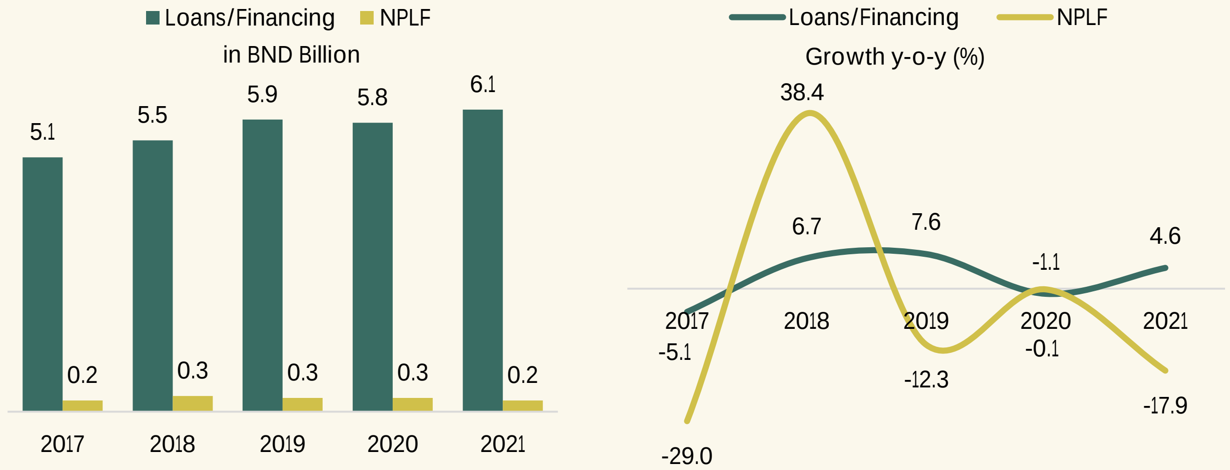


Source: BDCB

Credit Quality

Overall credit recorded a positive growth of 4.6% in 2021 compared to -1.1% in the previous year indicating signs of recovery and improving business prospect **(Figure 5)**. Despite a more modest credit growth, the banking sector continued to have the capacity to support the economy via its intermediary function as indicated by its loans/financing to total deposits ratio of 37.3% as of 2021 compared to 39.7% in 2020.

Figure 5. Trends and Growth in Loans/Financing and Gross NPLF: 2017-2021



Source: BDCB

The banking systems' gross amount of NPLF declined by 17.9% in 2021 driven by both the corporate and household sector **(Figure 5)**. Net amount of NPLF decreased by 19.0% from BND141.9 million in 2020 to BND115.0 million in 2021.

In 2021, the credit quality of the banks' loans/financing portfolio showed improvement with the gross NPLF and net NPLF stood at 3.6% and 1.9% respectively; both below their respective 5-year average.

Provision coverage (specific provisions to total NPLFs) remained adequate in 2021 as it continued to witness a significantly lower provision coverage at 47.5% below the 5-year average at 51.2% **(Figure 6)**. The slight reduction in provision coverage is in tandem with the overall improvement in credit quality witnessed in 2021. Nevertheless, the banking industry is assessed as being capable of withstanding further downside risks from significant increase in credit risk, with strong capital buffer and adequate provisions.

Income, Expenses and Profitability

Trends in Income and Yield

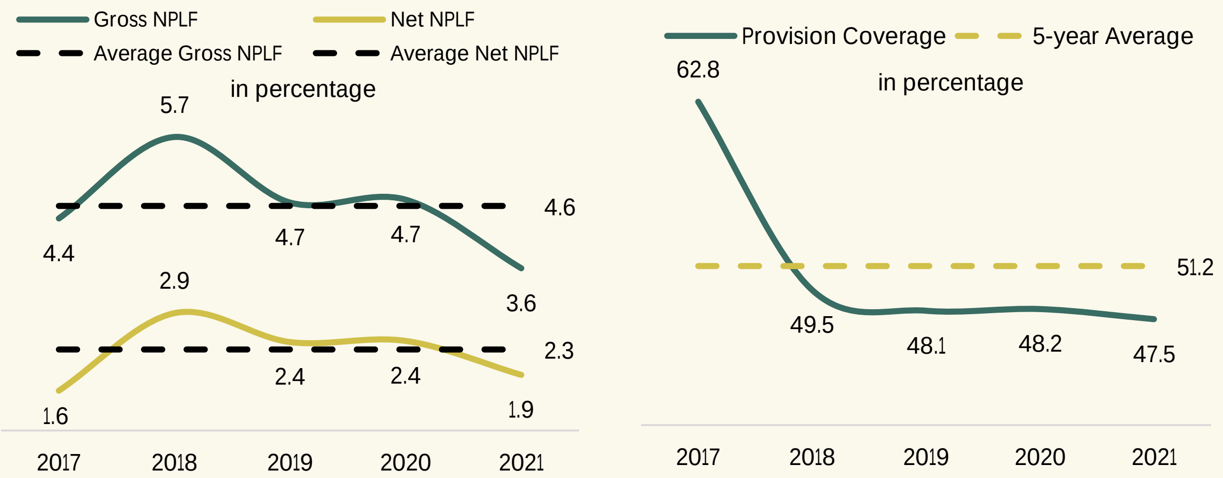
The yield on total interest/profit related assets continued to decline to 2.4% in 2021 compared to 2.9% in 2020. The yield trend commensurate with the total interest/profit income of the banking sector which declined in the same period amounting to BND383.5 million, a significant decrease of 16.3% y-o-y **(Figure 7)**.

The main source of gross income continues to be interest/profit income from lending activities. As of 2021, the yield recorded its lowest in the 5-year period at 4.7%, a decline from 5.1% in the previous year.

Concurrently, both trends in the interest/profit income on the placements and the yield declined significantly to BND30.0 million and 0.5% respectively in 2021. This adverse impact is due to the low interest/profit rate environment along with volatility in the global markets during the pandemic.

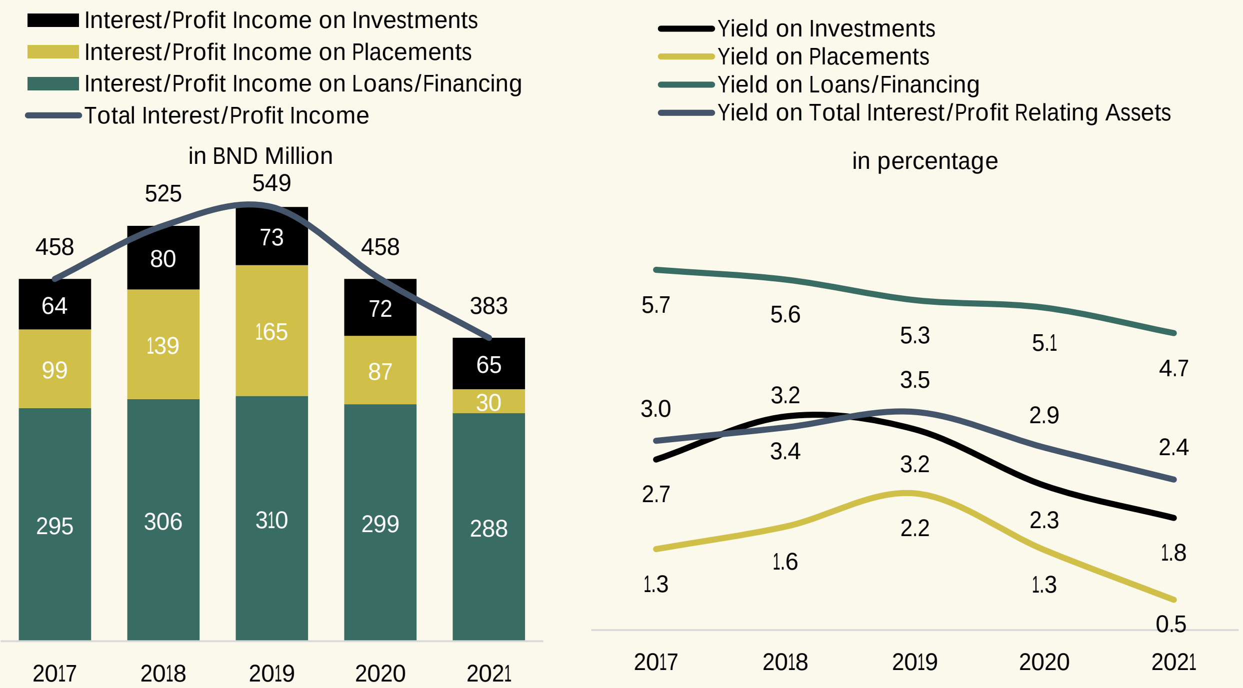
Yield on investments also declined in 2021 to 1.8% from 2.3% in 2020. Reflecting this decline, the interest/profit income on investments also fell by 9.5% y-o-y to BND65.2 million.

Figure 6. Trends in the Credit Quality: 2017-2021



Note: BDCB issued the Notice on Prudential treatment of problem assets and accounting for expected credit losses (ECL) on 27 December 2018 for banks to adopt IFRS 9 that is globally effective from 1st January 2018 onwards.
Source: BDCB

Figure 7. Trends in Income and Yields by Type of Assets: 2017-2021

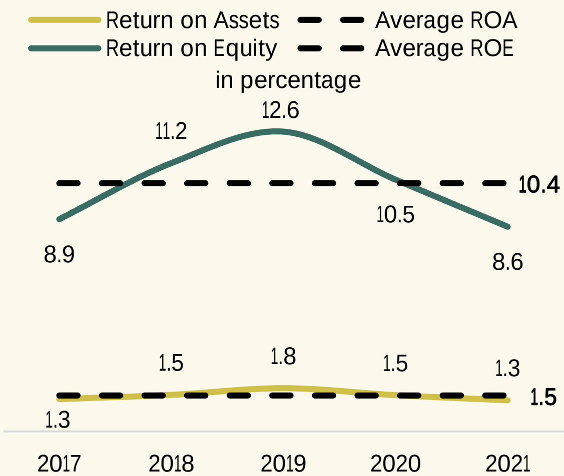


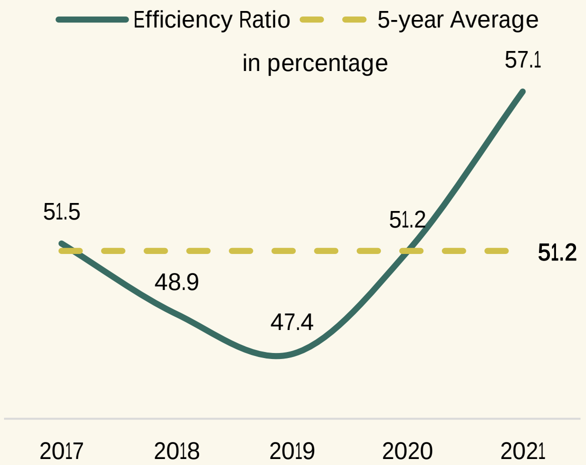
Source: BDCB

Trends in Profitability and Expenses

The banking sector's profitability saw a further downward movement in 2021 where the banks' return on assets (ROA) and return on equity (ROE) fell to 1.3% and 8.6% respectively **(Figure 8)**.

Figure 8. Trends in the Profitability: 2017-2021





Source: BDCB

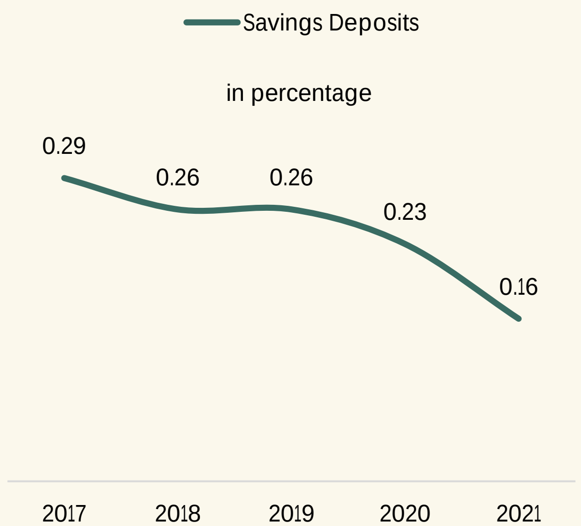
The efficiency of the banking sector as measured by non-interest/profit expenses to gross income increased to 57.1% in 2021 due to the significant decline in interest/profit income. Interest/profit income from placements which is a component of the total interest/profit income declined significantly by 63% in 2021 (BND 86.5 million in 2020 compared to BND 30.0 million in 2021). Improvement in efficiency is encouraged through further diversification of income sources other than loans/financing such as exploring more fee income or financial advisory businesses to enhance the income and profitability of the banking sector.

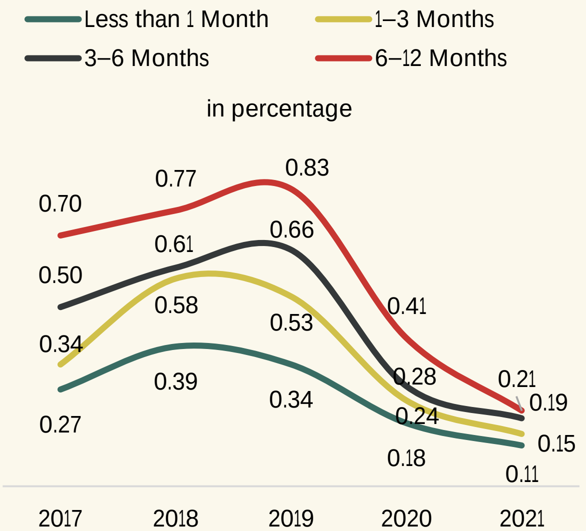
Trends in Net Interest/Profit Income

An important factor for the profitability of the banks is the magnitude of the net interest/profit spread measured by the differential of the lending/financing and deposit rates. At the same time, the average lending/financing rates by economic sectors indicate the magnitude of the interest burden of business and household borrowers.

During the period 2017-2021, the interest/profit rates of saving deposits have remained low and declined to 0.16% in 2021. The interest/profit rates of time deposits have also declined during the same period for all types of maturity (**Figure 9**).

Figure 9. Trends in the Average Savings & Time Deposits Interest/Profit Rates by Maturity: 2017-2021





Source: BDCB

In the household sector, the average lending/financing rates of financing products declined in 2021 as shown in **Table 3**. This indicates the increasing competitiveness in pricing offered by banks in the market.

Meanwhile for the corporate sector, other than financial and commercial property sectors, the average lending/financing rates for other sectors had declined in 2021 compared to 2020. Since 2020, the commercial property sector continued to record the lowest financing rate at 5.13% while the infrastructure sector remained the highest rate at 6.43% **(Table 3)**.

Table 3. Average Lending/Financing Rates by Economic Sectors: 2017-2021

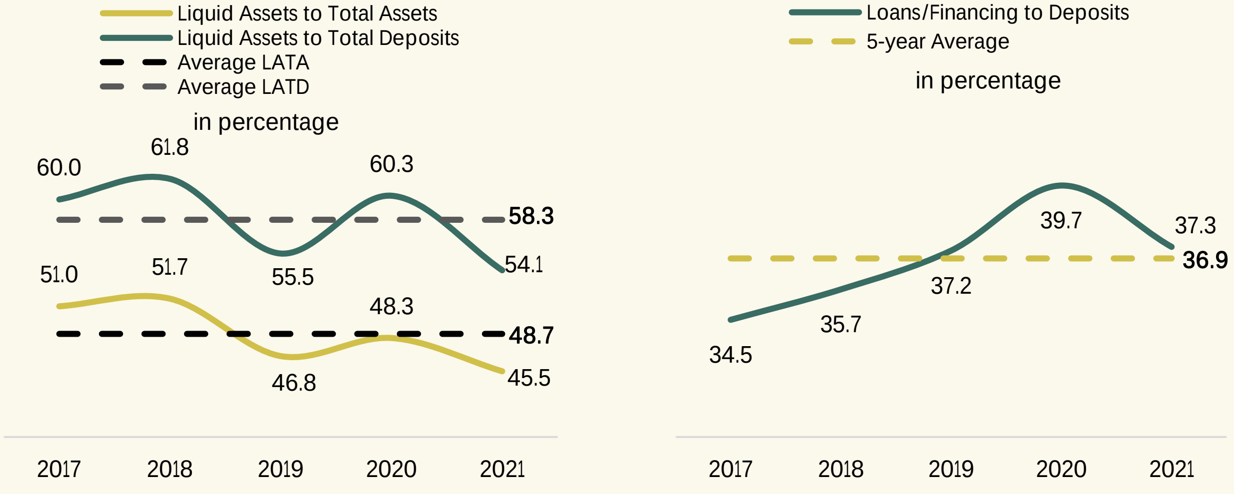
Sector	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)
Household Sector					
Personal	6.11	6.27	5.97	5.97	5.86
Credit Cards	14.15	14.39	14.28	14.25	14.07
Residential Housing	5.10	5.17	5.06	5.01	4.93
Structural Home Improvement	6.28	6.01	5.79	5.89	5.58
Corporate Sector					
Commercial Property	5.47	5.36	5.30	5.09	5.13
Traders	6.13	5.84	5.83	5.61	5.61
Manufacturing	5.67	5.37	5.45	5.34	5.17
Transportation	5.86	5.76	5.21	5.66	5.64
Services	6.38	5.86	5.96	5.87	5.71
Infrastructure	6.42	6.69	6.06	9.01	6.43
Financial	7.28	7.24	6.97	3.39	5.56
Telecommunications & Information Technology	6.01	5.37	6.20	5.65	5.49
Tourism	5.94	5.81	5.80	6.14	5.76
Agriculture	5.31	5.53	5.14	5.61	5.47

Source: BDCB

Liquidity

The banking sector continued to hold surplus liquid assets with the average for both Liquid Assets to Total Assets and Liquid Assets to Total Deposits for the 5-year period recorded at 48.7% and 58.3% respectively **(Figure 10)**. The magnitude of these indicators was still considered high when compared to ASEAN peers which indicated low liquidity risk due to surplus liquidity in the banking sector arising out of low level of intermediation. Loans/financing to deposit ratio stood at 37.3% as of 2021, which is above the 5-year average of 36.9% **(Figure 10)**.

Figure 10. Trends in the Liquidity: 2017-2021



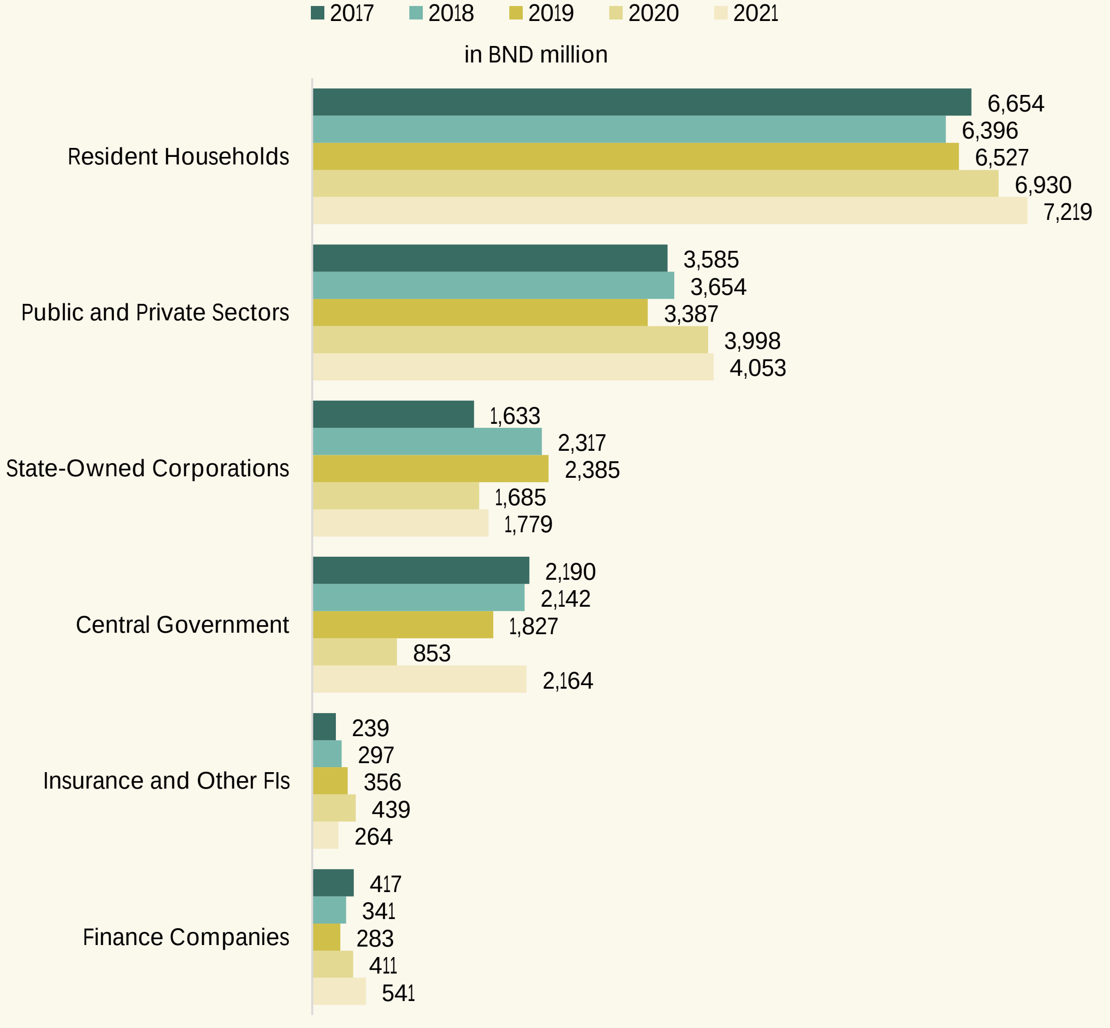
Source: BDCB

2.3 Deposit Structure

Deposits remained the primary source of bank funding representing 95.9% of total liabilities (excluding capital and reserves). In 2021, the increase in deposits by 11.2% **(Figure 3)** was driven mostly by government deposits (153.7%) followed by finance companies deposit (31.5%) **(Figure 11)**.

Resident household deposits continued to account for the highest share, contributing 45.1% of the total deposits in the banking sector in 2021. This segment represents the core deposits and is a stable source of funds for the banking sector.

Figure 11. Trends in Residents' Deposit Structure by Ownership: 2017-2021

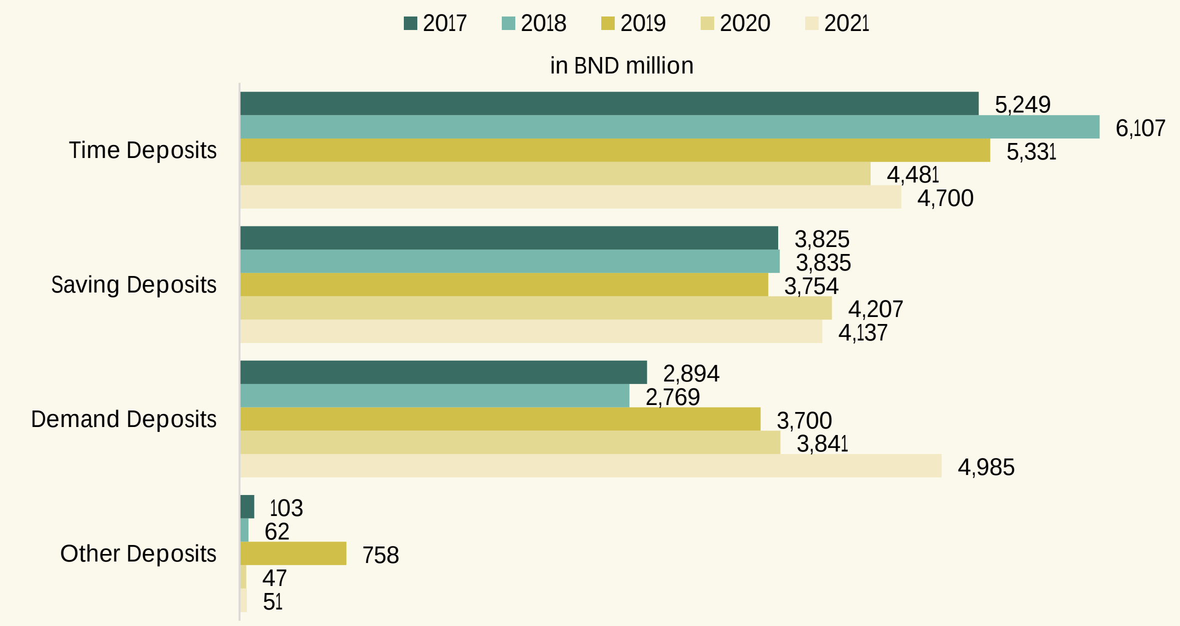


Note:
1. Central government deposits include BDCB deposits.
2. Deposit does not include *banks'* deposits and non-*residents'* deposits
Source: BDCB

During 2021, both BND and FCY deposits recorded positive growth at 10.3% and 15.8% respectively compared to the previous year. Demand deposits made up 35.9% of total BND deposits by holders in Brunei Darussalam, which contributed to the significant growth in 2021 **(Figure 12)**.

The demand deposits recorded a growth of 29.8% and time deposit (which represent 33.9% of total BND deposits by holders in Brunei Darussalam) also increased by 4.9% during the year. In contrast, saving deposits declined by 1.7% in 2021 **(Figure 12)**.

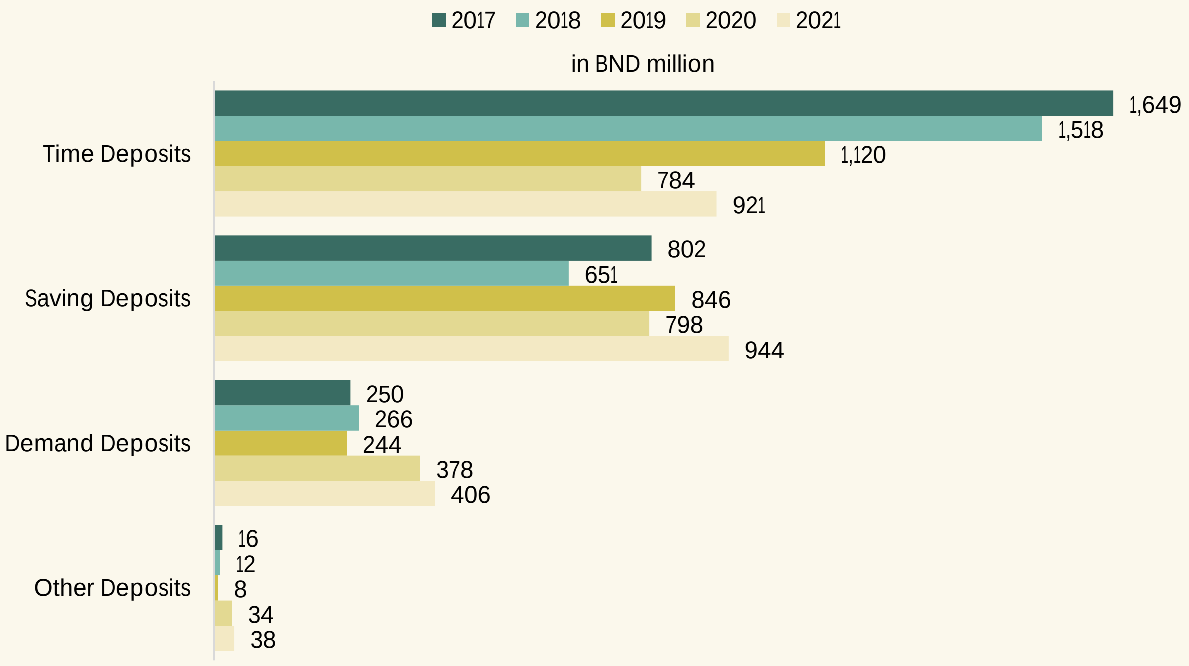
Figure 12. Trends in BND Deposits by Holders in Brunei Darussalam by Type of Deposits: 2017-2021



Source: BDCB

FCY deposits accounted for only 14.4% of total deposit of the banking sector. About 39.9% of FCY deposits by holders in Brunei Darussalam were in time deposit and it recorded an increase of 17.6% in 2021. Demand deposits which represented 17.6% of total FCY deposits expanded by 7.2% and saving deposits which accounted for 40.9% of total FCY deposits also increased by 18.2% **(Figure 13)**.

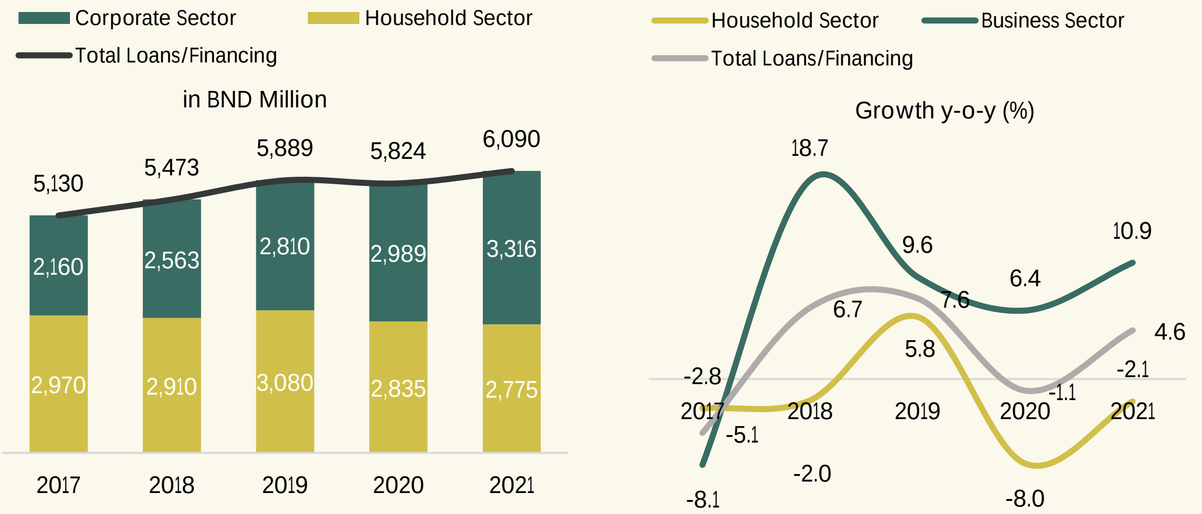
Figure 13. Trends in FCY Deposits by Holders in Brunei Darussalam by Type of Deposits: 2017-2021



Source: BDCB

2.4 Lending/Financing Portfolio

Figure 14. Trends and Growth of the Total Loans/Financing: 2017-2021

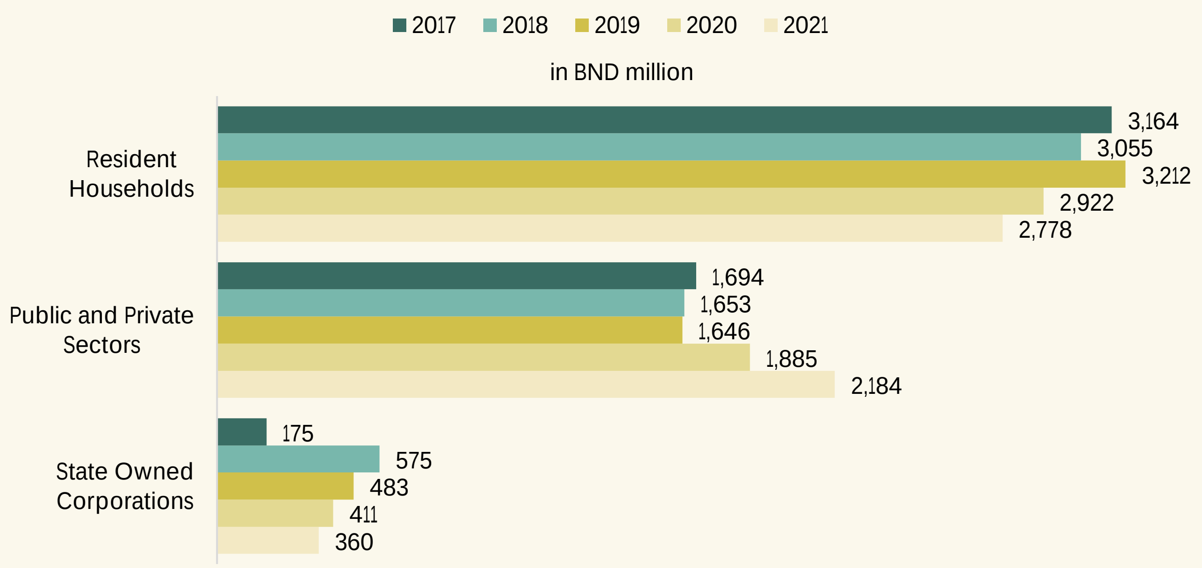


Source: BDCB

The loan/financing portfolio of the banking sector recorded a positive growth of 4.6% in 2021 primarily driven by business sector lending, which increased by 10.9% in the same year. On the other hand, the household sector lending/financing recorded a decline of 2.1% for the same period **(Figure 14)**.

Banks' loans/financing were primarily extended to residents of Brunei Darussalam which stood at 87.4% while non-resident lending/financing accounted for 12.6% of total loans/financing, hence limiting the risks of exposure to foreign lending. Both the lending to residents of Brunei Darussalam and non-resident recorded growth by 1.9% and 26.2% respectively in the 2021. The resident banking sector's lending portfolio of BND5.3 billion consisted of 52.2% in resident household loans/financing, 41.0% to public and private sectors, with the remaining 6.8% extended to state-owned corporations **(Figure 15)**.

Figure 15. Trends in Residents' Loans/Financing Structure by Ownership: 2017-2021



Source: BDCB

2.4.1 Loans/Financing to Household Sector

In 2021, the business sector dominated the overall credit portfolio in Brunei Darussalam which stood at 54.4%. This trend has shifted unlike the past years due to a decline of 2.1% in total credit to the household sector in 2021 compared to its previous year **(Table 4)**. Business sector continued to expand where a 10.9% growth was recorded in 2021 mainly contributed by Manufacturing, Financial and Commercial Property sectors.

The contraction in the total credit to household sector in 2021 was due to weaker consumer sentiment on the impact of COVID-19 and border restrictions as part of the COVID-19 containment measures leading to reduced overseas leisure spending and the uncertainty of the effect of the pandemic on businesses that could affect job security. These adverse impacts were highly notable in the personal loan subcategories such as general consumption (-4.5%), home improvement (-45.6%) and credit cards (-6.4%).

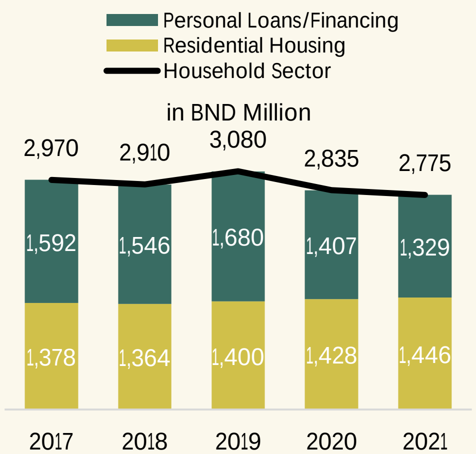
On the contrary, loans/financing for residential housing recorded a slight increase of 1.3% in 2021 mainly due to housing purchases (5.0%) **(Figure 16)**.

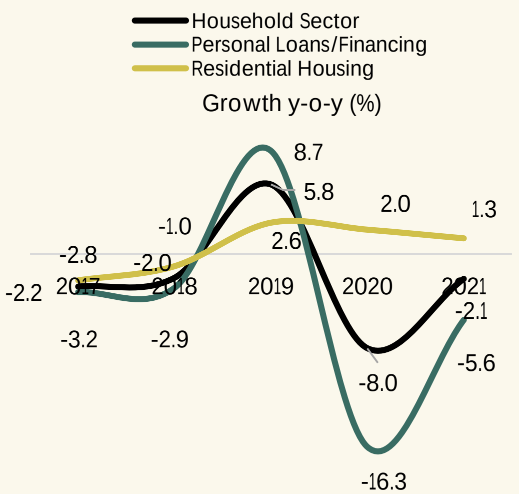
Table 4. Demands for Loans/Financing by Economic Sectors: 2019-2021

Sector	2019		2020		2021	
	Amount (BND million)	% of Total	Amount (BND million)	% of Total	Amount (BND million)	% of Total
Household Sector	**3,080**	**52.3**	**2,835**	**48.7**	**2,775**	**45.6**
Personal Loans/Financing	1,680	28.5	1,407	24.2	1,329	21.8
Residential Housing	1,400	23.8	1,428	24.5	1,446	23.7
Corporate Sector	**2,810**	**47.7**	**2,989**	**51.3**	**3,316**	**54.4**
Agricultural	26	0.4	35	0.6	40	0.7
Financial	116	2.0	184	3.2	278	4.6
Manufacturing	305	5.2	502	8.6	721	11.8
Transportation	424	7.2	326	5.6	253	4.1
Infrastructure	40	0.7	44	0.8	31	0.5
Traders	398	6.8	347	6.0	354	5.8
Services	697	11.8	767	13.2	739	12.1
Commercial Property	754	12.8	743	12.8	819	13.4
Tourism	37	0.6	35	0.6	38	0.6
Telecom & IT	13	0.2	6	0.1	45	0.7
Total Loans/Financing	5,889	100	5,824	100	6,090	100

Source: BDCB

Figure 16. Trends and Growth of Total Loans/Financing in the Household Sector: 2017-2021



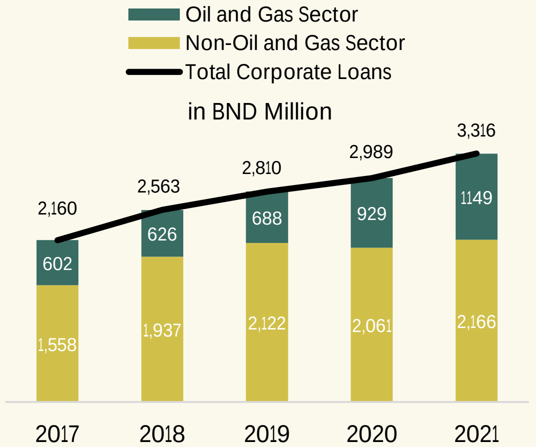


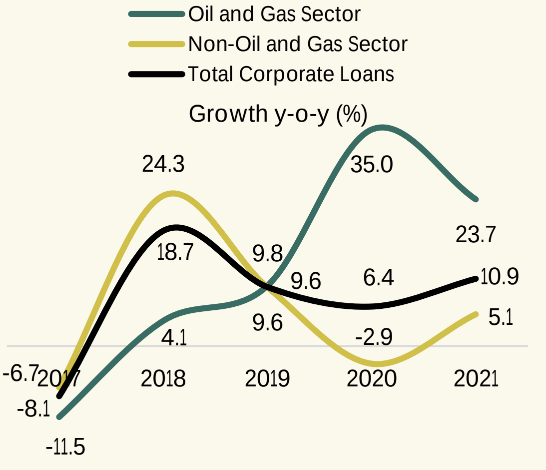
Source: BDCB

2.4.2 Loans/Financing to Business Sector

The Non-Oil and Gas sector in Brunei Darussalam plays a vital role to the country's economic developments especially in its diversification efforts and is a good indicator of macroeconomic conditions in the country outside the Oil and Gas sector. **Figure 17** shows that the credit extended to the Non-Oil and Gas sector has accounted for 65.3% of total business credit as of 2021.

Figure 17. Trends and Growth of Loans/Financing in the Oil and Gas and Non-Oil and Gas Sectors: 2017-2021





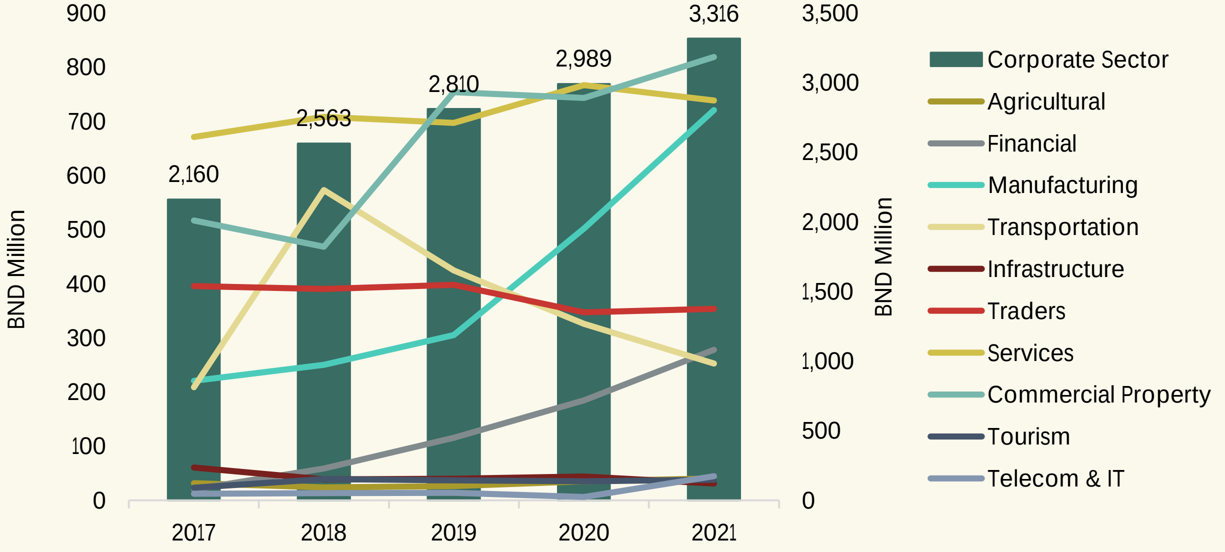
Source: BDCB

The key sectoral exposures in the business lending/financing portfolio are Commercial Property (13.4%), Services (12.1%), Manufacturing (11.8%) and Traders (5.8%) **(Table 4)**.

Bank lending/financing to the business sector remained relatively strong, as it expanded by 10.9% in 2021 compared to the previous year at 6.4%. Hence, the growth in total loan/financing was largely attributed to the growth in credit to the business sector.

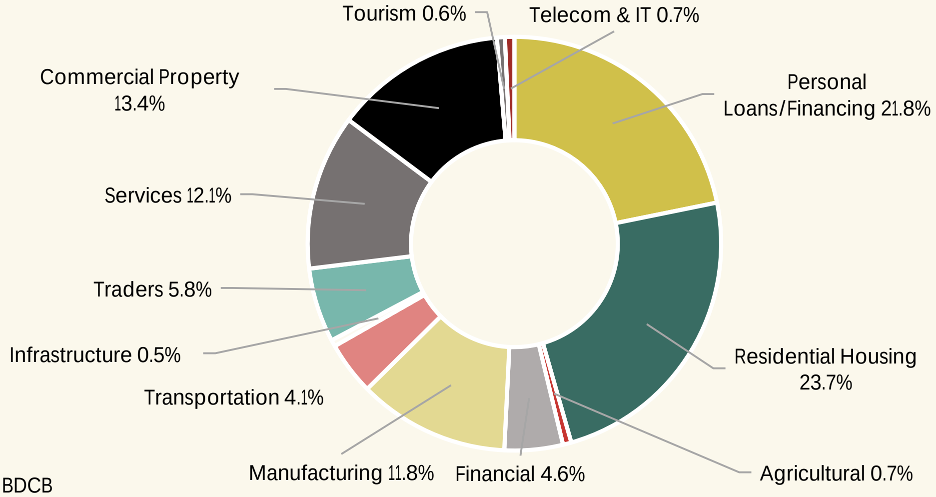
The increase in loans/financing to the business sector was mainly driven by the manufacturing, financial and commercial property sectors. These sectors expanded by 43.6% to BND720.5 million, 50.7% to BND277.9 million and 10.1% to BND818.8 million respectively compared to the previous year. While the credit growth of other sectors such as Telecommunication & IT, Traders, Agricultural and Tourism also recorded a slight increase in 2021, although minimal **(Figure 18)**.

Figure 18. Trends in Business Sector Loans/Financing in Brunei Darussalam: 2017-2021



Source: BDCB

Figure 19. Proportion of Loans/Financing in Brunei Darussalam by Economic Sectors: 2021



Source: BDCB

2.5 Credit Quality Risk

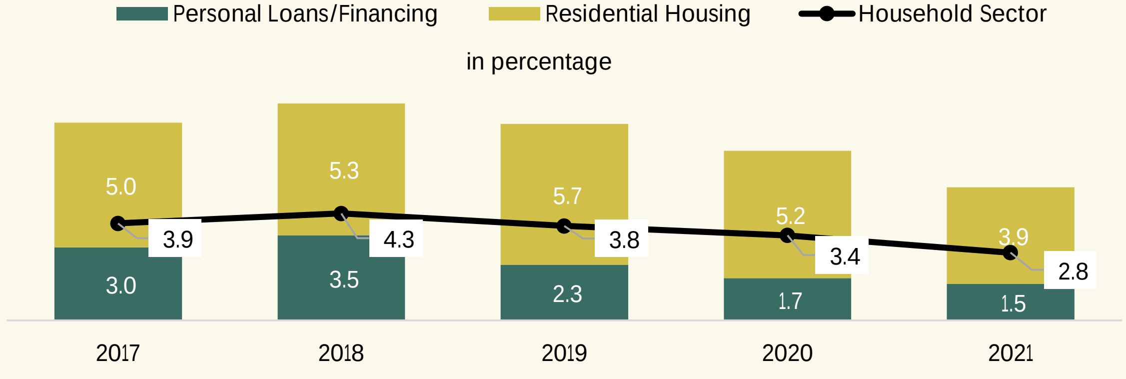
In 2021, the overall credit quality of the household and business sectors showed an improvement as gross NPLF volume declined by 17.1% and 18.4% respectively. Continuous improvements in banks' credit risk management practices have kept the NPLF at low levels. The trend was also influenced by the introduction of the temporary regulatory relief measures to the banking sector in April 2020 in light of the far-reaching impacts of the pandemic. Hence, the true impact of COVID-19 on NPLF figures may only be apparent after the expiration of the relief measures.

The NPLF ratio of the household sector loans/financing declined to 2.8% in 2021 from 3.4% in 2020. As illustrated in **Figure 20**, the decrease in the NPLF ratio of the household sector was attributed to the decline in both the NPLF ratio in personal loans/financing and residential housing loans/financing.

Residential Housing Loan NPLF ratio also reduced to 3.9% in 2021 compared to 5.2% in 2020 and Personal Loan/financing NPLF ratio improved moderately to 1.5% in 2021 compared to 1.7% in 2020. Since 2015, BDCB has implemented a number of regulations, encompassing both micro and macroprudential measures which remain relevant and have contributed to improvements in the credit quality risks of the household sector.

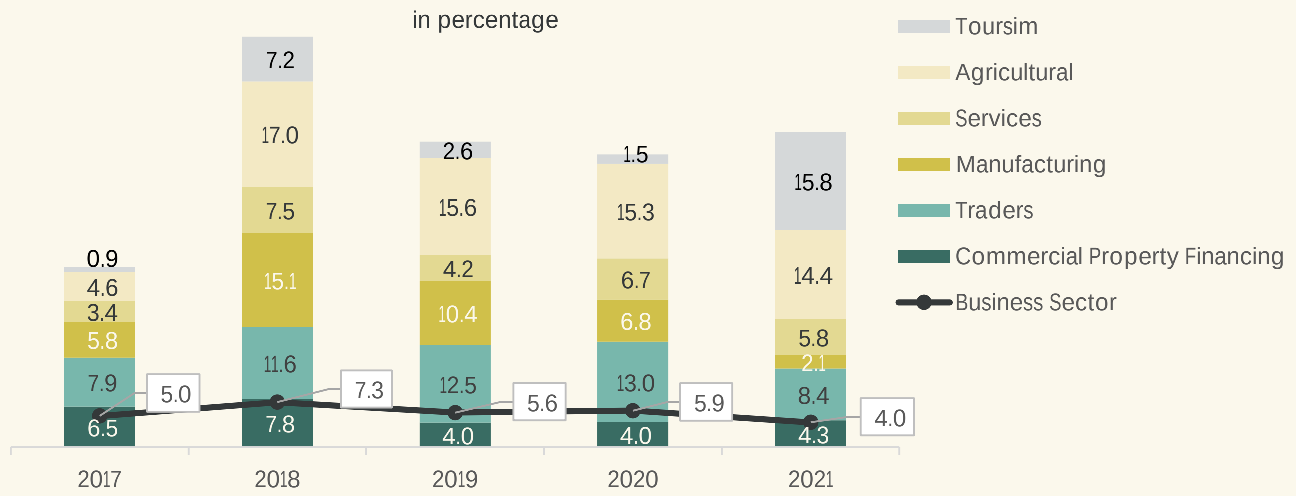
The overall NPLF ratio in the business sector had shown improvement with a decline to 4.0% in 2021 compared to 5.9% in 2020 **(Figure 21)**. In terms of sectoral breakdown of NPLF as a percentage of total loans/financing in each sector shows some sectors experiencing an increase in ratio, while others experienced a decrease. A deterioration in the NPLF ratio was observed in Commercial Property Financing and Tourism sector with an increase to 4.3% and 15.8% in 2021 respectively from 4.0%, and 1.5% in 2020 **(Figure 21)**.

Figure 20. Trends in NPLF Ratio in the Household Sector: 2017-2021



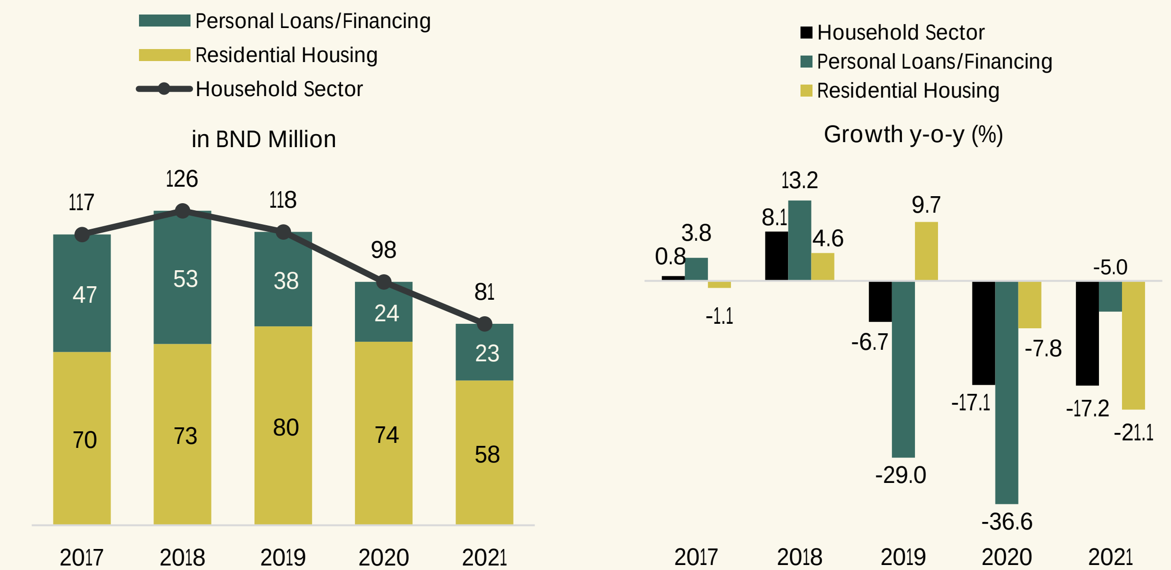
Source: BDCB

Figure 21. Trends in NPLF Ratio in Certain Business Sector: 2017-2021



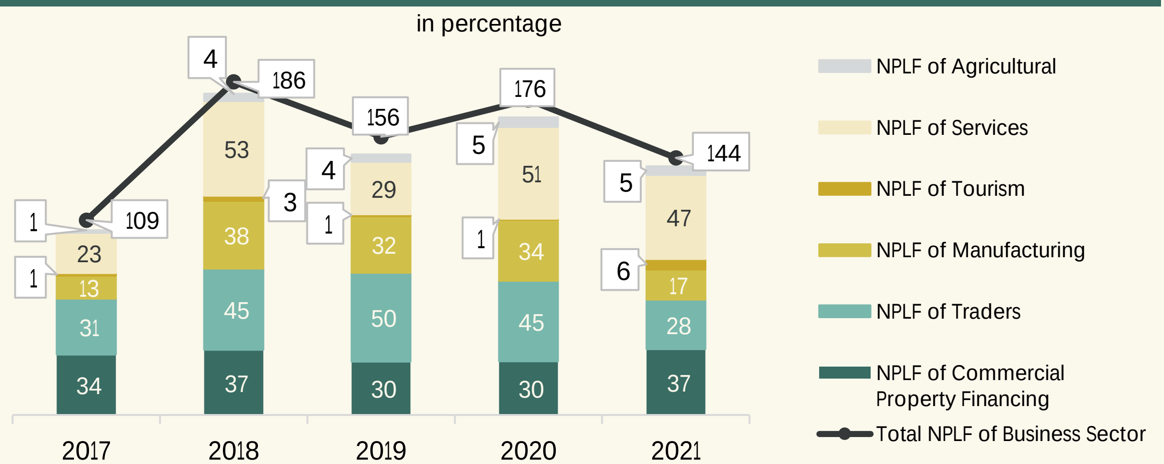
Source: BDCB

Figure 22. Trends and Growth of Non-Performing Loans/Financing in the Household Sector: 2017-2021



Source: BDCB

Figure 23. Trends and Growth of Non-Performing Loans/Financing in the Certain Business Sector: 2017-2021



Source: BDCB

2.6 Offshore Assets Risk

In 2021, offshore assets as a share of total assets marginally declined to 51.7%. The level of bank intermediation remains low in the country as banks continue to place their excess liquidity offshore as illustrated in **Table 5**.

2.6.1 Development and Performance of Offshore Assets

Consistent with previous years, the majority of offshore assets in 2021 were in the form of placements outside of Brunei Darussalam accounting for 55.1% of total offshore assets and was followed by offshore investments at 31.2% which contributing to the rise in offshore assets. Offshore loans/financing had increased by 26.4% in 2021 compared to 10.1% in 2020.

Table 5. Distribution of Total Offshore Assets by Type of Instruments: 2017-2021

	2017		2018		2019		2020		2021	
Instruments	Amount (BND million)	% of Total Assets	Amount (BND million)	% of Total Assets	Amount (BND million)	% of Total Assets	Amount (BND million)	% of Total Assets	Amount (BND million)	% of Total Assets
Placements	7,122.9	40.7	7,854.4	42.9	7,042.7	37.5	6,041.8	33.0	5,517.4	28.5
Investments	1,853.3	10.7	1,843.5	10.1	1,781.2	9.5	2,568.9	14.0	3,127.7	16.2
Loans/Financing	104.0	0.6	193.6	1.1	552.2	2.9	607.9	3.3	768.7	4.0
Other assets*	446.9	2.6	333.1	1.8	413.8	2.2	667.1	3.6	604.4	3.1
Total Offshore Assets	9,552.4	54.6	10,229.9	55.9	9,790.5	52.2	9,887.6	54.0	10,018.2	51.7
Total Assets	17,484.1	100.0	18,328.3	100.0	18,758.8	100.0	18,302.8	100.0	19,361.9	100.0

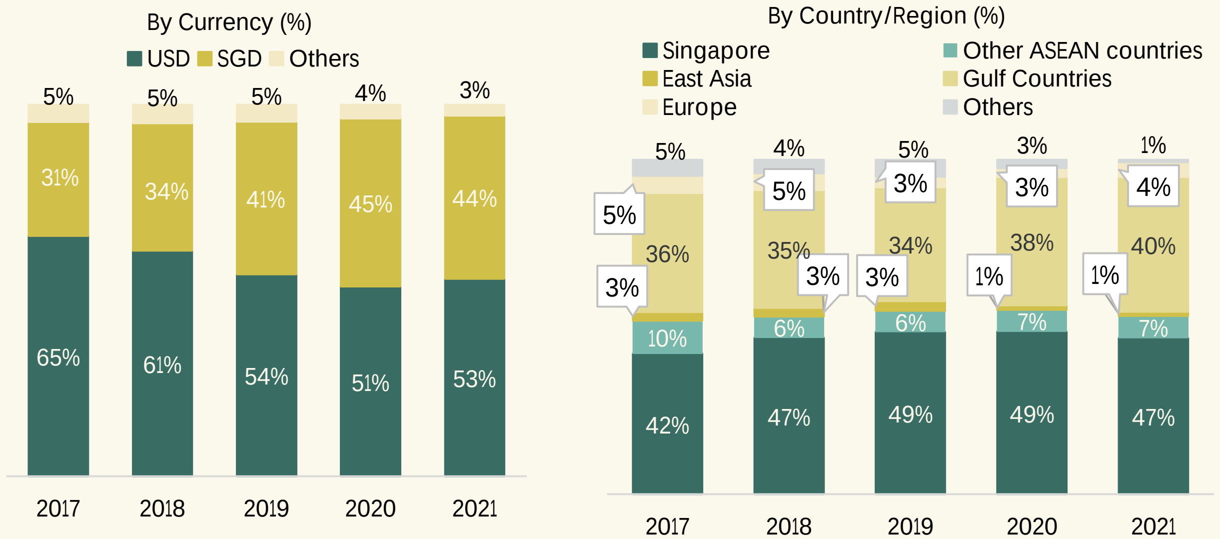
Note: Other assets include nostro balances, investment in subsidiaries, etc.
Source: BDCB

Currency Risk

Figure 24 presents the trends in offshore placements and investments of the banks in Brunei Darussalam by currency and country/region.

Offshore placements and investments continued to be dominated by two major currencies i.e. the US Dollar (USD) and the Singapore Dollar (SGD).

Figure 24. Trends in Composition of Offshore Placements and Investments by Currency and Country/Region: 2017-2021



Source: BDCB

In 2021, the share of offshore placements and investments in USD continued to increase steadily to 53.1%. The remaining proportions of other currencies including the Euro, the British pound sterling, the Malaysian ringgit and the Australian dollar continued to decline collectively to 2.9% in 2021.

Country Risk

The share of offshore assets by country remained unchanged with Singapore claiming the largest share at 46.7%, followed by Gulf Countries at 40.3% and other ASEAN countries at 6.6%.

The increased exposure to Gulf Countries-dominated by assets in United Arab Emirates (UAE) and Saudi Arabia may be attributed to the limited availability of Syariah compliant assets globally.

Liquidity Risk

Liquidity risk due to maturity and currency mismatch may lead to the deterioration of the portfolio of offshore assets of banks in Brunei Darussalam, directly affecting their liquidity.

The ratio of total offshore assets to total deposits fell from 67.4% in 2020 to 61.5% in 2021. The majority of offshore assets were in placements, despite a decline of 8.7% (y-o-y) **(Table 5)**, indicating that liquidity risk heightened slightly but remained manageable.

2.7 Regulatory Development

Box 1. Highlights of Regulatory Policy Development in the Banking Sector

i. Further Extension of Interim Measures by The Banking Sector

In addressing the impact of recurring COVID-19 outbreak in Brunei Darussalam, the assistance offered by the banking sector to affected businesses and individuals since 1 April 2020 remains in place through several extensions.

Table 6. Respective Extension Period of the Interim Measures

Extension	Period
Introduction	1 April 2020 – 31 March 2021
1st Extension	Up to September 2021
2nd Extension	Up to December 2021
3rd Extension	Up to June 2022

Source: BDCB

In supporting the continuation of interim measures by the banking sector, the Notice on Temporary Regulatory Measures was amended on 27 February 2021, 14 August 2021 and 11 January 2022 for extended periods as shown in **Table 6**. With the amendments, BDCB continued to provide temporary and time-bound regulatory flexibility to encourage banks and finance companies to offer temporary assistance to their affected customers that are limited through the following options and subject to meeting specific conditions:

- Deferment of repayments on most loans/financing;
- Restructuring on personal loans/financing and limited hire purchase facilities (motor vehicle loans/financing), for a period not exceeding 10 years;
- Restructuring on existing credit/financing facility for affected customers from the business sector; and
- Conversion of outstanding credit card balance into a short-term loan/financing not exceeding 3 years. This applies to affected individuals in the private sector only, including those who are self-employed.

Additionally, banks continued to waive a number of fees and charges (excluding third party charges) associated with the assistance above as well as on local online fund transfers made to other banks via the Real-Time Gross Settlement and Automated Clearing House systems in Brunei Darussalam.

Table 7. Statistics on Interim Measures
From 8 August 2021 – 31 December 2021 (second wave of COVID-19 outbreak)

Types of Assistance	Approved Applications	Outstanding Amount (BND million)
Total	1,214	221.2
Deferment	1,186	218.2
Restructuring	27	2.9
Conversion of Credit Card Balance	1	0.002

Source: BDCB

Table 7 illustrates the overall statistics on interim measures since the second wave of the COVID-19 outbreak. From 8 August 2021 to 31 December 2021, a total of 1,214 loans/financing accounts were approved, with the overall amount totalling BND221.2 million. This is compared to a total of 442 loans/financing accounts for the period 1 April 2021 to 30 July 2021 and a total of 2,014 for the period of 1 April 2020 to 30 December 2020.

ii. Revision to the Regulatory Notice on Pillar 3 – Public Disclosure Requirements

In promoting market discipline through regulatory disclosure requirements, BDCB issued the following to the banks on 2 April 2021:

- Revocation of existing Notice on Disclosure on Risk Management, Credit Risk Management, Internal Audit Function, Compliance and Compliance Function and Internal Control Systems, which took effect from 31 March 2021, which removes the requirement for banks to disclose on a "comply or explain" basis.

- Revision to the Regulatory Notice on Pillar 3 – Public Disclosure Requirements, which took effect from 1 July 2021. The revised notice aims to facilitate and promote market discipline by requiring banks to disclose meaningful regulatory information to the public on a consistent and comparable basis. Towards achieving a level of transparency and quality of risk disclosures that will enable users to better understand and compare a bank's business and its risks, the framework outlines the scope, frequency and timing of disclosures requirements. The framework also prescribes the reporting templates for respective disclosure requirements.

Moving forward, BDCB will continue to enhance and streamline its regulatory frameworks that are aligned with international standards and best practices. This includes the introduction of wider prudential framework of Basel III for the banking sector and the introduction of a capital adequacy framework for the finance company industry.

iii. Transition of London Interbank Offered Rate (**'LIBOR'**) by the Banking Industry

In preparing for the new benchmark reforms and its transitions, BDCB and BAB held a discussion on 21 October 2021 to discuss the impact of the cessation of LIBOR and their progress to transition to other alternative reference rates. BDCB assessed that the industry had conducted timely identification of the affected LIBOR-linked contracts and at the same time, developed transitions plans that are aligned with global LIBOR transitions roadmaps. BDCB also provided additional guidance to the industry to ensure transition plans remain viable, a smooth adoption within their respective operations as well as effective communications with their customers.

3

Non-banking Sector Developments

3.1 Finance Companies

3.1.1 Structure of Finance Companies

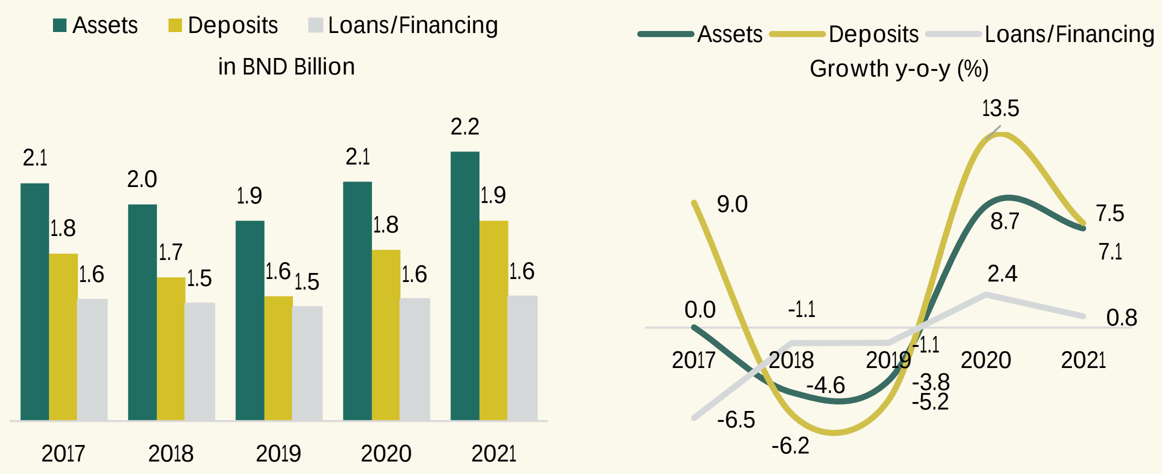
At present, two finance companies are licensed by BDCB, namely, Baiduri Finance Berhad and Bank Islam Brunei Darussalam (BIBD) At-Tamwil Berhad. Similar to banks, these finance companies also provide savings and fixed deposits services, besides automobile loans/financing and consumer durable financing by way of hire purchase agreement.

3.1.2 Balance Sheet Structure

As of year-end 2021, finance companies sector represented a share of 9.5% of total financial system assets. In 2021, the assets and deposits significantly increased by 7.1% to BND2.2 billion and 7.5% to BND1.9 billion respectively as compared to the previous year. Concurrently, the total loans/financing by finance companies had also marginally increased by 0.8% in 2021 reaching BND1.6 billion **(Figure 25)**.

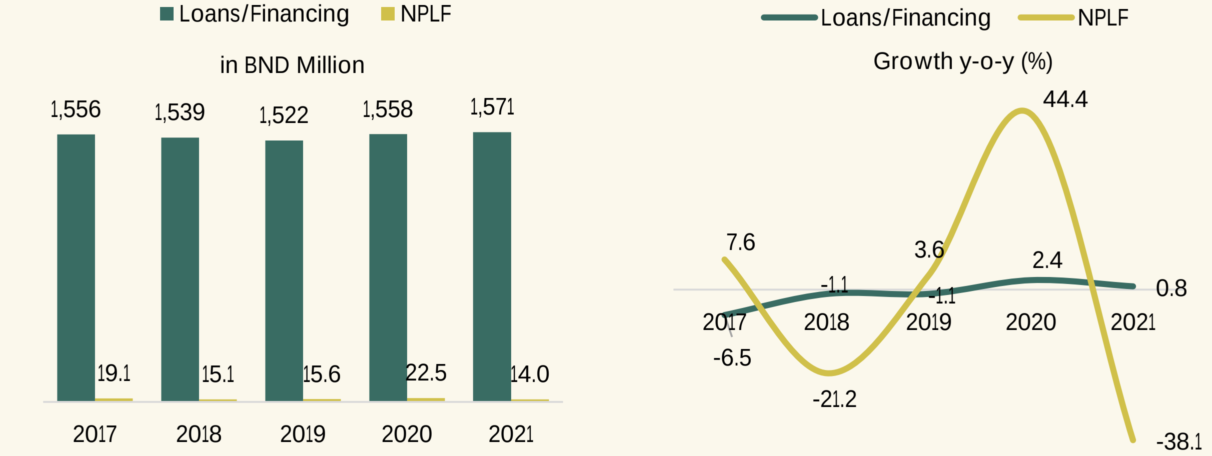
In terms of credit quality, the gross amount of NPLF recorded a significant decline in 2021 by 38.1% y-o-y to BND14.0 million **(Figure 26)**. Such decline was majorly attributed by the improvement of the borrowers' repayment capabilities and thus subsequently reclassified to performing status.

Figure 25. Trends and Growth in the Assets, Deposits and Loans/Financing: 2017-2021



Source: BDCB

Figure 26. Trends and Growth in the Loans/Financing and Gross NPLF: 2017-2021



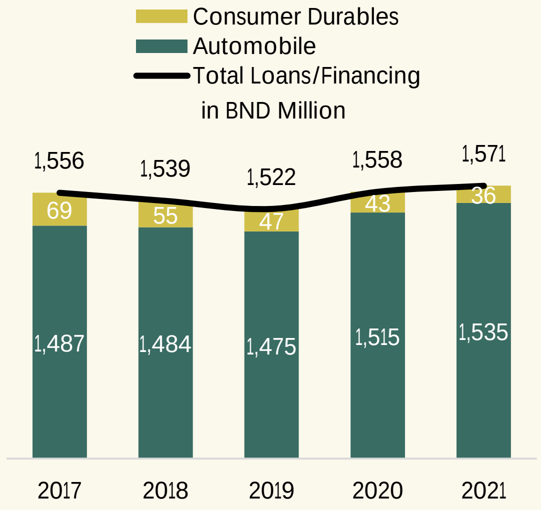
Source: BDCB

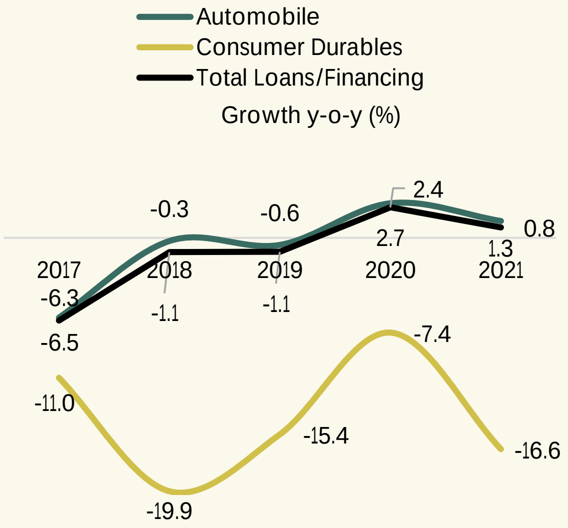
3.1.3 Trend in types of Loans/Financing

The lending/financing portfolio of the finance companies continued to be dominated by automobile loans/financing activities which accounted for 97.7% of the total loans/financing in 2021.

There was a slight increase in automobile loans/financing by 1.3% to BND1.5 billion in 2021 and a decline of consumer durable loans/financing by 16.6% to BND36.1 million compared to 2020 (**Figure 27**).

Figure 27. Trends and Growth in the Loans/Financing: 2017-2021





Source: BDCB

3.1.4 Assessment of Health

The health and performance of the finance companies are measured by the trends in four categories of financial soundness indicators in **Table 8**, namely, capital adequacy, credit quality, profitability and liquidity.

Table 8. Trends in the Financial Soundness Indicators: 2017-2021

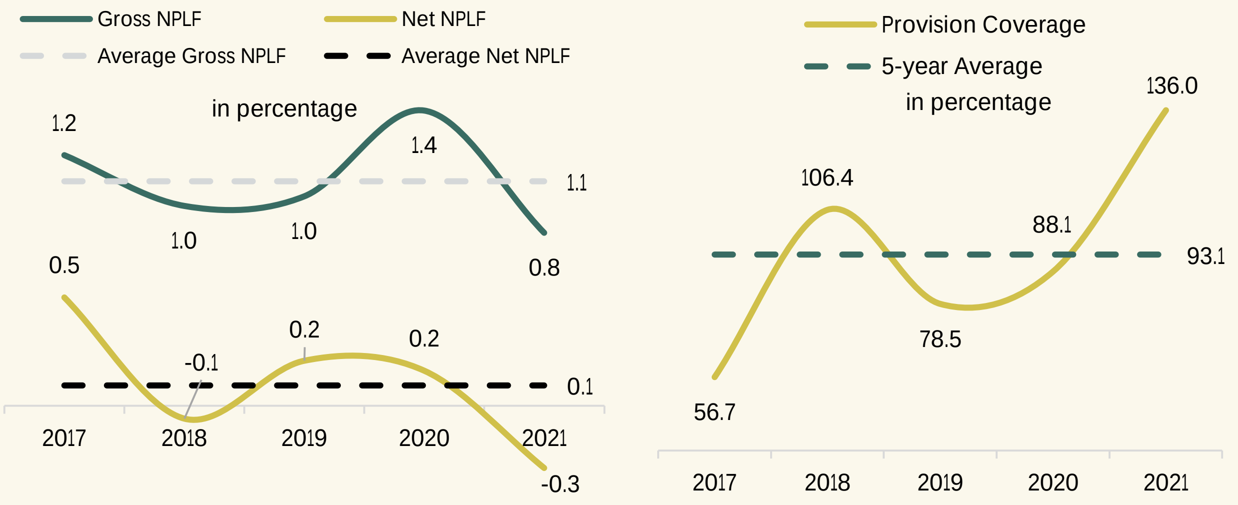
Financial Soundness Indicators	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)
Capital Adequacy					
Total Capital Funds to Total Assets	12.8	12.5	13.2	11.9	11.9
Non-Performing Loans/Financing (Net of Specific Provisions) to Capital Funds	3.1	-0.4	1.3	1.1	-1.7
Credit Quality					
Non-Performing Loans/Financing to Gross Loans/Financing	1.2	1.0	1.0	1.4	0.8
Net Non-Performing Loans/Financing (Net of provisions) to Gross Financing	0.5	-0.1	0.2	0.2	-0.3
Provision Coverage	56.7	106.4	78.5	88.1	136.0
Profitability					
Return on Assets (Before Tax)	2.9	2.9	3.4	3.2	3.2
Return on Equity (After Tax)	14.9	18.2	19.4	19.8	25.6
Efficiency Ratio	34.7	39.0	38.9	41.4	38.6
Liquidity					
Liquid Assets to Total Assets	19.4	16.9	14.8	19.6	23.9
Liquid Assets to Total Deposits	22.9	20.3	18.1	22.9	27.8
Loans/Financing to Deposits	88.1	92.8	96.8	87.3	79.1

Note: Figures for 2017-2020 are updated using audited figures.
Source: BDCB

The CAR as measured by total capital funds to total assets of the finance companies remained relatively stable in 2021 at 11.9% compared to the previous year. Meanwhile, the ratio of net NPLF (net of specific provisions) to capital funds improved to -1.7% in 2021 from 1.1% in 2020 due to excess provision maintained during the financial year **(Table 8)**.

In terms of credit quality, the aggregate gross NPLF ratio declined and stood at 0.8% in 2021. At the same time, the net NPLF ratio (net of specific provisions) also declined to -0.3% in 2021 compared to 0.2% in 2020 **(Figure 28)**.

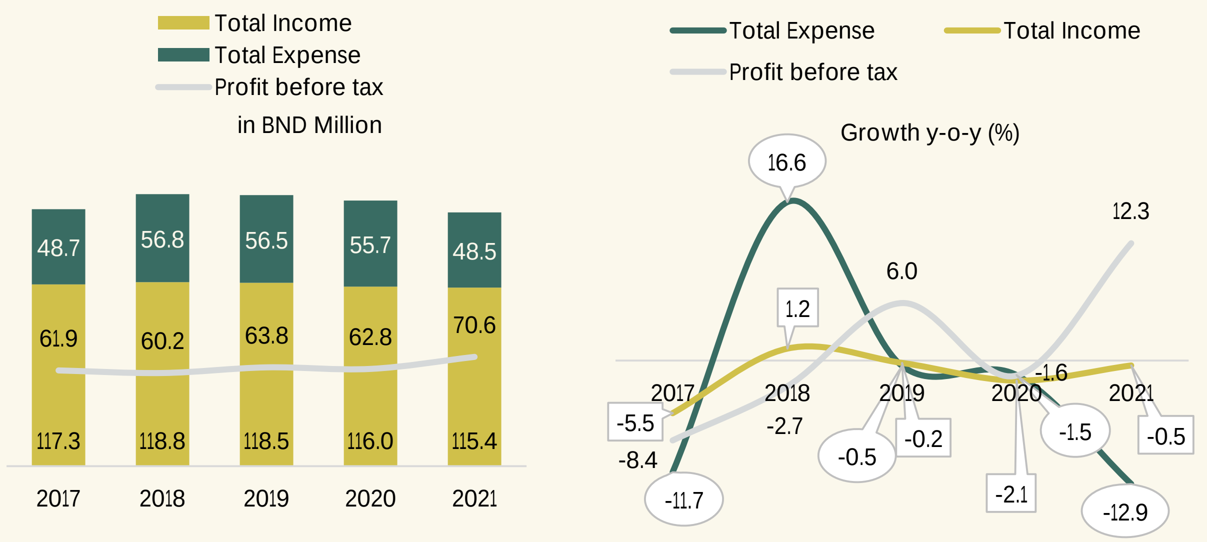
Figure 28. Trends in the Credit Quality: 2017-2021



Source: BDCB

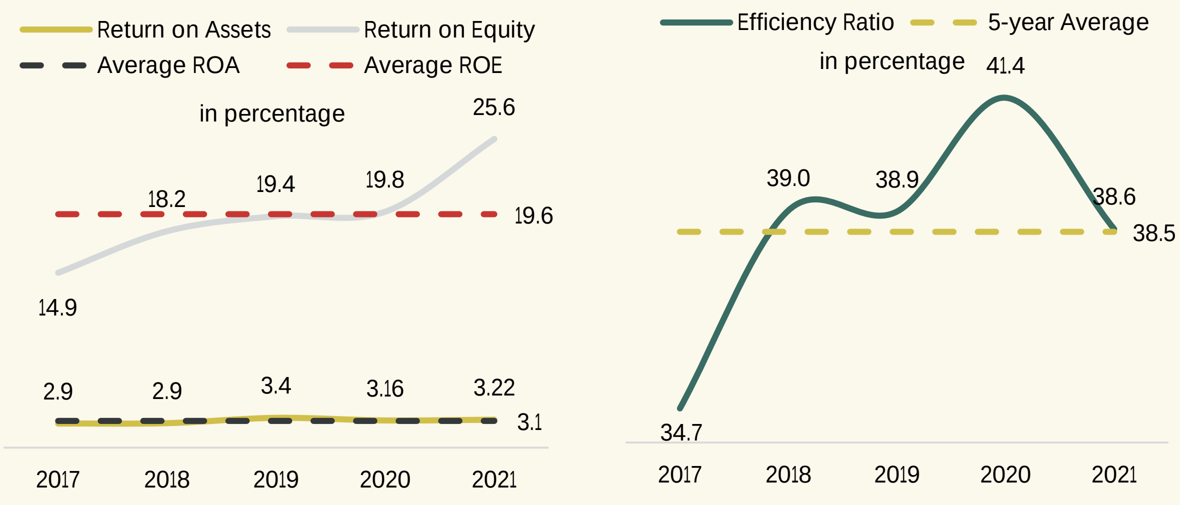
In terms of profitability, profit before tax increased by 12.3% y-o-y to BND70.6 million in 2021 mainly due to the significant decrease of interest/profit expense by 50.8% **(Figure 29)**. The ROA of finance companies slightly increased to 3.2% in 2021. The ROE of finance companies also trended upward from 19.8% in 2020 to 25.6% in 2021. Meanwhile, the efficiency of finance companies as measured by the ratio of non-interest/ profit expense to gross income improved to 38.6% **(Figure 30)**.

Figure 29. Trends and Growth in the Profitability: 2017-2021



Source: BDCB

Figure 30. Trends in Profitability Ratios: 2017-2021



Source: BDCB

In terms of liquidity, the loans/financing to deposit ratio decreased from 87.3% in 2020 to 79.1% in 2021, due to a larger increase in deposit level (7.5%) compared to a marginal increase in loans/financing (0.8%) **(Figure 25)**. The ratio of liquid assets to total assets improved from 19.6% in 2020 to 23.9% in 2021. Furthermore, the liquidity ratio as measured by the liquid assets to total deposits also improved and stood at 27.8% in 2021 **(Table 8)**.

3.2 Takaful and Insurance Sector

3.2.1 Structure of Takaful and Insurance Sector

The takaful and insurance sector in Brunei Darussalam consists of 11 companies of which five companies carry out life business and six companies carry out general business. Registered intermediaries comprise of one insurance broker and 498 agents. 239 are general takaful/insurance agents and 259 are family takaful/life insurance agents.

3.2.2 Development of the Takaful and Insurance Sector

Industry gross premiums recorded an increase of 3.1% due to the premium growth in both life (+5.1%) and general sectors (+1.9%) despite the second wave of COVID-19 since August 2021. This was mainly due to new business and renewal of commercial policies including marine, aviation and transit, engineering and properties.

The industry's margin of solvency of 53.4% in 2021 remains above the regulatory requirement of 20% of surplus over liabilities. In 2021, the industry had completed the second parallel run of Risk-Based Capital and Solvency framework for the financial year ending 2020. Recognising the volatility of the financial market in 2021, BDCB embarked on a monitoring period on the capital position of the industry for the financial year ended 2021.

Table 10 illustrates the performance of the industry from 2019 to 2021.

Table 9. Takaful and Insurance Highlights: 2017-2021					
Year	2017	2018	2019	2020	2021
	in BND million				
Assets	1,596.7	1,625.8	1,762.4	1,954.4	1,975.9
Gross Premium	296.1	294.7	291.2	300.2	309.6
Gross Claims/Benefits	144.9	126.6	145.8	161.8	106.3
Year Change	2017	2018	2019	2020	2021
	in percentage				
Assets	8.6	1.8	8.4	10.9	1.1
Gross Premium	-1.7	-0.5	-1.2	3.1	3.1
Gross Claims/Benefits	-16.8	-12.6	15.7	10.5	-34.5

Source: BDCB

Table 10. Takaful and Insurance Industry Financial Performance: 2019-2021			
Indicators	2019	2020	2021
	in BND million		
Gross Premiums/Contributions	291.2	300.2	309.6
Net Premiums	225.1	231.3	234.0
Business ceded outside Brunei	66.1	68.9	75.6
Gross reinsurance/retakaful recoveries	82.3	86.7	93.7
Net investment income	68.0	79.5	54.3
Underwriting income	44.5	33.8	102.9
Net income/(loss)	21.1	7.7	64.9
Retention ratio	77.3%	77.0%	75.6%
Return on equity (General)	13.2%	12.6%	11.9%

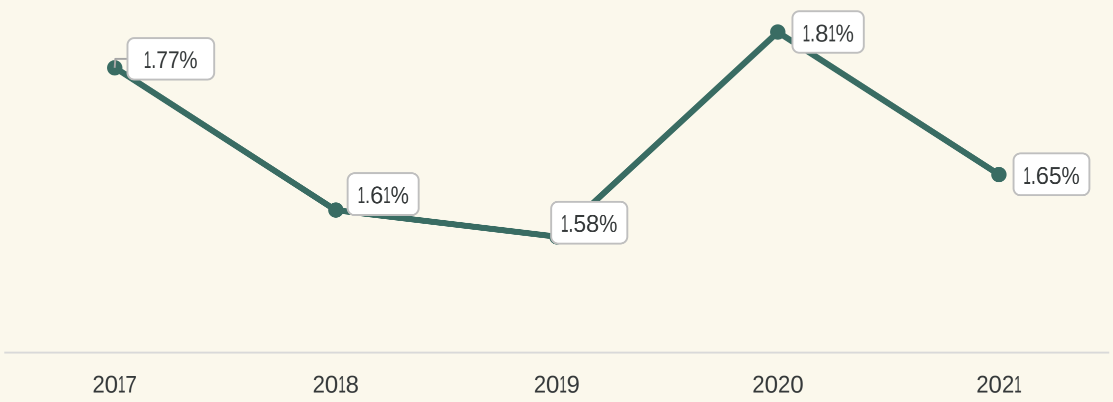
Source: BDCB

In 2021, the takaful/insurance penetration rate as a ratio of gross premiums and contributions to GDP stood at 1.65% **(Figure 31)**.

Gross premiums improved by 3.1% to BND309.6 million in 2021 compared to BND300.2 million in 2020 as both life and general sectors have shown improvements by 5.1% and 1.9% respectively **(Figure 32)**. Higher premiums ceded to reinsurers had slightly contracted the net premiums by 1.1% to BND116.5 million in 2021 compared to BND117.9 million in the previous year **(Figure 33)**.

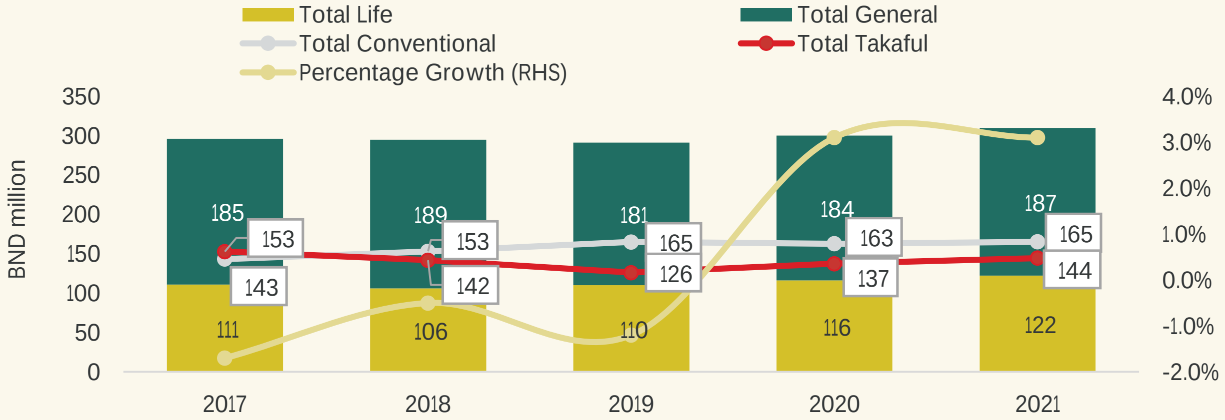
General business contributed to 49.8% of total net premiums, of which 65.2% are from motor policies; followed by workmen compensation (11.2%); property (10.2%); and other (5.2%) businesses.

Figure 31. Takaful/Insurance Penetration Rate (Current Price): 2017-2021



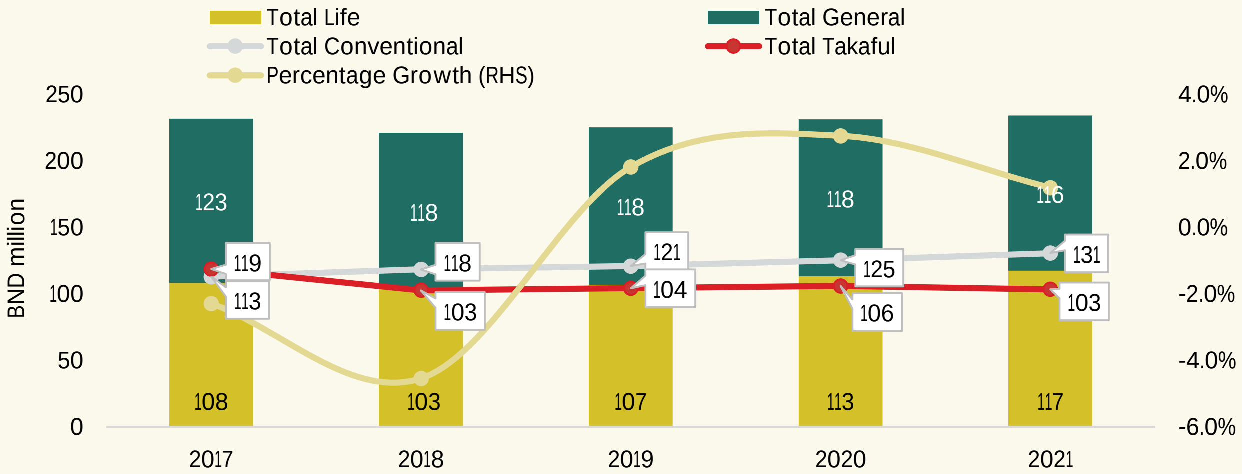
Source: BDCB

Figure 32: Total Takaful and Insurance Industry Gross Premiums: 2017-2021



Source: BDCB

Figure 33: Total Takaful and Insurance Industry Net Premiums/Contributions: 2017-2021

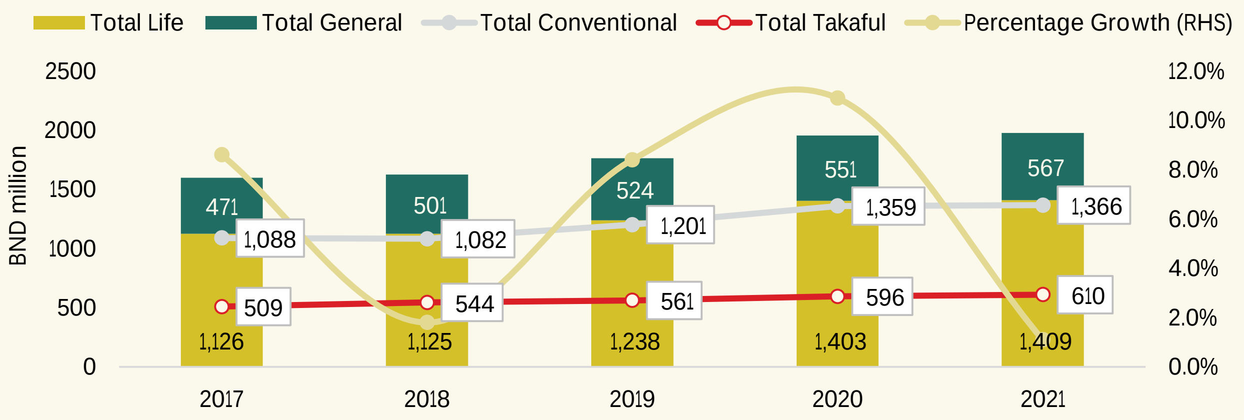


Source: BDCB

Trends in Assets

Holdings of financial assets by takaful and insurance industry grew by 1.1% to BND1.98 billion in 2021 compared to 2020 **(Figure 34)**. These asset portfolio includes investments (74.3%), cash and cash equivalent (15.2%), recoverable from reinsurers (4.8%), receivables (3.3%), and other assets (2.4%). The investment placements are in bonds and debentures (59.0%), common shares (28.4%) and short-term placements (9.6%). The majority of the investment placements are primarily held by life insurers to correspond with their longer-term liability structure (**Table 11 and Table 12**).

Figure 34: Total Takaful and Insurance Industry Assets: 2017-2021



Source: BDCB

Table 11. Cash and Investments Ratio to Total Assets: 2017-2021

Instruments	2017	2018	2019	2020	2021
	in BND million				
Cash	374.3	420.5	427.6	464.0	299.5
Investments	1,056.5	1,027.5	1,140.9	1,283.4	1,469.0
Total Assets	1,596.6	1,625.8	1,762.4	1,954.4	1,975.9
% ratio to total assets	89.6%	89.1%	89.0%	89.4%	89.5%

Source: BDCB

Table 12. Breakdown of Investments: 2017-2021

Instruments	2017	2018	2019	2020	2021
	in BND million				
Short-term investment	124.5	110.0	102.2	104.8	141.7
Bonds and debentures	588.0	617.4	675.3	724.1	866.6
Preferred shares	34.6	25.1	25.5	26.3	27.4
Common shares	310.8	283.1	322.3	401.5	417.7
Investment properties	4.1	2.8	1.5	1.4	1.1
Other loans and invested assets	5.8	0.0	14.1	30.7	14.5
Total Investments	1,067.8	1,038.4	1,140.9	1,288.9	1,469.0

Source: BDCB

General Takaful and Insurance Business Development

The overall general takaful and insurance business showed a slight increase by 1.9% in 2021 as there were mixed performances by lines of business **(Table 13)**. Out of the total of BND187.4 million of gross premiums/contributions recorded, BND70.9 million (35.9%) was ceded to both local insurers and outside Brunei Darussalam. This sub-sector has maintained on average a retention ratio of 63.8% for the past 3 years.

Table 13. Gross Premiums/Contributions for General Business: 2019-2021

Classes of General Business	2019	2020	2021	% change y-o-y
	In BND million			
Property	36.5	26.9	19.8	-26.6
Motor	89.8	89.4	85.7	-4.2
MAT	12.5	9.9	12.1	+22.5
Energy	2.2	22.4	15.7	-29.9
Engineering	1.6	3.2	9.4	+192.9
Liability	10.2	6.0	10.1	+68.4
Personal Accident	8.9	5.4	5.9	+9.8
Workmen Compensation	13.3	14.0	15.9	+13.7
Others	6.1	6.7	12.8	+91.5
Total Gross Premiums/Contributions	181.1	183.9	187.4	+1.9

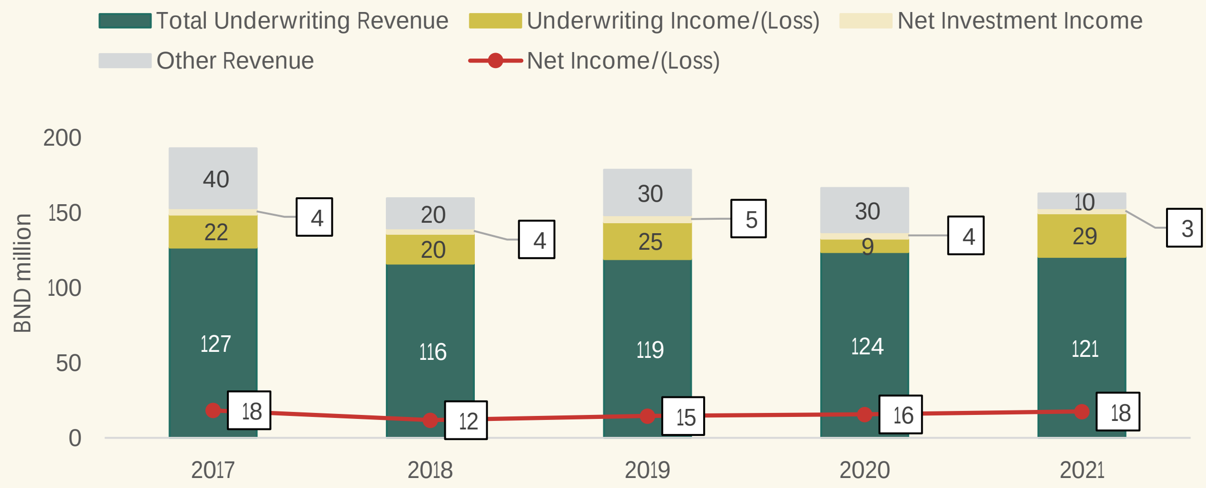
Source: BDCB

Motor takaful and insurance business recorded a decline in performance by 4.2% in 2021 to BND85.7 million as both third-party liability (-2.8%) and comprehensive (-4.7%) motor business have contracted. This is supported by the reduced number of policies for comprehensive motor business by 1.2% to 159,859 in 2021 compared to 161,813 in the previous year. On the contrary, third-party motor policies increased to 117,865 or 2.4% in 2021. Other lines of general businesses including engineering; others; liability; MAT; workmen compensation and personal accident showed positive growth as there were new businesses and renewals recorded during the year. A total of 353,011 policies/certificates were issued by the general sector in 2021 compared to 354,643 in the previous year – a minor contraction of 0.5% from 2020.

In terms of gross claims, general businesses recorded an improvement by 48.1% to BND47.0 million in 2021 compared to BND90.5 million in 2020 due to reduction in motor claims (-40.9%) and readjustment of reserves for MAT claims (-95.6%).

Additionally, the number of motor claims also experienced a 17.2% y-o-y decrease in 2021 as a result of movement restrictions during the second wave of COVID-19 in Brunei Darussalam in Q3 and Q4 2020. Thus, the general takaful and insurance sector recorded a positive growth in profitability for the financial year 2021 of +231.8% **(Figure 35)** driven by better underwriting performance.

Figure 35: Composition of Operating Profit (General Insurance/Takaful): 2017-2021



Source: BDCB

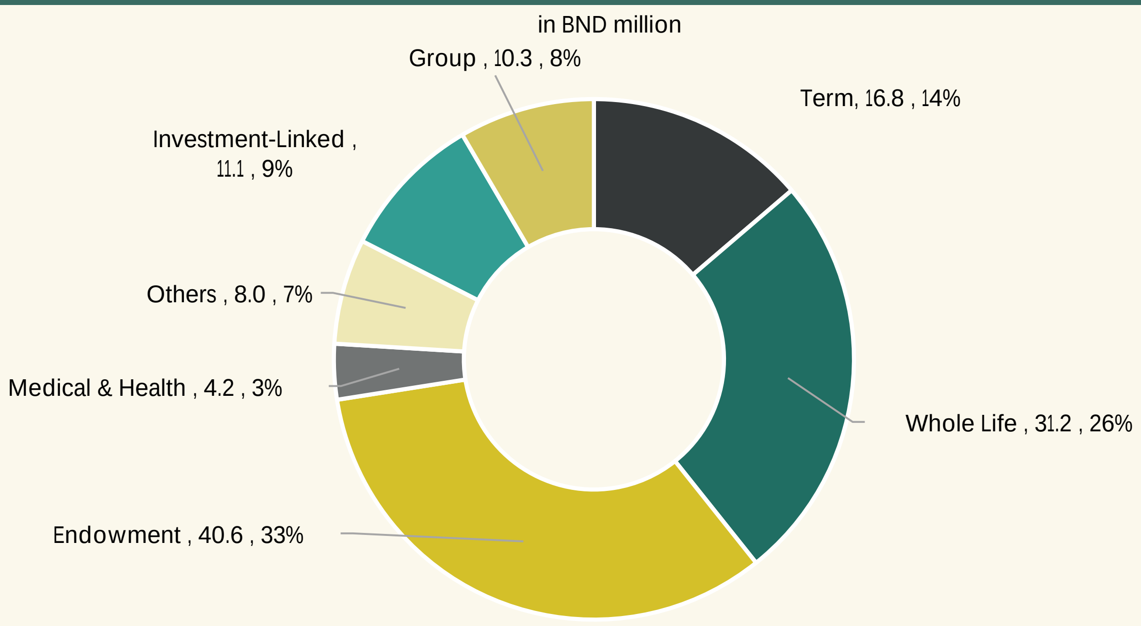
Family Takaful and Life Insurance Businesses Development

Family takaful and life insurance businesses (business in-force) grew by 5.1% due to the increase in endowment (+24.6%), others (+15.1%) and investment-linked (+13.8%) family takaful/life insurance. Post first wave of the pandemic in 2020, this sector had shown improvement in new business and renewals. Endowment business had the largest market share in the overall family takaful and life insurance businesses **(Figure 36)**.

Meanwhile, a total of 29,820 new policies for family takaful/life business were issued in 2021, a contraction by 10.1% whereas, a total of 242,784 policies were in-force in 2021, an increase by 5.1% y-o-y.

Growth of new business premiums/contributions declined by 10.1% to BND22.5 million as medical and health, group, endowment, and term business segments contracted **[Table 14]** as a result of the second wave of the pandemic.

Figure 36. Family Takaful Contributions and Life Insurance Premiums (business in-force) by Classes of Business: 2021



Source: BDCB

Table 14. Gross Premiums/Contributions for Life/Family Takaful Business – New Business: 2019-2021

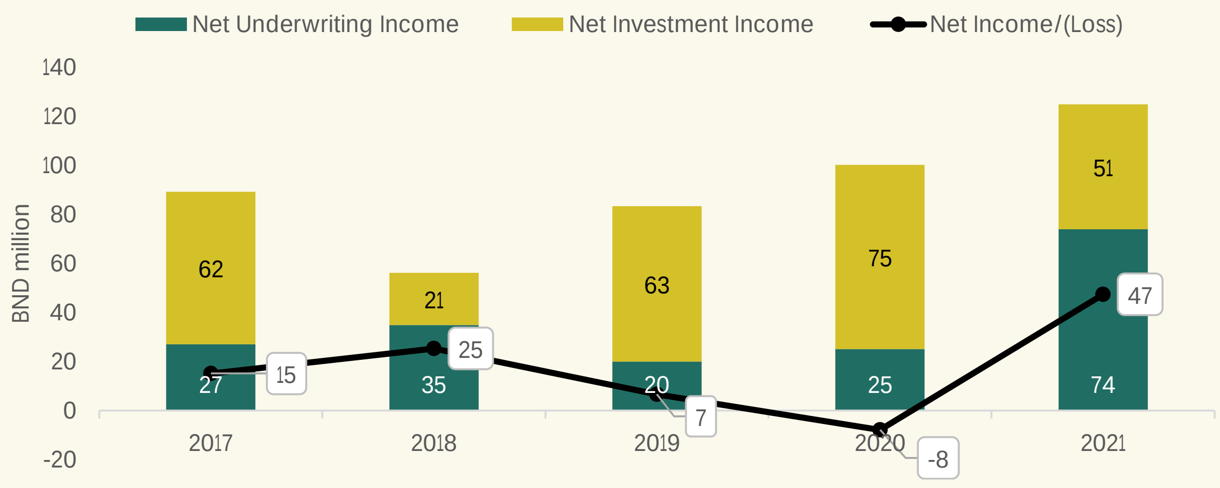
Classes of Life/Family Takaful Business	2019	2020	2021	% Change y-o-y
	In BND million			
Term	14.5	15.0	14.1	-6.4
Whole Life	0.9	0.8	0.9	+6.7
Endowment	9.5	3.6	3.4	-24.9
Medical & Health	0.6	0.3	0.2	-33.9
Others	1.0	0.2	0.8	+65.6
Investment-Linked	0.2	0.1	0.6	+790.0
Group	4.4	3.8	2.5	-32.9
Total Gross Premiums/Contributions (New Business)	31.1	23.8	22.5	-10.1

Source: BDCB

Gross claims showed improvements by 17.5% or BND59.4 million in 2021 compared to BND71.9 million in 2020. This was mainly due to the decrease in whole life (-9.5%), endowment (-18.9%), investment-linked (-33.5%) and group (-17.2%) insurance and family takaful businesses.

The overall profitability of family takaful and life insurance was higher in 2021 compared to the same period in 2020 **[Figure 37]**. This was mainly attributed by the underwriting performance primarily driven by the improvement in the technical reserves for the financial year.

Figure 37: Composition of Income and Outgo (Family Takaful/Life Insurance): 2017-2021



Note: Net Underwriting Income = Total underwriting revenue – *policyholders'* benefits and expenses
Source: BDCB

3.2.3 Assessment of Health

The health of the takaful and insurance sector is assessed by the regulatory solvency requirement as well as the loss ratio.

Table 15. Financial Soundness Indicators for Takaful and Insurance Industry: 2019-2021

Indicators	2019 (%)	2020 (%)	2021 (%)
Claims/Loss ratio (General)	42.9	44.7	37.6
Combined ratio (General)	79.3	83.4	77.6
Solvency margin ratio (≥120%)	155.0	154.0	153.0

Source: BDCB

Margin of Solvency

Insurance Order, 2006 and Takaful Order, 2008, prescribed by the respective regulations, require all insurance companies and takaful operators to maintain at least 20% more assets over liabilities. The takaful and insurance sector's fund margin of solvency in 2021 stood at 53.4% indicating strong solvency level.

Loss ratio

Loss ratio for the general takaful/insurance sector recorded at 37.6% in 2021 compared to 44.7% in the previous year) **(Table 15)**. Motor business accounted for 67.6% of total gross general claims, amounting to BND31.8 million, thus, the claims ratio for motor business stood at 41.9% vs 48.1% over the same period respectively, and remained higher than the overall general business in total.

Stress Testing

In order to assess the resilience of takaful operators and insurance companies in Brunei Darussalam, BDCB designed two stress scenarios for the takaful and insurance industry on the effects of COVID-19. The first scenario assumed a fast recovery to normalcy beginning January 2021 while the second scenario assumed a longer period of recovery where another wave occurs with the same intensity and timing as in the early stage of COVID-19 during the year 2021.

Takaful operators and insurance companies ran these stress scenarios taking into consideration the changes in the critical variables for both scenarios with additional pressures of idiosyncratic shocks and materialisation of their largest claim for the second scenario. The testing was designed to better understand how the pandemic affected business operations and strategies. The results were compiled and assessed to achieve industry-wide shocks for both life and general business.

Overall, the results had showed that despite some companies being affected by changing the critical variables, the whole industry does not pose any systemic risk to the financial system.

3.2.4 Regulatory Development

Box 2. Highlights of Regulatory Policy Development for Takaful and Insurance Sector

BDCB continuously focuses on improving the supervisory framework in accordance with the International Association of Insurance Supervisors Insurance Core Principles. In 2021, BDCB issued notice and a set of guidelines related to market conduct and consumer protection. The notice and guidelines include: -

Market Conduct and Consumer Protection

i. Notice on Roles and Responsibilities of Insurers on Insurance/Takaful Agents and Conditions of Registration for General/Life Insurance and General/Family Takaful Agents

The notice provides requirements for the conduct of insurance intermediaries, so as to conduct business in a professional and transparent manner. This notice also outlines BDCB's expectations on insurance/takaful agents' applications for registration, as well as, roles and responsibilities of insurers in relation to their agents. BDCB also revised the existing conditions of registration for both general takaful/insurance and family takaful agents/life insurance.

ii. Guidelines on Product Development and Pricing for Insurance Companies

The guidelines supplement the streamlining process of the product approval application process for insurance companies. It also states that insurers are expected to have adequate processes, controls and systems in place to assess the risks of new products and carry out risk assessments before entering into new business lines and products. Moving forward, similar guidelines will be issued for takaful operators.

3.3 Capital Market Sector

3.3.1 Structure of the Capital Market

The capital market sector in Brunei Darussalam consists of market intermediaries that are authorised to conduct one or more regulated activities under the Securities Markets Order, 2013 (SMO), and the licensed and recognised securities that are authorised to be distributed or offered in Brunei Darussalam. The licensed capital market intermediaries which comprise of investment dealers, fund managers, investment advisers and financial planners, cater to institutional and sophisticated investors, as well as retail investors, and offer both Islamic and conventional capital market services and securities. Compared to the banking and takaful/insurance sectors, the capital market sector represents a very small portion to the overall financial sector in the country.

3.3.2 Development of Capital Market Sector

The development of the stock exchange in Brunei Darussalam has been ongoing. Following the issuance of the Exposure Draft on the Listing Rules in September 2020, BDCB together with the exchange team under the Ministry of Finance and Economy (MOFE) had obtained and compiled feedback from the stakeholders. This had been useful in refining and finalising the rules and related regulations further.

The bond market in Brunei Darussalam is driven by sovereign sukuk issuances with tenors ranging from one year, three and five years . These sukuk are available to registered Primary Market Participant banks i.e. banks in Brunei Darussalam through over-the-counter arrangements. As for corporate issuances, BDCB is presently working on initiatives aimed at encouraging corporate sukuk issuances in the country.

Based on the current state of the capital market ecosystem, securities offered are mainly in the secondary market through over-the-counter arrangements with licensed investment dealers who also provide market access to foreign exchange markets, giving more options for investments particularly for retail investors. In order to mitigate any potential risk to the foreign market access, BDCB had put in place necessary regulatory measures which the licensed investment dealers must comply with.

In terms of regulatory framework, BDCB had recently developed a risk-based supervision: High Level Risk Assessment template with the aim of forming a detailed assessment of a company's overall risk according to the regulated activities undertaken. The high-level assessment also acts as a tool for the planning of onsite inspections based on the overall risk of each Capital Markets Services Licence (CMSL) holder.

In an effort to continuously support and maintain the financial stability of the sector, BDCB continues to undertake the necessary steps to assess and prepare regulatory policies and guidelines on key focus areas. This includes issuance of debentures, selling or offering of complex securities; as well as competency and capability requirements for Capital Markets Services Representative's Licence (CMSRL) holders. Stakeholder consultations for the exposure draft on Guideline on Issuance of Debentures and exposure draft on Notice and Guideline on Selling or Offering of Complex Securities were held to gather feedback from the industry and relevant stakeholders' on the proposed regulatory policies and guidelines. This is also to ensure its effective implementation once issued.

Trends with the Capital Market Sector

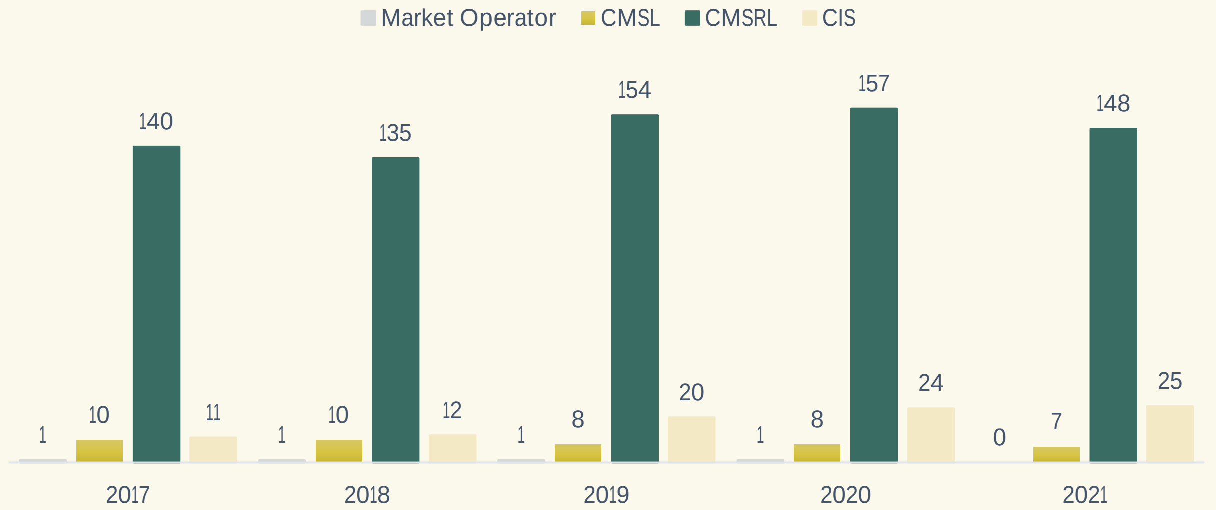
Regulated Persons

The total number of regulated persons under the SMO had slightly declined by 5.56% from 2020 to 2021 with a decrease in the total number of holders by nine and cessation of one holder, as well as one recognised market operator. Whereas, the total number of Collective Investment Schemes (CIS) increased by one (1). **Figure 38** illustrates the total number of regulated persons under the SMO in the last five years.

Assets Under Management

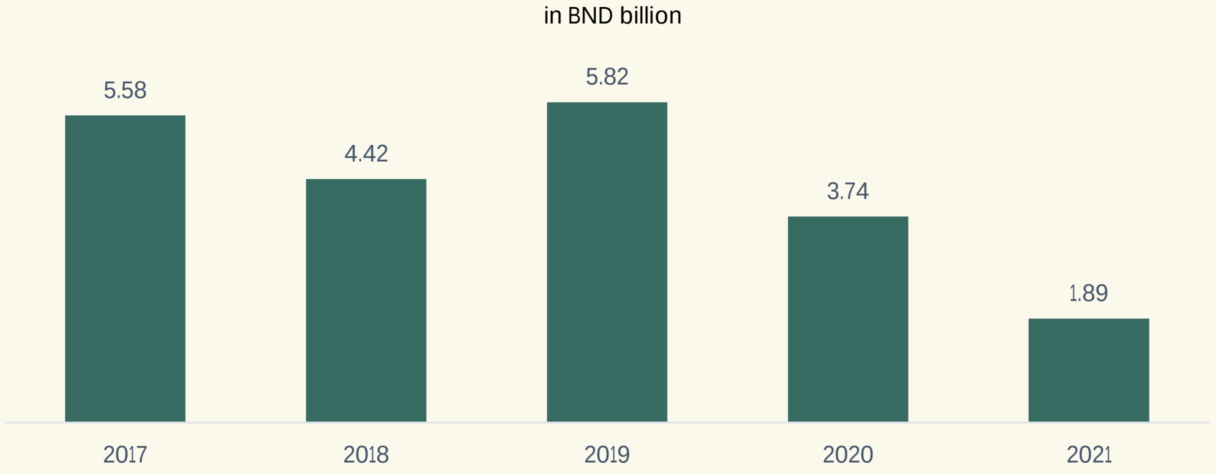
The total assets under management (AUM) managed through the CMSL holders in Brunei Darussalam as illustrated in **Figure 39**, stands at BND1.89 billion in 2021, showing a continuous decline by 49.5% y-o-y compared to 2020. This may be attributed to clients' strategic directions. A majority of the total AUM had been invested into foreign bonds and sukuk (82%) and foreign treasury bills (15%) in 2021. Whereas, the remaining had been invested into foreign equities, other foreign securities and foreign deposits – all at 1% respectively.

Figure 38: Number of Regulated Persons under SMO: 2017-2021



Note: The total number of CMSRL have been revised for 2017 to 2020 due to reporting errors.
Source: BDCB

Figure 39: Total Assets Under Management: 2017-2021



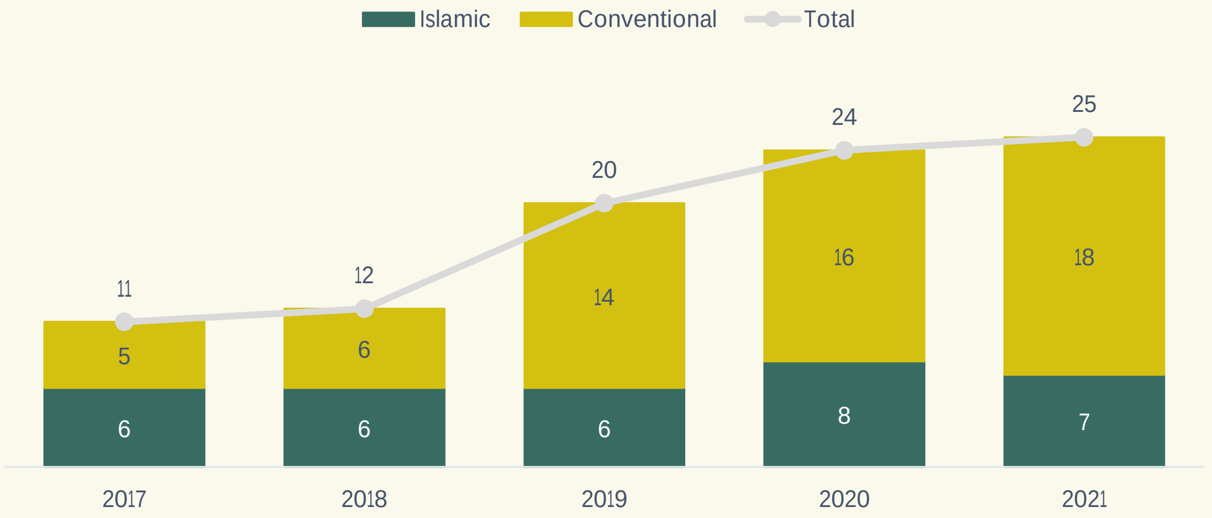
Source: BDCB

Collective Investment Schemes

Figure 40 below shows that by end of 2021, there were a total of 25 CIS offered in the Brunei Darussalam market, comprising seven publicly recognised Islamic CIS and 18 publicly recognised conventional CIS.

Throughout the year, two new CIS were recognised and one CIS was ceased under the SMO, where one of the newly recognised CIS was a sustainable fund. In total, there are 120 sub-funds offered as at end of 2021.

Figure 40: Total Number of Collective Investment Schemes: 2017-2021

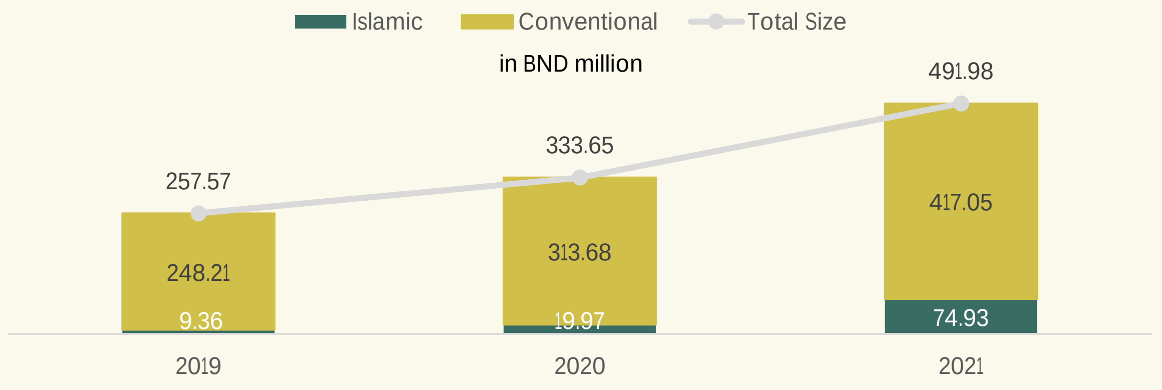


Source: BDCB

In terms of Assets under Distribution (AUD)[2] for the public CIS, the total currently being invested was BND491.98 million, of which 15% were invested in Islamic CIS and 85% in conventional. **Figure 41** shows an uptrend in total AUD by 47.5% y-o-y from 2020 to 2021. The increase in total AUD reflects an increase in investor participation.

[2]AUD represents the total amount invested into the CIS (i.e. total subscriptions minus total redemptions in the CIS)

Figure 41: Total Assets under Distribution for Public Collective Investment Schemes: 2019-2021



Source: BDCB

3.3.3 Assessment of Health of the Capital Market Sector

Industry Financials

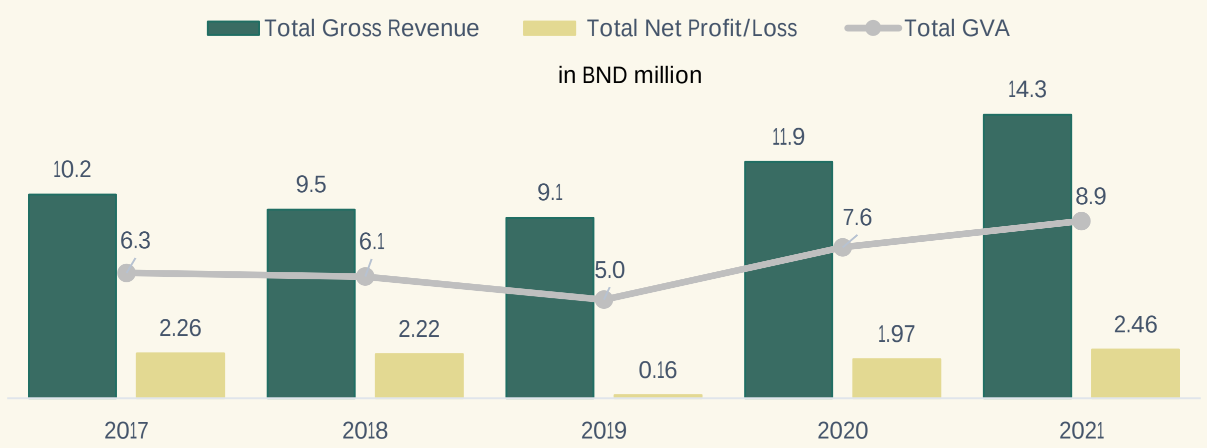
The pandemic brought about some challenges and operational disruptions to the capital market intermediaries such as their ability to effectively market and offer products and services virtually and travel restrictions limiting their ability to fulfil licensing examination requirements. However no regulatory interventions were required.

During the year, CMSL holders overall had fulfilled and maintained the minimum financial requirements according to the regulated activities they were each authorised to conduct.

The year 2021 also recorded the highest Total Revenue, Total Net Profit and Total Gross Value Added (GVA) of the CMSL holders respectively since 2017. Compared to 2020, the Total Revenue in 2021 increased by 20%; Total Net Profit by 24.9%; and Total GVA by 17.5% y-o-y, as illustrated in **Figure 42**. This is mainly contributed by the increase in securities offered and investor participation through the CMSL holders. In spite of the uncertain market conditions in 2021, it is anticipated for the financial totals to continue with the uptrend in 2022.

It should be noted that the downward trend in the total AUM reflected in **Figure 39** poses some going concern risk for existing fund management activities in the country. To this effect, BDCB is closely monitoring this risk.

Figure 42: Total Revenue, Total Net Profit and Total Gross Value Added: 2017-2021



Source: BDCB

3.4 Money-Changing and Remittance Sector

3.4.1 Structure of the Money-Changing and Remittance Sector

The money-changing and remittance sector consists of small businesses run by local entrepreneurs specialising in single business operations of either money-changing or remittance. This sector has been in existence for many years and plays a crucial role in the value chain of the tourism sector as well as in the cross-border mobility of funds particularly for foreign labourers and expatriates in the country.

At present, there are 18 licensed remittance businesses and 24 licensed money-changers, of which four are hotels. In light of the COVID-19 situation, nine of the money-changers have temporarily closed their operations.

3.4.2 Development of the Money-Changing and Remittance Sector

Money-changing sector

In 2021, the second wave of COVID-19 in Brunei Darussalam continued to severely impact the money-changing sector. The buying and selling of foreign currencies in terms of value fell significantly by 63% (BND7.3 million) and 79% (BND31.0 million) respectively **(Table 16)**.

Table 16. Total Value of Buying and Selling of Foreign Currencies for Money-Changers: 2017-2021

Year	2017	2018	2019	2020	2021	2020-2021 % Change
	in BND million					
Buying	30	29	32	12	4	-63%
Selling	118	134	170	39	8	-79%

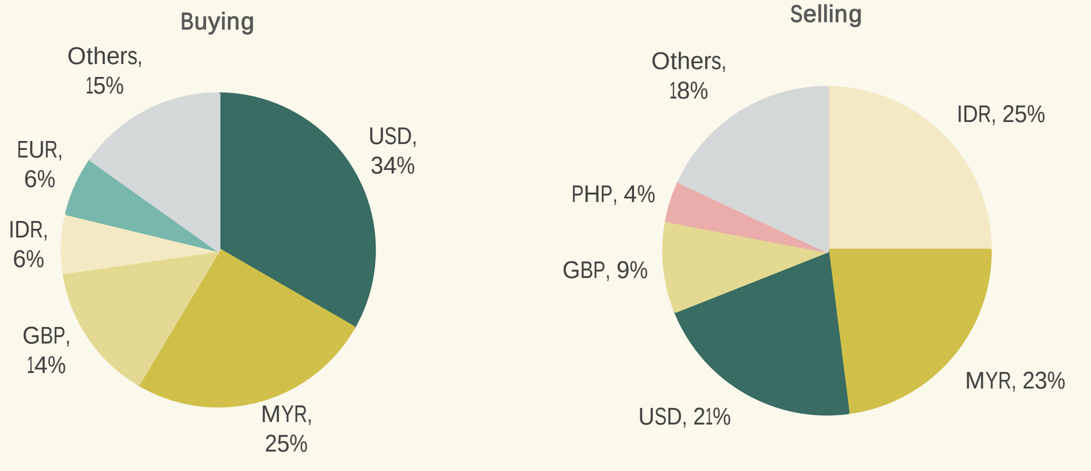
Source: BDCB

Table 17. Total Number of Transactions of Money-Changers for Buying and Selling: 2017-2021

Year	2017	2018	2019	2020	2021	2020-2021 % Change
Buying	145,074	145,084	153,179	49,753	13,386	-73%
Selling	250,588	275,586	319,320	72,764	13,078	-82%

Source: BDCB

Figure 43. Top 5 Foreign Currencies (Buying and Selling) of Money-Changers: 2021



Source: BDCB

Remittance sector

In 2021, outward remittance in terms of value and transactions grew by 22% (BND232.7 million) and 0.2% (2,803 transactions) respectively compared to 2020 **(Table 18)**.

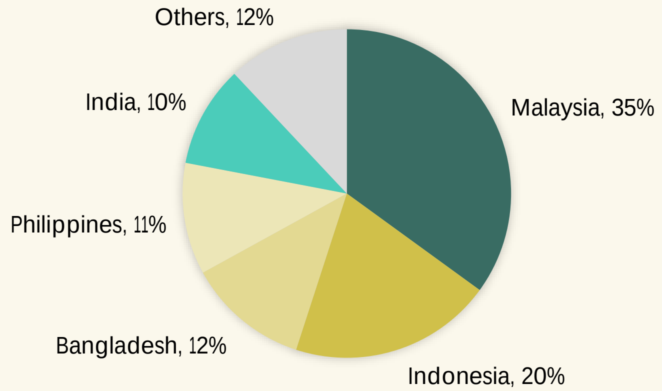
Remittances originating from Brunei Darussalam are transacted by locals as well as foreign labourers and expatriates. The top 5 remittance destinations in 2021 were Malaysia (35%); Indonesia (20%); Bangladesh (12%); Philippines (11%); and India (10%) **(Figure 44)**. The outward remittances were mainly for personal purposes which is reflective of where the foreign labourers and expatriates originate from. Meanwhile, remittance by locals are mainly for business purposes to Malaysia.

Table 18: Outward Remittance: 2017-2021

Year	2017	2018	2019	2020*	2021	2020-2021 % Change
Transaction Value (BND million)	666	724	730	1,058	1,291	22%
No. of Transactions	1,251,366	1,185,999	1,136,063	1,216,804	1,219,607	0.2%

Note: * revised
Source: BDCB

Figure 44: Top 5 Outward Remittance Destinations: 2021



Source: BDCB

3.4.3 Regulatory Development

Box 3. Highlights of Regulatory Policy Development for Money-Changing and Remittance Sector

(i) Additional temporary regulatory relief measure for money-changing business

In an effort to further lessen the financial burden of money-changing business following the second wave of COVID-19, BDCB introduced additional interim measures by amending the Notice on Temporary Regulatory Measure for Money-Changing Business for the second time where money-changing licensees who wish to defer their business operations for up to six months or such extended period as may be determined by BDCB may apply to BDCB. During the deferment period, money-changing licensees are not subjected to payment of licence fee. The Notice on Temporary Regulatory Relief Measure for Money-Changing Business (Notice No. SM/N-1/2021/1- Amendment No.2) came into effect on 21 December 2021 with a validity until 31 December 2023.

(ii) Guidelines for Remittance Collection Service

BDCB issued Guidelines for Remittance Collection Service to remittance licensees on 1 April 2021. These guidelines are intended to facilitate compliance to the licensing conditions and provide guidance in carrying on remittance collection service by setting out the standards that remittance licensees are expected to adhere to. This is to ensure that remittance collection service is carried out in a safe and secure and orderly manner.

4 Special Studies

4.1 2020 FINANCIAL INCLUSION SURVEY

BACKGROUND

What is 'financial inclusion?'

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way

- World Bank

Objective

The Financial Inclusion Survey 2020 is an initiative to measure financial inclusion in Brunei Darussalam to enable BDCB make appropriate policies

Strategic Partner

In collaboration with the Department of Economic Planning and Statistics, Ministry of Finance and Economy

METHODOLOGY

Number of questions

47 total questions

- 14 respondent details questions
- 21 core questions
- 12 supplementary questions

Types of questions asked

- Account ownership
- Saving behaviour
- Spending behaviour
- Debit and credit card ownership
- Borrowing behaviour

Sample size

3,175 households | 2,018 responded | 1,812 valid responses

- Respondents were chosen at random
- Respondents must be at the age of 15 years old and above

Mode of Interviewing	Data Collection Period	Average Interviewing Duration	Language	Indicators
Face-to-face interview via survey interviewers from the Department of Economic Planning and Statistics in line with the Labour Force Survey 2020	16th October to 15th November 2020	15 minutes	Bahasa Melayu English	89

FINDINGS: ACCOUNT OWNERSHIP

Account ownership

Account at a financial institution (% age 15+)

83.6%

The level of financial inclusion in Brunei Darussalam is relatively high, standing at 83.6%.

Accounts provide a safe way to store money and build savings for the future. Among others, they also make it convenient to pay bills, access credit, and make purchases. Owning an account is, therefore, used by international organisations as a marker of financial inclusion and developments.

16.4%

Unbanked or financially excluded (% age 15+)

Reasons for financial exclusion:

18.9%	Do not need financial services at a formal institution
9.3%	Do not have enough money to use financial institutions' products and services
5.4%	Family member has an account
4.3%	Cannot open an account
2.1%	Do not have the necessary documentation (identity card, wage slip, etc)
1.4%	Distance too far away
1.1%	Do not trust financial institutions
0.4%	Religious reasons
2.1%	Others

FINDINGS: DEPOSITING

Depositing Behaviour

Deposit in the past year

87.5%

There is a positive depositing behaviour that can be seen across different segments of the population. The survey finds out that accounts are active and depositing services are relatively accessible in Brunei Darussalam.

Depositing Frequency

Deposit in a typical month: 0 times	Deposit in a typical month: 1 or 2 times	Deposit in a typical month: 3+ times
9.8%	60.2%	11.6%

FINDINGS: WITHDRAWING

Withdrawing Behaviour

Withdrawal in the past year

82.8%

There is a high withdrawal activity among the residents in Brunei Darussalam. This also indicates there is an active account usage with good access to banking services, specifically for the purpose of withdrawal of cash and the accessibility to ATMs in Brunei Darussalam.

The finding also indicates some form of dependency in cash in the country for business activities that do not hold or utilise digital payment platforms or infrastructures.

Mode of Withdrawal

ATM	Bank teller
82.8%	13.3%

Withdrawal Frequency

Withdraw in a typical month: 0 times	Withdraw in a typical month: 1 or 2 times	Withdraw in a typical month: 3+ times
10.6%	37.3%	38.4%

FINDINGS: SAVING

Saving Behaviour

Saved any money in the past year

55.1%

The survey asked whether the respondents saved for future expenses, particularly productive types of saving purposes, such as investments in education or a business, their needs in old age or in possible emergencies.

Having an account does not equate to saving behaviour but it is a prerequisite to saving formally. The findings indicates that 55.1% of the respondents saved formally via banks or financial institutions. Only a small portion of the respondents saved semi-formally or by using a savings club or a person outside the family. This may include saving in cash at home or saving in the form of livestock, jewelry, or real estate. It may also include using investment products offered by equity and other traded markets or purchasing government securities.

Saving Channel

Financial institution	Savings club or a person outside the family
42.0%	3.4%

Saving Purpose

Old age	Education or school fees	Start, operate, or expand a farm or business
35.8%	9.2%	5.0%

IMPORTANT NOTE:
All the stated percentage on the findings is out of the total valid sample size representing an independent financial inclusion indicator

FINDINGS: EMERGENCY FUND

Building an Emergency Fund

Coming up with emergency funds: Very possible	Coming up with emergency funds: Somewhat possible	Coming up with emergency funds: Not very possible	Coming up with emergency funds: Not at all possible
20.3%	21.5%	18.8%	33.0%

Source of Emergency Fund

Saving	Family or friends	Work or loan from employer	Financial institution or credit card	Others	Private informal lenders
75.3%	30.2%	15.2%	8.3%	2.0%	0.5%

The survey also measures financial resilience whether respondents are better able to manage financial risk and cushion themselves against financial shocks or emergencies. One key finding is that lower income brackets in the country expressed their challenge in developing an emergency fund. This may be due to the individual's capacity to set up an emergency fund, their situational factor, awareness and overall perception on its importance.

Savings in any form that can be readily accessed can help people handle emergencies. But saving in non or semi-formal ways—such as through a savings club and family or friends—may mean that the savings will not be readily available in the event of an emergency. It is important to note that saving money at a bank or another type of financial institution offers potential advantages. One is safety from potential theft or fraudulent activity. Additionally, formal saving can help curb impulse spending and, therefore, encourage better cash management, ensuring that money is available in an emergency.

Financial Tip:

The thumb rule to set an emergency fund is 3 to 6 months of your monthly expenses.

FINDINGS: PAYMENT FOR RECEIVING WAGES

Payment Approach for Receiving Wages

Received wages in the past year

62.6%

Those who are active in the labour force is normally banked with the financial institutions and as such, receive their wages typically through their respective bank account. As the use of digital payments is also on the rise, the survey took into consideration of alternative payments medium, such as mobile phone and whether respondents leveraged this platform.

The survey also found that there is lack of inclusiveness, in terms of payments services, for temporary residents, i.e. foreign workers with low income brackets.

Payments Medium for Receiving Wages

An account at a financial institution	Cash	Mobile phone
77.2%	23.5%	1.1%

Note:

Payment approach through mobile phones refers specifically to the use of both banking and digital mobile wallet application which allows you to make or initiate payment(s) and/or transaction(s). Available e-wallets in Brunei Darussalam are ProgresifPay and DSTPay.

IMPORTANT NOTE:
All the stated percentage on the findings is out of the total valid sample size representing an independent financial inclusion indicator

FINDINGS: PAYMENT FOR UTILITY BILLS

Payment Approach for Utility Bills

Paid utility bills in the past year

62.1%

Reliance on cash as a means of payments is still high, notwithstanding the available payment platforms for utilities through banking mobile applications, internet or phone banking. Only a few respondents reported to have leveraged the readily available digital payment platforms for their utilities.

Digital technology could offer an alternative to cash for utility payments, and improvements in the use of digital platforms corresponds greatly to future inclusion level.

Payments Medium for Utility Bills

Cash	Mobile phone	An account at a financial institution
87.1%	18.7%	7.0%

Note:

Utility bills refer to regular payments for water, electricity, phone expenses, internet and trash collection.

FINDINGS: PAYMENT FOR SCHOOL FEES

Payment Approach for School Fees

Paid school fees in the past year

20.6%

Cash payment also remains to be a dominant approach to pay for school fees among residents in Brunei Darussalam.

Improving accessibility and infrastructure for digital payment platform services can help pave more options and convenience to parents, as well as promotes inclusion level in the country.

Payments Medium for School Fees

Cash	Mobile phone	An account at a financial institution
88.8%	4.3%	2.9%

FINDINGS: DEBIT AND CREDIT CARD

Debit Card

Debit card ownership	Debit card in own name	Debit card used in the past year
73.1%	61.1%	40.0%

Credit Card

Credit card ownership	Credit card used in the past year
26.5%	19.9%

As debit and credit cards used at point-of-sale terminals begin to gradually dominate the digital payments landscape, there is a modest increase in the debit and credit card usage in the country. This is to reflect debit card ownership that is relatively parallel with respondents' account ownership at the banking institutions.

The survey also found that there is a general disinclination towards credit card ownership across all demographic. This may be due to the individual's capacity related to Total Debt Service Ratio (TDSR), perception or concerns towards the higher interest rate and possible compounding interest that credit cards give in the event of default.

IMPORTANT NOTE:
All the stated percentage on the findings is out of the total valid sample size representing an independent financial inclusion indicator

CHALLENGES

Economic situation

COVID-19 may potentially impact saving, borrowing and spending patterns of the individuals.

Financial literacy level

The respondents' level of financial literacy, i.e. knowledge, attitude and behaviour towards financial management can shape the findings of the survey.

WAY FORWARD

Continuous financial education initiatives

To continuously conduct financial education initiatives on the following topics:

- Importance of active saving
- Setting emergency fund
- Digital payments
- Other general financial planning topics

Spurring financial developments

To encourage the financial institutions or prospect innovators to support and spur more developments in respective financial products, particularly on savings products, digital payments etc.

Developments can also be supported by, not limited to, the following initiatives:

- FinTech Regulatory Sandbox
- Digital Payments Roadmap initiatives
- Financial Sector Blueprint (2016-2025)

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Box 4.2 Leveraging on Technology in Takaful/Insurance Distribution Channel, Consumer Protection and Technology Risk

Evolution

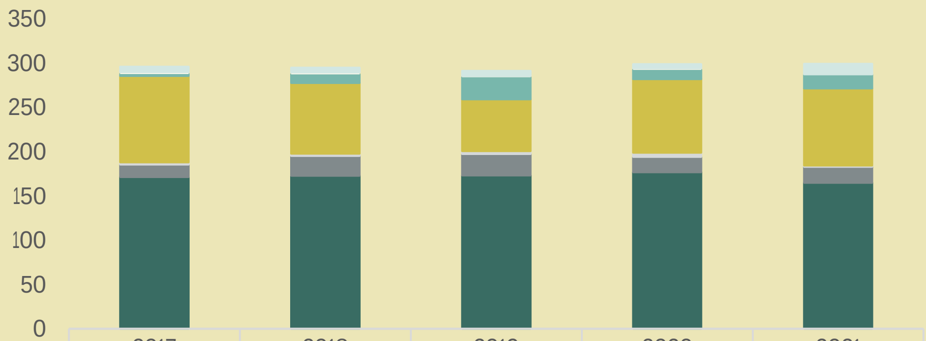
For the past decades, takaful/insurance products relied heavily on distribution by agency forces. Other forms of distribution channels, including direct and bancassurance, also have their fair shares of the pie. To date, the number of agents has fluctuated with the implementation of requirements for registration of general and life takaful/insurance agents in 2014 and 2019 **[Table 19]**.

Table 19: Number of Takaful/Insurance Agents

	2019	2020	2021
General Takaful / Insurance Agents:	241	240	239
Individual	223	220	219
Corporate	18	20	20
Life Takaful / Insurance Agents:	286	315	259
Individual	285	314	258
Corporate	1	1	1

Source: BDCB

Figure 45: Total Gross Premiums and Contribution Market Share by Distribution Channel: 2017-2021



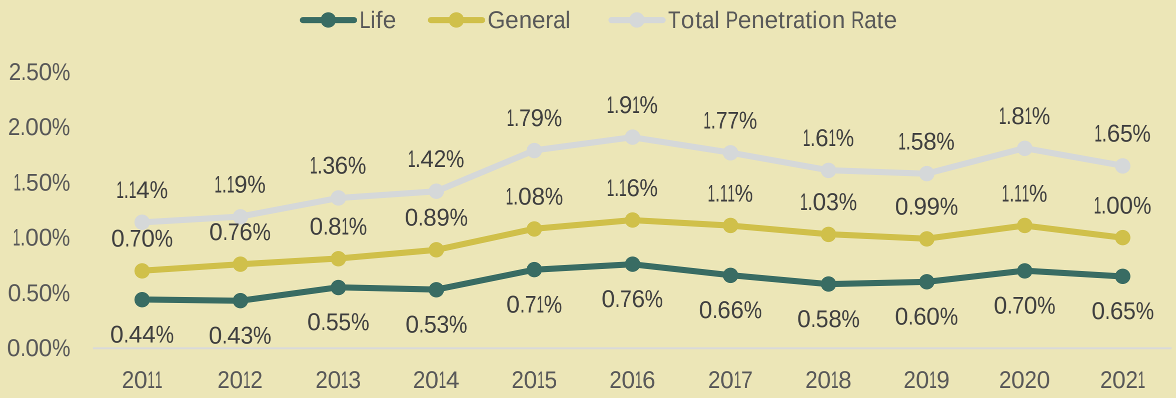
	2017	2018	2019	2020	2021
Others	6	5	6	4	12
Reinsurance Assumed	2	2	2	2	1
Fronting	2	10	25	10	15
Direct	98	80	58	83	87
Broker	2	3	3	5	1
Bancassurance	14	22	24	17	18
Agents	171	173	173	176	165

Source: BDCB

Figure 45 shows that the main distribution channel for products is through agents, followed by direct sales channel which include sales via digital channels. Thus, with technological advancements and continuous awareness from takaful operators/insurers to leverage digital platforms, the numbers for direct distribution channel are expected to grow steadily speed in the coming years. Takaful operators/insurers' continuous promotion and campaigns when purchasing through digital channels have also contributed to the increase through direct sale channel.

Zooming into the insurance and takaful penetration rate shown in **Figure 46**, the rate has been increasing for the past 10 years i.e. increased at 1.65% in 2021 compared to 1.14% in 2011. The increase in gross premiums in 2021 y-o-y has led to an increase in the penetration rate, driven by selling via agents and through direct sales channel.

Figure 46: Takaful/Insurance Penetration: 2011-2021



Source: BDCB

Pillar II of the Financial Sector Blueprint 2016 – 2025 highly encourage the industry to tap into new online distribution channels and interfaces with customers. Since 2019, Brunei Darussalam has seen the launch of newly emerged takaful apps to provide solutions for participants and ease accessibility product information. COVID-19 has accelerated innovation in the way that people do business and receive financial services. For example, policyholders have been able to get takaful/insurance policy quotations and coverage in the comfort of their own homes while movement restrictions were in place. Starting off with a few common products, the mobile applications have progressively been offering a wider variety of products. Other takaful operators/insurers who do not have such mobile applications have utilised other common online platforms for policyholders to enquire, seek quotation and purchase insurance policy/takaful certificates.

Even for a small nation, we might see the future of distribution heading towards technology.

Consumer Protection

While embracing transformation in the local Takaful/Insurance market to drive the industry's growth, there needs to be a balance struck between the advancement of technology and consumer protection. With the high internet penetration rate in the region, it is indeed an advantage for the industry to move ahead with digital transformation.

As a starting point in balancing the growth of the financial sector and consumer protection, BDCB introduced Guidelines on Online Distribution for Insurance and Takaful in 2020. This guideline provides the expectations for insurance companies, takaful operators and intermediaries when conducting takaful/insurance-related transactions online. Under this framework, supervisors will look into several factors when assessing the online takaful/insurance activities. These factors include, but not limited to the products and services offered online, handling of queries, complaints and claims, risk management and internal controls, and security arrangements.

Technology Risk Management

Although the advancement of technology may be fast-paced and exciting, it goes without saying that there are technology risks to be mindful of. Sensitive customer data is at risk of being expose to or misused by external parties if not properly secured. In turn, customers may lose trust in takaful operators and insurance companies. The ever-changing pace of the adaptation of technology may be too fast for takaful operators/insurers in less technologically-advanced countries. Moreover, certain takaful and insurance industries may not be adept or sufficiently equipped to regulate technological advancements. As the purchasing of takaful/insurance is done online, there also lies a risk of customers misinterpreting what they read on the screen without human assistance.

With the emerging technology risks, BDCB established the Technology Risk Supervision division in October 2017 tasked to specifically look into technology risks as an enhancement to the risk-based supervision framework for financial institutions.

In fulfilling BDCB's mandate to preserve financial stability, BDCB continues to collaborate with the industry in managing technology risk. Having completed industry consultation in 2021, BDCB issued the following guidelines to enhance risk management practices amongst industry players:

- Guidelines on Technology Risk Management for Financial Institutions – which aims to provide guidance to financial institutions in managing risks associated with the use of IT and digital financial services based on industry best practices and internationally recognised standards.

- Guidelines on IT Third Party Risk Management for Financial Institutions – which encourages financial institutions to perform due diligence on third party and risk assessment on the engagement, promote effective governance on the financial institutions relating to supervision on the third party; deploy IT controls to protect sensitive information and recommend business continuity and exit strategy relating to third-party issue are established.

In cognizant of the risk of anti-money laundering and combating the financing of terrorism, BDCB plans to provide policy documents on measures for non-face-to-face customer onboarding and ongoing customer due diligence. It is crucial to ensure that financial institutions have secure and robust systems with technology in place to withstand any form of cyber-attacks (which third parties may exploit to conduct fraudulent activities).

Looking Ahead

It is evident that there are many benefits of digitalisation. Various takaful operators/insurers around the world have begun incorporating robo-advisors in their day-to-day business. This reduces the need for a large physical workforce and human interactions as services can be provided online, seamlessly. Customers can expect instant assistance while chatting with online chatbots compared to calling a customer service hotline which would usually result in long waiting time to connect with a human agent. Technological advancements would also help to shorten processing times for online purchases.

The use of artificial intelligence and big data simplifies the way customer information is gathered, as well as to detect or learn about their individual needs. In addition, the use of technology would welcome more simplified product designs, making takaful/insurance more affordable and accessible to the underserved segments. With respect to improving customer satisfaction, technological advancements such as the use of support tools and analytics, would help to up-skill and equip intermediaries as they would be able to work in a more concise manner – for example, when searching for the most suitable product for their customer.

With proper investments and consumer protection, as well as appropriate risk management tools, an eye-opening journey ahead is anticipated for the takaful/insurance industry while watching the evolution of technology unfold.

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Annex

Aggregated Banks' Balance Sheet: 2017-2021

Total Assets	2017	% of total	% change	2018	% of total	% change	2019	% of total	% change
Cash and Bank Balances	2,207	12.6	-11.5	1,966	10.7	-10.9	2,722	14.5	+38.5
Placement with banks	7,684	43.9	-1.3	8,413	45.9	+9.5	7,586	40.4	-9.8
Investments	2,210	12.6	+9.6	2,199	12.0	-0.5	2,115	11.3	-3.8
Loans/Financing (Net)	4,940	28.3	-5.1	5,273	28.8	+6.7	5,711	30.4	+8.3
Other Assets	442	2.5	-2.9	480	2.6	+8.5	626	3.3	+30.4
Total Assets	17,484	100.0	-2.6	18,331	100.0	+4.8	18,759	100.0	+2.3
Total Liabilities	**2017**	**% of total**	**% change**	**2018**	**% of total**	**% change**	**2019**	**% of total**	**% change**
Deposits	14,859	85.0	-1.6	15,331	83.6	+3.2	15,831	84.4	+3.3
Borrowing and Other Liabilities	699	4.0	+26.9	972	5.3	+39.1	736	3.9	-24.3
Capital Funds	1,927	11.0	-16.5	2,028	11.1	+5.3	2,192	11.7	+8.1
Total Liabilities	17,484	100.0	-2.6	18,331	100.0	+4.8	18,759	100.0	+2.3

Total Assets	2020	% of total	% change	2021	% of total	% change
Cash and Bank Balances	2,381	13.0	-12.5	3,255	16.8	+36.7
Placement with banks	6,778	37.0	-10.6	6,239	32.2	-8.0
Investments	2,958	16.2	+39.9	3,477	18.0	+17.6
Loans/Financing (Net)	5,662	30.9	-0.9	5,951	30.7	+5.1
Other Assets	523	2.9	-16.4	440	2.3	-15.9
Total Assets	18,303	100.0	-2.4	19,362	100.0	+5.8
Total Liabilities	**2020**	**% of total**	**% change**	**2021**	**% of total**	**% change**
Deposits	14,662	80.1	-7.4	16,300	84.2	+11.2
Borrowing and Other Liabilities	1,327	7.3	+80.4	702	3.6	-47.1
Capital Funds	2,313	12.6	+5.5	2,360	12.2	+2.0
Total Liabilities	18,303	100.0	-2.4	19,362	100.0	+5.8

Note: Figures are in BND million, unless otherwise stated.
Source: BDCB

Aggregated Banks' Income and Expense Statement: 2017-2021

	2017	% of total average assets	% change	2018	% of total average assets	% change	2019	% of total average assets	% change
Total Income	663	3.9%	+2.7	649	3.8%	-2.1	707	4.1%	+9.1
Total Expenses	378	2.2%	-0.4	366	2.1%	-3.3	394	2.3%	+7.6
Profit before tax	230	1.3%	+31.2	260	1.5%	+13.4	310	1.8%	+19.1
Profit after tax	198	1.2%	+35.9	219	1.3%	+10.9	268	1.6%	+22.0

	2020	% of total average assets	% change	2021	% of total average assets	% change
Total Income	614	3.4%	-13.2	569	3.1%	-7.3
Total Expenses	347	1.9%	-11.8	329	1.8%	-5.2
Profit before tax	272	1.5%	-12.3	238	1.3%	-12.5
Profit after tax	236	1.3%	-11.9	201	1.1%	-14.8

Note: Figures are in BND million, unless otherwise stated.
Source: BDCB

Aggregated Finance Companies' Balance Sheet: 2017-2021

Total Assets	2017	% of total	% change	2018	% of total	% change	2019	% of total	% change
Cash and cash equivalents	188	9.0	+8.5	168	8.4	-10.8	164	8.5	-2.2
Placements	316	15.1	+43.7	264	13.2	-16.6	208	10.8	-21.1
Investments	2	0.1	0.0	-	-	0.0	-	-	0.0
Loans/Financing (Net)	1,540	73.7	-6.6	1,522	76.3	-1.2	1,508	78.7	-0.9
Other Assets	44	2.1	+1.8	40	2.0	-8.8	37	2.0	-7.3
Total Assets	2,090	100.0	+0.03	1,993	100.0	-4.6	1,917	100.0	-3.8
Total Liabilities	**2017**	**% of total**	**% change**	**2018**	**% of total**	**% change**	**2019**	**% of total**	**% change**
Deposits	1,767	84.6	+9.0	1,658	83.2	-6.2	1,572	82.0	-5.2
Borrowing and Other Liabilities	55	2.6	-19.1	85	4.3	+54.0	92	4.8	+8.1
Capital Funds	267	12.8	-33.0	250	12.5	-6.5	254	13.2	+1.6
Total Liabilities	2,090	100.0	+0.03	1,993	100.0	-4.6	1,917	100.0	-3.8

Total Assets	2020	% of total	% change	2021	% of total	% change
Cash and cash equivalents	155	7.4	-5.6	162	7.3%	+4.9
Placements	355	17.0	+71.0	477	21.3%	+34.1
Investments	-	-	0.0	-	-	0.0
Loans/Financing (Net)	1,534	73.6	+1.7	1,546	69.2%	+0.8
Other Assets	41	2.0	+10.2	49	2.2%	+19.1
Total Assets	2,085	100.0	+8.7	2,234	100.0	+7.1
Total Liabilities	**2020**	**% of total**	**% change**	**2021**	**% of total**	**% change**
Deposits	1,784	85.6	+13.5	1,916	85.8	+7.4
Borrowing and Other Liabilities	-	-	0.0	50	2.3	0.0
Capital Funds	247	11.9	-2.5	267	11.9	+7.9
Total Liabilities	2,085	100.0	+8.7	2,234	100.0	+7.1

Note: Figures are in BND million, unless otherwise stated.
Source: BDCB

Aggregated Finance Companies' Income and Expense Statement: 2017-2021

	2017	% of Average Assets	% change	2018	% of Average Assets	% change	2019	% of Average Assets	% change
Total Income	117.3	5.5	-5.5	118.8	17.7	+1.2	118.5	6.3	-0.2
Total Expense	48.7	2.3	-11.7	56.8	8.5	+16.6	56.5	3.0	-0.5
Profit before Tax	61.9	2.9	-8.4	60.2	9.0	-2.7	63.8	3.4	+6.0
Profit after Tax	50.9	2.4	-7.6	49.2	7.4	-3.2	52.1	2.8	+5.8

	2020	% of Average Assets	% change	2021	% of Average Assets	% change
Total Income	116.0	5.8	-2.1	115.4	5.3	-0.5
Total Expense	55.6	2.8	-1.6	48.5	2.2	-12.9
Profit before Tax	62.9	3.2	-1.5	70.6	3.2	+12.3
Profit after Tax	57.8	2.9	+10.8	65.1	3.0	+28.1

Note: Figures are in BND million, unless otherwise stated.
Source: BDCB

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