بروني دارالسلام سنترال بڠك
BRUNEI DARUSSALAM CENTRAL BANK

2023

Financial Stability Report

Information published in this report is based on audited data as of December 2023 for banking and finance companies sector only.

All data sources for the figures and tables are from BDCB, unless stated otherwise.

Contents

Abbreviations

AI	Artificial Intelligence
AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN	Association of Southeast Asian Nations
AUD	Assets Under Distribution
AUM	Assets Under Management
BDCB	Brunei Darussalam Central Bank
BIBD	Bank Islam Brunei Darussalam
BILIF	Brunei Institute of Leadership & Islamic Finance
BIS	Bank for International Settlements
BLRT	BDCB Licensing & Regulatory Transactions
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
CPI	Consumer Price Index
CPD	Continuous Professional Development
CSS	Centralised Statistical System
DEPS	Department of Economic Planning and Statistics
eKYC	Electronic Know Your Customer
FCY	foreign currency
FDI	foreign direct investment
FI	financial institution
GDP	Gross Domestic Product
GVA	Gross Value Added
ICM	Islamic capital market
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
LNG	Liquefied natural gas
MAT	Marine, Aviation and Transit
MOFE	Ministry of Finance and Economy
ndpx	National Digital Payment Network
NFC	Near Field Communications
NPLF	Non-Performing Loans/Financing
RBCS	Risk-based Capital and Solvency
ROA	Return on Assets
ROE	Return on Equity
RPPI	Residential Property Price Index
RSI	Retail Sales Index
SGD	Singapore Dollar
SMO	Securities Markets Order, 2013
S$NEER	Singapore dollar nominal effective exchange rate
toz	troy ounce
UAE	United Arab Emirates
USD	United States Dollar
WEO	World Economic Outlook
y-o-y	year-on-year

List of Figures, Tables and Boxes

Tables

Figures

Boxes

Foreword
By the Managing Director

بسم الله الرحمن الرحيم
السلام عليكم ورحمة الله وبركاته

The global economic environment has undergone considerable challenges and transformation. In 2023, the world faced a mix of opportunities and difficulties. According to the International Monetary Fund (IMF), the projection for global economic growth at 3.1%, is at its lowest point in decades. Nonetheless, inflation worldwide is expected to decrease gradually, from 6.8% in 2023 to 5.9% in 2024 and further to 4.5% in 2025. These complex and evolving circumstances underscore the need for continued vigilance and adaptability in the financial sector.

Throughout the past year, the Central Bank has introduced a range of initiatives aimed at reinforcing stability, enhancing risk management, and bolstering economic recovery. These measures have been instrumental in preserving the resilience of our financial sector. This would not be possible without the collaborative efforts of our esteemed stakeholders.

The world is ever-changing, with emerging issues such as the advent of Artificial Intelligence, the prevalence of Virtual Assets, and the continued emphasis on sustainability, to name a few. These issues will undoubtedly have a significant bearing on financial stability. Therefore, it is of utmost importance that we acknowledge the associated opportunities and risks, as well as undertake preemptive measures to safeguarding financial stability.

In recognising the risks that come with Artificial Intelligence and Virtual Assets, we will delve deeper into special studies on these topics. Regarding the Central Bank's continuous effort to support the development and operation of efficient payment systems, I am pleased to share that this report provides updates on the payment services landscape in Brunei Darussalam.

In 2023, the banking sector recorded encouraging performance due to growth in loans and financing as well as their profitability. As the banking sector does not operate in isolation, the health of non-bank financial institutions is also assessed with particular focus on the household and business sectors. Additionally, the report examines the Residential Property Price Index (RPPI) compiled and published by the Central Bank and its role within the context of financial stability.

As we confront these challenges, the Central Bank remains steadfast in its dedication to ensuring financial stability through effective regulation, oversight, and risk mitigation. We must continue to enhance our ability to address emerging threats, capitalise on technological advancements, and cultivate an inclusive and robust financial system.

I would like to express my appreciation to the employees of the Central Bank who have dedicated time and effort to preparing this report. My sincere thanks to our stakeholders for their cooperation and unwavering support. Through collaboration and adopting a forward-thinking approach, we can strengthen our financial system, support sustainable economic growth, and ensure the well-being of our society.

Hajah Rokiah binti Haji Badar
Managing Director

Key Highlights

Major International Risks

Although the global economy is recovering, various factors continue to pose challenges to the economic environment.

Volatile oil prices

Global supply disruption

Geopolitical tension

Domestic Economic Performance

Brunei Darussalam's economy saw a moderate increase in 2023 largely due to the increase recorded in the non-oil and gas sector.

1.4%
Overall Growth

-2.0%
Oil and Gas Sector Growth

4.5%
Non-oil and Gas Sector Growth

Structure of the Financial System in Brunei Darussalam

Total financial system assets decreased by 2.4% from BND24.5 billion to BND23.9 billion.

Financial Institutions Regulated by the Central Bank	2023		
	No. of Financial Institutions	Amount (BND billion)	Share of Total Assets %
Deposit-taking institutions	**10**	**21.9**	**91.6**
Banks including Perbadanan TAIB	8	19.8	82.8
Conventional	6	7.6	31.7
Islamic	2	12.2	51.1
Finance Companies	2	2.1	8.7
Other Licensed Financial Institutions	**11**	**2.0**	**8.4**
Insurance Companies & Takaful	11	2.0	8.5
Conventional	7	1.4	5.7
Takaful	4	0.7	2.8
Total	**21**	**23.9**	**100**

Sector	Total Assets (BND Billion)		Growth (%)
	2022	2023	
Banking	20.7	19.8	-4.1
Finance Companies	2.0	2.1	4.6
Takaful and Insurance	1.9	2.0	7.9
Total	**24.6**	**23.9**	**-2.5**

Key Highlights

Financial institutions continued to be well-capitalised and performed better in 2023, bolstered by the high interest rate environment and encouraging macroeconomic environment.

Banks remained resilient and well-capitalised with improving credit quality.

21.4%	43.7%	2.6%	13.7%	$0.59b
Regulatory Capital to RWA (2022: 20.9%)	**Loans/Financing to Deposit Ratio** (2022: 36.5%)	**Non-performing Loans/Financing Ratio** (2022: 3.3%)	**ROE (After tax)** (2022: 9.3%)	**GVA** (2022: $0.40b)

Finance companies remained well-capitalised with stable credit quality.

13.9%	95.1%	0.5%	11.2%	$0.06b
Regulatory Capital to RWA (2022: 14.0%)	**Loans/Financing to Deposit Ratio** (2022: 94.4%)	**Non-Performing Loans/Financing Ratio** (2022: 0.4%)	**ROE (After Tax)** (2022: 23.1%)	**GVA** (2022: $0.08b)

Takaful/insurance companies maintained strong solvency and experienced a significant increase in profitability levels in 2023.

1.67%	154.0%	50.1%	92.4%	$0.10b
Insurance Penetration (2022: 1.43%)	**Solvency Margin Ratio** (2022: 147.0%)	**Claims/Loss Ratio (General)** (2022: 34.3%)	**Combined Ratio** (2022: 72.0%)	**GVA** (2022: $0.04b)

The capital market remained resilient despite a fall in total assets under management due to the market sentiment of clients.

$0.91b	$7.9m
Asset Under Management (2022: $1.79b)	**GVA** (2022: $8.9m)

01

International and Domestic Macroeconomic Developments

1.1 GLOBAL MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

Global Macroeconomic Developments and Risks

Based on the IMF World Economic Outlook (WEO) January 2024 report, the global growth for 2023 was revised upwards to 3.1%, which was 0.1 percentage point higher than that reported in October 2023. Economic growth was expected to be stronger due to greater-than-expected resilience in the second half of 2023 in the United States and several major emerging markets and developing economies, as well as improved fiscal support in China. Supply-side expansions also contributed to the upgraded growth projections as a result of a broad-based increase in labour force participation and the resolution of pandemic-era supply chain disruptions along with improved delivery times.

Inflationary pressures continued to recede, with global inflation being revised downward to an estimated 6.8% in 2023, primarily due to favourable global supply developments. Monetary policy remained on a tightening trajectory aimed at restoring price stability and a slowdown of inflation to pre-pandemic levels. However, there were inflation risk concerns with the geopolitical conflict that broke out in Q4 2023. The Red Sea shipping crisis adversely affected the global supply chain and increased freight costs that likely impacted the costs of imported goods. If the inflation rate does not fall closer to central banks' target, it is likely that interest rates may remain high for longer which may further strain financial conditions for those highly indebted countries. On the other hand, governments in advanced economies had eased their fiscal policy stance in 2023, while the average fiscal stance remained neutral in developing and emerging economies.

In the US, Gross Domestic Product (GDP) grew by 2.5% in 2023, accelerating from a 1.9% expansion in 2022. The US recorded the most robust recovery among major economies with its GDP already exceeding its pre-pandemic level. This was attributed to stronger private consumption fueled by expansionary fiscal stimulus. Early in the pandemic, households received large fiscal transfers, which also prompted them to spend more quickly. With the US government's measures in place, households were largely shielded from energy price hikes resulting from the geopolitical conflicts. Coupled with tight US labour markets, which supported real disposable income gains in 2023, this further reinforced the robust private consumption in the US.

The Eurozone economy grew by 0.5% in 2023, slowing down from a 3.4% expansion in 2022. Subdued growth in 2023 stemmed from relatively high exposure to the geopolitical conflicts and associated adverse terms-of-trade shock, as well as higher imported energy prices affecting industries. Moreover, the Eurozone had lower levels of fiscal support compared to the US, along with tighter financial conditions from record interest rate hikes in 2023. These factors collectively contributed to a larger decline in inflation-adjusted wages, resulting in weak consumer confidence in the Eurozone.

The Chinese economy grew by 5.2% in 2023, accelerating from the 3.0% growth in 2022. This has exceeded the official target of 5.0% after missing its 5.5% target in 2022. Excluding the pandemic years up to 2022, this was the slowest annual growth rate since 1990. With annual inflation at just 0.2%, the low domestic demand and prolonged downturn in the property sector were the primary factors hampering growth. Additionally, the slowdown in China's industrial production, business investment, and exports reflected waning foreign demand. Geopolitical uncertainty also impacted commodity exporters and countries within the Asian industrial supply chain.

Within the ASEAN region, the ASEAN+3 Macroeconomic Research Office (AMRO) estimated that regional growth would be 4.4% in 2023, down from 5.6% in the previous year.

Despite muted demand from major trading partners and prolonged tightening of monetary policy, resilient domestic demand was the primary driver of the ASEAN region to be among the fastest-growing regions of the world in 2023.

Global Financial Market Developments and Risks

Financial markets were again disrupted by the banking crisis in March 2023, which saw the collapse of several banks. Amid the short-lived banking crisis, the global equity market rebounded strongly, with the MSCI All Country World Index registering positive returns by 20.1% as of 29 December 2023. Driven by the aggressive monetary policy of many central banks around the world to curb inflation, global bond yields rose from early in the year until October 2023. In October 2023, U.S. 10-year Treasury yields reached their highest level in more than two decades at 5%, before falling back to 3.9% by the end of December 2023. Crude oil prices remained volatile with the renewed geopolitical conflicts, and softer demand stemming from China's slowing economic growth. Brent oil price fell by 10.3% as of 29 December 2023. Gold held its safe haven status and maintained its upward momentum, supported by uncertainties in the market due to concerns about recession risk and geopolitical tension. As a result, gold rose by 13.1% to USD2,062.98 toz.

1.2 DOMESTIC MACROECONOMIC DEVELOPMENTS

Economic Growth

In 2023, Brunei Darussalam's economy expanded by 1.4. In terms of GDP by production, the growth was primarily driven by a 4.5% expansion in the Non-oil and Gas sector, fueled by a 5.9% increase in the Services sector and a 1.0% growth in the Non-oil and Gas Industrial sector. Meanwhile, the Oil and Gas sector recorded a contraction of 2.0% due to a fall in Oil and Gas Mining activities as well as Manufacture of Liquefied Natural Gas (LNG) **(Table 1).**

With regards to expenditure, GDP growth was primarily driven by a 26.4% increase in net exports, following a 7.8% decline in imports outpacing a 2.2% decline in exports.The decline in exports was due to a 6.3% decrease in exports of goods, particularly mineral fuels and chemical products. However, there was a 17.3% rise in exports of services with the gradual recovery of tourism and travel-related sectors following further re-opening of the country's borders during the period.

Table 1: Trends in GDP and CPI

Year (in BND Million)	2019	2020	2021	2022	2023
Nominal GDP	18,375.0	16,564.4	18,822.0	23,003.1	20,318.5
Nominal Oil and Gas Sector	10,525.3	7,995.3	9,330.7	12,314.4	9,790.6
Nominal Non-Oil and Gas Sector	8,158.2	8,867.5	9,789.9	11,043.4	10,883.3
Real GDP	19,098.5	19,315.0	19,007.8	18,698.2	18,961.3
Real Oil and Gas Sector	11,007.5	10,360.2	9,859.5	9,246.6	8,953.9
Real Non-Oil and Gas Sector	8,451.9	9,319.2	9,507.5	9,804.9	10,365.7
Year (Percentage Change)	2019	2020	2021	2022	2023
Real GDP	3.9	1.1	-1.6	-1.6	1.4
Real Oil and Gas Sector	4.9	-4.9	-4.8	-6.2	-2.0
Real Non-Oil and Gas Sector	2.5	8.9	2.0	3.1	4.5
Consumer Price Index	2019	2020	2021	2022	2023
CPI (Jan 2015=100)	99.0	100.9	102.7	106.4	106.8
Residential Property Price Index	Q4 2019	Q4 2020	Q4 2021	Q4 2022	Q4 2023
RPPI (Q1 2015=100)	95.3	90.6	97.6	98.3	91.8

Source: Department of Economic Planning and Statistics (DEPS), MOFE

Meanwhile, imports fell mainly due to lower importation of mineral fuels for oil refining activities linked to major foreign direct investment (FDI) projects in the country. At the same time, Government final consumption expenditure fell by 2.4%, while Household final consumption expenditure and Gross capital formation increased by 11.1% and 0.2%, respectively, in 2023.

The Retail Sales Index (RSI) declined by 2.8% on average in 2023 compared to the small positive growth of 0.2% in 2022. The decline in 2023 was due to a fall in domestic demand reflected in the decrease in sales of most retail activities such as Department Stores, Watches and Jewellery, and Pharmaceutical and Medical Goods, Cosmetic and Toilet Articles in specialised stores.

Inflation

The Consumer Price Index (CPI) rose by 0.4% in 2023, mainly driven by higher prices of food items such as rice and cereals, meat, dairy products and eggs.

Tightening financial conditions and the recovery of global supply chains may have contributed to easing global inflation. Additionally, given the Brunei dollar's peg to the Singapore dollar and the strength of the Singapore dollar's nominal effective exchange rate (S$NEER), Brunei Darussalam's domestic inflation has remained manageable in 2023.

RPPI

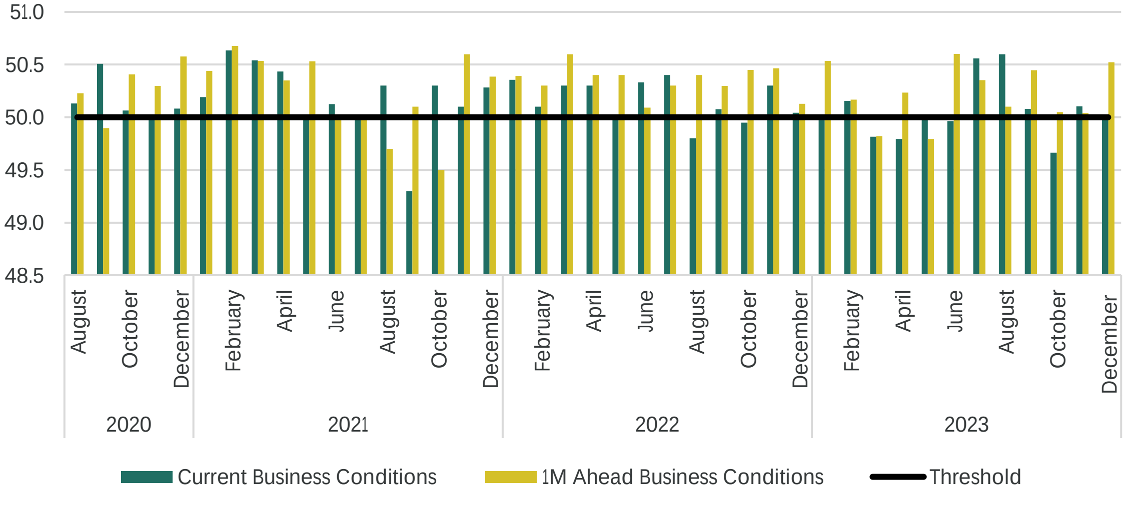
The Residential Property Price Index (RPPI) measures the rate at which the prices of private residential properties purchased by households change over time. RPPI is a useful indicator to assess the state of the real estate market and to gauge homeownership affordability. RPPI may serve as one of the macroeconomic indicators of economic growth and a financial stability/soundness indicator for measuring risk exposure.

The RPPI was higher by 2.2% throughout 2023 compared to the previous year. The number of transactions in 2023 was lower by 6.9% compared to the year before, with detached houses continuing to dominate residential property purchases.

BSI

The Business Sentiment Index (BSI) measures the level of sentiment/confidence of businesses in Brunei Darussalam through surveys asking general questions on current and future outlooks on business conditions, investments, employment of workers, and costs of running the businesses. The index's forward-looking approach makes it a useful leading macroeconomic indicator. The current business conditions sub-index (which is the headline index for BSI) was 50.1 on average in 2023, indicating that the sentiment in the private sector has been slightly optimistic throughout the year. Despite the optimistic sentiment throughout the period, some businesses expressed concerns about the rising costs of running the businesses and challenges in securing the necessary manpower for operations and expansion.

Figure 1. Business Conditions



02
Banking Sector Developments

In 2023, the banking industry experienced higher-than-average credit growth at 11.4% and recorded healthy profits from its offshore placements. Nonetheless, the industry's overall assets and deposits decreased by 4.2% and 7.1%, respectively, compared to the previous year.

As of year-end 2023, the Islamic bank and the Islamic trust fund continued to dominate the total banking sector assets with 61.7%, deposits at 62.3%, and loans/financing at 63.3%.

2.1 ASSESSMENT OF HEALTH

Capital Adequacy

In 2023, the banking industry remained resilient and well-capitalised with regulatory capital recorded at 21.4% **(Figure 3)**. The CAR continued to be well above the minimum regulatory requirement of 10.0% set by the Central Bank, and 8.0% imposed by Basel II on both solo and consolidated bases. Concurrently, the Tier 1 CAR also remained strong and stable at 21.1% in 2023 **(Figure 3)**, thus providing further support to mitigate the impact of any unexpected losses.

In 2023, the banks' net Non-Performing Loans/Financing (NPLF) to capital ratio decreased to 4.4% from 5.5% in the previous year **(Figure 3)**. This was largely due to the settlement of singl e large NPLF borrower and the correspondent write-back of provisions.

Liquidity and Funding

The banking sector continued to hold surplus liquid assets, with the average Liquid Assets to Total Assets and Liquid Assets to Total Deposits for the five-year period recorded at 43.5% and 53.2%, respectively **(Figure 4)**.

Figure 2. Trends and Growth in the Assets, Deposits and Loans/Financing (Banks)

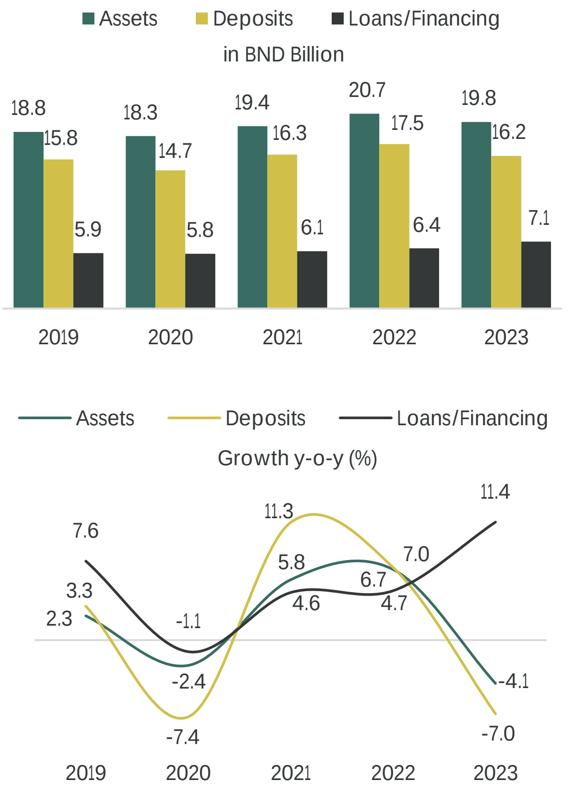
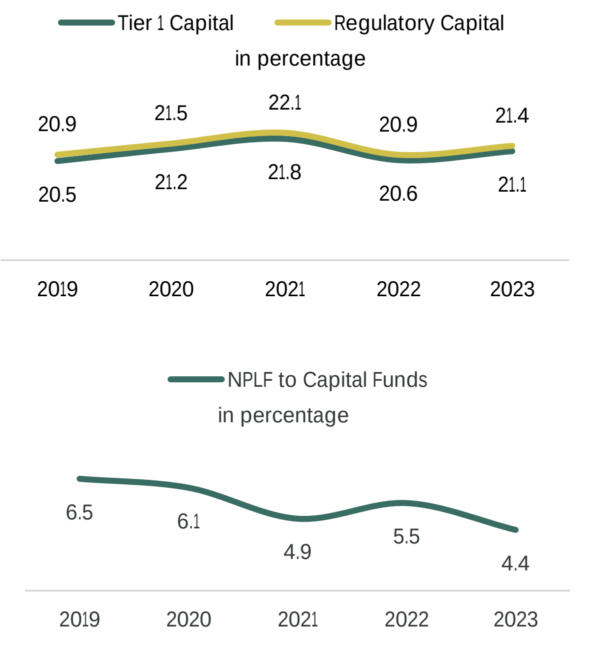


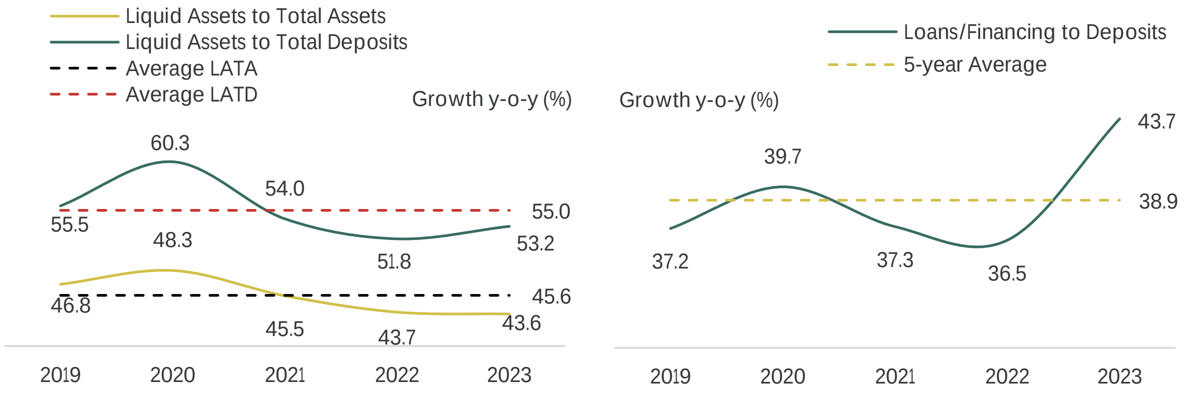
Figure 3. Trends in Capital Adequacy



The magnitude of these indicators remained high compared to ASEAN peers, indicating low liquidity risk due to surplus liquidity in the banking sector with low levels of intermediation. The loans/financing to deposit ratio stood at 43.7% in 2023, which is slightly higher than the five-year average of 38.9% **(Figure 4).**

The high liquidity ratio is also attributed to deposits, which remained the primary source of bank funding, representing 85.0% of total liabilities (excluding capital, borrowing, and reserves).

Figure 4. Trends in Liquidity



Deposit Structure

In 2023, the 7.0% decline in deposits **(Figure 2)** was mainly driven by the 57.0% decrease in central government deposits **(Figure 5)** which was partially offset by the spillover increase to the state-owned corporations by 22.1% and resident household deposits by 4.6%.

Resident household deposits continued to account for the highest share, contributing to 46.3% of the total deposits in the banking sector in 2023. Thus, forming the core deposits and a stable source of funds for the banking sector. As the banks' promotions to retain depositors escalate, the ongoing shifts observed from current and savings deposits to time deposits will continue to support the stability of the banks' funding sources.

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

Figure 5. Trends in Residents' Deposit Structure by Ownership

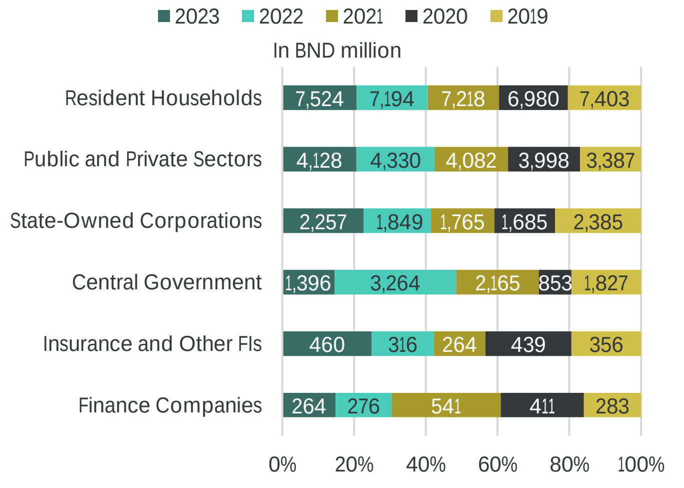


Figure 6. Trends in BND Deposits by Holders in Brunei Darussalam by Type of Deposits

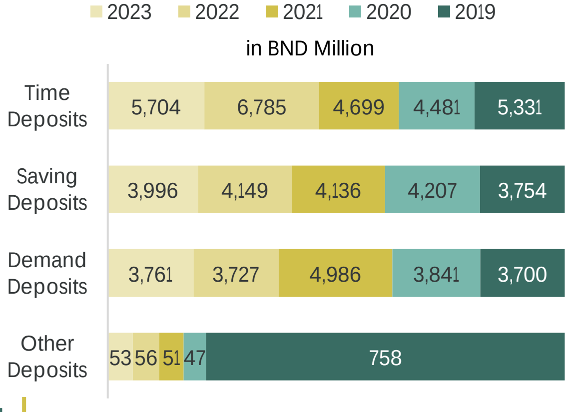
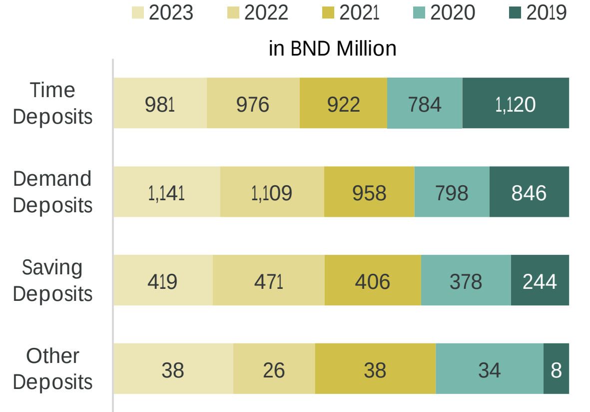


Figure 7. Trends in FCY Deposits by Holders in Brunei Darussalam by Type of Deposits



In 2023, both BND and foreign currency (FCY) deposits recorded negative growth of 8.2% and 0.1%, respectively, compared to the previous year. Time deposits accounted for 42.2% of the total BND deposits in Brunei Darussalam, forming a relatively stable funding base for the banking system **(Figure 6)**.

Of these FCY deposits, 44.2% were in demand deposits, which saw a 2.9% increase in 2023.

Time deposits represented 38.0% of total FCY deposits and saw a 0.5% increase. In contrast, saving deposits, accounting for 16.3% of total FCY deposits, decreased by 11.0% **(Figure 7)**.

Credit Quality

The banking sector's credit-to-GDP increased to 37.5% in 2023 from 34.1% in 2022. Figure 8 shows an upward trend since 2020.

Overall credit recorded a positive growth of 11.4% in 2023 compared to 4.7% in the previous year **(Figure 5)**. This indicated signs of recovery and improved business prospects as lending to the business sector increased by 17.1% during the year. Meanwhile, lending/financing to the household sector also increased by 4.1% during the same period **(Figure 9)**. Within the banking credit portfolio, lending to the business sector accounted for 58.8% in 2023 as compared to 55.9% in 2022.

Banks' loans/financing were primarily extended to Brunei Darussalam residents including companies, accounting for 81.6% of the total, while non-resident lending/financing comprised 18.4%. This distribution limits the risks of exposure to foreign lending. In 2023, both lending to Brunei Darussalam residents and non-residents grew by 3.8% and 64.2%, respectively.

The resident banking sector's lending portfolio of BND5.8 billion consisted of 50.5% in resident household loans/financing, 44.4% in loans to public and private sectors, and the remaining 5.1% extended to state-owned corporations **(Figure 9)**.

Figure 8. Credit to GDP (Banks)

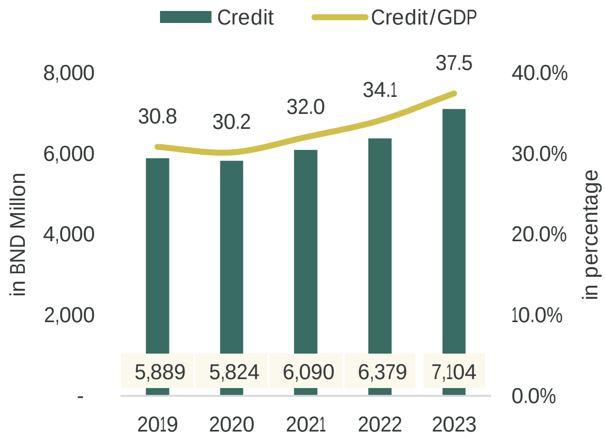


Figure 9. Trends in Residents'
Loans/Financing Structure by Ownership

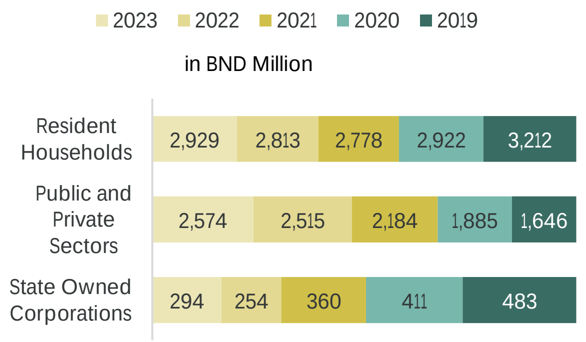
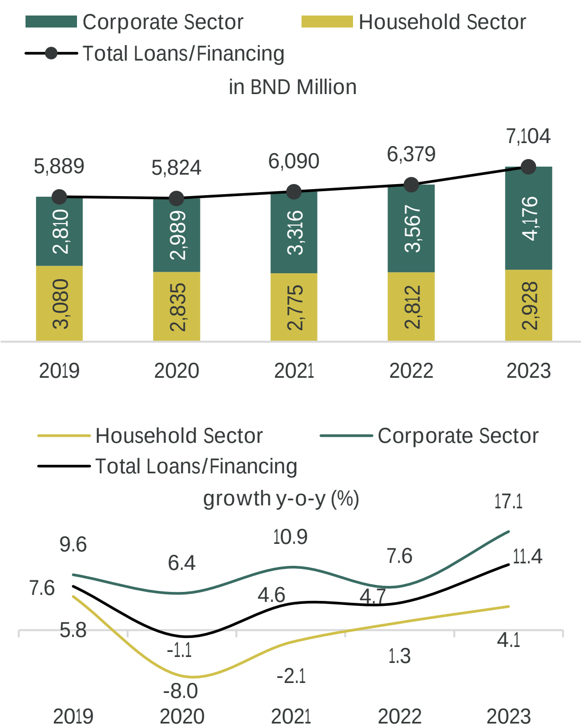


Figure 10. Trends and Growth of the Total Loans/Financing



The banking systems' gross amount of NPLF declined by 13.5% in 2023 from BND217.7 million in 2022 to BND188.3 million in 2023 mainly driven by both the household sector and the corporate sector **(Figure 10).**

The credit quality of the banks' loans/financing portfolio improved in 2023. Gross NPLF and net NPLF stood at 2.6% and 1.6%, respectively, both below their respective five-year averages of 3.8% and 2.1%.

Provision coverage (specific provisions to total NPLFs) remained adequate in 2023, although the coverage declined to 37.2% which is below the five-year average of 43.7% **(Figure 11)**. The slight reduction in provision coverage reflects the overall improvement in credit quality witnessed in 2023. Nevertheless, with the persistent build-up of capital buffers and adequate provisions, the banking industry is expected to withstand further downside risks from a significant increase in credit risk.

Income, Expenses and Profitability

Trends in Income and Yield

The yield on total interest/profit-related assets grew to 4.6% in 2023 from 3.0% in 2022. This yield trend aligns with the banking sector's total interest/profit income, which grew to BND794.0 million in 2023, a significant increase of 53.9% **(Figure 12).**

The main source of gross income continued to be interest/profit income from lending activities accounting for 45.2% of the total. As of 2023, the yield recorded a slight growth from 4.8% in the previous year to 5.0%. The increase in banks' lending further contributes to the increase of the yield.

Concurrently, the high interest/profit rate environment benefitted the banks in terms of their income/profit on placements and its yield grew significantly to BND297.0 million and 4.8% respectively, in 2023.

The positive growth of the banks' interest/profit income on investments further supported the banks' total income. The corresponding interest/profit income grew by 44.1% y-o-y to BND138.3 million which resulted the increase in yield on investments to increase to 3.4% in 2023.

Figure 11. Trends in Credit Quality (Banks)

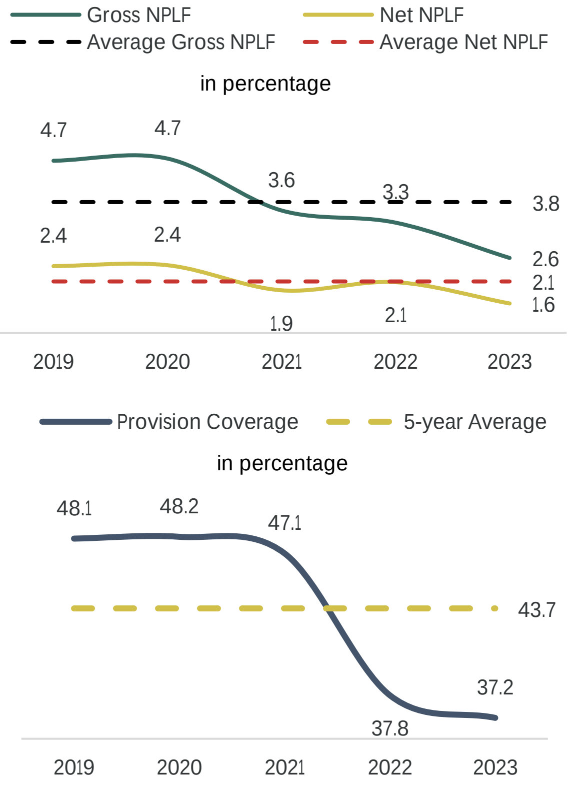
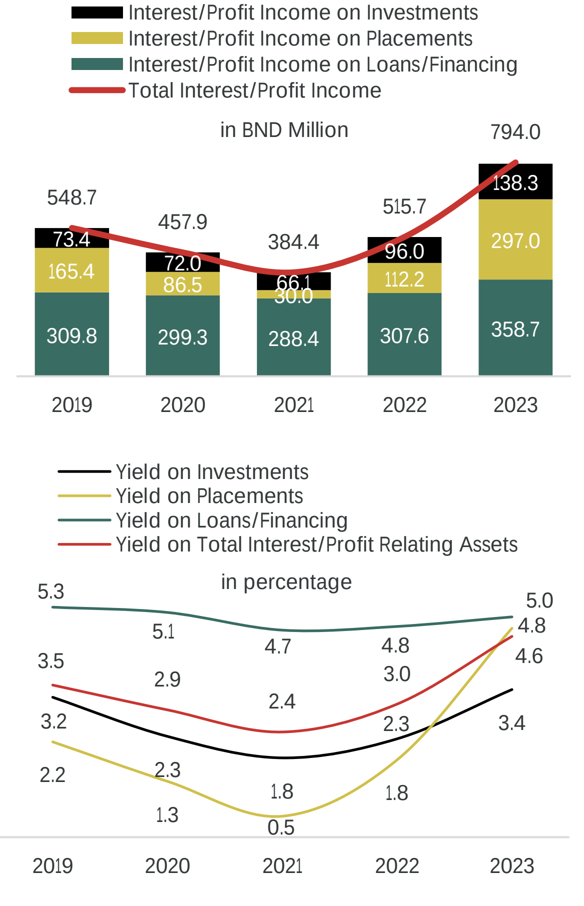


Figure 12. Trends in Income and Yields by Type of Assets

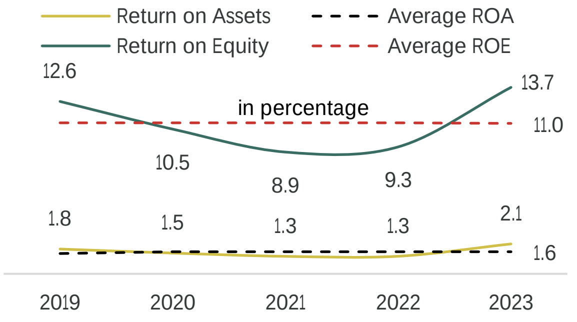


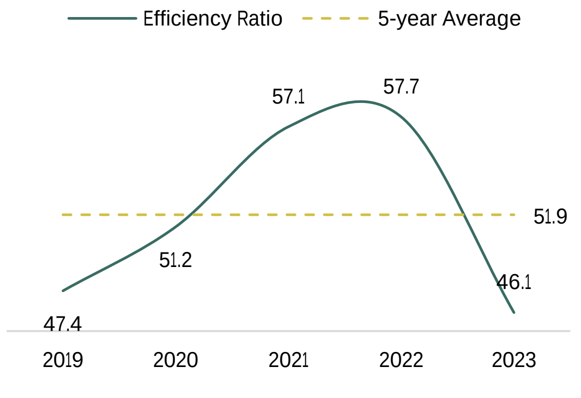
Trends in Profitability and Expenses

The banking sector's profitability improved slightly in 2023, with banks' return on assets (ROA) and return on equity (ROE) rising to 2.1% and 13.7%, respectively **(Figure 13).**

The efficiency of the banking sector, measured by non-interest/profit expenses to gross income, decreased to 46.1% in 2023 as a result of the increase in gross income of 36.0%. Despite the increasing funding costs, banks are able to sustain a positive growth of its net interest/profit margins. As such, banks are encouraged to explore further diversification of income sources in order to sustain in times of extreme stress scenarios.

Figure 13. Trends in Profitability (Banks)



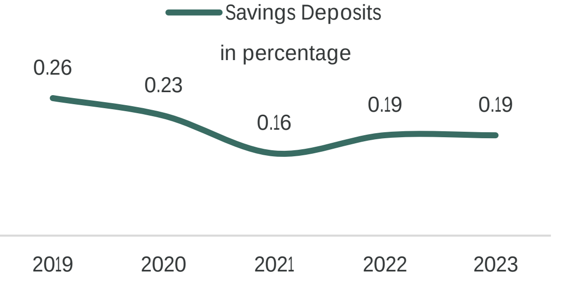


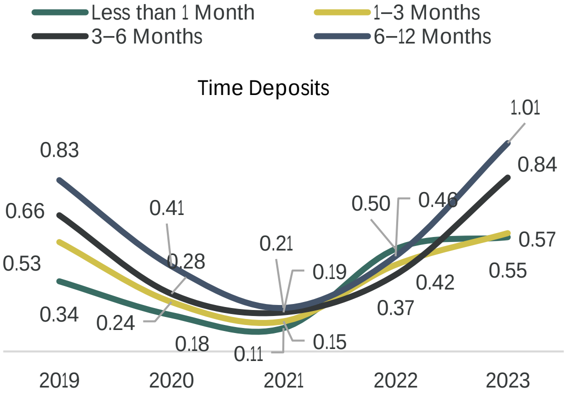
Trends in Net Interest/Profit Income

An important factor in banks' profitability is the magnitude of the net interest/profit spread, which is measured by the difference between lending/financing and deposit rates.

Since 2013, banks have been required to offer a minimum floor of 0.15% on saving deposit rates. From 2019 to 2023, the interest/profit rates of saving deposits remained low, holding steady at 0.19% in 2023 from the previous year. During the same period, the interest/profit rates of time deposits also increased across all maturity types **(Figure 14).**

Figure 14. Trends in Average Saving & Time Deposits Interest/Profit Rates by Maturity)





Offshore Assets

In 2023, majority of the banks' assets continued to be offshore accounting to 53.1% of total assets. Despite the increase in domestic lending, the level of bank intermediation is still low within the country, thus banks continued to place their excess liquidity offshore to balance against their increasing funding costs.

Consistent with previous years, the majority of offshore assets are in the form of placements, accounting for 50.8% of total offshore assets, followed by offshore investments at 33.4%. Despite the overall decrease of the total offshore assets, banks' foreign lending (net) has increased by 64.2% to BND1.3 billion, majorly to Government-Linked Corporations **(Figure 15).**

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

The ratio of total offshore assets to total deposits increased from 61.9% in 2022 to 64.8% in 2023. The majority of offshore assets were in placements despite a decline of 7.9%, indicating that liquidity risk heightened slightly but remained manageable.

Under the Currency Board Arrangement, the pegging of the BND to the Singapore Dollar (SGD) mitigates the foreign exchange risk of offshore assets denominated in SGD.

Offshore Assets by Currency

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

In 2023, the share of offshore placements and investments in USD increased steadily to 51.5%. The remaining proportions of other currencies, including the Euro, the British Pound Sterling, the Malaysian Ringgit, and the Australian Dollar collectively rose to 6.5% in 2023.

Offshore Assets by Country Risk

The share of offshore assets by country remained unchanged, with Singapore claiming the largest share at 48%, followed by Gulf Countries at 35%, and other ASEAN countries at 6%.

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

Figure 15: Composition of Offshore Assets Held by Banks

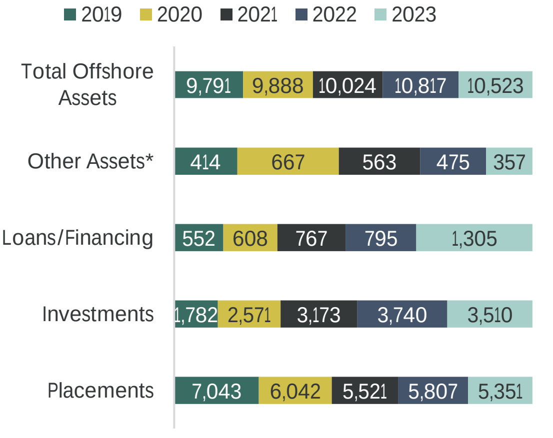
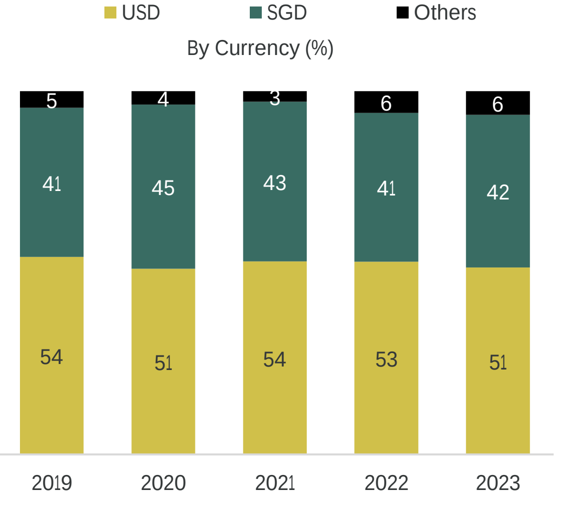
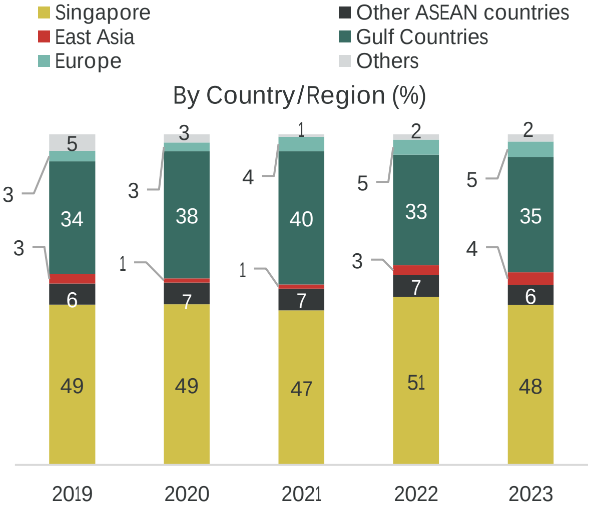


Figure 16. Trends in Composition of Offshore Placements and Investments by Currency and Country/Region





2.2 REGULATORY DEVELOPMENT

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

i. Prudential Requirements and Standards

To maintain the resiliency of the financial system, new prudential frameworks and standards were introduced to the banking sector on 5 July 2023.

- Guidelines on Liquidity Risk Management
  In further articulating sound principles and practices embedded in a bank's existing liquidity risk management practices, the Guidelines on Liquidity Risk Management were introduced. Effective 1 July 2024, the coverage of the guidelines includes governance, funding strategy, maintenance of liquidity cushion, intragroup liquidity management, and contingency funding plan. These guidelines will also complement the Central Bank's existing risk management frameworks designed to address various risks inherent in banking activities.

ii. Alignment with international standards

To strengthen the Central Bank's prudential regulatory framework and align with international best practices, the Central Bank is currently developing a Basel III liquidity framework for the banking industry.

- Industry Consultation: Implementation of Basel III Liquidity Framework
  Two rounds of consultations were undertaken in 2023 to ensure its effective implementation. The industry was invited to review and comment on specific components of the Liquidity Coverage Ratio (LCR) framework. At the same time, the industry was required to conduct a quantitative impact assessment on respective components of the LCR framework.

  - The first consultation paper, conducted on 16 January 2023, introduced the individual elements of the LCR framework, focusing on the Net Cash Outflows component of the LCR framework, and aimed to gauge the industry's readiness.

  - The second consultation paper, conducted on 8 November 2023, aimed to bring together other components of the LCR, including the application of run-off assets (outflow and inflow rates) and the eligible High-Quality Liquid Assets.

The Central Bank also expects to conduct additional rounds of industry consultation in 2024 on the overall LCR framework before its full implementation.

iii. Recovery and Resolution Framework

In light of the ongoing changes in the domestic financial system, and as part of the Central Bank's ongoing efforts to maintain financial stability, there is a proposal to create a recovery and resolution framework for financial institutions regulated by the Central Bank. This framework will be based on the Key Attributes of Effective Resolution Regimes for Financial Institutions adopted by the Financial Stability Board.

- Industry Consultation: Proposal to Establish a Recovery and Resolution Framework for Financial Institutions Regulated by the Central Bank
  The Central Bank issued a consultation paper on 13 June 2023 which sets out a proposal for the development of a suitable recovery and resolution framework for financial institutions to gather feedback and insights from relevant stakeholders in designing the policy considerations and legal framework for the resolution regime.

Currently, the Central Bank requires all banks, Islamic banks, insurance companies, and Takaful operators to develop recovery plans in the event of financial crises. These plans must identify options to restore financial strength and viability when they come under severe stress. The recovery measures should specify the necessary steps, implementation timeline, and assessment of associated risks. These financial institutions are required to submit their recovery plans to BDCB for review as part of the overall supervisory process, assessing their credibility and whether they can be effectively implemented.

For this purpose, stakeholder engagements with the respective industry associations and relevant government agencies were conducted on 23 and 27 June 2023 to provide some insights on the development of such a framework. The framework would be underpinned by the objectives of maintaining financial stability, ensuring financial institution failure is orderly while maintaining continuity of their essential services, e.g. in the case of banks and other deposit-taking institutions, and protecting depositors and client assets.

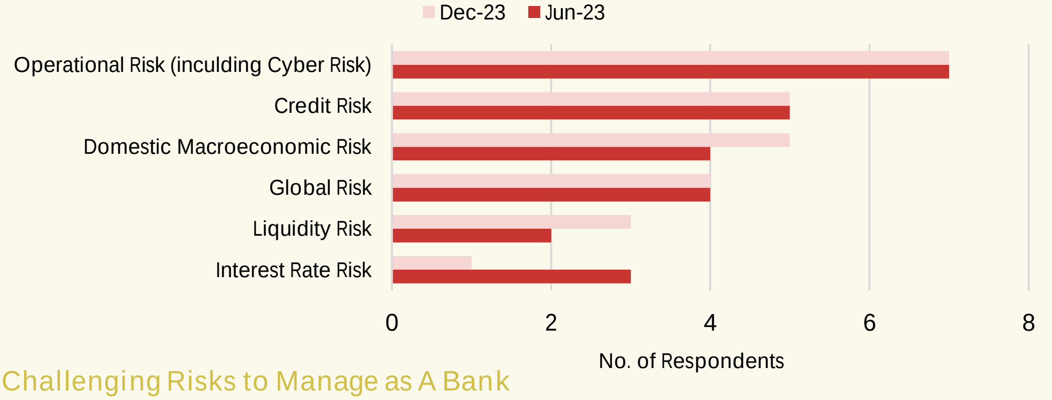
Box 2. Risk Perception Survey December 2023

Since 2019, the Central Bank conducts the bi-annual Risk Perception Survey (RPS) on licensed banks in Brunei Darussalam to seek their views on potential risks that may impact the domestic banking system in the coming six to 12 months. The RPS ensures banks continuously improve and sharpen their risk assessment based on their responses to the questionnaire and the final survey results. Understanding potential vulnerabilities in the financial sector helps the Central Bank develop effective financial stability policies. Respondents for this survey comprised seven licensed banks and Perbadanan TAIB.

Key Sources of Risks

Banks continued to recognise operational risk as one of their top risks, followed by credit risk, domestic macroeconomic risk, and global risk.

Figure 17: Top Five Risks Identified by Banks



Most Challenging Risks to Manage as A Bank

The top risk that seven out of eight banks identified as difficult to manage was operational risk, which includes cyber risk. Four respondents cited domestic macroeconomic risk and global risk as risks they also found to be difficult to manage.

Table 2: Top Three Risks that Banks Find Difficult to Manage

	June 2023	Dec 2023
1.	Operational risk (including Cyber risk)	Operational risk (including Cyber risk)
2.	Credit risk	Domestic Macroeconomic risk / Global risk
3.	Domestic Macroeconomic risk / Global risk / Interest rate risk	Credit risk

Banks also assessed risks or vulnerabilities, rating them on a scale of 1 to 5, where 1 indicates a considerable decrease, 2 a slight decrease, 3 being no change, 4 a slight increase, and 5 a considerable increase.

Figure 18: Banking Risk Perception, Dec 2023

In the next 6 to 12 months,

- Overall global risk was the risk that was deemed to increase slightly, with a score of 3.88. Most banks cited geopolitical instability as a risk that will increase slightly, scoring 4.13, followed by global macroeconomic risk.

- Domestic macroeconomic risk scored 3.13, indicating that banks generally felt it would remain unchanged. This risk was viewed as having the highest impact on the banking sector. In general, some banks viewed risks such as lower growth in the Non-oil and Gas sector, lower household consumption, higher levels of unemployment, and increased uncertainty in the property market may increase slightly in the period ahead.

- Credit risk increased slightly compared to the views in the past 6 to 12 months, scoring 3.50 overall. This risk carries a relatively high impact on the banking industry if it materialises. Generally, banks viewed the risk of default from the household sector as unchanged, with a score of 3.0, whereas the risk of default from the business sector scored 3.63.

- Liquidity risk is expected to remain unchanged in the period ahead, scoring 3.13. Brunei Darussalam's banking sector has ample liquidity, so liquidity risks are expected to have a lower impact.

- Market risk, on average, was viewed to decrease slightly, with a score of 2.13. Some banks viewed that interest rate shocks in developed countries and international equity market shocks may increase slightly.

- Operational and non-financial risks were viewed to remain unchanged, with a score of 3.38. Nonetheless, this was deemed as the risk that would have the third highest impact on Brunei Darussalam's banking system. Some banks viewed that cybersecurity risks and risks arising from fraud, other malpractices, and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) would increase slightly and regarded these two risks as high impact.

- Cross-border asset risk scored 3.38 and was viewed to have a medium impact. As of 31 December 2023, banks held 53.1% of offshore assets. Some banks viewed that short-term USD interest rate risk may increase slightly while cross-border currency concentration risk was viewed to decrease slightly.

03
Non-Banking Sector Developments

3.1 FINANCE COMPANIES

Similar to banks, finance companies also provide savings and fixed deposit services, along with automobile loans/financing and consumer durable financing through hire purchase agreements. Finance companies primarily service the household sector in terms of financing.

As of 2023, the finance companies sector comprised two licensed companies, representing 8.7% of the total financial system assets. In 2023, assets increased by 4.6% to BND2.1 billion, deposits by 6.0% to BND1.7 billion, and total loans/financing by 6.6% to BND1.7 billion compared to the previous year **(Figure 19)**.

Figure 19. Growth in Assets, Deposits and Loans/Financing (Finance Companies)

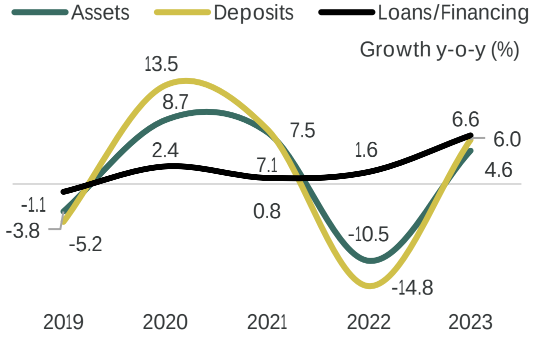
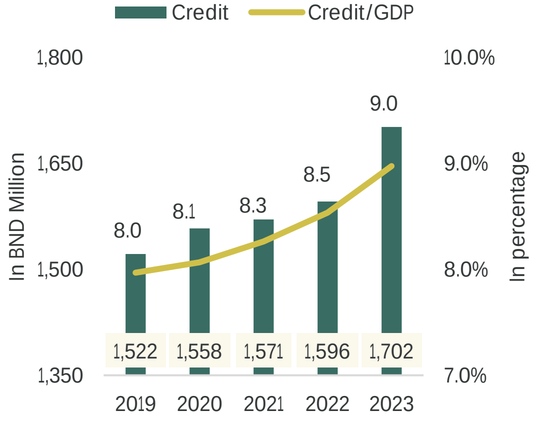


Figure 20. Credit to GDP (Finance Companies)



Trends in Types of Loans/Financing

In 2023, finance companies' credit-to-GDP increased to 9.0% compared to 8.5% in 2022 **(Figure 19)**. Automobile loans/financing activities accounted for 98.6% of total loans/financing. As Bruneians continue to be dependent on their own transportation for everyday commute, total automobile loans/financing grew by 7.1% in 2023 Meanwhile, consumer durables continue to decline by 19.2%. The rise in rent-to-own arrangements offered by retailers directly to their customers may have contributed to this shift.

Assessment of Health

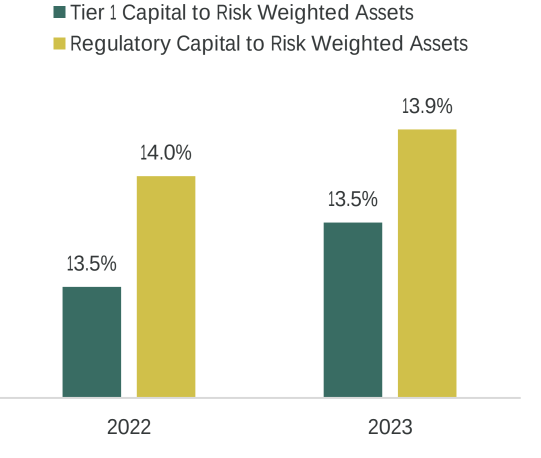
Capital Adequacy Ratio (CAR)

The regulatory CAR framework for finance companies was introduced in 2022 where the minimum requirement was set at 10%.

In 2023, the regulatory capital to risk-weighted assets saw an increase from 14.0% to 13.9% **(Figure 21)**.

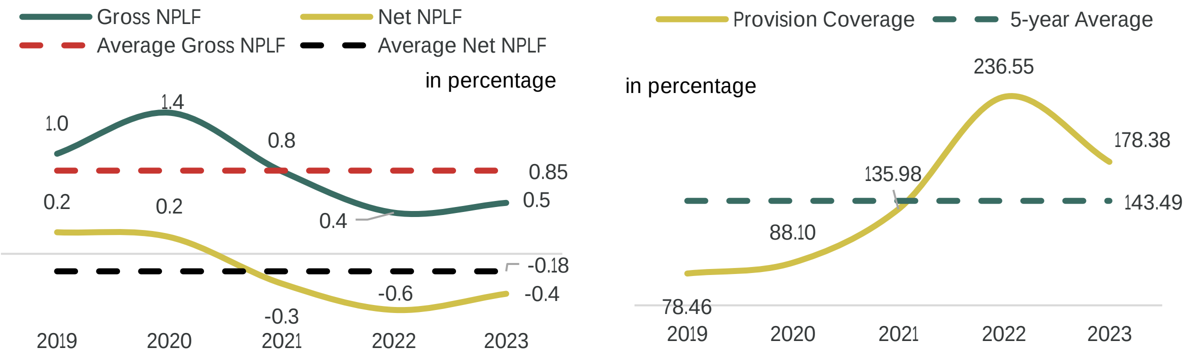
Consecutively, the ratio of net NPLF (net of specific provisions) to capital funds improved further to -2.4% in 2023 from -3.1% in 2022 due to excess provision maintained during the financial year.

Figure 21. Capital Adequacy Ratio (Finance Companies)



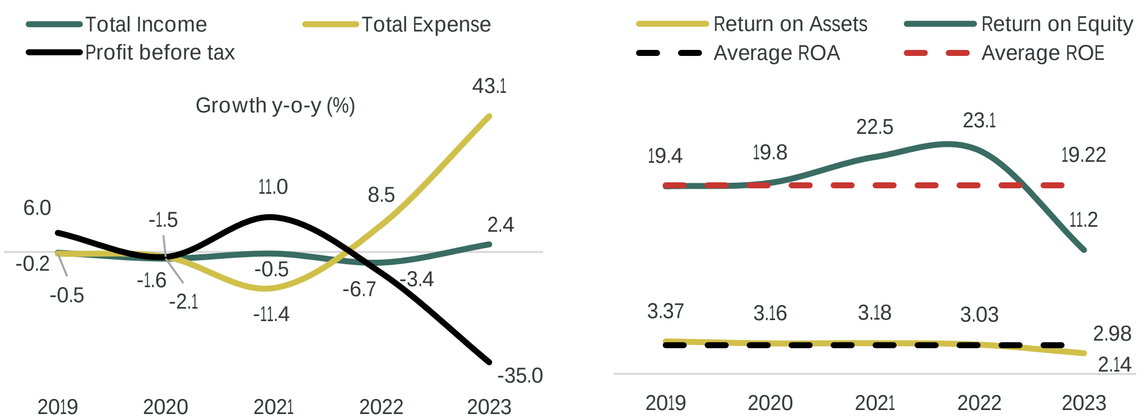
The aggregate gross NPLF ratio slightly increased to 0.5% in 2023. Simultaneously, the net NPLF ratio (net of specific provisions) also increased to -0.4% in 2023 from -0.6% in 2022 **(Figure 22).** Profit before tax decreased by 35.0% to BND42.3 million in 2023, as a result of the narrowing of the net interest/profit margins mainly from the rising funding costs **(Figure 23).** The ROA of finance companies decreased from 3.0% in 2022 to 2.1% in 2023.

Figure 22. Trends in Credit Quality (Finance Companies)



Similarly, finance companies' ROE also fell to 11.2% in 2023 from 23.1% in 2022. In contrast, the efficiency of finance companies, as measured by the ratio of non-interest/profit expense to gross income, increased to 56.8%.

Figure 23. Trends and Growth in Profitability (Finance Companies)



3.2 TAKAFUL AND INSURANCE

The takaful and insurance industry in Brunei Darussalam consists of seven insurers and four takaful operators. Of these, five offer life/family takaful business, and six offer general business. Registered intermediaries comprise one insurance broker and 507 insurance/takaful agents. There are no reinsurers or retakaful companies in Brunei Darussalam.

Takaful and insurance assets represent 8.5% of total financial assets. As of the end of 2023, the takaful market share accounted for 31.7% of total insurance and takaful assets and 46.6% of gross premiums/contributions.

Assessment of Health

Total insurance and takaful industry assets increased by 7.3% in 2023, standing at BND2.02 billion.

Industry gross premiums continued to grow by 3.0% from BND329.6 million in 2022 to BND339.4 million in 2023. Both life and general sectors improved by 2.8% and 3.1%, respectively **(Figure 24)**. The growth in the general sector was mainly contributed by the property, motor, and workmen compensation business. Meanwhile, the life sector was driven by the term, endowment, and group business.

Gross claims/benefits jumped up by 40.1% from BND101.6 million in 2022 to BND142.4 million in 2023.

Insurance Penetration

In Brunei Darussalam, insurance needs are centred on general protection and savings-related products. In 2023, the insurance penetration rate, which measures the ratio of gross premiums and contributions to GDP, increased to 1.7%, representing an improvement from the 1.4% penetration rate observed in 2022.

Margin of Solvency

Under the Insurance Order, 2006 and Takaful Order, 2008, all licensed insurance companies and takaful operators are mandated to maintain assets and liabilities at least 20% above the regulatory requirements. The takaful and insurance sector's fund margin of solvency in 2023 stood at 54.0%, indicating a strong solvency level.

Loss Ratio

The loss ratio for the general sector stood at 50.1% in 2023 compared to 34.3% in 2022. This is driven by a notable increase in gross claims for the engineering business, which significantly increased in 2023 from BND0.7 million to BND17.4 million.

Combined Ratio

The combined ratio for the general takaful/insurance sector stood at 92.4%, higher than recorded in 2022 at 72.0%. This higher outflow is due to the significant increase in general claims.

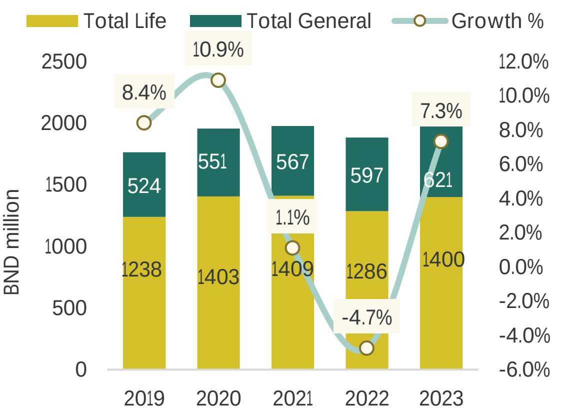
Table 3. Financial Soundness Indicators for the Takaful and Insurance Industry

Indicators	2019	2020	2021	2022	2023
Takaful/Insurance Penetration Rate		1.8	1.7	1.4	1.7
Assets Growth	+8.4	+10.9	+1.1	-4.7	+7.3
Gross Premium Growth	-1.2	+3.1	+3.1	+6.5	+3.0
Gross Claims/Benefits Growth	+15.7	+10.5	-34.5	-4.4	+40.1
Solvency margin ratio (≥120%)			153.0	147.0	154.0
Claims/Loss ratio (General)			37.6	34.3	50.1
Combined ratio (General)			77.6	72.0	92.4

Trends in Industry Assets

Financial assets held by takaful operators and insurers have increased by 7.3% to BND2.02 billion in 2023 compared to BND1.88 billion in 2022 **(Figure 24)**. As of 2023, the asset portfolio comprised 71.7% investments, 16.3% cash and cash equivalent, 5.1% recoverable from reinsurers, 4.6% receivables, and 2.2% other assets. The investment category consisted of bonds and debentures at 58.2%, common shares at 25.6%, and short-term placements at 13.1%. These investments were predominantly held by life insurers to match their long-term liability structure.

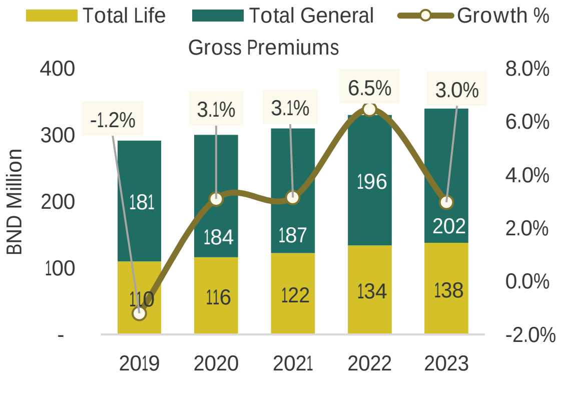
Figure 24. Total Takaful and Insurance Industry Assets

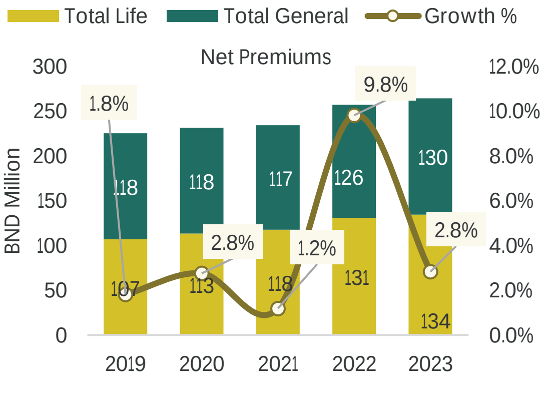


Trends in Industry Premiums/Contributions

In 2023, gross premiums/contributions increased by 3.0% with a corresponding increase in net premiums/contributions. Gross premiums in the life/family business steadily grew by 25.4% since 2019 as take-up on protection-type policies continued to rise. On the general side, property and workmen's compensation increased in 2023 as businesses recovered and the entry of foreign workers had somewhat normalised with the reopening of borders in 2022.

Figure 25. Total Life and General Gross Premium and Net Premiums

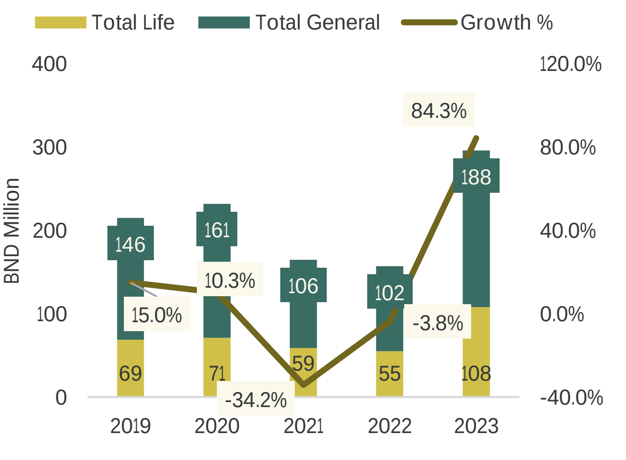




Trends in Industry Claims

As of 2023, the industry recorded a growth in gross claims by 40.1% from BND101.6 million to BND142.4 million. The general sector's claims increased by 70.0% from BND47.1 million to BND80.0 million, contributed by the increase in engineering claims. Additionally, the life sector recorded an increase of 14.3% to BND62.4 million in 2023 from BND54.5 million in 2022, mainly contributed by the life conventional sector.

Figure 26. Insurance and Takaful Total Gross Claims/Benefits



General Takaful and Insurance

General business saw an increase of 3.1% in gross premiums/contributions in 2023 **(Table 4)** despite mixed performances by different lines of business. Net retention stood at 62.8% as BND75.2 million was ceded outside Brunei Darussalam. Despite the increase in premiums, the number of general policies issued in 2023 declined by 17.6% to 439,402 from 555,340. This may be due to the lifting of mandatory travel insurance requirements for passengers entering and leaving Brunei Darussalam.

Table 4. Gross Premiums/Contributions for General Business

Classes of General Business	2021	2022	2023	% change	No. of policies
	In BND Million			y-o-y	in 2023
Property	19.8	19.5	27.1	+39.1	34,269
Motor	85.7	85.7	87.7	+2.4	292,502
Marine, Aviation and Transit (MAT)	12.1	13.1	12.0	-8.6	1,443
Energy	19.1	22.0	20.5	-6.8	18
Engineering	5.9	3.2	2.5	-21.1	1,712
Liability	10.1	8.1	8.8	+8.0	14,567
Personal Accident	5.9	15.6	14.7	-5.7	59,972
Workmen Compensation	15.9	18.4	20.2	+9.8	28,293
Others	12.8	10.3	8.4	-18.9	6,626
Total Gross Premiums/Contributions	187.4	195.9	201.9	+3.1	439,402

In line with car ownership in Brunei Darussalam, motor premiums/contributions account for the highest class of business at 43.4%. It also grew by 2.4%. Motor policies account for 66.6% of total policies in 2023.

Property, workmen's compensation, and liability showed positive growth as new businesses and renewals were recorded during the year. Property was the second highest class of general business, which saw an increase of 39.1%.

In terms of gross claims, the general business recorded an increase in claims by 70.0% to BND80.0 million in 2023 compared to BND47.1 million in 2022. A one-off large engineering claim was paid out in 2023 which saw engineering claims increase from BND0.7 million to BND17.4.

With the increase in claims in 2023, underwriting income saw a decrease of 60.5% to BND13 million. Nonetheless, net income was only slightly affected and GVA for 2023 increased to BND0.10 billion from BND0.04 billion.

Figure 27. Gross Claims (General Business)

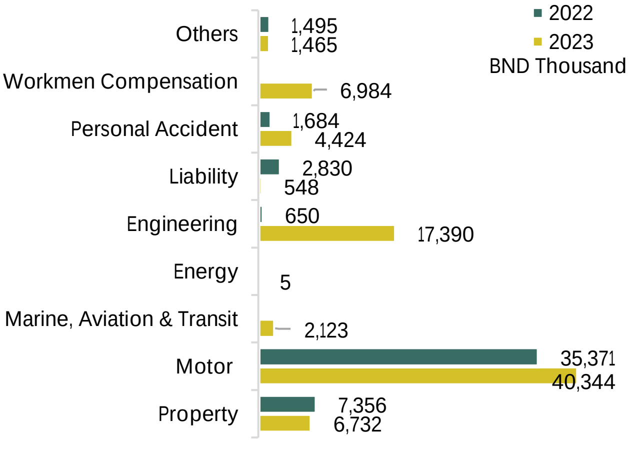
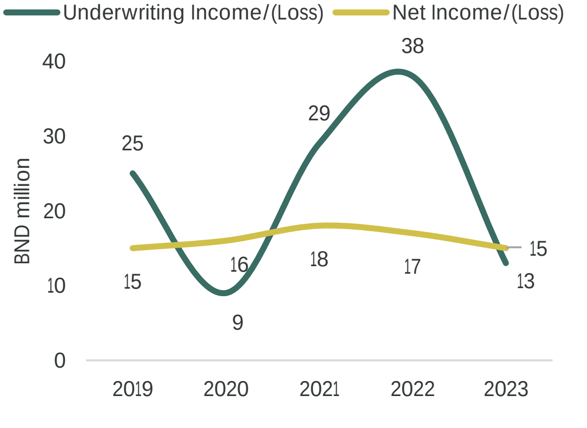


Figure 28. Composition of Operating Profit (General Insurance/Takaful)



Family Takaful and Life Insurance

In Brunei Darussalam, insurance and family takaful provide an alternative avenue for savings and investment. As such, the endowment business had the highest uptake at 33% of total life policies. This was followed by whole life and term business at 18% and 24%, respectively. Since 2015, banks have been required to ensure that their borrowers have appropriate insurance/takaful coverage for unsecured personal credit facilities. Similar requirements have been previously implemented for secured financing, which has subsequently boosted the adoption of term business.

Family takaful and life insurance businesses (business in-force) recorded an increase of 2.8% to BND137.6 million due to an increase in term by 30.2%, endowment by 2.6%, and group by 9.2%. This sector improved in new business and renewals in 2023. Meanwhile, a total of 37,879 new policies for life business were issued, an increase of 18.1% in 2023. Additionally, there were 256,386 active policies in 2023, representing a 3.1% growth.

Table 5. Gross Premiums/Contributions for Life/Family Takaful Business (New Business)

Classes of Life/Family Takaful Business	2021	2022	2023	% Change y-o-y	% total life policies	No. of policies in 2023
	In BND Million					
Term	14.1	16.9	20.3	+20.2	18	182,322
Whole Life	0.9	1.1	0.8	-28.2	24	19,866
Endowment	3.4	5.0	4.4	-11.8	33	22,197
Medical & Health	0.2	0.1	0.1	+7.8	3	7,530
Others	0.8	0.4	0.4	+11.2	6	14,565
Investment-Linked	0.6	1.9	0.7	-65.7	10	8,064
Group	2.5	2.4	2.0	-14.3	6	1,842
Total Gross Premiums/Contributions	22.5	27.8	28.7	+3.4		256,386

Growth of new business premiums/ contributions improved by 3.4% to BND28.7 million as term, medical and health, and other business segments increased **(Table 5).**

The gross benefits recorded an increase of 14.4% to BND62.4 million in 2023. particularly due to term by 41.7%, whole life by 26.4%, investment (unit)-linked by 5.41%, and others by 35.8%.

Despite the increase in gross benefits, net underwriting income had increased by 436.4%, while net investment income recorded 160.9% increase. As a result, the net income of the life/family takaful sector increased by 267.1% **(Figure 30).**

Figure 29. Gross Benefits (Life/Family)

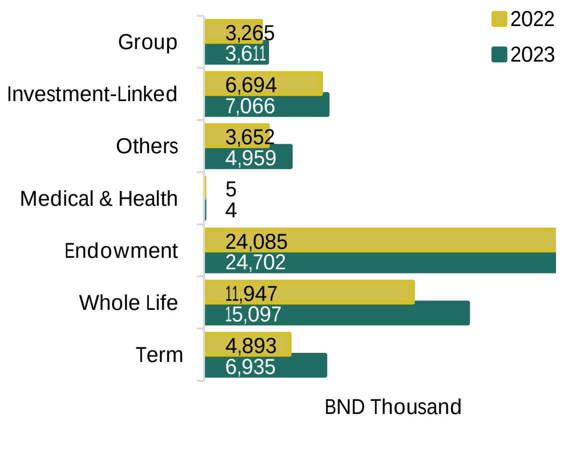
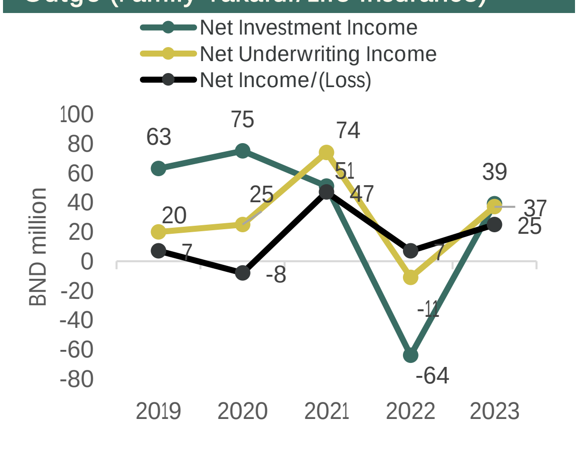


Figure 30. Composition of Income and Outgo (Family Takaful/Life Insurance)



Box 3. Highlights of Regulatory Policy Development in the Takaful and Insurance Sector

Continuous Professional Development for Insurance and Takaful Agents

To consistently develop and maintain the knowledge and skills relevant to the Takaful/Insurance sector, the Central Bank has collaborated with the Brunei Institute of Leadership & Islamic Finance (BILIF) in 2020 to develop a suitable Continuous Professional Development (CPD) framework for insurance and takaful agents. The CPD framework underwent a 12-month pilot testing phase from 1 July 2023 to 30 June 2024, during which active discussions with the industry were conducted to achieve a common understanding and maximise the framework's benefits.

The CPD framework was fully implemented on 1 January 2024. Its requirements have formed part of insurance and takaful agents' registration conditions, which the Central Bank will consider when renewing registration.

3.3 CAPITAL MARKET

The total number of regulated persons under the Securities Markets Order, 2013 (SMO) was 187 in 2023 compared to 184 in 2022, where there was one cessation of a Capital Markets Services Licence (CMSL) holder. The capital markets sector in Brunei Darussalam consists of six licensed capital market intermediaries and 151 licensed individual representatives acting on behalf of the intermediaries. The licensed persons comprise investment dealers, fund managers, investment advisers, and financial planners catering to institutional, accredited, and retail investors and offer both Islamic and conventional capital market services and securities. There are 30 CIS with a total of 137 sub-funds being recognised and distributed to investors in Brunei Darussalam.

The capital market sector is relatively small compared to the other sectors in Brunei Darussalam. Nonetheless, it holds promising growth potential within the overall financial sector, especially as the country continues to develop its stock market infrastructure.

Development of the Capital Market Sector

Assets Under Management (AUM)

The total AUM managed via the CMSL holders in Brunei Darussalam saw a significant decline of 49.0% compared to 2022. The observed five-year decline is largely attributable to the strategic directions and market sentiment of clients. A majority of the total AUM was invested into foreign bonds and sukuk at 97.1% in 2023. The remaining were invested into other foreign securities, foreign deposits, and foreign equities collectively at 2.9%.

Collective Investment Schemes (CIS)

A total of 30 CIS were offered in Brunei Darussalam's market by the end of 2023, comprising 20 conventional CIS and 10 Islamic CIS. In terms of Assets under Distribution (AUD) for the public CIS, the total invested amount as of the end of 2023 was BND464.15 million, of which 19.87% were invested in Islamic CIS and 80.13% were in conventional CIS. This is reflected in **Figure 34**, where it shows a positive trend in total AUD by 4.6% y-o-y from 2022 to 2023.

Figure 31. Regulated Persons under SMO

Figure 32. Total Assets Under Management

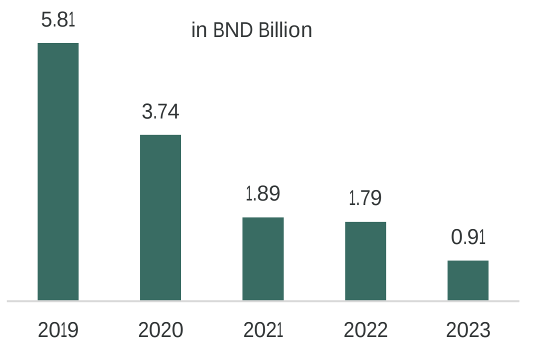


Figure 33. Total Number of Collective Investment Schemes

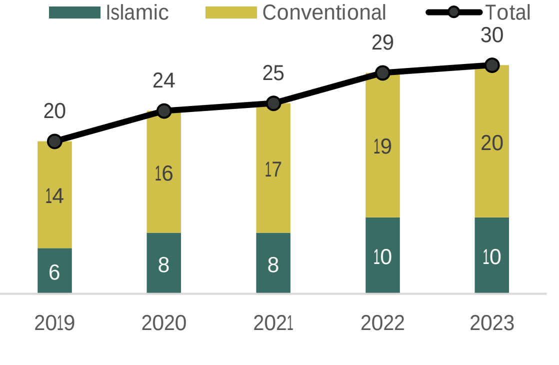
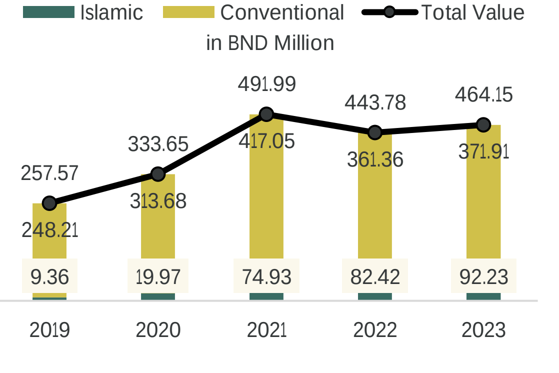


Figure 34. Total Assets under Distribution for Public Collective Investment Scheme



The slight increase in total AUD for the Public CIS may be driven by the positive market performance in 2023. Strategic asset allocations and diversification have also likely contributed to this modest appreciation.

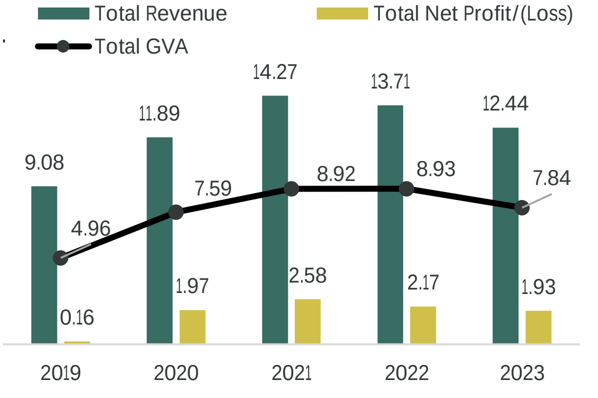
Assessment of Health

The year 2023 recorded a downturn trend in its Total Revenue, Total Net Profit, and Total GVA by 9.26%, 11.06%, and 12.21%, respectively. The declining trends may be attributed to the heightened market uncertainty which has dampened investor sentiment, resulting in lower trading volumes and decreased fee income for the financial institutions.

Given the need to maintain pace with evolving client expectations, the industry focused on long-term strategic decisions regarding investment in technologies and innovations. This indicated a transitional period where upfront costs outweighed immediate returns, impacting the overall value-added contribution at the end of 2023.

Notwithstanding the overall downtrends, the six CMSL holders fulfilled and maintained the minimum financial requirements according to the regulated activities they each were authorised to conduct.

Figure 35. Total Revenue, Total Net Profit and Total Gross Value Added



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

Box 4. Highlights of Regulatory Policy Development in the Capital Market Sector

(i) Notice on Licensing Examination – Amendment No.2

The second amendment to the Notice on Licensing Examination was issued on 1 February 2023. The amendment aims to update entry requirements concerning licensing examination for the Capital Markets Services Representative's Licence (CMSRL) pursuant to Regulation 40(3) of the Securities Markets Regulations, 2015, particularly in the conduct of certain regulated activities that may fall within the definition of Islamic investment business. This includes the regulated activities of investment advice as a financial planner, dealing in investments limited to dealing in units of CIS and dealing in investments limited to investment-linked insurance contracts.

(ii) Guidelines on Conducting the Regulated Activity of Giving or Offering Investment Advice (Amendment No.1)

Following the the second amendment to the Notice on Licensing Examination, the Central Bank also issued the first amendment to the Guideline on Conducting the Regulated Activity of Giving or Offering Investment Advice on 1 February 2023. The guideline aims to provide clear guidance on the requirements for any person who conducts or intends to conduct Islamic financial planning.

(iii) Notice on Commencement of Continuing Professional Development (CPD) Framework

The Notice on Commencement of CPD framework, issued on 12 May 2023, aims to vary regulation 40(4) of the Securities Markets Regulations, 2015, and to notify holders of CMSL and CMSRL, exempt persons, and their representatives on the commencement of CPD framework which is being administered and facilitated by BILIF.

(iv) Notice Conducting Islamic Investment Business and Guidelines on Conducting Islamic Investment Business

The Notice and Guidelines on Islamic Investment Business were issued on 29 September 2023. The notice aims to provide additional requirements to holders who are conducting Islamic investment business as an Islamic investment institution or by operating an Islamic window (collectively known as ICM participants). Such requirements include the responsibilities of a compliance officer, maintenance of accounts, segregation of funds, and transitional period. The guidelines, on the other hand, aim to provide guidance and clarity by outlining the operations, systems, and procedures for ICM participants regarding Islamic investment business.

3.4 MONEY-CHANGING AND REMITTANCE

Brunei Darussalam's 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 plays a crucial role in the tourism value chain and the cross-border mobility of funds, especially for foreign laborers and expatriates in the country.

In 2023, there were 20 businesses holding money-changers licenses, including four hotels. Most of these businesses operate in the Brunei-Muara district, with one money-changer located in the Belait district.

18 licensed remittance businesses were operating in the remittance sector in Brunei Darussalam in 2023. These businesses also mainly operate in the Brunei-Muara district, with one remittance business in the Tutong and Belait districts, respectively. In addition, one company under the Fintech Regulatory Sandbox offers digital remittance services.

Developments in Money-changing

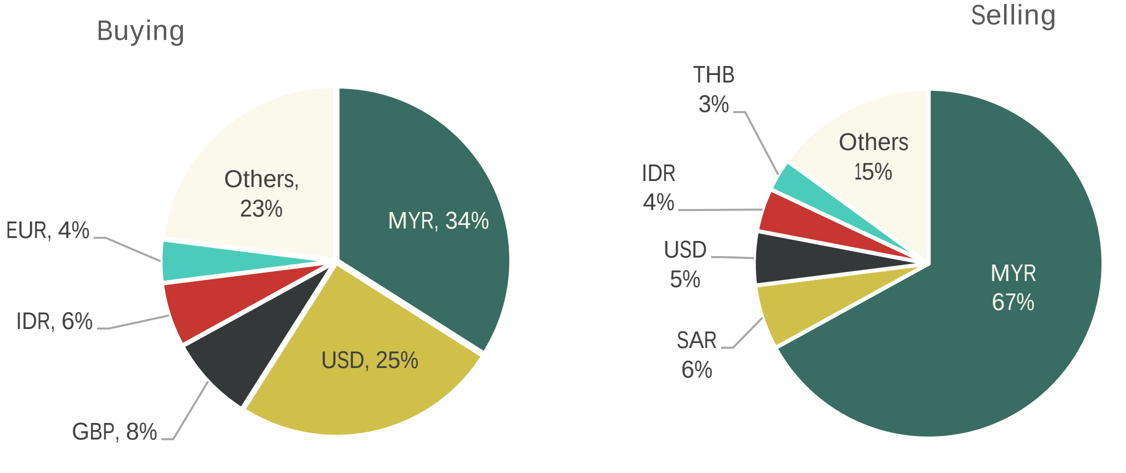
In 2023, the buying and selling of foreign currencies rose in terms of value by 40% to BND21 million, and 187% to BND258 million, respectively **(Table 6).** In terms of transaction volume, the buying and selling of foreign currencies rose significantly by 148% to 101,608 transactions, and 250% to 529,659 transactions, respectively **(Table 6).**

Malaysian Ringgit was the top purchased currency, accounting for 34% of the total value in 2023. This was followed by USD with 25% and British Pounds with 8%, respectively. The Malaysian Ringgit also led in foreign currency sold, representing 67% of the total value. This was followed by the Saudi Arabian Riyal and USD with 6% and 5%, respectively **(Figure 36).**

Table 6. Total Value of Buying and Selling of Foreign Currencies for Money-Changers

Year	2019	2020	2021	2022	2023	% Change y-o-y
	Total value In BND Million					
Buying	32	12	4	15	21	40%
Selling	170	39	8	90	258	187%
	Number of transactions					
Buying	153,179	49,753	13,386	41,003	101,608	148%
Selling	319,320	72,764	13,078	151,540	529,659	250%

Figure 36. Top Foreign Currencies (Buying and Selling) of Money-Changers



Development in Money Remittance

In 2023, the value and transactions for outward remittance fell by 15% to BND1.1 million and 4% to 1.09 million transactions, respectively, compared to 2022 **(Table 7)**. Malaysia ranked first as the top remittance destination in 2023, representing 33% of total outward remittance, followed by Indonesia at 25% and the Philippines at 14% **(Figure 37).**

Outward remittances to Malaysia were mainly for personal purposes, representing 97% of total transactions, equivalent to 1,065,397. The remaining 3%, accounting for 28,536 transactions, were for business purposes.

Figure 37. Top Outward Remittance Destinations: 2023

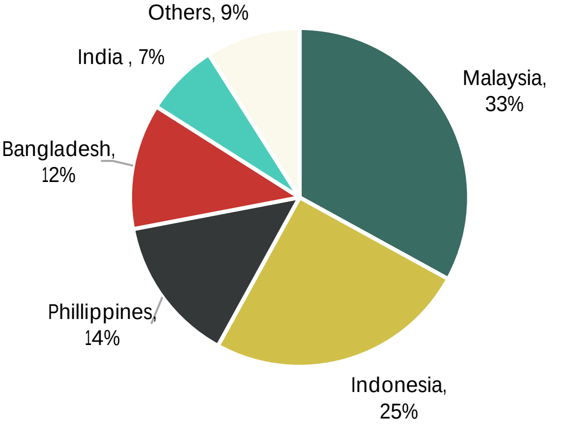


Table 7. Outward Remittance

Year	2019	2020	2021	2022	2023	% Change y-o-y
Transaction Value (BND Million)	730	1,058	1,291	1,274	1,077	-15%
No. of Transactions (in millions)	1.136	1.216	1.219	1.143	1.093	-4%

Box 5. Highlights of Regulatory Policy Development in the Money-Changing and Remittance Sector

(i) Licensing Criteria for Application Remittance Business

Since 2023, the licensing criteria for remittance businesses have been updated to reflect the changing landscape, emphasising both technological innovation and the ability to offer a differentiated value proposition. To be considered, applicants must present a transformative value proposition that leverages cutting-edge technology across their remittance services. This includes demonstrating a commitment to innovation and a focus on improving the remittance experience. Aspiring applicants are expected to prove that their operations and business model will not only enhance the remittance sector but also uphold the integrity and stability of Brunei Darussalam's financial system while meeting the public's interests and needs.

(ii) Amendment to Legislation

The Central Bank has also committed to the introduction of the Money-Changing and Remittance Business (Amendment) Order, 2024, which is at its final approval stage. This legislation is intended to make enhancements to the existing legal and regulatory framework by providing enhanced regulatory requirements for the licensing and supervision of the money-changing and remittance businesses. This includes 'fit and proper' requirements for directors and controllers, oversight powers to conduct inspections, issuance of guidelines, and the authority to impose compounds. Further, it will include provisions to facilitate the regulation of virtual assets and virtual assets exchange businesses, particularly on the buying and selling of virtual assets and the facilitation of virtual assets exchanges.

(iii) Training and Awareness

The Central Bank conducted several training sessions for the money-changing and remittance businesses to enhance their operations.

Period	Training	Objectives
Jul and Oct 2023	Centralised Statistical System (CSS) refresher session	To ensure improvement in the quality, accuracy, and timeliness of returns submitted by the businesses to the Central Bank.
Sept 2023	Workshop on internal policies for money-changing and remittance businesses	To ensure the adequacy of written internal policies and standard operating procedures by businesses.
Dec 2023	BDCB Licensing & Regulatory Transactions (BLRT) engagement session	To ensure the accuracy and timeliness of submitting operational applications to the Central Bank.

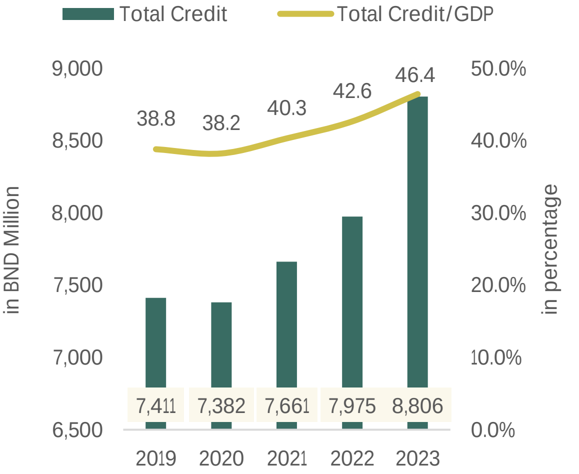
04
Household and Business Sector

In Brunei Darussalam, funds are intermediated mainly through banks and finance companies. This section focuses on lending/financing to households and businesses within these institutions.

4.1 Credit-to-GDP

The total credit (of banks and finance companies) to GDP increased from 42.6% in 2022 to 46.4% in 2023 **(Figure 38)**. A steady increase in total credit has been recorded since 2020. As of 2023, loans/financing to the household sector account for 52.0% of the total, while the business sector accounts for 48.0%.

Figure 38. Credit-to-GDP



Source: GDP – annual GDP figures from JPES

4.2 Average Financing Rates by Economic Sectors

Under the Banking Order, 2006, Islamic Banking Order, 2008, and Finance Companies Act (Cap. 89), the Central Bank can determine the financing rates payable to banks and finance companies. The current ceiling imposed includes:

- New motor vehicles: 4.25% flat rate per annum
- Used motor vehicles: 4.75% flat rate per annum
- Personal loan/financing: 7.50% effective interest rate per annum
- Credit cards: 1.5% per month on the total outstanding amount

Table 8 provides the average lending/financing rates by economic sector, highlighting an increase in the household sector in 2023. For the corporate sector, other than traders, manufacturing, transportation, financial, and agriculture sectors, the average lending/financing rates for other sectors declined in 2023 compared to 2022. The financial sector had the highest lending financing rate in 2023 at 6.50%, while the commercial property sector had the lowest rate at 5.27%.

Table 8. Average Lending/Financing Rates by Economic Sectors

Sectors	2019	2020	2021	2022	2023
Household Sector					
Personal	5.97	5.97	5.86	5.65	6.09
Credit Cards	14.28	14.25	14.07	13.42	14.40
Residential Housing	5.06	5.01	4.93	4.93	4.32
Structural Home Improvement	5.79	5.89	5.58	6.18	6.49
Corporate Sector					
Commercial Property	5.30	5.09	5.13	5.36	5.27
Traders	5.83	5.61	5.61	5.60	5.63
Manufacturing	5.45	5.34	5.17	5.26	5.49
Transportation	5.21	5.66	5.64	5.40	5.44
Services	5.96	5.87	5.71	5.45	5.41
Infrastructure	6.06	9.01	6.43	6.42	6.26
Financial	6.97	3.39	5.56	3.34	6.50
Telcommunications and IT	6.20	5.65	5.49	6.00	5.54
Tourism	5.80	6.14	5.76	5.74	5.64
Agriculture	5.14	5.61	5.47	5.60	5.65

In terms of economic sectors, the largest portion of loans/financing in Brunei Darussalam was attributed to the household sector. Automobile for personal use represented 19%, followed by residential housing at 17%, and personal loans/financing, including credit cards, at 16%. This indicates the significant contribution of the household sector to the overall credit market domestically.

4.3 Loans/Financing to the Household Sector

Within the household sector, the main purposes for financing were automobiles (18.5%), residential housing (17.3%), and personal loans, including credit cards (16.0%). This indicates that automobile ownership is a primary concern of households, followed by home ownership. The maximum financing rate on automobiles is applied to ensure Bruneians have access to affordable transportation.

The household sector financing grew by 5.1% in 2023, with automobiles experiencing the highest growth of 7.4% to BND1.6 billion, while consumer durables financing decreased by 19.2% to BND24.1 million.

Figure 39. Trends of Total Loans/Financing in the Household Sector

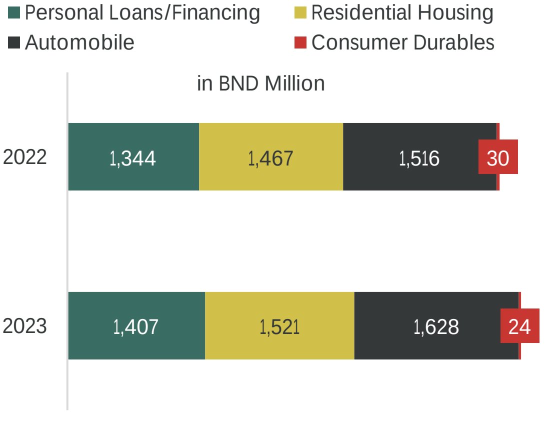
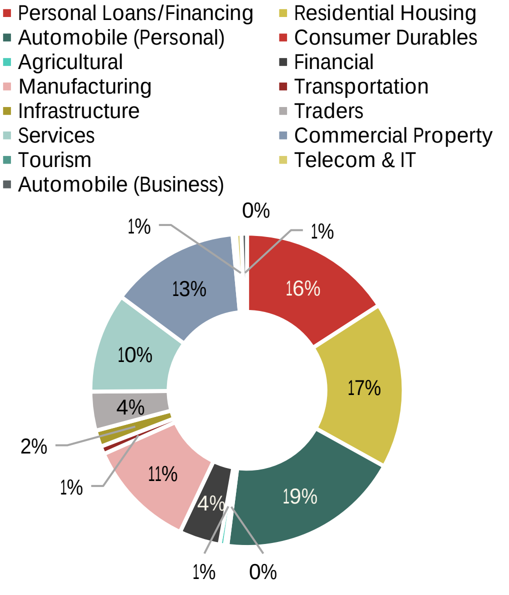


Figure 40. Proportion of Loans/Financing in Brunei Darussalam by Economic Sectors: 2023

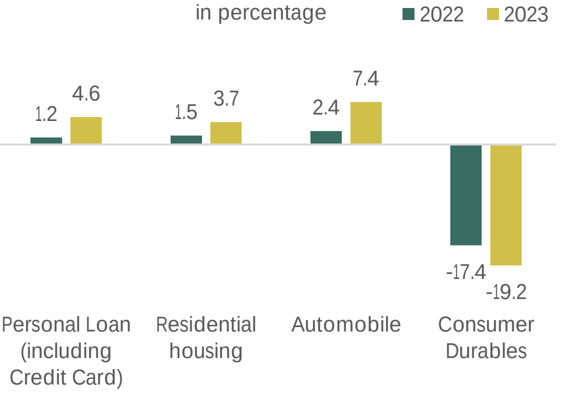


Credit Risk in the Household Sector

In 2023, the overall credit quality of the household sector improved significantly, with a 16.32 decline in the gross NPLF volume. This was contributed by continuous improvements in banks' credit risk management practices, keeping the NPLF at low levels.

The overall household sector NPLF ratio improved to 1.1% in 2023 from 1.4% in 2022. Residential Housing Loan/Financing NPLF ratio declined marginally to 1.8% in 2023 compared to 2.5% in 2022, and Personal Loan/Financing NPLF ratio improved moderately from 1.2% in 2022 to 1.0% in 2023. In contrast, the Consumer Durables NPLF ratio increased to 2.2% in 2023 from 2.1% in 2022.

Figure 41. Growth of Total Loans/Financing in the Household Sector



Loans/Financing to the Business Sector

The Non-Oil and Gas sector in Brunei Darussalam plays a vital role in the country's economic development, particularly in its diversification efforts, and is a good indicator of macroeconomic conditions in the country beyond the oil and gas sector. **Figure 42** illustrates that the credit extended to the Non-Oil and Gas sector accounted for 62.1% of total business credit in 2023.

The key sectoral exposures in the business lending/financing portfolio were Commercial property (28.0%), Manufacturing (23.7%), and Services (21.6%).

Bank lending/financing to the business sector remained relatively strong, as it expanded by 16.8% in 2023 compared to 7.4% in the previous year. The increase in loans/financing to the business sector was mainly driven by the Commercial property, Services, and Financial sectors. These sectors expanded by 49.4% to BND1.2 billion, 35.9% to BND912.6 million, and 38.0% to BND374.5 million, respectively, when compared to the previous year **(Figure 44).**

Credit Risk

The overall NPLF ratio in the business sector also declined to 3.5% in 2023 compared to 4.6% in 2022 **(Figure 45).** A deterioration in the NPLF ratio was observed in the Tourism sector, rising to 37.8% in 2023 compared to 7.5% in the previous year **(Figure 45).**

The volume of NPLF in the business sector decreased by 10.6% in 2023. Sectoral analysis of the business sector NPLF showed that the decrease in the business sector NPLF was largely driven by the Services, Traders and Manufacturing sectors by 55.7%, 38.2% and 17.8% respectively. In contrast, business sectors which exhibits a significant increase in NPLF in 2023 includes Commercial Property Financing by 21.5% and Tourism by 356.3% **(Figure 46).**

Figure 42. Trends of Loans/Financing in the Oil and Gas and Non-Oil and Gas Sectors

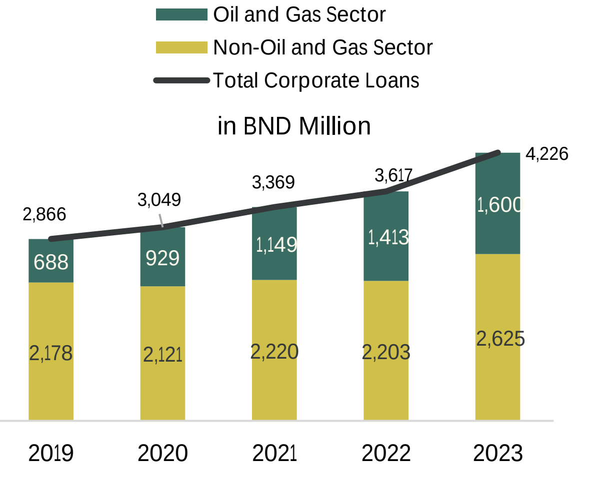


Figure 43. Growth of Loans/Financing in the Oil and Gas and Non-Oil and Gas Sectors

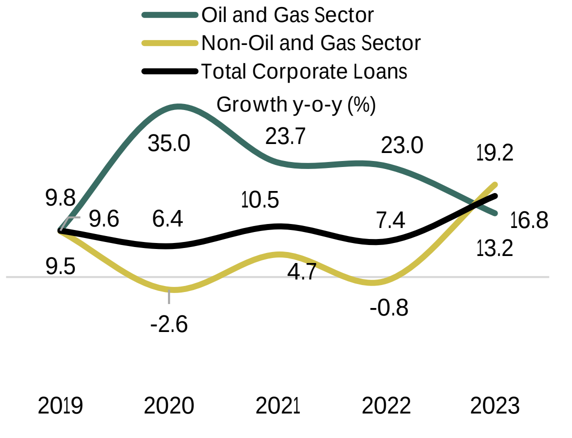


Figure 44. Trends in Business Sector Loans/Financing in Brunei Darussalam

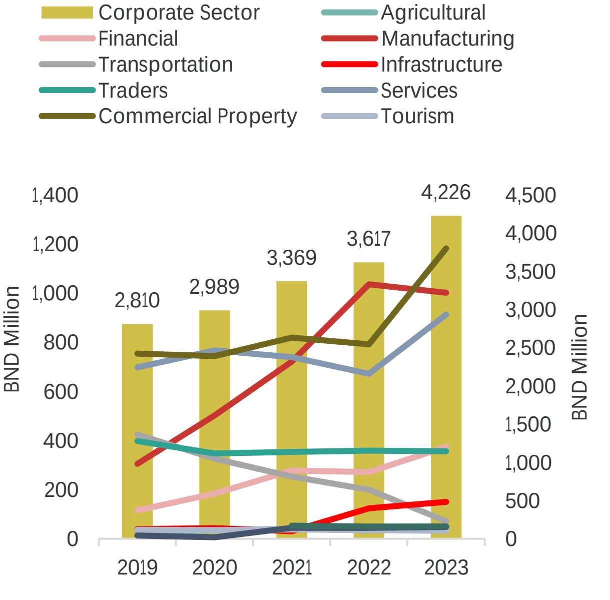


Figure 45. Trends in NPLF Ratio in Certain Business Sectors

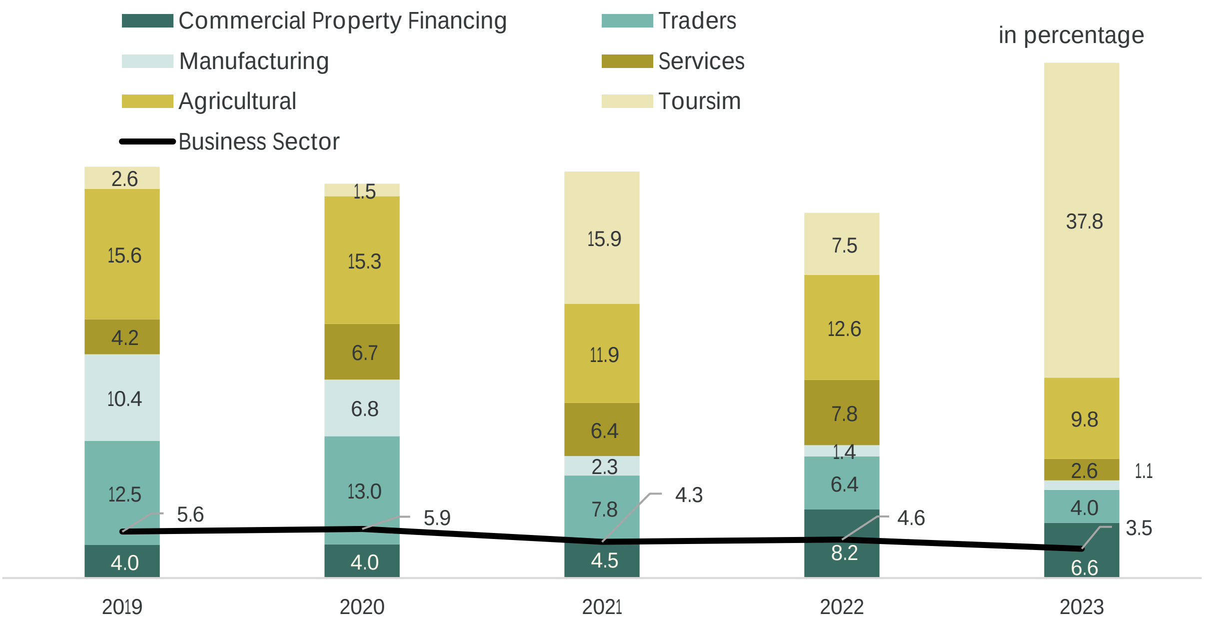
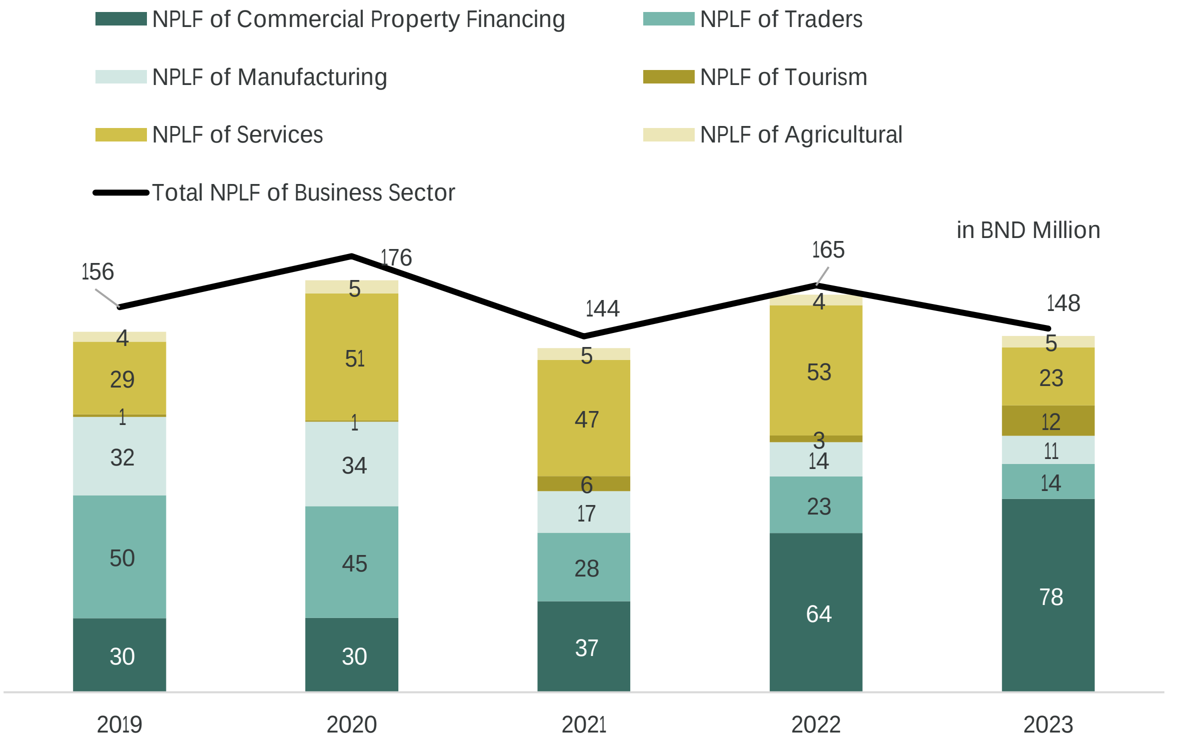


Figure 46. Trends and Growth of NPLF in Certain Business Sectors



05
Special Studies

5.1 Residential Property Price Index

Housing represents the largest highly leveraged investment decision that households make in their lifetime, with housing wealth and the corresponding mortgage comprising a significant portion of households' balance sheets. Hence, developments in Brunei Darussalam's housing market are critically important to various stakeholders, including the private sector, the general public, and policymakers. For the Central Bank, serving as the financial regulator of Brunei Darussalam, the domestic property market holds considerable macroeconomic implications. In particular, monitoring and guarding against potential housing bubbles, which could impede the Central Bank's objectives of attaining and sustaining price stability, and ensuring the stability of the financial system, primarily achieved through the formulation of regulations and prudential standards.

Since July 2018, the Central Bank has started publishing the Residential Property Price Index (RPPI) every quarter. The RPPI is an index designed to measure the rate at which the prices of private residential properties purchased by households are changing over time. The RPPI serves as a valuable gauge for financial stability by assessing homeownership affordability and the overall health of the real estate market, which in turn can influence economic growth. The data is based solely on house financing or mortgage loans approved by banks and does not include cash transactions or national housing.

Q1 2015 was the benchmark quarter where RPPI was at 100. Based on the data collected, the general residential property market appears to remain in a downturn and has not recovered to the pre-2015 level **(Figure 47)**. Although earlier data is not available, the exact onset of the downturn remains unclear. Notably, the number of transactions recorded in the RPPI shows an increasing trend over time, while the overall median purchase price of transactions trends downwards.

Figure 47. RPPI (Q1 2015 = 100)

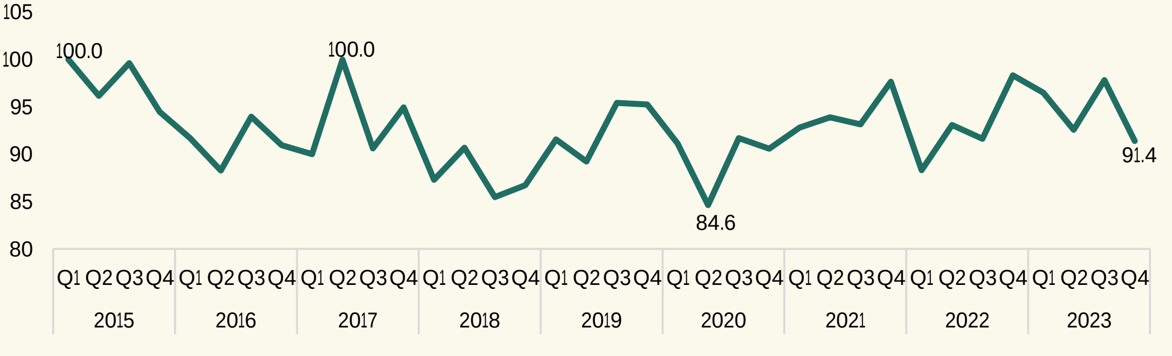
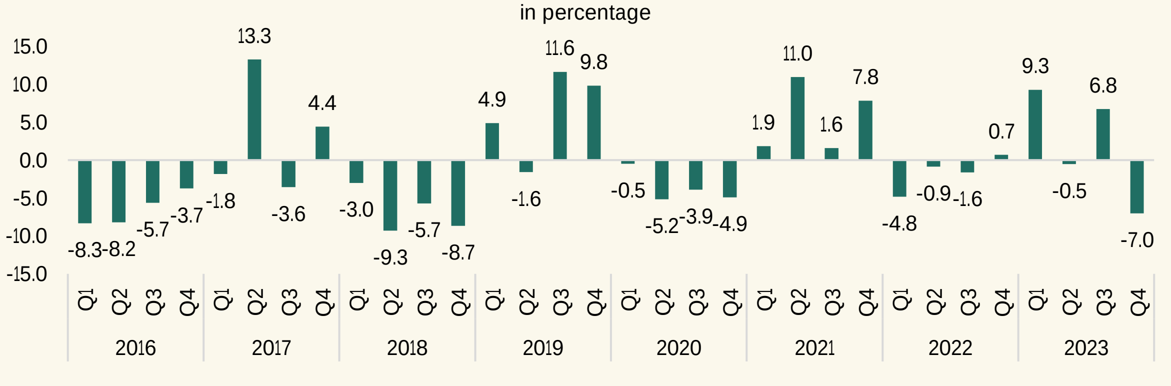


Figure 48. RPPI (year-on-year)



In terms of the number of transactions by property type, detached houses are the most frequently purchased, followed by semi-detached and terrace houses **(Figure 49)**. Generally, the median purchase price of detached houses is higher than that of other house types **(Figure 50)**. However, in some quarters, other house types may have slightly higher median prices than detached houses due to varying characteristics and locations of the properties purchased. Most transactions are concentrated in the Brunei-Muara district **(Figure 51)**, being the most populous area.

Figure 49. Number and Value of Transactions by Property Type

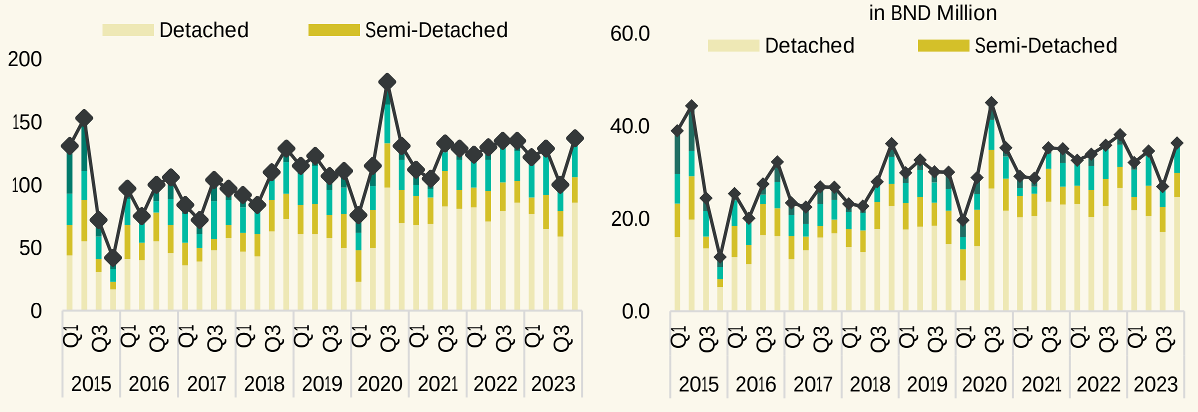


Figure 50. Median Purchase Price of Transaction by Property Type

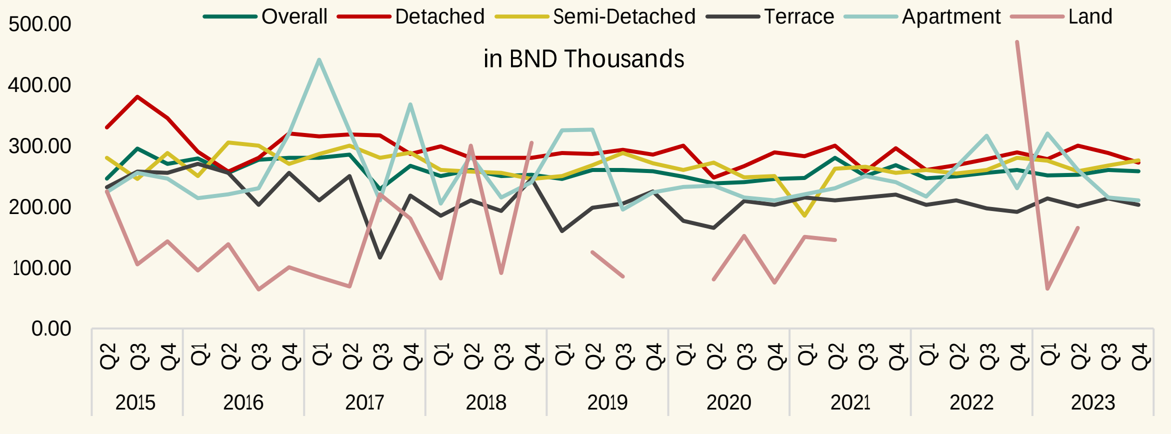
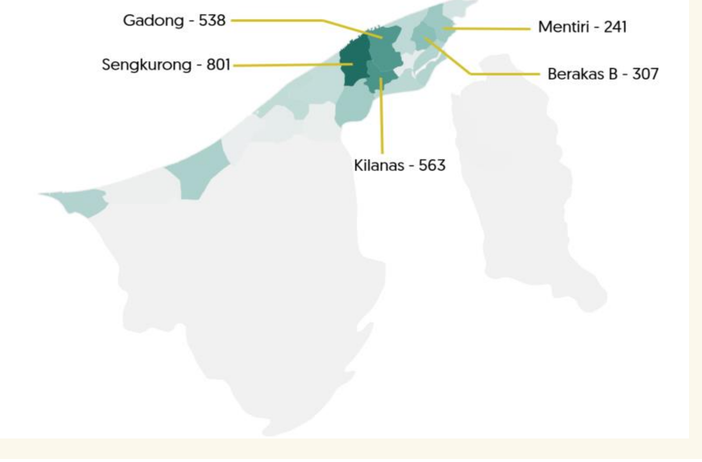
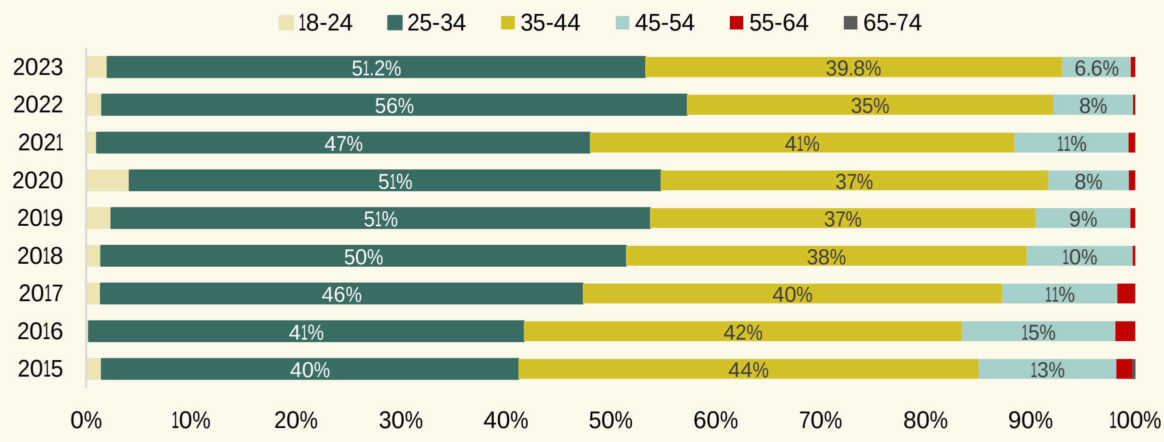


Figure 51. Top Five Mukims by Number of Transactions



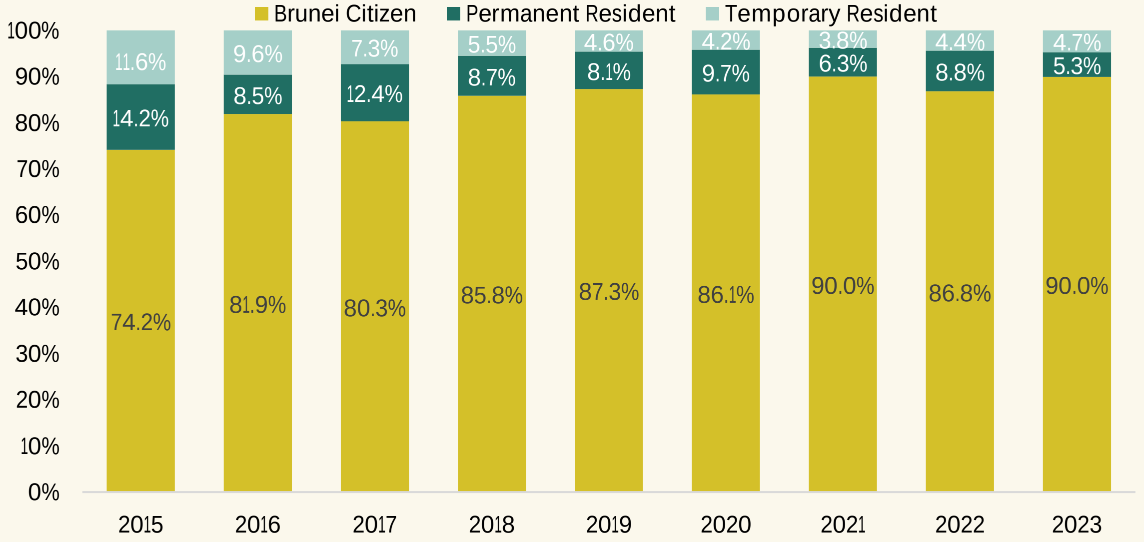
In terms of demographics, most house purchasers are between 25 to 35 years old **(Figure 51)** and are Brunei citizens **(Figure 52).**

Figure 52. Age Profile of Buyers[1]



[1] Buyers may jointly own a property in some of the transactions recorded.

Figure 53. Nationality of Buyers[1]



[1] Buyers may jointly own a property in some of the transactions recorded.

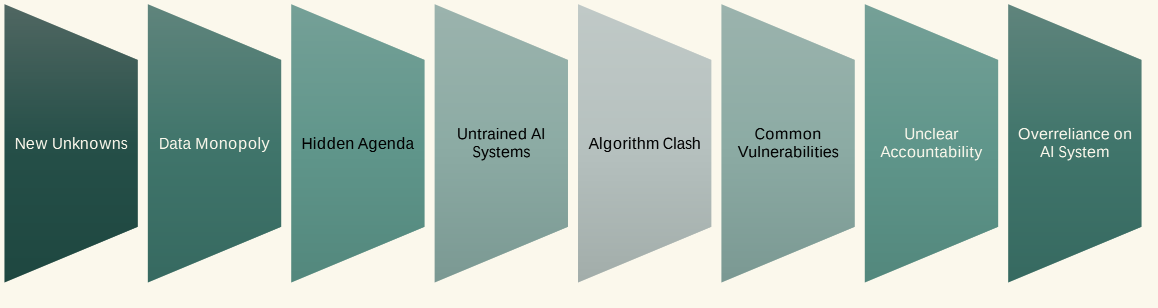
5.2 Ethical Risk of Artificial Intelligence to Financial Stability

Artificial Intelligence (AI) has made significant advancements over time and has become more intelligent and sophisticated. Banks and financial institutions are also exploring the use of AI solutions to enhance their customer service delivery and streamline their business operations. However, as the adoption of AI continues to grow, concerns regarding ethical risks posed by AI are also on the rise. These ethical risks, when combined with the complex nature of technology risks and the interconnectedness of the financial services industry, can lead to widespread and systemic risks to financial stability.

This box article aims to shed light on the ethical principles and risks associated with AI systems in the financial services industry. It will also discuss how these risks can lead to a financial crisis or shock. Additionally, the article will provide insights into the guidance issued by the Central Bank, as the regulator to the banks and financial institutions.

Ethics Principles in Artificial Intelligence

Ethical Risks of Artificial Intelligence



Source: Svetlova, E. (2022). AI ethics and systemic risks in finance. AI Ethics 2, 713-725
Danielsson, J. and Uthemann, A. (2023). On the use of artificial intelligence in financial regulations and the impact on financial stability. arXiv (Cornell University).

New Unknowns: It is important to note that the use of AI systems can result in unforeseen and unexplored events, which humans may not have considered yet. These events may lead to new solutions, but they can also be exploited by criminals to commit fraud or manipulate the market. Furthermore, AI systems may create vulnerabilities in the financial system that current controls and measures may not be able to address. This can lead to new types of crises that we may not have experienced before.

Data Monopoly: AI systems are dependent on data, which means that financial institutions that adopt data-driven business models could emerge as new, systemically significant financial institutions. Such a scenario could also lead to data monopoly, where a financial institution hoards excessive data that hinders the development of other financial institutions. Alternatively, other financial institutions might become reliant on the institution with the largest data pool, making it a single point of failure for the rest.

Hidden Agenda: AI systems with complex algorithms and models that are hard to explain may cause issues related to transparency. It is not clear if these AI systems are following proper business processes, complying with policies, and operating within acceptable business conduct. These opaque AI systems may lead financial institutions to use them for unfair practices, such as manipulations, concealment, or privacy abuse. When these hidden flaws of AI systems are exposed, it can severely damage public trust in digital financial services and financial institutions.

Untrained AI Systems: AI systems require good datasets and supervision. AI system supervisors must monitor and correct any errors or mistakes in the AI system until it becomes optimal. The training environment should also be as realistic as possible to come up with more precise actions. Untrained AI systems can put financial institutions at risk of providing unreliable actions or services to their customers. This can be severe if untrained AI systems are used to perform high-risk activities such as high-value transactions.

Algorithm Clash: AI algorithms are designed to be intelligent and achieve optimal outcomes as much as possible. When AI systems using similar algorithms pit against each other, such as in trading, they may compete and try to outsmart each other. In such a situation, the AI algorithms may follow similar strategies and move markets in the same direction, leading to crowding and herding behaviour, which can result in a market crash.

Common Vulnerabilities: AI systems that are trained on the same datasets and exposed to the same environment tend to share common weaknesses. These AI systems may generate inaccurate or unreliable outcomes or become unstable. Moreover, systems that have undergone some testing may still have undetected bugs or security vulnerabilities. If multiple institutions rely on the same AI systems with common vulnerabilities, it could have a systemic impact on financial services.

Unclear Accountability: There are concerns regarding the accountability of AI systems when they make decisions for humans. Who should be held responsible for any wrongdoings caused by AI systems – users, system owners, or developers? Can an AI system itself be blamed? In financial services, when AI systems make mistakes, it creates a level of deniability for the institutions. If the accountability of AI decisions is not established clearly, certain parties may be able to engage in unethical activities legally. For instance, financial institutions can easily dismiss any mistakes in AI systems as customer negligence.

Overreliance on AI Systems: Regardless of the reliability of AI systems, some customers may still find them complicated. Some financial institutions may only focus on the desired outcomes of the AI systems, overlooking the user-friendliness and complexity of using these systems. This can lead to inclusivity issues for consumers, especially if financial institutions make an abrupt decision to use full AI systems for their service delivery. Less technology-aware customers may be neglected and unable to access financial services as normal.

Erroneous and Fake Data: The accuracy of AI systems is heavily dependent on the quality of the data they are fed. Any incorrect data inputs can result in inaccurate outcomes which could be dangerous. Cybercriminals can manipulate AI systems by introducing fake data, a technique known as "data poisoning", which can contaminate the database used by the system, leading to wrong decisions and transactions. Moreover, the absence of factual data can lead to data hallucination. In situations where there is a lack of information, AI systems may make assumptions or even create their own fake data references. These can cause AI systems to deliver incorrect and unreliable outcomes

Shocks and Crises

Slow-Burn Crisis

When AI systems are prone to errors, combined with multiple incidents of AI systems used in unethical ways or fraud on the consumers, over time this will create friction on consumer trust and gradually degrade financial stability.

Exacerbated Crisis

While the financial service industry is facing other financial shocks, a timely attack or distribution on AI systems, such as through data poisoning or herding on trading systems, can worsen shocks to cause crisis.

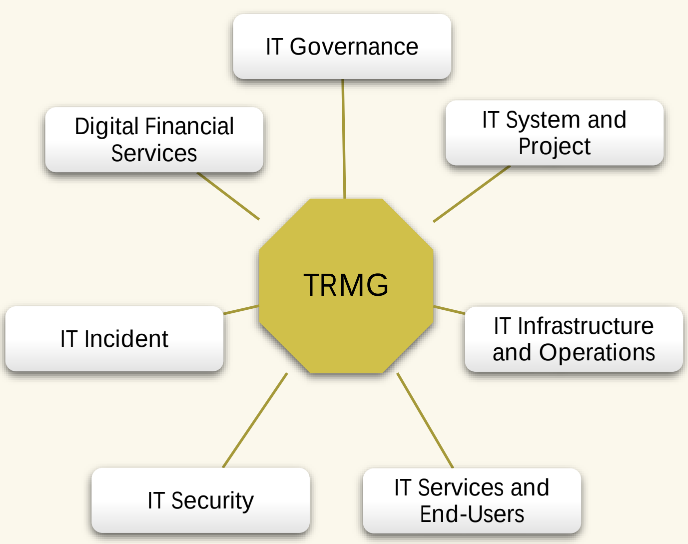
Initiated Crisis

When unknown events caused by AI systems lead to unexpected and widespread impacts on financial institutions and stakeholders, either caused by the business or external AI systems.

Measures to Address These Ethical Issues for Financial Institutions

In 2023, the Central Bank issued a Notice on Technology Risk Management to strengthen the resilience of the financial sector amidst evolving technological risks. The notice reflects new advancements and emerging risks, mandating financial institutions to establish and implement effective technology risk management frameworks, strategies, and best practices.

In 2022, the Guidelines on Technology Risk Management (Guidelines No. TRS/G-2/2022/1) was issued, outlining measures and controls to reduce ethical risks and encourage banks and financial institutions to test the AI system. The guidelines cover the following areas:



Financial institutions are advised to put in place the following measures and controls:

- To be mindful of other notices or guidelines issued by the Central Bank that are applicable to the activities involved in the AI system. The financial institutions should be able to demonstrate that the AI system will be able to maintain compliance with such notices and guidelines.
- Ensure the AI system or application coding follows ethical standards and suitable best practices for software programming, including ensuring that the security-by-design approach is taken at every phase of the project.
- The AI source code, feature engine, and process flow should be made available for review and audit when required. The scope of this audit should include assessing fairness, privacy, security, and transparency.
- Plan a suitable and understandable analysis method that will be used by the AI system. This should be supported with sufficient and relevant industry benchmarking, statistical or common trend analysis, and/or modelling to create a suitable baseline for the AI system.
- The AI system should be provided with sufficient near-real historical data to improve the reliability of its analysis for design and development.
- Ensure any actions taken by the AI system are justified with response codes that describe the data and parameters used to come up with the concluded actions. The financial institutions should also ensure that the actions are recorded and auditable.
- Ensure there are means or methods for the FIs to allow human intervention to the AI system when required. Financial institutions should also be capable of rolling back erroneous AI actions, such as retracting false approval and correcting falsely analysed data.
- As the AI system is exposed to more data and use, the AI system may behave unpredictably over time from the new data patterns. Therefore, financial institutions should also periodically monitor the output of their AI system throughout the use of the system.
- Financial institutions should also provide users with a means to provide feedback on the AI system including reporting errors and biases, and suggest improvements to the criteria used for data input.

Testing of AI System

- The AI system should be thoroughly tested in a development environment first, and then evaluated against normal business processes.
- The adoption level of an AI system can be presented into the following:

Level 1: Reference	Analysis of information based on pre-defined rules and set of answers. Only provide information to support work.
Level 2: Recommendation	Processing information based on pre-defined rules and open answers. Recommend actions for the users to consider.
Level 3: Prioritisation/Rule-based	Automated rule-based processing. Mainly to provide alerts and prioritisation but may run actions that do not involve decision-making.
Level 4: Scoring/Behaviour-based	Analysis based on response and behavior. Use scoring before automatically applying actions. Able to perform data prediction and forecasting.
Level 5: Adaptive/Machine Learning	Full-auto processing. Able to learn behaviours, define patters, and adapt.

- AI applications on critical systems should start at Level 1, Level 2, or Level 3 first, subject to the financial institutions' risk assessment.

- Activity logs of all processes should be regularly reviewed to assess the accuracy and to correct errors, if any until the error rate is 5% or lower for at least three consecutive months before moving to Level 4, respectively.

- The AI system at Level 4 should be closely monitored for potential false positives. Transparency and user consent are important as the AI system collects users' behavioural information.

- Before moving to level 5, financial institutions should ensure the AI system's error rate is no more than 1% over a period of 12 consecutive months while in Level 4.

- Financial institutions should ensure sufficient test results that meet the criteria above before implementing or moving to any level of the AI system.

- Reliable near-real data should be used when testing the AI system. This may be obtained from live test data in controlled environments such as focus groups or beta testing or from suitable datasets provided by reliable organisations.

To ensure the successful implementation of AI systems, banks and financial institutions should be aware of the ethical principles when implementing AI systems for their business. These include but are not limited to accountability, accuracy, integrity, privacy, fairness, transparency, security, and inclusivity.

Banks and financial institutions should be mindful of the ethical principles and risks associated with AI implementation to ensure the successful integration of AI systems and avoid potential negative impacts on their business operations and consumer data.

5.3 Brunei **Darussalam’s** Payment Services Landscape: Crossing the Digital Frontier

Brunei Darussalam's payment services landscape continues to evolve, driven by initiatives aimed at promoting financial inclusion and digitalisation. The Digital Payment Roadmap for Brunei Darussalam 2019-2025, introduced in 2018, together with the Digital Economy Masterplan 2025 published in 2020, has propelled the nation’s focus on the development of digital payment infrastructures. Its primary appeal lies in enabling a safer, more secure, and instantaneous mode of transactions between individuals and businesses, providing an alternative to the traditional cash-intensive nature, especially seen in low-value commercial transactions. Such digitalisation fosters new ideas and innovative solutions, making it particularly relevant to the payments industry.

This update provides an overview of key developments and trends as of the end of 2023.

- **Regulatory Enhancements:** The Central Bank continues to update and enhance its legal and regulatory framework to create an environment that fosters innovation while prioritising safety and security. Notable regulatory updates include the inclusion of digital payment token services in the Notice on Requirements for Payment System Operators, enabling eKYC through Notice and Guidelines on Measures for Non-Face-to-Face Customer Onboarding and Ongoing Customer Due Diligence, and updates to the Notice on Technology Risk Management.

- **Emergence of New Players**: Traditionally, the payments landscape has been dominated by banks. Although banks still maintain a pivotal role in payments, the industry has seen the entry of new non-bank participants. Over the past two years, the Central Bank has authorised four payment services operators, including telecommunications and FinTech companies. These entities typically offer account issuing, e-money issuing, and merchant acquiring services.

Company Name	Approved Services			
	Account Issuing	E-money Issuing	Merchant Acquiring	Digital Payment Token
Beep Digital Solutions Sdn Bhd	✓	×	✓	×
Datastream Digital Sdn Bhd	✓	✓	✓	×
Progresif Sdn Bhd	✓	✓	✓	×
ThreeG Media Sdn Bhd	✓	✓	✓	×

Further, the establishment of the National Digital Payments Network (ndpx) and the introduction of the Digital Payment Hub is expected to revolutionise the payments ecosystem in the country, unlocking interoperability between payment providers and thus, allowing seamless and instant digital payment transactions.

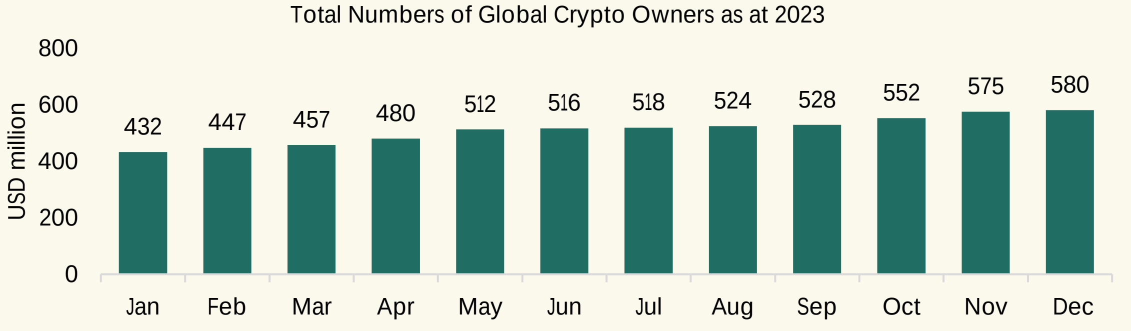
- **Expansion of service offerings:** The emergence of new players, particularly FinTech companies, has driven an expansion of service offerings within the financial sector. These companies have introduced solutions like e-wallets and QR code payments to cater to evolving consumer preferences for convenient digital transactions. In response, traditional banks and financial institutions have diversified their service offerings by introducing a wider range of contactless payment options, including their own QR codes. A growing prevalence of credit and debit cards equipped with Near Field Communication (NFC) technology also signifies a shift towards a more digital payments landscape.

- **Cross-border collaboration:** On the International front, Brunei Darussalam aspires to be on par with its counterparts within the ASEAN region and beyond. Motivated by this objective, the Central Bank is committed to being part of several ASEAN cross-border initiatives, such as being a participant of Regional Payment Connectivity (RPC) initiative. The success of the RPC centres around the enhanced collaboration of all partners on payment connectivity, making inter-country payments more convenient and affordable as well as enabling individuals and businesses to conduct transactions across the ASEAN Region with ease.

Additionally, the Central Bank is also a special observer to the Bank for International Settlements (BIS) Innovation Hub Project Nexus. The project's ultimate objective is to enable instantaneous cross-border payments by streamlining diverse payment infrastructures through multilateral linkages.

5.4 Promoting Awareness and Understanding of Virtual Assets

The total number of global cryptocurrency owners increased by 34% in 2023, rising from 432 million in January to 580 million in December despite macro headwinds.



At present, there is no single or generally-recognised definition of crypto-assets. There is no one-size-fits-all type of prescriptive taxonomy due to the definitional and interpretive jurisdictional differences that currently exist across the world. At a global level, various international bodies and international standard-setting bodies such as the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the Financial Action Task Force (FATF) have come up with their own definition of crypto-assets/virtual assets.

For instance, a crypto-asset, as defined by the FSB, is a type of private digital asset that depends primarily on cryptography and distributed ledger or similar technology. Meanwhile, the IOSCO defines crypto-asset, as an asset, sometimes called a “digital asset,” that is issued and/or transferred using distributed ledger or blockchain technology. Crypto-assets include, but are not limited to, so-called “virtual currencies”, “coins”, and “tokens”. To the extent digital assets rely on cryptographic protocols, these types of assets are commonly referred to as “crypto-assets”. In addition, the FATF defines a virtual asset as a digital representation of value that can be traded or transferred digitally and used for payment or investment purposes. However, virtual assets do not include digital representations of fiat currencies, securities, and other financial assets that are already covered elsewhere in the FATF Recommendations.

In February 2022, the FSB published an updated risk assessment of crypto-assets. The report concluded that crypto-asset markets are fast evolving and could reach a point where they represent a threat to global financial stability due to their scale, structural vulnerabilities, and increasing interconnectedness with the traditional financial system. The FSB also published a report on the financial stability implications of multifunction crypto-asset intermediaries (MCIs) in November 2023. The report warned that combining different activities within MCIs, many of which are typically restricted or separated in traditional finance, could exacerbate MCI vulnerabilities.

In Brunei Darussalam, the definition depends on the type of crypto-assets. For instance, in the Guidelines on Offering and Trading of Security Tokens, security tokens may be tokens that provide rights and obligations akin to securities as set out in Part I, Schedule – Securities and Investment Business of the SMO, 2013. Meanwhile, a digital payment token is defined, under the Notice on Requirement for Payment Systems (Amendment No. 2), as any digital representation of value (other than an excluded digital representation of value) that:

(a) is expressed as a unit;
(b) is not denominated in any currency, and is not pegged by its issuer to any currency;
(c) is, or is not intended to be, a medium of exchange accepted by the public, or a section of the public, as payment for goods or services or for the discharge of a debt;
(d) can be transferred, stored or traded electronically; and
(e) satisfies such other characteristics as the Authority may determine.

Annex

Banks

Trends in the Financial Soundness Indicators (Banks): 2019-2023

Year	2019	2020	2021	2022	2023
Capital Adequacy	in percentage (%)				
Tier 1 Capital to Risk Weighted Assets	20.5	21.2	21.8	20.6	21.1
Regulatory Capital to Risk Weighted Assets	20.9	21.5	22.1	20.9	21.4
Non-Performing Loans/Financing (Net of Specific Provisions) to Capital Funds	6.5	6.1	4.9	5.7	4.4
Credit Quality	in percentage (%)				
Non-Performing Loans/Financing to Gross Loans/Financing	4.7	4.7	3.6	3.3	2.6
Net Non-Performing Loans/Financing to Gross Loans/Financing	2.4	2.4	1.9	2.1	1.6
Provision Coverage	48.1	48.2	47.1	37.8	37.2
Profitability	in percentage (%)				
Return on Assets (Before tax)	1.8	1.5	1.3	1.3	2.1
Return on Equity (After tax)	12.6	10.5	8.6	9.3	13.7
Efficiency Ratio	47.4	51.2	57.1	57.7	46.1
Liquidity	in percentage (%)				
Liquid Assets to Total Assets	46.8	48.3	45.5	43.7	43.6
Liquid Assets to Total Deposits	55.5	60.3	54.0	51.8	53.2
Liquid Assets to Demand and Savings Deposits (Non-bank customers)	102.9	95.9	84.0	94.9	91.9
Loans/Financing to Deposits Ratio	37.2	39.7	37.3	36.5	43.7

Annex

Banks

Aggregated Banks' Balance Sheet: 2019-2023

	2019	2020	2021	2022	2023
	Total Assets (in BND millions)				
Cash and Bank Balances	2,722	2,381	3,256	3,207	2,013
Placement with banks	7,586	6,778	6,243	6,341	6,223
Investments	2,115	2,958	3,474	4,059	3,919
Loans/Financing (Net)	5,711	5,662	5,951	6,265	7,002
Other Assets	626	523	442	800	661
Total Assets	18,759	18,303	19,365	20,672	19,817
	Total Assets (% of total)				
Cash and Bank Balances	14.5	13.0	16.8	15.5	10.2
Placement with banks	40.4	37.0	32.2	30.7	31.4
Investments	11.3	16.2	17.9	19.6	19.8
Loans/Financing (Net)	30.4	30.9	30.7	30.3	35.3
Other Assets	3.3	2.9	2.3	3.9	3.3
Total Assets	100.0	100.0	100.0	100.0	100.0
	Total Assets (% change)				
Cash and Bank Balances	+38.5	-12.5	+36.7	-1.5%	-37.2
Placement with banks	-9.8	-10.6	-7.9	+1.6%	-1.9
Investments	-3.8	+39.9	+17.4	+16.9%	-3.5
Loans/Financing (Net)	+8.3	-0.9	+5.1	+5.3%	+11.8
Other Assets	+30.4	-16.4	-15.6	+81.2%	-17.4
Total Assets	+2.3	-2.4	+5.8	+6.7	-4.1
	Total Liabilities (in BND millions)				
Deposits	15,831	14,662	16,322	17,464	16,247
Borrowing and Other Liabilities	736	1,327	676	820	974
Capital Funds	2,192	2,313	2,368	2,387	2,596
Total Liabilities	18,759	18,303	19,365	20,672	19,817
	Total Liabilities (% of total)				
Deposits	84.4	80.1	84.3	84.5	82.0
Borrowing and Other Liabilities	3.9	7.3	3.5	4.0	4.9
Capital Funds	11.7	12.6	12.2	11.5	13.1
Total Liabilities	100.0	100.0	100.0	100.0	100.0
	Total Liabilities (% change)				
Deposits	+3.3	-7.4	+11.3	+7.0	-7.0
Borrowing and Other Liabilities	-24.3	+80.4	-49.1	+21.3	+18.7
Capital Funds	+8.1	+5.5	+2.4	+0.8	+8.8
Total Liabilities	+2.3	-2.4	+5.8	+6.7	-4.1

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

Annex

Banks

Aggregated **Banks' Income and Expense Statement: 2019**-2023

	2019	2020	2021	2022	2023
	(in BND millions)				
Total Income	707	614	548	623	925
Total Expenses	394	347	329	393	527
Profit before tax	310	272	233	252	411
Profit after tax	268	236	208	218	346
	% of total average assets				
Total Income	4.1%	3.4%	3.0%	3.2%	4.7%
Total Expenses	2.3%	1.9%	1.8%	2.0%	2.7%
Profit before tax	1.8%	1.5%	1.3%	1.3%	2.1%
Profit after tax	1.6%	1.3%	1.1%	1.1%	1.8%
	% change				
Total Income	+9.1	-13.2	-10.7	+13.8	+48.3
Total Expenses	+7.6	-11.8	-5.1	+19.4	+33.9
Profit before tax	+19.1	-12.3	-14.1	+8.0	+63.0
Profit after tax	+22.0	-11.9	-11.8	+5.0	+58.6

Distribution of Total Offshore Assets by Type of Instruments: 2019-2023

	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
	(in millions)					(% total of assets)				
Placements	7,042.7	6,041.8	5,521.4	5,807.1	5,350.6	37.5	33.0	28.5	28.1	27.0
Investments	1,781.1	2,570.8	3,124.1	3,699.5	3,477.9	9.5	14.0	16.1	17.9	17.5
Loans/ Financing	552.2	607.9	767.2	794.9	1305.1	2.9	3.3	4.0	3.8	6.6
Other Assets*	413.8	667.1	611.2	515.4	389.1	2.2	3.6	3.2	2.5	2.0
Total Offshore Assets	9,790.5	9,887.6	10,023.9	10,816.9	10,522.7	52.2	54.0	51.8	52.3	53.1
Total Assets	18,758.8	18,302.8	19,365.4	20,672.3	19,817.1	100.0	100.0	100.0	100.0	100.0

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

Annex

Finance Companies

Trends in the Financial Soundness Indicators (Finance Companies): 2019-2023

Financial Soundness Indicators	2019	2020	2021	2022	2023
Capital Adequacy			in percentage (%)		
Tier 1 Capital to Risk Weighted Assets	n/a	n/a	n/a	13.5	13.5
Regulatory Capital to Risk Weighted Assets	n/a	n/a	n/a	14.0	13.9
Non-Performing Loans/Financing (Net of Specific Provisions) to Capital Funds	1.3	1.1	-1.8	-3.1	-2.4
Credit Quality			in percentage (%)		
Non-Performing Loans/Financing to Gross Loans/Financing	1.0	1.4	0.8	0.4	0.5
Net Non-Performing Loans/Financing (Net of provisions) to Gross Financing	0.2	0.2	-0.3	-0.6	-0.4
Provision Coverage	78.5	88.1	136.0	236.6	178.4
Profitability			in percentage (%)		
Return on Assets (Before Tax)	3.4	3.2	3.2	3.0	2.1
Return on Equity (After Tax)	19.4	19.8	22.5	23.1	11.2
Efficiency Ratio	38.9	41.4	39.3	43.4	56.8
Liquidity			in percentage (%)		
Liquid Assets to Total Assets	14.8	19.6	23.9	13.7	12.4
Liquid Assets to Total Deposits	18.1	22.9	27.8	16.8	15.0
Loans/Financing to Deposits	96.8	87.3	79.1	94.4	95.1

Note: Figures for 2018-2022 are updated using audited figures. Notice on Maintenance of Capital Adequacy Ratio for Finance Companies was issued in July 2022.

Annex

Finance Companies

Aggregated Finance Companies' Balance Sheet: 2019-2023

	2019	2020	2021	2022	2023
			Total Assets (in BND millions)		
Cash and cash equivalents	164	155	162	138	154
Placements	208	355	477	236	194
Investments	-	-	-	-	-
Loans/Financing (Net)	1,508	1,534	1,546	1,574	1.680
Other Assets	37	41	48	51	62
Total Assets	1,917	2,085	2,233	1,999	2,090
			Total Assets (% of total)		
Cash and cash equivalents	8.5	7.4	7.3	6.9	7.4
Placements	10.8	17.0	21.3	11.8	9.3
Investments	-	-	-	-	-
Loans/Financing (Net)	78.7	73.6	69.2	78.7	80.4
Other Assets	2.0	2.0	2.2	2.6	3.0
Total Assets	100.0	100.0	100.0	100.0	100.0
			Total Assets (% change)		
Cash and cash equivalents	-2.2	-5.6	+4.9	-15.0	+11.4
Placements	-21.1	+71.0	+34.1	-50.5	-17.6
Investments	0.0	0.0	0.0	0.0	0.0
Loans/Financing (Net)	-0.9	+1.7	+0.8	+1.8	+6.7
Other Assets	-7.3	+10.2	+17.6	+5.4	+21.6
Total Assets	-3.8	+8.7	+7.1	-10.5	+4.6
			Total Liabilities (in BND millions)		
Deposits	1,572	1,784	1,918	1,635	1,734
Borrowing and Other Liabilities	92	53	58	79	74
Capital Funds	254	247	259	284	282
Total Liabilities	1,917	2,085	2,233	1,999	2,090
			Total Liabilities (% of total)		
Deposits	82.0	85.6	85.9	81.8	82.9
Borrowing and Other Liabilities	4.8	2.6	2.5	4.0	3.5
Capital Funds	13.2	11.9	11.6	14.2	13.5
Total Liabilities	100.0	100.0	100.0	100.0	100.0
			Total Liabilities (% change)		
Deposits	-5.2	+13.5	+7.5	-14.8	+6.0
Borrowing and Other Liabilities	+8.1	-41.6	+4.9	+41.1	-6.6
Capital Funds	+1.6	-2.5	+4.6	+9.9	-0.7
Total Liabilities	-3.8	+8.7	+7.1	-10.5	+4.6

Note: Figures are in BND million unless otherwise stated.

Annex

Finance Companies

Aggregated Finance Companies' Income and Expense Statement: 2019-2023

	2019	2020	2021	2022	2023
	(in BND millions)				
Total Income	118.5	116.0	115.4	111.5	114.2
Total Expenses	56.5	55.7	49.3	53.5	76.5
Profit before tax	63.8	62.8	69.8	65.1	42.3
Profit after tax	52.1	50.8	57.0	59.8	31.6
	% of average assets				
Total Income	6.3	5.8	5.3	5.2	5.8
Total Expenses	3.0	2.8	2.3	2.5	3.9
Profit before tax	3.4	3.2	3.2	3.0	2.1
Profit after tax	2.8	2.6	2.6	2.8	1.6
	% change				
Total Income	-0.2	-2.1	-0.5	-3.4	+2.4
Total Expenses	-0.5	-1.5	-11.4	+8.5	+43.1
Profit before tax	+6.0	-1.6	+11.0	-6.7	-35.0
Profit after tax	+5.8	-2.6	+12.2	+4.9	-47.1

Annex

Takaful & Insurance

Takaful and Insurance Industry Financial Performance

Indicators	2019	2020	2021	2022	2023
Assets	1,762.4	1,954.4	1,975.9	1,882.3	2,020.2
Gross Premium	291.2	300.2	309.6	329.7	339.4
Gross Claims/Benefits	145.8	161.8	106.3	101.6	142.4
Gross Premiums/Contributions	291.2	300.2	309.6	329.7	339.4
Net Premiums	225.1	231.3	234.0	257.0	264.3
Business Ceded Outside Brunei	66.1	68.9	75.6	72.6	75.1
Gross Reinsurance/Retakaful Recoveries	82.3	86.7	93.7	90.4	104.0
Net Investment Income	68.0	79.5	54.3	68.0	52.3
Underwriting Income	44.5	33.8	102.9	26.2	50.6
Net Income/(Loss)	21.1	7.7	64.9	24.2	40.0
Retention Ratio	77.3%	77.0%	75.6%	78.0%	77.9%
Return on Equity (General)	13.2%	12.6%	11.9%	10.8%	8.9%

Cash and Investments Ratio to Total Assets

Instruments	2019	2020	2021	2022	2023
			(in BND millions)		
Cash	427.6	464.0	299.5	341.3	329.4
Investments	1,140.9	1,283.4	1,469.0	1,302.7	1,448.5
Total Assets	1,762.4	1,954.4	1,975.9	1,882.3	2,020.2
% ratio to total assets	89.0%	89.4%	89.5%	87.3%	88.0%

Breakdown of Investments

Instruments	**2019**	**2020**	**2021**	**2022**	**2023**
			(in BND millions)		
Short-term investment	102.2	104.8	141.7	133.0	189.8
Bonds and debentures	675.3	724.1	866.6	779.3	842.3
Preferred shares	25.5	26.3	27.4	21.7	14.3
Common shares	322.3	401.5	417.7	336.1	371.1
Investment properties	1.5	1.4	1.1	14.5	11.3
Other loans and invested assets	14.1	30.7	14.5	18.2	19.7
Total Investments	1,140.9	1,288.9	1,469.0	1,302.8	1,448.5

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