Brunei Darussalam
Financial Sector Blueprint

(2016-2025)

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Abbreviations

ABIF	ASEAN Banking Integration Framework	Go AML	UNODC software for FIU
ACH	Automated Clearing House	ICRG	International Co-operation Review Group
AITI	Authority for Info-communications Technology Industry	ICT	Information Communications Technology
AMBD	Autoriti Monetari Brunei Darussalam	IFI	Islamic Financial Institution
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism	IFSB	Islamic Financial Services Board
AMR	Asset Maintenance Requirement	IFRS	International Financial Reporting Standards
ASEAN	Association of South East Asian Nations	IOSCO	International Organisation of Securities Commissions
ATM	Automated Teller Machine	IPO	Initial Public Offering
AUM	Assets Under Management	IDBB	Islamic Development Bank of Brunei Berhad
BCMB	Brunei Currency and Monetary Board	MALIAT	Multilateral Agreement on the Liberalization of International Air Transportation
BDPC	Brunei Darussalam Deposit Protection Corporation	MIB	Melayu Islam Beraja
BEDB	Brunei Economic Development Board	MMoU	Multilateral Memorandum of Understanding
BIFC	Brunei International Financial Centre	MOU	Memorandum of Understanding
BIBD	Bank Islam Brunei Darussalam Berhad	NRA	National Risk Assessment
BLNG	Brunei Liquefied Natural Gas	RCEP	Regional Comprehensive Economic Partnership
BND	Brunei Dollar	REIT	Real Estate Investment Trusts
CAGR	Compound Annual Growth Rate	RTGS	Real-Time Gross Settlement
CIA	Currency Interchangeability Agreement (with Singapore)	SAB	Syariah Advisory Body
CIBFM	Centre for Islamic Banking, Finance and Management	The SEACEN Centre	South East Asian Central Banks (SEACEN) Research and Training Centre
CSD	Central Securities Depository	SFSB	Syariah Financial Supervisory Board
DvP	Delivery versus Payment	SGF	Syariah Governance Framework
ETF	Exchange Traded Funds	SIDR	Self-Inquiry and Dispute Resolution
FATF	Financial Action Task Force	SME	Small and Medium Size Enterprises
FDI	Foreign Direct Investment	SMO	Securities Markets Order
FID	Financial Institutions Division	TAIB	Perbadanan Tabung Amanah Islam Brunei
FIU	Financial Intelligence Unit	TAP	Tabung Amanah Pekerja
FTA	Free Trade Agreement	TPPA	Trans-Pacific Partnership Agreement
FTTH	Fibre-to-the-home	UBD	Universiti Brunei Darussalam
GDP	Gross Domestic Product	UNISSA	Universiti Islam Sultan Sharif Ali

Sabda by
His Royal Highness Prince Haji Al-Muhtadee Billah ibni
His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah,
The Crown Prince and Senior Minister at the Prime Minister's Office
As Chairman of Autoriti Monetari Brunei Darussalam

بسم الله الرحمن الرحيم
السلام عليكم ورحمة الله وبركاته
الحمد لله رب العالمين، والصلاة والسلام على أشرف المرسلين، سيدنا محمد
وعلى آله وصحبه أجمعين، وبعد

***Wawasan 2035* sets out the economic vision of Brunei Darussalam over the next two decades: to develop a diversified, dynamic and sustainable economy which delivers a level of income per capita within the top 10 countries in the world.**

To achieve this goal, progress needs to be made on a wide front: spanning education, infrastructure, science and technology and a range of other key policy areas where active participation by key stakeholders are pivotal to the achievement of *Wawasan 2035*. The need for a strong, competitive and innovative financial services sector is a vital component in this transition as it provides the liquidity needed for commerce and trade.

One component of Brunei Darussalam's financial ecosystem that has scope for enhancement and investment is the development of Brunei Darussalam as an international hub for Islamic Finance. Steeped rich in Islamic traditions and culture, Brunei Darussalam's continued political stability and favourable ties with its international partners would be conducive for foreign direct investments to collectively participate in the economic prosperity of the region.

Brunei Darussalam welcomes the presence of international institutions and is 'open for business'. This *Blueprint* demonstrates ways in which Brunei Darussalam will build upon existing, and establish new relationships with international investors, financial institutions and financial centres, particularly in relation to provision of the Islamic financial services. Special attention is given to the strategies that will elevate the reputation and quality of Islamic Finance in Brunei Darussalam.

This *Blueprint* will guide the development of Brunei Darussalam's financial sector during the next decade. It is focused mainly on areas for which Autoriti Monetari Brunei Darussalam (AMBD) has policy responsibility, but also identifies other matters, under the jurisdiction of other Government Ministries and agencies, that are important for the growth of the financial sector. Where that is the case, I ask for continuous cooperation and coordination amongst all involved, so as to ensure that the best possible conditions, in tandem with other initiatives, are established for the financial sector to guarantee maximum contribution to achieving the *Wawasan 2035* goals.

I also ask for similarly strong commitment and collaboration with, and by, the financial sector institutions, so that maximum success may be achieved both by them and for the customers they serve.

I commend AMBD for its tireless efforts in preparing the *Financial Sector Blueprint (2016-2025),* and now look forward to its effective implementation in the years ahead.

His Royal Highness Prince Haji Al-Muhtadee Billah Ibni
His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah
The Crown Prince and Senior Minister at the Prime Minister's Office
As Chairman of Autoriti Monetari Brunei Darussalam

Foreword by Managing Director

بسم الله الرحمن الرحيم
السلام عليكم ورحمة الله وبركاته

Global economic conditions remained challenging in 2016, affecting among others commodities prices, where oil prices have dipped by more than 60% since mid-2014. Brunei Darussalam is not isolated from the global effect due to its high dependency on oil and gas industry, resulting in negative growth rates for three consecutive years since 2013. However, overall, macroeconomic fundamentals of the country remain stable, as signified by the prudent fiscal expenditure, low exchange rate volatility, and low and stable inflation rates. What is needed now more than ever is to step up efforts to diversify the economy where a number of non-oil sector's activities have been identified to drive the economic transformation, including the financial services sector.

Wawasan 2035 envisages Brunei Darussalam's financial sector as having a central role to play in transforming Brunei Darussalam into a diversified, dynamic and sustainable economy. This *Blueprint* sets out the strategic framework within which AMBD will be working with other Government Ministries and stakeholders to bolster the achievement of those objectives.

While *Wawasan 2035* provides a vision spanning the two decades to 2035, the policy horizon adopted for this initial *Blueprint* covers the shorter ten-year planning period to 2025. Beyond this, the uncertainties, at this time, are too great to plan with confidence.

The financial sector plays a key role in the economy. First and foremost, it provides the channels for mobilising savings and allocating those to where they best can be used. Concurrently, it also provides the means of payment required for individuals and companies to engage in trade and commerce. In both ways, the financial sector is an enabler of national economic activity and growth.

In playing these roles, the financial sector itself is a source of economic production (GDP), similar to how, for example, the transport sector plays a key role both in the functioning of the overall economy and as a contributor to GDP in its own right. In recent years, Brunei Darussalam has strengthened its capabilities and enhanced its international credibility in the financial sector. From deepening its Islamic Finance acumen through the establishment of The Centre For Islamic Banking, Finance And Management, to implementing effective regulation through the Securities Market Order (2013), to chairing a series of ASEAN Finance and Central Banks' Meetings in 2013.

Recent statistics by the Department of Economic Planning and Development show the financial sector's share to GDP at around 5.1%. Building upon the platform developed and leveraging the myriad of opportunities in Asia - the world's fastest growing region - *Wawasan 2035* envisages that, by 2035, the financial sector's contribution to GDP will have expanded to 8% of GDP.

This *Blueprint* sees progress being made towards that goal in the following ways:

01 **Financial Services – an enabler for growth:** In light of the Government's broader strategies for achieving diversification of Brunei Darussalam's economy, alternative sources of finance are needed to support business expansion and innovation. These include programs to foster the growth of the SME sector, Islamic Finance, Fund Management and the Government's plans to require Government-Linked Companies to meet more of their financing needs through the financial system.

02 **Provider of niche financial services:** Brunei Darussalam is well-positioned to leverage its capacity to provide niche Islamic financial services to international clients and capitalise on its membership of and location within the fast-developing ASEAN region.

03 **Competitive and Innovative Financial Institutions and Services:** To capture the available growth opportunities in the financial sector, Brunei Darussalam's financial institutions and services need to be subjected to forces of competition.

04 **Development of a supportive 'eco-system' for the financial sector in Brunei Darussalam:** Elements of this eco-system include modern financial infrastructure, a leading edge regulatory system, and a financial sector workforce with world-class skills and talent. A key piece of infrastructure needed to support the growth of a capital markets in Brunei Darussalam is a securities exchange which is currently under development and is a high priority for the Government and AMBD.

05 **Shift from 'government dependence' to 'self-reliance':** Exploration of other possible opportunities for financial service providers to support Bruneians in shifting from 'government dependence' to 'self reliance'. Examples include opportunities for life insurers and takaful operators, and also fund managers, to offer investment and savings products as part of personal saving plans.

These steps provide the avenues by which Brunei Darussalam's financial sector can sustainably grow its contribution to GDP and also support growth of the wider economy. However, in charting a transparent roadmap towards expanding Brunei Darussalam's financial capabilities, focused attention on maintaining the stability of the domestic financial system is provided in the *Blueprint.* The *Blueprint* seeks to avoid strategies that could result in financial instability. There is a risk of instability where financial sector expansion becomes unanchored from the needs of its customers and of the 'real' economy, and is pursued for its own sake.

The *Blueprint* mostly addresses aspects of finance that fall within the scope of AMBD's statutory mandate and therefore direct areas of responsibility. However, the financial sector does not operate in a vacuum. As noted by His Royal Highness the Crown Prince, who is also the Chairman of AMBD, there are areas of policy work that are needed to support financial sector development beyond the scope of AMBD's direct responsibilities. Where such matters are included in this *Blueprint*, it is on the basis that AMBD will wish to work collaboratively with other Government Ministries and agencies, in the overall interest of achieving the *Wawasan 2035* objectives for Brunei Darussalam. Last but not least, I would like to express my appreciation to the *Financial Sector Blueprint* team members for their commitment in realising the publication of this *Blueprint*.

Yusof bin Haji Abd Rahman
Managing Director, AMBD

PART 1

Introduction to Brunei Darussalam's Evolving Financial Sector

Introduction to Brunei Darussalam's Evolving Financial Sector

Located in the heart of Asia Pacific, Brunei Darussalam is a geographically small country with an open economy. Since the 1920s, petroleum exports have been the mainstay of the country's economy. In 2015, the oil and gas sector contributed to over 59% of national GDP and accounted for approximately 93% of exports. However, in an environment beset by volatile domestic crude prices and production, Brunei Darussalam's economy must evolve in order to sustain the high standard of living. As a result, the Government of Brunei Darussalam is pro-actively diversifying the economy and has implemented a number of initiatives to grow non-oil related services. These initiatives align to plans set in the 5-Year National Development Plan and the 10-Year 'Outline of Strategies and Policies for Development (OSPD)' that will ultimately facilitate the success of the country's long-term vision, Wawasan Brunei 2035.

In 2015, the oil and gas sector accounted for 59% of total GDP and 93% of exports.

The Delivery Unit (also known as PENGGERAK in the Prime Minister's Office) was established in 2014 to drive the delivery of Wawasan Brunei 2035 which then evolved into the formation of Darussalam Enterprise (DARe) in 2016. DARe's overarching objective is to nurture and support local enterprises or SMEs from start-up to growth. Further to this was the establishment of the Foreign Direct Investment and Downstream Industry Committee, who is responsible for implementing reforms to turn Brunei Darussalam into a more competitive and attractive destination for foreign investments. These reforms are the core components to elevate Brunei Darussalam's productivity and economic growth in the medium and long term.

His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, in his 2016 New Year's *Titah* (speech), has emphasised that in light of the economic headwinds, citizens must double efforts to increase the Sultanate's domestic productivity, particularly in the non-oil and gas sector. Sectors identified with high growth potential include: agriculture and fisheries, manufacturing, services sector including the financial services sector, transportation, logistic, telecommunication, trade and tourism. His Majesty has also pointed out that enterprises must aim to grow their business to not only cater for domestic market but also to export their products and services to other countries. Productivity in this respect can be enhanced through continuous research and application of new technology.

His Majesty The Sultan and Yang Di-Pertuan of Brunei Darussalam, in his 2016 New Year's Titah, has urged citizens to double efforts to increase domestic productivity, particularly in the non-oil and gas sector. This sector includes economic activities such as agriculture and fisheries, manufacturing, services sector including ***Finance****, transportation, logistic, telecommunication, trade and tourism.*

Figure 1: Developments within Financial Sector

- Establishment of AMBD as the Central Bank of Brunei Darussalam
- Chaired the ASEAN Central Bank Governors' Meeting, 2013
- Aligning to FATF standards
- Strengthened surveillance, regulatory & supervisory framework
- Growth in Brunei Darussalam as an international Islamic hub
- Enhanced access to financing especially to SMEs & micro-enterprises
- Greater policy initiatives to modernise ICT infrastructure
- Strengthened international economic linkages

Key Achievements

Brunei Darussalam Fact Sheet

Official Name
Negara Brunei Darussalam (Abode of Peace)

Capital
Bandar Seri Begawan

Population
417,200 (2015); annual population growth of 1.3%

Religion

Islam is the official religion and all other religions may be practised in peace and harmony

Currency

Brunei Dollar (BND) is at one-to-one parity to the Singapore Dollar and interchangeable dollar notes are available in denominations of $1, $5, $10, $50, $100, $1,000 and $10,000. Coins are in 1,5,10, 20, and 50 cents denominations

Time Zone

GMT +0800 (Standard Time)

Land Area

5.765 km^2 with a coastline of 161 km along the South China Sea. About 70% of its land area is covered by rainforest reserves

Climate

Tropical, hot, humid, rainy with temperatures ranging between 23ºC and 32ºC. Average annual rainfall is 320 cm. There is no history of natural disasters

Languages

Bahasa Melayu (Malay) is the official language. English is widely spoken in business

GDP

BND 17.8 billion/ USD 12.5 billion (2015)

GDP Per Capita

BND 42,613/ USD 30,009 (2015)

Main Natural Resources

Oil and natural gas, timber, fisheries, agricultural products

The following conveys the developing features of the financial landscape of Brunei Darussalam. These broad features provide the backdrop to the *Blueprint* that follows and represent the platform that Brunei Darussalam's financial service sector can build upon.

Monetary and Financial Stability

Brunei Darussalam has established a stable monetary and competitive fiscal environment, supported by the Autoriti Monetari Brunei Darussalam's (AMBD) progressively robust regulatory framework. The World Economic Forum has consistently ranked Brunei Darussalam highly as a destination renowned for a stable macroeconomic environment. Moreover, Brunei Darussalam has a strong budgetary position due to prudent fiscal management - as commended by several IMF Article IV missions.

Driven by a number of reforms, Brunei Darussalam was one of the most-improved countries in the World Bank's 2017 Doing Business Report. A noticeable improvement was in the ranks for Getting Electricity, Resolving Insolvency, Enforcing Contracts, Getting Credit, and Protecting Minority Investors. In Getting Credit, for example, the inclusion of utility data has improved access to credit information. Initiatives taken in the above areas have helped the Sultanate climb 25 spots to 72/189 economies. Within ASEAN, Brunei Darussalam is the fourth-highest ranked, behind Singapore, Malaysia and Thailand.

Doing Business 2017 Rank		
	DB 2016	**DB 2017**
Getting electricity	76	21
Registering property	135	134
Getting credit	78	62
Protecting minority investors	118	102
Paying taxes	96	89
Trading across borders	143	142
Enforcing contracts	115	93
Resolving insolvency	97	57
Overall	**97**	**72**

Source: World Bank

Competitive Financial Institutions and Services

Brunei Darussalam is in a strong position to compete within one of the global financial sector's fastest growing services: Islamic Finance. Brunei Darussalam's political, social and increasingly economic framework aligns to Islamic teachings and principles, providing the country with a competitive edge. This is exemplified by the national commitment to Melayu Islam Beraja (MIB) philosophy which has been in practice for 600 years, contributing to political and social stability.

As Islamic Finance continues to grow internationally and regionally, Brunei Darussalam can leverage such unique characteristics to evolve into an Islamic Finance hub serving the fast-growing ASEAN region. The growth of this service line is central to diversifying Brunei Darussalam's economy.

The 2010 fibre-to-the-home (FTTH) programme is bringing fibre connectivity across the country.

Developing Financial Infrastructure

Brunei Darussalam has made large strides in upgrading its hard and soft infrastructure. The completion of the Brunei International Airport refurbishment in 2015 has seen passenger capacity double to 3 million and will facilitate greater business activity in the Sultanate. In ICT, the Government, in concert with the private sector, have initiated various strategic infrastructure projects to adapt Brunei Darussalam and Bruneians to an increasingly digital and globalised world.

The 2010 FTTH programme is bringing fibre connectivity across the country, enhancing internet speeds considerably. There have also been direct improvements in the country's financial infrastructure. AMBD's major programme to revamp Brunei Darussalam's domestic electronic payments system and national transition to e-commerce is an example of the fast-paced changes in the sector.

The ten member states of the Association of Southeast Asian Nations collectively comprise the seventh-largest economy in the world.

ASEAN Integration

Brunei Darussalam's membership to the Association of Southeast Asian Nations (ASEAN) increasingly represents a cornerstone of the economy. Founded in 1967, ASEAN today includes ten dynamic and diverse markets of substantial growth potential: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam. If ASEAN were a single country, it would already be the seventh-largest economy in the world, with a combined GDP of USD2.4 trillion in 2013.

It is projected to rank as the fourth-largest economy by 2050. The financial integration of the region has increased significantly, with tariffs on goods now close to zero in a number of sectors among the original six member states (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand). The forthcoming implementation of the ASEAN Economic Community integration will further enhance intraregional trade in goods, with freer movement of goods, services, skilled labour, and capital anticipated.

ASEAN has the third-largest labour force in the world, behind China and India.

Human Capital Development

The country is equipped with a highly educated, English-speaking and literate population. A number of national schemes, institutions and public-private sector programmes have been established to raise the financial literacy and financial discipline standards of the workforce. Supporting the local higher education platform that cultivates Islamic scholars, the founding of the Centre for Islamic Banking, Finance and Management (CIBFM) will play a fundamental role in the further development of Syariah experts, scholars and financially literate talent.

Through its unique and professional programmes, the CIBFM provides a progressive route of Islamic Finance education, from basic to professional certification level (covering all sectors - Islamic Banking, Takaful and Islamic Capital Market). Such education and training pro-activity will enable Brunei Darussalam to begin to mobilise its local talent from the hydrocarbon and public sector, and into the financial services sector and help Brunei Darussalam achieve its objective to become an Islamic Finance hub.

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PART 2

Future Directions

PART 2: Future Directions

Part I of the *Blueprint* outlines the evolving landscape of Brunei Darussalam's financial ecosystem. It demonstrates the large strides Brunei Darussalam has made in recent years in order to become a robust and sustainable financial centre.

This part of the *Blueprint* is predominately forward looking. It delves into how Brunei Darussalam intends to build upon the foundation created and illustrates a policy agenda for the next decade, to 2025. As Figure 2 highlights, the *Blueprint* identifies five key pillars that form critical components of a sustainable financial ecosystem.

Pillar I	Monetary and Financial Stability
Pillar II	Competitive and Innovative Financial Institutions and Services
Pillar III	Robust and Modern Infrastructure
Pillar IV	Enhanced International Integration
Pillar V	Human Capital Development

To successfully develop the financial services sector and compete with developed regional competitors, Brunei Darussalam - as demonstrated by AMBD's numerous achievements since 2011 - is cultivating an appropriate regulatory environment that instils investment confidence through stability. Moreover, Brunei Darussalam strives to create an attractive investment environment protected by the rule of law and a modern (hard and soft) infrastructure aimed at supporting the growth of the sector.

If Brunei Darussalam is to cultivate a sustainable financial sector, it must be supported by a productive and highly skilled workforce which will strengthen each pillar and align them to the country's vision and strategy.

Figure 2: Five Pillars of a Successful Financial Services Sector

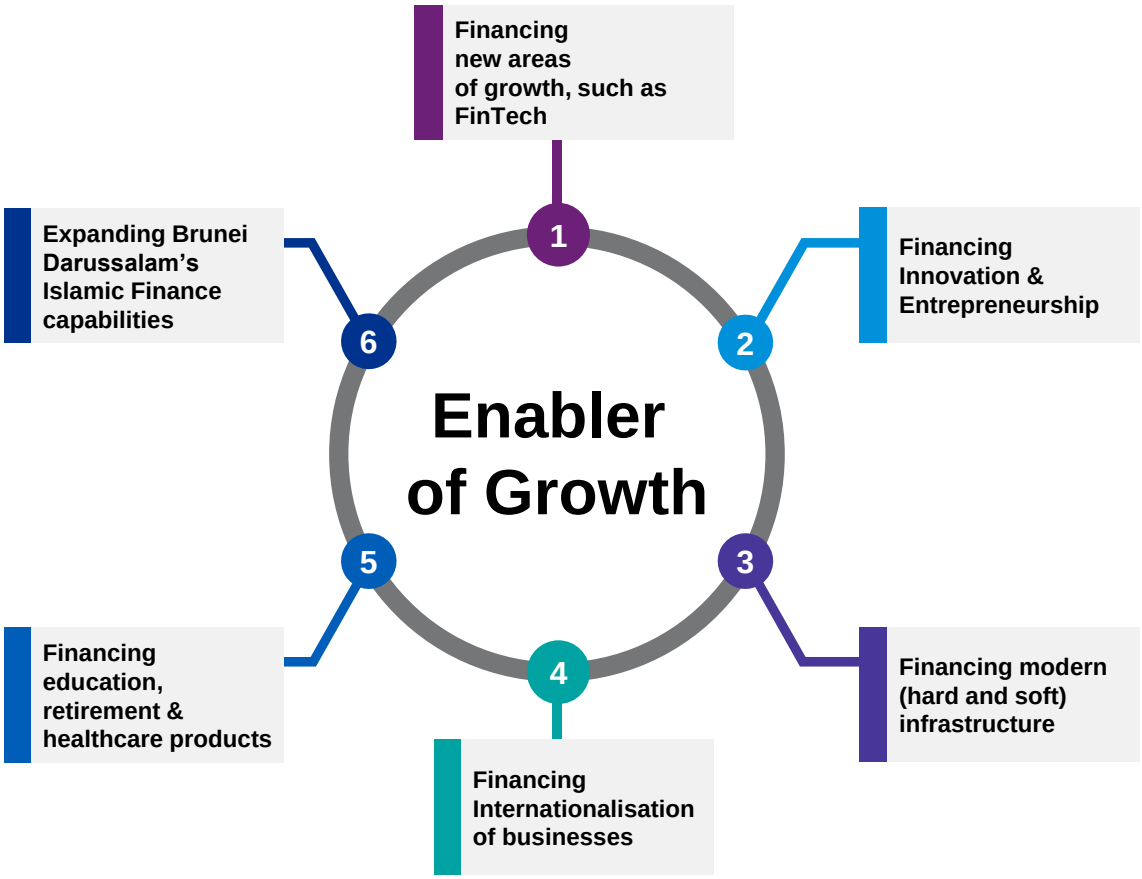
Dynamic and Diversified Financial Sector

FSB Theme					
Broad Strategies	**Pillar I:** Monetary and Financial Stability	**Pillar II:** Competitive and Innovative Financial Institutions	**Pillar III:** Robust and Modern Infrastructure	**Pillar IV:** Enhanced International Integration	**Pillar V:** Human Capital Development
Strategic Objectives / Future Directions	**Monetary Stability** — Currency Interchangeability Agreement & Currency Board — Interbank money market	**Investment Opportunities** — Major infrastructure finance — SME growth support — Government-Linked Companies reform	**Hard and Soft Infrastructure** — Global Interconnectivity — Smart National Strategy — An E-Payment Economy	**21st Century – Asia's Century** — Leverage Asia's Ascendance — Foster ASEAN economic interconnection — Cultivate Trans-Pacific Partnership — Develop RCEP	**A Skilled Financial Sector Workforce** — Raising financial literacy standards — Raising public awareness and instilling financial discipline — Aligning the National Curriculum to the Future Economy
	Financial Stability — Regulatory frameworks and supervision that meet international standards — High quality financial institutions — Credit and Underwriting Risk Management — Resilient to financial crisis — Strengthened AML/CFT Compliance	**Competitive and Innovative Institutions** — Capital market development — Islamic Finance — Fund Management	**Financial Infrastructure** — ICT — Payment system — Securities registry, trading and settlement — Collateral registry — Credit bureau	**A Regional Support Centre** — Support Brunei Darussalam as a regional professional support/back-office centre	**Islamic Finance** — CIBFM – a centre of excellence for training & professional development — Financial Professionalism and Integrity — Public-private sector dialogue **International Collaboration** — Establish alliances and partnerships with international institutions
Current Landscape	**Brunei Darussalam Financial System in 2016**				

The programs and plans set out within Part II are at varying stages of development. Some of these programs have already been developed and are being implemented, others are at the planning stage and some are included in this *Blueprint* as possibilities for future study.

It is important to understand the broad intentions and objectives of the financial sector. The financial sector should effectively and efficiently allocate resources to the relevant activities that facilitate the diversification of Brunei Darussalam's economy towards the financial services sector. Figure 3 identifies core areas where the financial services sector can act as an enabler for growth for the Sultanate.

Figure 3: The Financial Services - An Enabler of Growth



As noted in the Managing Director's foreword, some of the future possibilities identified are outside of AMBD's areas of direct responsibility, but are included as matters that could jointly be studied with the other responsible Government Ministries and agencies. This is in the spirit of His Royal Highness Chairman of AMBD Board of Director's call for continuous cooperation and coordination by all involved in developing Brunei Darussalam's financial sector so that it can make its maximum contribution to achieving the Wawasan Brunei 2035 goals.

Pillar I

Monetary and Financial Stability

Pillar I: Monetary & Financial Stability

Autoriti Monetari Brunei Darussalam – Brunei Darussalam's Monetary Authority

Monetary and financial stability is a prerequisite for strong economic and financial development. Without such stability, there cannot be the confidence needed to sustain new investment and business ventures, and, by extension, the opportunities needed to sustainably grow the financial sector.

The institution tasked with ensuring monetary and financial stability in Brunei Darussalam is AMBD. AMBD was established in 2011 and was formed by merging certain entities that formerly had operated under, or had been part of, the Ministry of Finance, namely:

The Brunei Currency and Monetary Board (BCMB)	The Brunei International Financial Centre (BIFC)	The Financial Institutions Division (FID)	And part of the Research and International Division (RID) of the Ministry of Finance

The formation of AMBD, however, has resulted in the establishment of a central authority with clear, comprehensive and integrated responsibility for oversight of the stability and development of Brunei Darussalam's monetary and financial system. Since its establishment, AMBD has built on the core function of issuing Bruneian currency (previously performed by BCMB) to become a more fully-fledged monetary authority.

The Expanding Role of AMBD

— Adopting a more active role in overseeing the banking system, for example, by applying a balance between appropriate regulatory measures and economic growth.

— Taking over responsibility for the interbank clearing house from the Brunei Association of Banks, and establishing a real-time gross settlement (RTGS) system for the settlement of interbank payments.

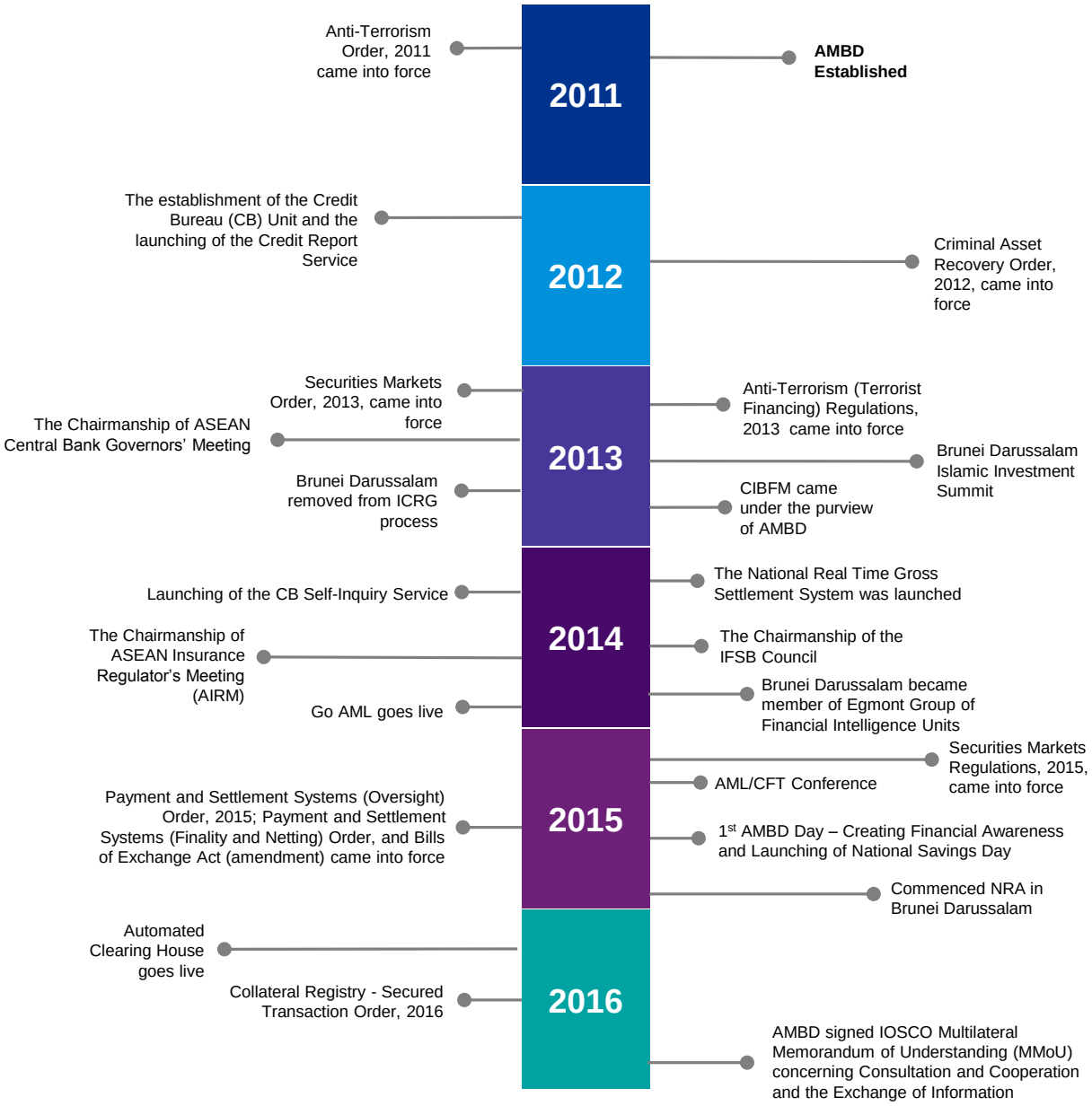
— Adopting a stronger focus on AMBD's role in fostering human capacity building for the financial sector. This is carried out through the Centre for Islamic Banking, Finance and Management (CIBFM), which operates under the auspices of AMBD.

— Establishing and operating a credit bureau.

— Addressing strategic deficiencies in Brunei Darussalam's AML/CFT regime, resulting in the removal of Brunei Darussalam in June 2013 from monitoring by Financial Action Task Force (FATF). This reflects Brunei Darussalam's commitment to being a reputable provider of financial services in the region and beyond.

The last five years has seen AMBD achieved some impressive regulatory, legal, capital market and international milestones. As Figure 4 conveys, AMBD has strengthened the resilience of Brunei Darussalam's financial system, adapted to an increasingly digital financial landscape and enhanced its credibility through the forging of alliances and Memorandum of Understandings with international regulators and central banks. With the establishment phase and five years of operation achieved, AMBD is now looking further forward and establishing future directions for its role in contributing to the further financial and economic development of Brunei Darussalam.

Figure 4: AMBD Milestones



ICRG International Co-operation Review Group

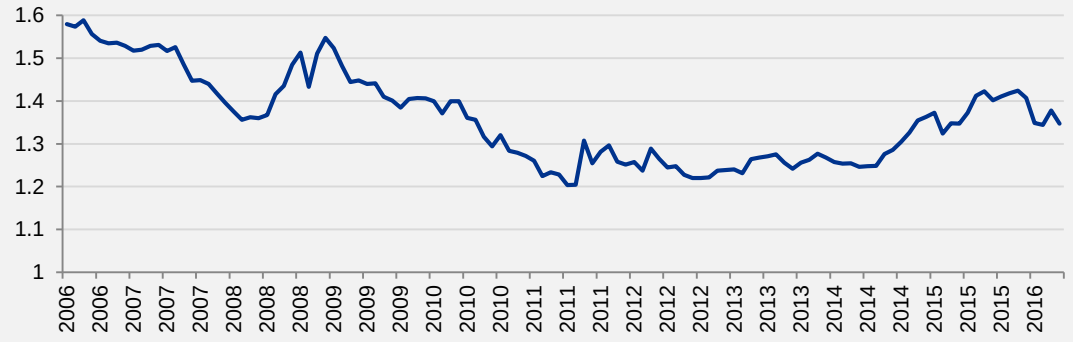
International Alliances forged by AMBD

2012	Financial Intelligence Unit (FIU), AMBD signed Memorandum of Understanding with Korea Financial Intelligence Unit (KoFIU)
2013	AMBD signed Memorandum of Understanding with State Bank of Vietnam
2013	AMBD signed Memorandum of Understanding with Bank Negara Malaysia (BNM)
2013	AMBD signed Memorandum of Understanding with Securities Commission Malaysia (SC)
2014	The Chairmanship of the IFSB Council
2014	AMBD signed Memorandum of Understanding with China Securities Regulatory Commission (CSRC)
2014	AMBD signed Memorandum of Understanding on bilateral cooperation with Monetary Authority of Singapore (MAS)
2014	FIU, AMBD was admitted as a full member of Egmont Group
2015	FIU, AMBD signed Memorandum of Understanding with Bangladesh Financial Intelligence Unit, Bangladesh Bank
2015	AMBD signed Memorandum of Understanding with Capital Markets Board of Turkey (CMBT)
2016	AMBD signed IOSCO Multilateral Memorandum of Understanding (MMoU) concerning Consultation and Cooperation and the Exchange of Information

Maintaining Monetary Stability

The cornerstone of Brunei Darussalam's monetary policy remains the Currency Interchangeability Agreement (CIA) with Singapore, buttressed by the Currency Board framework, as prescribed by the Currency and Monetary Order, 2004. These longstanding arrangements – the CIA since 1967 – anchor the Brunei dollar to the Singapore dollar. The Currency Board Framework is a highly credible arrangement as it promotes fiscal discipline where a government cannot simply print money to finance fiscal deficit. Underpinning the macro-economic stability of Brunei Darussalam with a credible anchor currency supported by prudent fiscal policy has served Brunei Darussalam well and is envisaged to remain in place throughout, and beyond, the term of this *Blueprint.*

Figure 5: Historical SGD/USD Exchange Rates: 2006 - 2016



Source: Bloomberg

Under these arrangements, AMBD's monetary operations, up until 2014, were centred on issuing Brunei Dollar currency liabilities in exchange of foreign currency (at the prevailing parity with the Singapore dollar). These operations have since been extended to include the daily clearing of interbank balances across banks' accounts held with AMBD.

Underpinning the macro-economic stability of Brunei Darussalam with a credible anchor currency has served Brunei Darussalam well and is envisaged to remain in place throughout, and beyond, the term of this Blueprint.

AMBD plans to support the banking sector in developing an efficient interbank market. If the interbank market operations were to be securitised by highly rated bond/sukuk, including government instruments, these could support the development of a secondary market in those instruments and also the establishment of a market benchmark for the Brunei Dollar risk-free interest rate, which could contribute to the development of a market in private sector-issued sukuk.

Policy direction:

(a) Brunei Darussalam to maintain the Currency Interchangeability Agreement (CIA) with Singapore, and the Currency Board framework, for the duration of this *Blueprint* and beyond.

(b) Development of the market operations by AMBD to foster an efficient and competitive interbank money market and a secondary market in Government and private issuance of sukuk.

Regulatory frameworks that meet international standards

In a globalised financial services sector shaped by ever-increasing complexities and financial instruments, having in place regulatory frameworks that meet international standards is critical to any country ambitious to become a financial hub. While Brunei Darussalam's existing legal frameworks for the banking, insurance and securities markets are broadly adequate for the domestic market, AMBD is undertaking many initiatives to align the remaining gaps relative to international standards, such as requiring banks and insurance/takaful companies to prepare their financial statements in accordance to the International Financial Reporting Standards (IFRS). For instance, the ASEAN Banking Integration Framework (ABIF) represents a good platform for Brunei Darussalam to elevate the local banking industry standards as it encourages central banks and monetary authorities to enhance regional regulatory coherence such as adopting a minimum uniformed regulatory and supervisory standard in accordance to the developmental stage of each member state.

In Islamic Finance, AMBD is participating in the Islamic Financial Services Board (IFSB) working groups for formulation of the IFSB standards and guidelines. This will help promote the development of a prudent and transparent Islamic financial services industry in Brunei Darussalam through introducing new, or adapting existing, international standards consistent with Syariah principles, for adoption. Measures to mitigate existing gaps are actively being addressed by AMBD and will be part of the implementation process leading from this *Blueprint*.

AMBD is participating in the Islamic Financial Services Board (IFSB) working groups for formulation of the IFSB standards and guidelines.

Key Steps to Enhancing AMBD's Supervisory Role and Capacity

Banking Supervision

AMBD's licensing decisions will continue to be directed towards ensuring that Brunei Darussalam's financial institutions are characterised by high standards of governance and management, and committed and reputable shareholders (and overseas head offices in the case of branches of overseas institutions). This will support the Sultanate's objective to become a high quality financial centre, catering for niches (such as Islamic Finance) where Brunei Darussalam has a comparative advantage.

Bruneian banks have a reputation for high capital adequacy ratios (CAR). In 2015, the banking sector's average CAR was 21.5%, which is well above the minimum regulatory requirements of 10%. Current minimum (quantum of) capital requirements for locally incorporated banks and overseas incorporated banks are BND100 million and BND1 billion, respectively. These serve to ensure that banks operating in Brunei Darussalam are financially robust. The quality of Brunei Darussalam's banks is reflected by their unanimous investment grade credit ratings. [1]

To maintain their currently good credit ratings, Bruneian owned and incorporated banks need to be demonstrably well-capitalised and maintain CAR at levels above the international minimum (8% of risk adjusted exposures).

Currently, AMBD is finalising arrangements for the implementation of Basel II (Pillar 1 - Minimum Capital Requirements) from 2017. Brunei Darussalam currently implements the Basel I Capital Adequacy Framework. The implementation of Basel II (Pillars 2 – Supervisory Review) and (Pillar 3 – Market Discipline and Transparency) will be rolled out later in 2017 and 2018 to bring the country in line with other Asia Pacific countries, supporting the expansion of Bruneian banks into the region's major financial centres and facilitating FDI by foreign companies. Looking ahead, as part of AMBD's commitment to comply with international best regulatory practice, AMBD will introduce the wider regulatory frameworks of Basel III in the medium to long term future.

1 Not including TAIB which, formally, is a trust fund and is not rated.

Insurance and Takaful Supervision

The insurance and takaful industry experienced consolidation and reforms with the introduction of the Insurance Order, 2006 and Takaful Order, 2008 and their accompanying regulations. The minimum paid-up capital for insurers and takaful operators was raised from BND1 million to BND8 million. There is also a 'capital equivalent' requirement of 20% surplus of assets over liabilities for all insurers and takaful operators. Much focus has been given to ensure that insurers and takaful operators are solvent and are valuing their liabilities conservatively. This is indicated by the total assets held by the insurance and takaful industry of BND1.37 billion in 2015, which has increased by 15% since 2011.

A key feature of the Orders was the need for separation of composite (i.e. life/family takaful and general) businesses. This meant takaful operators in Brunei Darussalam became one of the first takaful operators to undergo this separation of businesses.

AMBD is working to produce updated legislation and accompanying notices and guidelines to ensure that the regulatory framework is on par with the International Association of Insurance Supervisors (IAIS) Core Principles

In the short-term, AMBD is working towards enhancing the legislation and producing accompanying notices and guidelines to ensure that the regulatory framework is on par with the International Association of Insurance Supervisors (IAIS) Core Principles in proportion to the development of the market. The changes are to allow for a more principles-based approach and focus on governance and risk management, in order to accommodate risk-based supervision.

AMBD hopes to achieve more demand for insurance and takaful, from individuals and businesses by taking on a 2-prong strategy of raising the standards of the industry through risk-based supervision as well as improving awareness and demand for insurance and takaful products by making Bruneians more financially literate and responsible.

Moving forward, AMBD's licensing policy will be more inclusive and may allow conventional insurers to set up Islamic windows for the distribution of takaful products under set conditions within a stipulated timeframe.

Capital Market Supervision

The securities markets recently saw regulatory reform through the introduction of the Securities Markets Order, 2013 which repeals the Securities Order, 2001 and the Mutual Funds Order, 2001.

With the new legislation and accompanying regulations in place, a new streamlined licensing structure for capital market intermediaries has been introduced and minimum financial requirements have been enhanced with values ranging from BND100,000 to BND2 million depending on the regulated activities undertaken. These capital requirements are cumulative depending on the number of activities.

The new legislation also provides for licensing, recognition or designation of a wide range of market operators including securities exchanges, clearing house, central securities depository, trading facilities and credit rating agencies.

Furthermore, it aims to enhance investor confidence and protection with strengthened ongoing disclosure requirements.

To encourage development in the Islamic capital markets, the legislation also allows for Islamic Windows, allowing conventional financial institutions to offer Islamic investment products and services subject to certain Syariah and operational requirements.

AMBD is continuously reviewing and developing the legal and regulatory framework, in line with IOSCO principles.

Policy direction:

(a) AMBD to maintain a policy of licensing only demonstrably high quality banks, insurers/takaful operators, and capital market intermediaries.

(b) Banks and insurers/takaful operators to be expected to maintain levels of capital adequacy, relative to the risks inherent in their balance sheets and operations, that:

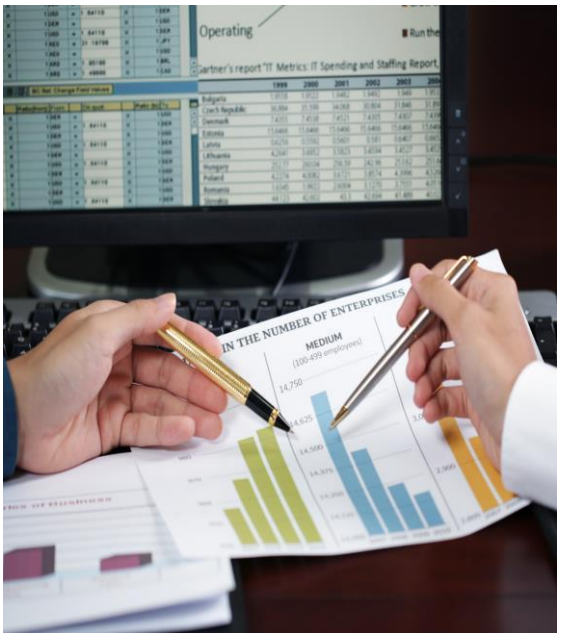
  (i) Meet the required minimum international standards.

  (ii) Avoid unnecessary complexity (given the currently comparatively straight-forward nature of banking and insurance business in Brunei Darussalam).

(c) Consideration over whether financial institutions in Brunei Darussalam should have a credit rating.

(d) AMBD to continuously review and develop the legal and regulatory framework on par with international standards.

A greater emphasis on risk-based supervision



Effective supervision goes beyond mere ('ticking the boxes') compliance checks. It is often associated with limited human resources capacity and includes substantive assessment of where the risks lie and how they are best mitigated – a 'risk-based' approach. This requires supervisors to have a deep-rooted understanding of the business that is being supervised and of the inherent risks within it. It involves AMBD adopting a systematic risk-monitoring and assessment role as much as regulatory compliance checking.

AMBD will continue to build its supervisory capacity to facilitate a greater risk-based approach, including by building the skills and experience needed to exercise sound supervisory judgment (referred to as Pillar 2 in the Basel framework for banking supervision). As AMBD is a fast-expanding institution, the development and training of a cadre of supervisors with the skills and experience needed is a high priority (see Pillar V – Human Capital Development).

Currently, AMBD leverages on training and hands-on work guided by in-house subject experts, as well as training institutions such as South East Asian Central Banks (SEACEN) Research and Training Centre and ASEAN Insurance Research and Training Institute (AITRI). As stakeholders, AMBD gives inputs on the learning needs for SEACEN and AITRI to provide. AMBD also actively partakes in various workshops which are highly relevant to its function.

In part to develop international best practice, AMBD has MoUs with a number of international regulators, such as: Bank Negara Malaysia, Capital Markets Board of Turkey, CSRC, MAS, and SC Malaysia. The MoUs are being used for capacity building through attachments and exchange of information.

Policy direction:

AMBD, in its prudential supervision of licensed financial institutions (banks, insurers/takaful operators, and capital market intermediaries), will:

(a) Become more risk-based focused.

(b) Work towards achieving full compliance with the frameworks of core principles promulgated by the international standard setters.

(c) Develop and train a cadre of supervisors with the necessary skills and experience needed to uphold resilient and robust regulatory standards.

Credit and Underwriting Risk Management

Often banking and insurance company failures stem from failure to have maintained appropriate lending/underwriting policies. This tends to occur where institutions 'buy' market share by taking excessive, and/or under-price, risk, and/or inadequately diversify risk.

For banks, AMBD will be looking to ensure that they have credit policies and practices that ensure:

I. **Borrower Supervision:** banks must place primary reliance on the capacity of borrowers to generate the cash-flow needed to meet regular interest and amortisation payments.

II. **Monitoring of Loans:** banks must enable effective monitoring of loans after draw-down, to enable early identification of potential impairments, remedial risk management and, if necessary, provisioning for loan losses.

III. **Diversify Loan Exposure:** banks must avoid excessive concentrations of loan exposure, to individual customers or groups of customers, to economic sectors and, especially, to borrowers related to the bank, its shareholders or management.

Similarly, AMBD also expects insurers and takaful operators to have underwriting policies and processes that allow for the classification, rating and selection of risks as well as the pricing of insurance risks. With the current available data and underwriting skills, current underwriting policies, in general, are arbitrary or based on neighbouring countries' experience. To improve this, it is imperative that the industry has access to data and information that is sufficient and relevant to Brunei Darussalam's market and demographics. Emphasis on the importance of receiving correct customer information should also be made. Better risk differentiation and better pricing would assist in the actuarial function, product development and overall risk management of insurers and takaful operators.

While these are not the only matters that will receive AMBD's supervisory attention, they are the principle risks that financial institutions' governance and management arrangements, and prudential buffers, need to cover. Risk-based assessments of compliance with good prudential practice will involve going behind the reported data and understanding the underlying risks.

Policy direction:

(a) An increased focus on the core credit and underwriting risks in AMBD's risk-based supervision. For banks, AMBD will be looking to ensure that they have credit policies and practices that ensure:

(i) Borrower Supervision

(ii) Monitoring of Loans

(iii) Diversify Loan Exposure

(b) AMBD will require insurers and takaful operators to ensure that insurance and takaful risks are classified and priced effectively by taking into account risk differentiation and profiling.

Home-host arrangements for international institutions

Five of Brunei Darussalam's eight banks, and four of the twelve insurers/takaful operators are foreign-owned and/or foreign-incorporated. In all these cases, the business in Brunei Darussalam comprises only a very small part of the international group balance sheet, making it highly unlikely that losses incurred in Brunei Darussalam will threaten the stability of the international institution.[2] The greater risk to Brunei Darussalam is that instability in these institutions originates overseas rather than within the country. Thus, AMBD's supervision of these institutions needs to be framed differently from that of local institutions. It needs to include keeping abreast with the condition of the international bank or insurer, and with the head office oversight of its operation in Brunei Darussalam, as well as with international supervisor's oversight of the international group.

The focus of AMBD's prudential supervision of locally-owned institutions requires a more direct and closer focus on the local business. Moreover, the cost of the failure and/or of providing support for these locally-owned institutions, should that situation arise, would unavoidably fall entirely on Brunei Darussalam. Hence, there is a need for priority supervisory attention from AMBD.

Policy direction:

AMBD will:

(a) Focus its prudential supervision of branches of international banks, insurers and capital market intermediaries with a presence in Brunei Darussalam on effective home-host supervisory relationships with the foreign supervisors (including by way of participation in supervisory colleges), and on the adequacy of the oversight of the local branch by the institution's regional or head office and, subject to those arrangements being in place.

(b) Focus its day-to-day prudential supervision attention on Brunei Darussalam's locally-owned banks and insurers.

2 The asset maintenance requirement (AMR) that is applied, to both local banks and to branches of international banks, under Brunei's deposit insurance requirements, also provides a safeguard if an international bank with a branch in Brunei Darussalam were to fail. This aspect is addressed further in the section below on depositor, policy-holder and investor protection.

Macro-prudential policy

An additional strand to financial stability policy that has emerged since the Global Financial Crisis (GFC) is macro-prudential policy.[3] Macro-prudential policy involves adjusting prudential standards to constrain, or relax, the scope for financial institutions to expand their balance sheets, so as to lean against the 'financial cycle'.

In Brunei Darussalam, the restraints applied in 2005 to banks' personal lending, and the subsequent relaxation of those restrictions in 2014 and 2015, is an example of macro-prudential policy in action. These measures were taken to rein in excessive personal lending growth by banks early in the decade, and subsequently relaxed when other influences were dragging on the macro economy. Going forward, AMBD will continue to monitor international practice in the use of macro-prudential policy.

Policy direction:

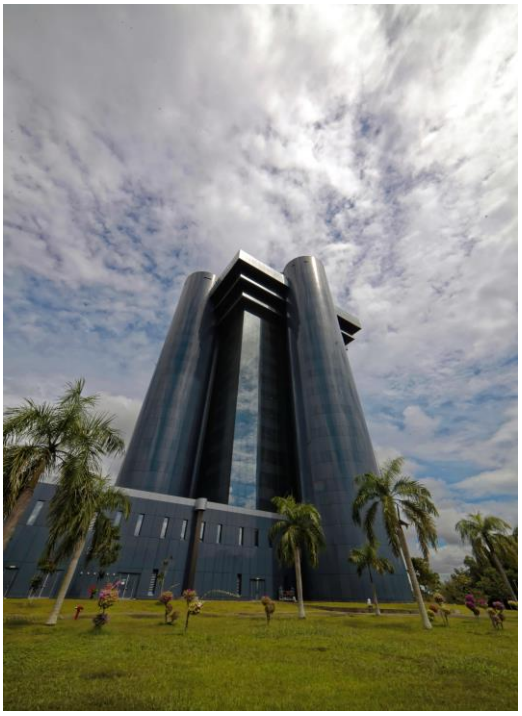
AMBD will:

(a) Continue to monitor international practice in the use of macro-prudential policy, with a view, judiciously, to use macro-prudential tools to influence the rate of expansion in the financial sector where that is considered necessary to maintain macro financial and monetary stability.

3 Although it is not entirely new, in that similar policy approaches to those now referred to as macro-prudential policy were widely used up until financial deregulation got underway in latter quarter of the 20th century.

Deposit, policy-holder and investor protection

Deposit insurance, administered by the Brunei Darussalam Deposit Protection Corporation (BDPC), was introduced in Brunei Darussalam in 2011. BDPC is a statutory body aimed at reducing the external risks facing the industry. The deposit protection scheme provides protection against loss for deposits up to BND50,000 per depositor per member institution, in the unlikely event the member institution is unable to meet its obligations to depositors.



BDPC is a 'pay box' guarantor, that is, if a member institution were to fail, AMBD would request BDPC to put its crisis plan into action, affected depositors would be notified and arrangements made for deposits to be paid (up to the guaranteed amount). To perform the 'pay box' function, however, it is necessary to have crisis management plans in place. AMBD will liaise with BDPC with a view to maintaining effective coordination, including with respect to both their roles in resolution and crisis management situations.

To complement the existing safety nets, AMBD can also consider establishing a policy holders' protection fund, a takaful guarantee fund, motor insurance bureau for the insurance and takaful industry and an investor compensation scheme.

Policy directions:

(a) AMBD and BDPC to collaborate on maintaining crisis management preparedness.

(b) The existing safety net could be extended to include a policy holders' protection fund, a takaful guarantee fund, motor insurance bureau and an investor compensation scheme.

Strengthening of AML/CFT compliance

AMBD is focused upon ensuring that money laundering, terrorist financing and related financial crimes are effectively confronted and managed so that they do not affect the integrity and stability of Brunei Darussalam's financial sector. Therefore, strengthening AML/CFT compliance by the financial sector is a supervisory priority.

AMBD has international responsibilities to supervise compliance with AML/CFT requirements by all financial institutions and designated non-financial businesses and professions in Brunei Darussalam. Indeed, AMBD has responsibilities to supervise AML/CFT compliance in line with the Financial Action Task Force (FATF) Standards. This responsibility has ranked, and will continue to rank, highly amongst AMBD's duties. Similarly, international institutions operating in Brunei Darussalam are fully subject to, and are expected fully to comply with, other applicable standards of conduct, such as those relating to fair dealing with customers.

AMBD will continue its efforts to provide necessary guidance to, and raise AML/CFT awareness of, financial institutions, as well as establish a risk-based supervision programme based on the National Risk Assessment (NRA). Aligned with the FATF Standards, Brunei Darussalam has embarked on a NRA exercise designed to manage and mitigate issues relevant to money laundering and terrorist financing.

AMBD has responsibilities to supervise AML/CFT compliance in line with the Financial Action Task Force (FATF) Standards.

Policy direction:

(a) AMBD has responsibilities to supervise AML/CFT compliance in line with the Financial Action Task Force (FATF) Standards.

(b) AMBD to continue to make AML/CFT supervision a priority and to establish a risk-based supervision program based on the National Risk Assessment.

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Pillar II

Competitive and Innovative Financial Institutions and Services

Pillar II: Competitive and Innovative Financial Institutions and Services

To grow in an intensely competitive environment, Brunei Darussalam's financial institutions and services must be innovative and responsive to changing trends in the financial sector. Equally, they must capitalise on Government reform (for example within the SME sector) and leverage on Brunei Darussalam's numerous competitive advantages. Two services Brunei Darussalam is actively looking to develop further are within Islamic Finance and fund management.

Investment Opportunities for the Financial Sector

The Government's program of economic reform, to achieve diversification and growth of Brunei Darussalam's economy, will open up new opportunities across the financial sector – for banks, insurance companies and the capital markets. Elements of the Government's program for economic diversification include:

Major Infrastructure Finance

There is a need for financing major national construction and industrial projects, some of which have already commenced. While these projects primarily will be publicly and foreign direct investment (FDI) funded, there also significant scope for raising finance through the capital markets. The projects will also involve a range of local (sub) contractors and suppliers, who can be expected to have some local banking and insurance requirements.

Support for SME and Innovative Services (e.g. FinTech)

Fostering growth of Brunei Darussalam's SME sector is a Government policy priority. The Government, through BIBD and Baiduri Bank, already provides financial support facilities for eligible micro and SME enterprises.

There are other more innovative services such as FinTech, a line of business based on using technology and software to provide financial services. In recent years, global investment in FinTech has grown considerably. From crowdsourcing to mobile payments, there are vast opportunities for entrepreneurs and start-ups to develop the Sultanate's FinTech credentials. In order to capitalise on the converging digital and financial world, Brunei Darussalam plans to accelerate the development of its ICT sector (see Pillar III).

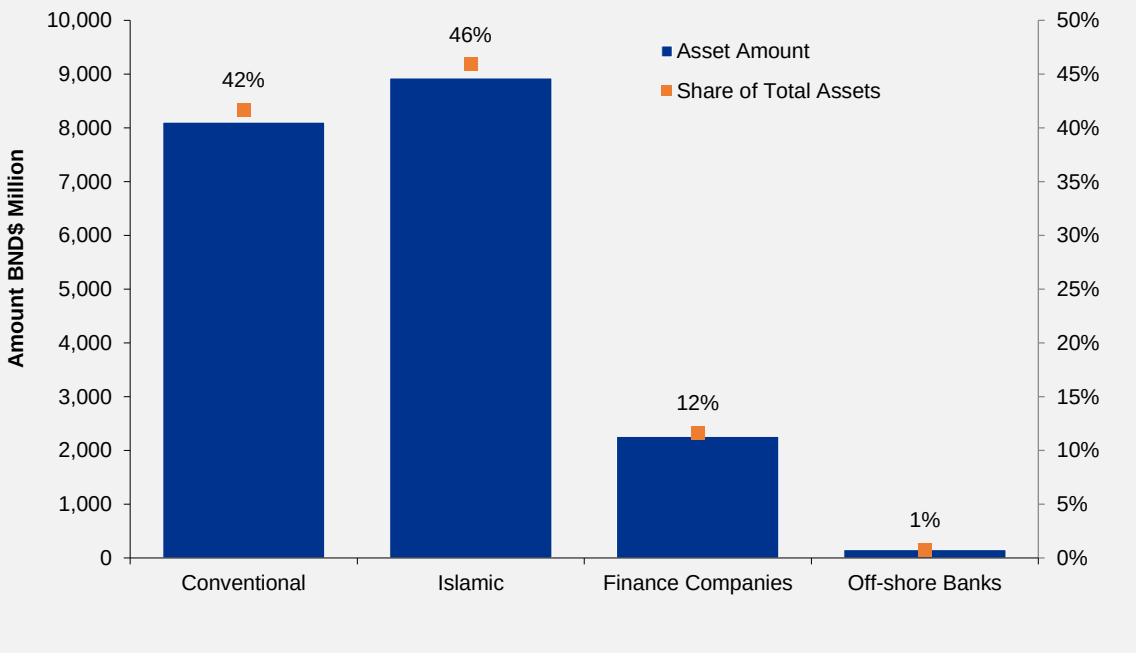
Government-Linked Companies Reform

The Government owns a significant number of commercial enterprises. Many of these in 2015 were placed under the investment holding company, Darussalam Assets Sdn Bhd, which is charged with applying commercial and sound corporate governance principles to these enterprises. As the companies become increasingly corporatised, there is scope for Government-Linked Companies to become partly or fully privatised.

Commercial Banks

For a small economy, Brunei Darussalam's banking sector is small but robust. In recent years, significant changes have reshaped the sector, ushering in a process of consolidation. Currently, there are eight commercial banks[4] catering to both the retail and business/corporate and both the conventional and Islamic markets. Six banks, five of which are branches of international banks, provide conventional banking products, and two provide Syariah compliant products. These banks are some of the most stable and well-resourced in ASEAN, equipped with high levels of liquidity, healthy capital asset ratios and well-managed levels of non-performing loans (NPLs). In terms of NPLs, the 2015 figures showed a ratio of 4.9%, which remained the same with the fourth quarter of 2014.

Figure 6: Deposit Taking Institutions - Total Assets (2015)



Source: AMBD

In 2015, total assets of banks in Brunei reached BND17 billion.

4 Including Perbadanan Tabung Amanah Islam Brunei (TAIB) which, while formally a trust fund, provides savings and financing, but not payment facilities.

AMBD has introduced requirements that banks commence providing a product disclosure sheet on their credit facilities. AMBD also intends to build on this initiative with a view to enhance the information available to borrowing customers on borrowing terms and, in particular, lending interest rates. This will better empower customers to compare offers across different banks, thus enhancing competition.

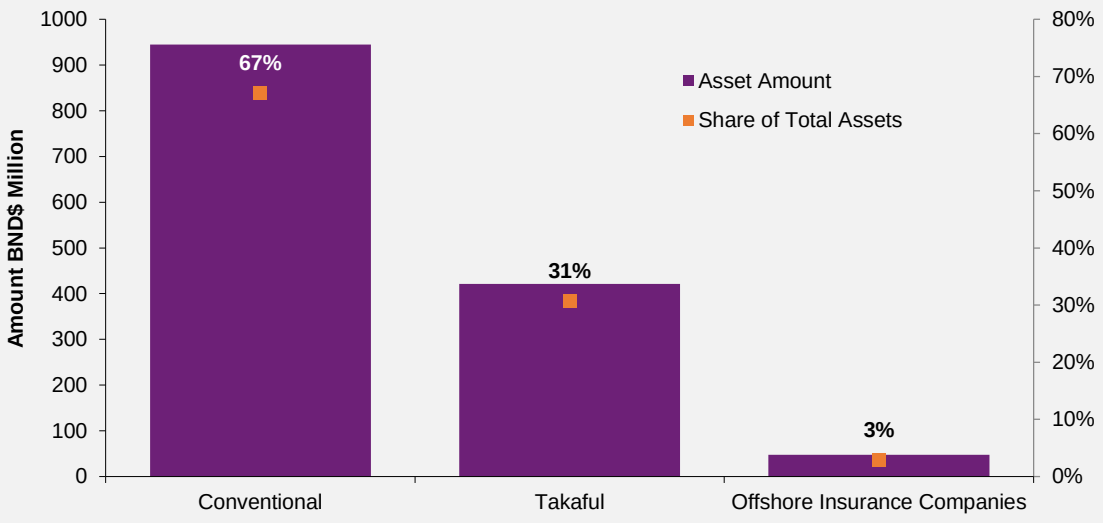
In October 2014, AMBD deregulated the interest rates on residential property loans. This allowed banks to price their rates within a reasonable range that can create a more competitive property market. The removal of the cap has helped in boosting residential lending where in 2015, lending to the residential sector increased by 4.6% y-o-y.

In 2nd Quarter 2016, the Bank of China (Hong Kong) Limited received regulatory approval to open a branch in the Sultanate.

Insurance and Takaful

As in the banking sector, both conventional and Islamic (takaful) products are available. There are five conventional and two takaful providers of general insurance, and in the life market, three conventional and two takaful providers. The growth story of Brunei Darussalam's insurance industry has been the rapid growth of the takaful segment, which first began operations in 1991. At the end of 2015, takaful operators achieved 55% of total gross premiums, mostly derived from general business. In 2015, the sector's combined assets stood at approximately BND1.37 billion, with roughly 31% coming from takaful lines.

Figure 7: Insurance and Takaful Institutions - Total Assets (2015)



Source: AMBD

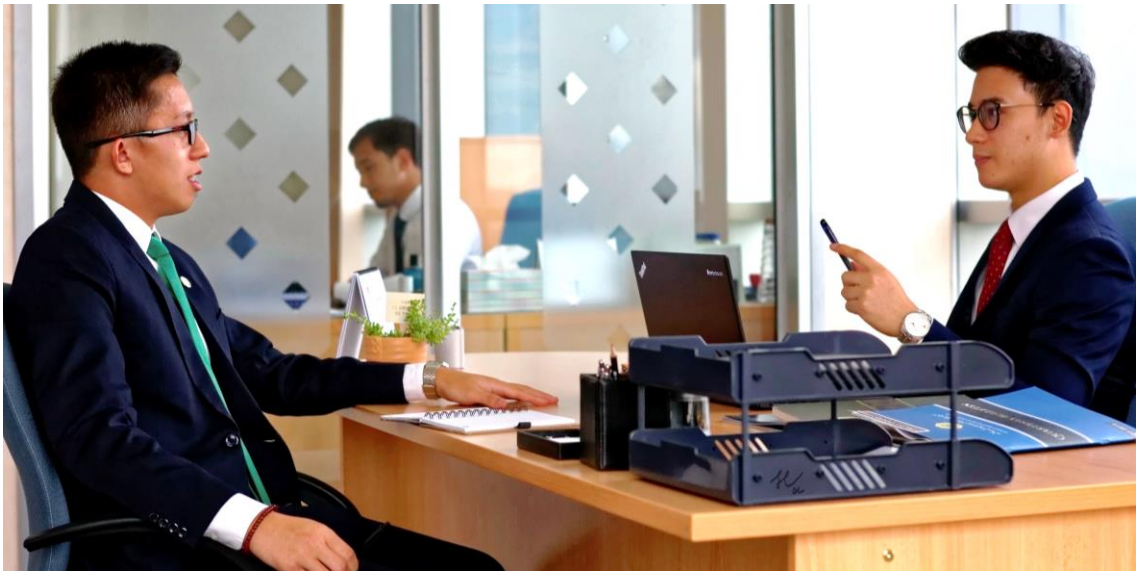
Given the small size of the local market, underwriting capacity within the country is limited. This results in the Bruneian insurance market being segmented, broadly, into a 'local' industry that writes cover mainly for motor vehicle, fire, and workmen compensation risks, and the market for the large scale risk-cover requirements of the petroleum, marine and aviation operators. Some of the latter is 'fronted' by local insurance firms, with the risk being reinsured abroad, but much is underwritten directly abroad by offshore insurers.

Over time, it is expected that with a more strengthened financial position and better underwriting capabilities, companies would be able to target specific market segments by offering specially-designed products and services and improve retention. In addition, the local market players would be in a position to withstand competition in the form of new entrants or from new distribution channels. It is also expected that the domestic market will be capable to expand operations outside Brunei Darussalam, in order, to access and serve a wider customer base.

Given that Brunei Darussalam has no personal income tax and the Total Debt Service Ratio (TDSR) had been implemented, disposable income is relatively higher compared to neighbouring countries. Such factors contribute to the considerable potential for growth in the life/family takaful segment of the insurance industry. It is desirable that going forward, and alongside the Government's plans for achieving a more broadly based and diversified economy, Bruneians should become more financially self-reliant. This can be achieved through savings accumulation plans and insurance that covers the financial cost of adverse events.

In November 2013, the industry set up the Brunei Insurance and Takaful Association (BITA) and has since worked closely with AMBD on market issues. More recently, in 2014, BITA introduced the General Agency Handbook to complement AMBD's Guidelines on Registration of General Insurance/Takaful Agents to register general agents. In 2015, AMBD worked with BITA and CIBFM to introduce the Qualifying Examination for Insurance and Takaful Agents (QEFITA) for any person aiming to be a general insurance/takaful agent.

Representing the increasing professionalism of the industry, in 2015, a qualifying examination became mandatory for a person or company wishing to apply for registration as a general insurance/takaful agent.



To be issued a licence to operate as a general or life insurance or takaful company requires minimum paid up capital of BND8m, while broker licenses require BND200,000 and adjuster licenses BND100,000.

In moving forward, the industry must be able to make insurance and takaful simpler yet more effective and more accessible. Enhancing product disclosure can assist consumers to make informed decisions. Marketing activity through social media and on-line connectivity are important steps as well as promoting an effective agency force. Promotion and financial literacy education are central forces needed to support the continued growth of the sector in Brunei Darussalam.

Policy directions:

AMBD will:

(a) Ensure continuous requirements are met for product disclosure by financial institutions that readily enables customers to compare products, including their pricing, offered by competing institutions.

(b) Work with industry to tap into the potential to grow life insurance/family takaful in Brunei Darussalam especially on savings / investments; Also to take into account of technological innovation and its potential to shape the future of insurance, for example, by way of new on-line distribution channels and interfaces with customers.

(c) Through public-private sector dialogue, raise the awareness of the benefits of insurance/takaful products through various mediums, including digital platforms and elevate the financial literacy of Bruneians around the need for insurance and takaful products.

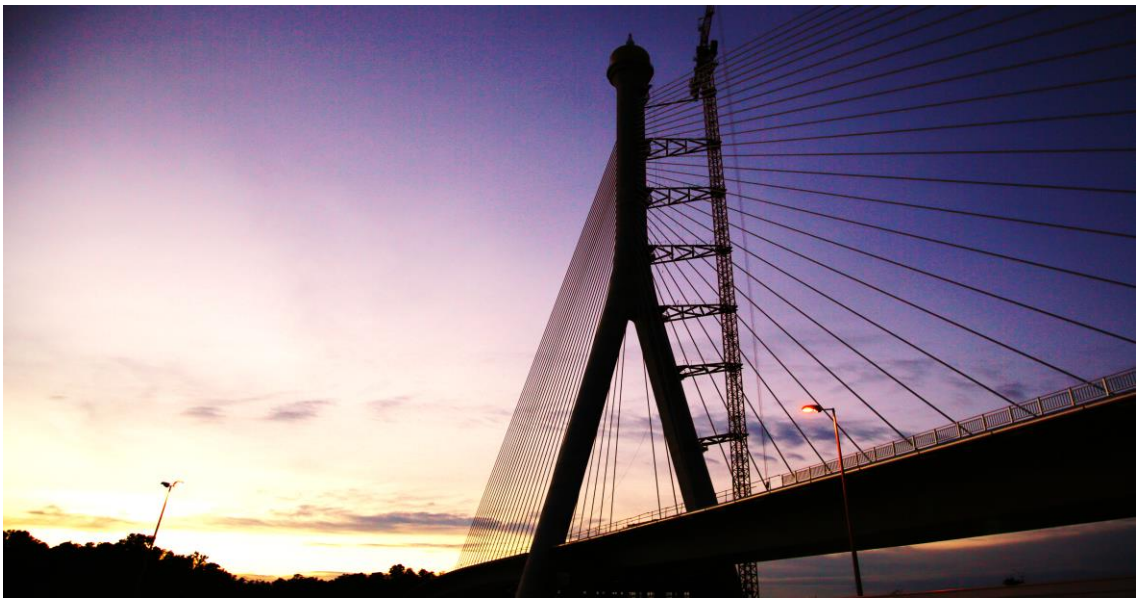
Capital Markets Development

Although the domestic capital market is currently less advanced than the banking and insurance segments, there is considerable growth potential. To date, capital market activity in Brunei Darussalam has been dominated by the investment side of the market. There has been a long-standing pool of local capital available for investment, including sizeable amounts of capital accumulated in Government sector institutional funds (principally the Brunei Investment Agency and Government pension funds). The challenge for Brunei Darussalam has been channeling vast institutional investments sums into the domestic market.

Significant Sukuk Potential

Historically, Brunei Darussalam's sukuk issuances have mostly been sovereign sukuk. Since 2006, the Government has maintained a continuous program of sukuk (Islamic bonds) issuance, with progressively longer maturities.

As the issue size for the sukuk is small and the demand is high, the issuance is only offered domestically. The objective of the current Government Sukuk programme is to both develop Brunei Darussalam's yield curve as a benchmark for corporate sukuk and provide a safe and liquid investment instrument for domestic financial institutions. AMBD, as the agent to the Government in issuing the sukuk, is currently preparing for long term Government issuances. This is to further support the objectives of developing the Government securities yield curve. Corporates and Government-Linked Companies will be able to use these issuances as benchmarks and alternative financing. AMBD is also considering the possibility of undertaking market operations for banking system liquidity-smoothing purposes, which would help anchor the short end of the yield curve.



Progress in these directions could also help to widen the investor base and assist with the development of the issuance of non-government securities such as corporate bonds as well as asset-backed, revenue-backed, and mortgage-backed securities. There is also a range of opportunities for bringing more equity issues to the market, including the listing of some Government-Linked Companies, as well as IPOs of private companies holding sizeable investments, for example, in property portfolios. At the top of Brunei Darussalam's strategy to execute the successful expansion of its capital markets platform is the establishment of a local securities exchange. Through the securities exchange, AMBD is also preparing for Government sukuk to be extended to the secondary market. This will enable institutional and retail investors access to government sukuk, offering them with alternative investment opportunities.

Through the securities exchange, AMBD is also preparing for Government sukuk to be extended to the secondary market. This will enable institutional and retail investors access to Government sukuk, offering them with alternative investment opportunities.

Policy directions:

(a) Expand the domestic sukuk programme and channel sukuk into local market.

(b) The objective of the current Government sukuk programme is to further develop Brunei Darussalam's yield curve as a benchmark for corporate sukuk and to provide a safe and liquid investment instrument for domestic financial institutions.

(c) AMBD is considering the possibility of undertaking market operations for banking system liquidity-smoothing purposes, which would help anchor the short end of the yield curve.

Developing the Capital Market Ecosystem

As with other securities exchange enabling ecosystems, there will be opportunities for local and international financial institutions to play a role, for example as market participants such as Dealers, Brokers, Market Analysts, Investment Advisers and Underwriters. Financial institutions may also take part as institutional investors, for example, fund operators may invest into companies or securities listed on the securities exchange.

Additionally, with the development of the exchange, it is also expected that there will be more opportunities for ancillary services such as legal firms, audit firms, corporate secretaries to provide support to companies that list on the exchange.

Brunei Darussalam's Motive for a Securities Exchange

Capital markets, including equity and debt markets, play a central role in promoting economic activity through facilitating and diversifying companies' access to finance. The launch of a standalone securities exchange in Brunei Darussalam is expected to catalyse economic growth and business expansion through enabling Bruneian businesses alternative funding routes (away from bank loans). Not only will the development of a national securities market in Brunei Darussalam expand the country's capital markets platform and trigger greater foreign investment opportunities and inflows, the securities exchange also aligns to the national strategy to diversify the economy away from hydrocarbons.

Characteristics of Brunei Darussalam's Securities Exchange

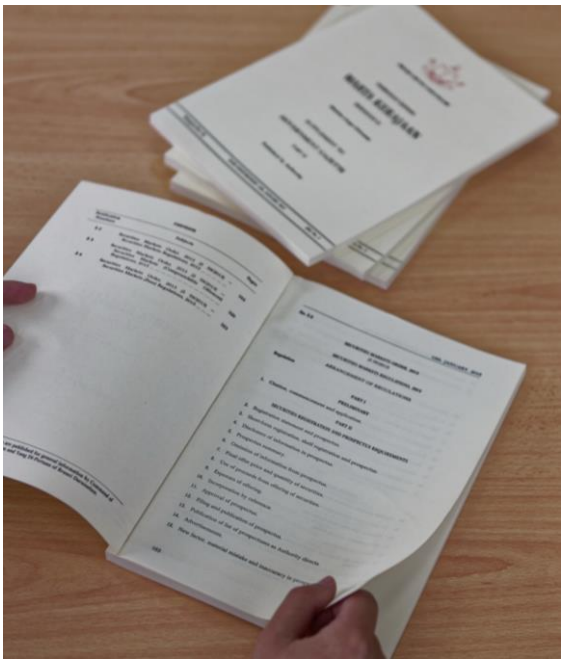
The aspiration is for the characteristic features of the Brunei Securities Exchange to be unique to Brunei Darussalam. Fundamentally, the vision of the exchange is to be simple in terms of design and yet have comprehensive rules based on international standards and best practices, to cater for various investment products.

All companies will have the opportunity to be listed, provided that they are able to meet the listing rules of the exchange, which are currently being prepared. In addition, with Brunei Darussalam being a Muslim country, a core objective of the exchange is to provide for the needs of Muslim investors. Sukuk, being one of the common types of Syariah compliant securities, may potentially be listed on the Exchange.

The Groundwork necessary for the Development of the Securities Exchange

In developing and establishing the exchange, different exchanges, both regionally and internationally, have been studied. There is a need to prepare the various elements in the ecosystem that would be pertinent to the success of the exchange. This includes the companies and preparing them for listing readiness, the legal and regulatory framework, the market participants, media, investors and not forgetting the ancillary services such as legal firms, audit firms, corporate secretaries of which will be providing support to companies that will potentially list on the exchange.

The Securities Market Order, 2013, with implementing regulations issued in 2015, has strengthened the regulatory foundation of Brunei Darussalam's capital markets sector. The Order outlines provisions for the public offering of securities including sukuk and other Syariah compliant securities.



Policy directions:

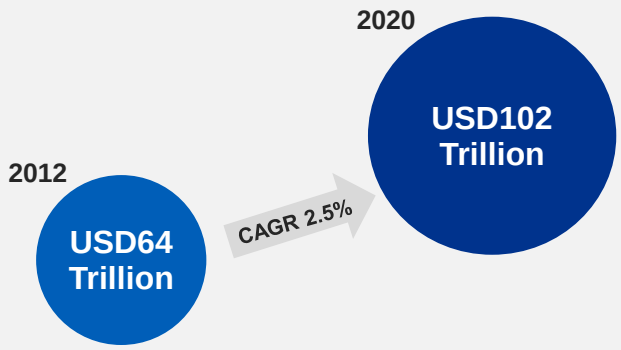
(a) The launch of a securities exchange in Brunei Darussalam is expected to catalyse economic growth and business expansion through enabling alternative funding routes for Bruneian businesses.

Fund Management

As part of the Brunei Darussalam's economic diversification drive and ambition to increase the contribution of the financial services sector, the Sultanate has identified the fund management sector as a core growth engine towards achieving this strategy.

The global fund management industry is already one of the largest and most dynamic parts of the global financial services sector. Supported by expanding international wealth, greater financial literacy and increased institutional and retail access (among numerous other factors), the fund management industry is forecasted to grow strongly over the next five years. By 2020, the global value of Assets under Management (AUM) is expected to reach USD102 trillion, an increase of 60% since 2012.

Figure 8: Global Value of Assets under Management (AUM) 2012 to 2020, USD



Source: PricewaterhouseCoopers

In Asia, the growth opportunities for the fund management sector are very attractive. Asia's long-term economic prospects remain underpinned by rising urbanisation, policy-led reforms and increasing financial integration. The ensuing wealth accumulation has also led to greater demand for investment solutions, contributing to the ascendance of fund management hubs, such as Singapore, in the region.

Building on an Established Platform

Brunei Darussalam's fund management sector is supported by AMBD. Since Brunei Darussalam opened up the sector and introduced the enabling legal and regulatory framework in 2001 and supported by institutional funds, it has already attracted a number of regional and international market players to its fund management industry. Over the years, activity in the industry has seen gradual development with the structuring of locally domiciled and managed funds and looking forwards, there are vast opportunities for further activity. In recent years, AMBD has worked to establish a more robust - domestically focused - regulatory foundation. It has defined and produced key fund legislation that governs the fund management sector, namely the Securities Markets Order, 2013 (SMO) and Securities Markets Regulations, 2015 (SMR).

In attaining its ambition to become a regional fund management hub, Brunei Darussalam has a number of strengths. The country is endowed with deep pools of institutional capital, which has typically been invested abroad rather than into the domestic economy. The Sultanate is equipped with a highly educated, English speaking population that can be utilised to grow the sector and connect it to international financial centres. Additionally, Brunei Darussalam has provided a competitive tax environment.

Just as important, Brunei Darussalam's political, social and increasingly economic framework, aligns to Islamic teachings and principles. As Islamic Finance continues to grow internationally and regionally, Brunei Darussalam has unique characteristics that can be leveraged to evolve into an Islamic fund management hub serving the fast-growing ASEAN region.

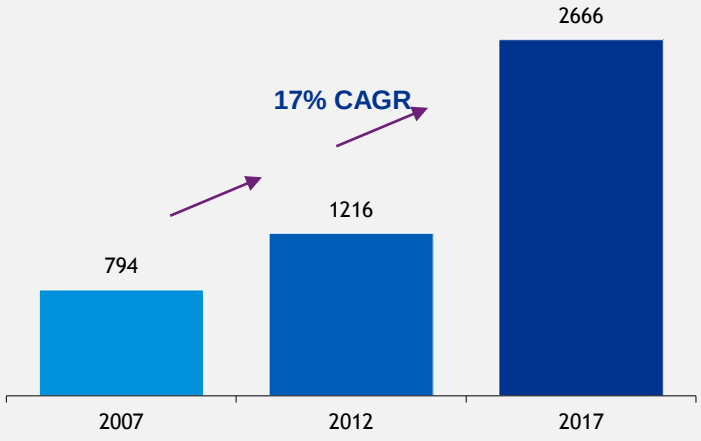
To differentiate itself in a competitive sector and capitalise on the increasing flow of capital towards Asia, Brunei Darussalam must identify its core proposition(s) and structure its fund management strategy around it.

Carving a niche in the Fund Management Sector

Leveraging a natural competitive advantage, one core proposition the government could pursue is around Islamic fund management and the enhanced provision of Syariah-compliant products. As highlighted throughout this *Blueprint*, the Sultanate has made great strides to align its financial services sector to Islamic principles.

There is also considerable potential for the growth of Islamic products in Asia. Despite the Islamic world representing nearly a quarter of the global population, it is estimated that currently less than 1% of financial assets are Syariah-compliant. This position is likely to change over the period to 2030 as result of both supply and demand. From a demand perspective, the global Islamic population is expected to grow at circa twice the rate of the non-Muslim population over the next two decades, such that Muslims make up more than a quarter of the global population by 2030, presenting a potentially huge demand centre to serve fund management products to. The growth in the Muslim population, Islamic economies and global financial literacy levels are all driving factors that Brunei Darussalam's fund management sector can capitalise upon.

Figure 9: Islamic Finance- AUM USD1.2 trillion



Source: Global Sustainable Investment Review

Fundamentally, with the regulatory, political and financial developments underway in Brunei Darussalam, the country is well poised to position itself as Asia and ASEAN's natural hub for Islamic Finance.

Located in the heart of a region that contains five of the 10 largest Islamic countries by population, Brunei Darussalam is well placed to capitalise on emerging trends in Islamic fund management.

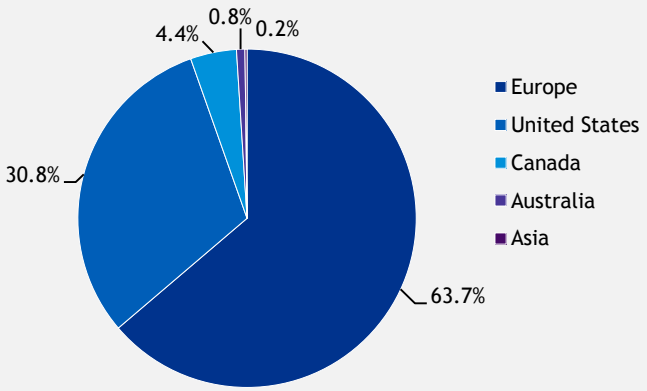
Source: PricewaterhouseCoopers

Aligned to developing its Islamic fund management credentials, there is increasing scope to promote investing along a Sustainable, Responsible and Impact (SRI) criteria. The inherent nature of SRI shares many similarities with Syariah-compliant investing and Brunei Darussalam, being one of the niche Islamic markets in ASEAN, is well-placed to leverage off these overlapping traits.

SRI considers environmental, social and corporate governance (ESG) criteria to generate long-term financial returns and positive societal impact.

In 2014, the global sustainable investment market continued to grow both in absolute and relative terms, rising from USD13.3 trillion at the outset of 2012 to USD21.4 trillion. In Asia, however, the proportion of global SRI assets was less than 1%. As environmental and social awareness levels and concepts such as responsible capitalism continue to grow in Asia, Brunei Darussalam could leverage the reputation it would gain from Syariah-compliant investment.

Figure 10: Proportion of Global SRI Assets by Region



Source: Global Sustainable Investment Review

One further strategy that Brunei Darussalam's fund management sector could adopt is through becoming a Business Process Outsourcing centre or a back office service centre (BPO). Back office outsourcing has become a significant transformational tool for fund managers looking to sharpen their competitive edge. The benefits include lower operating costs, flexibility and scalability of support resources, process standardisation and transparency, and the adoption of continuous improvement.

As a developing fund management centre, Brunei Darussalam already has the raw components to develop its BPO offering.

— In the heart of ASEAN, Brunei Darussalam is well placed geographically to support outsourcing activities to existing fund management centres.

— Brunei Darussalam is equipped with a highly educated, English-speaking population that is becoming increasingly financially literate.

— Brunei Darussalam has already prioritised ICT as a key growth sector and has made significant advancements in developing infrastructure that is required for BPO services.

It is important to note that these options are not mutually exclusive. It is just as important to note that these options do not exclude any other opportunities that could be of interest for the Brunei Darussalam fund management sector.

Pathway to development

AMBD has identified five key levers that will form critical components of a sustainable fund management ecosystem in the Sultanate and help attract local and international investment into the sector.

Across all areas, Brunei Darussalam has made progress and developed a springboard for the sector's growth. Looking ahead, Brunei Darussalam must further cultivate an appropriate regulatory environment that facilitates the distribution of fund products regionally. This will enable Brunei Darussalam to tap into the growing markets of the region. An attractive investment environment protected by the rule of law and a modern infrastructure aimed at supporting the growth of the fund management sector across the value chain is also critical. Finally, Brunei Darussalam aims to market the hub to the world and to sell its products. If Brunei Darussalam is to cultivate a sustainable fund management hub, developing each lever and aligning them to Brunei Darussalam's vision and strategy is essential.

Policy directions:

Structure fund management industry around core propositions that leverage Brunei Darussalam's competitive advantages, including: Islamic Fund Hub, Sustainable, Responsible and Impact Investing Fund Hub and Fund Management Services – Back Office Provider. It is important to note that these core propositions are not mutually exclusive and in many ways complement each other. Moreover, these options do not exclude any other opportunities that could be of interest for the Brunei Darussalam fund management sector.

Private Equity and Venture Capital

Traditional privately owned commercial banks are well suited to providing liquidity to mature, well-established companies, but may not be the best option for supporting start-up, developing, or restructuring firms.

Financial sector policies should aim to support the wider use of private equity-based financial institutions to help start-ups and developing firms, as well as more mature firms in transition, to support productivity growth across the economy. These policies should stimulate the entry and development of long-term focused angel investors and private equity funds to draw on their managerial and professional expertise and attract the necessary talent that is not yet available domestically. Angel and venture funds are better suited than universal or specialised lenders to the task of screening, selecting, developing, financing, and enforcing performance of promising young enterprises. In an appropriately supportive environment, leverage buyout firms can contribute to productivity growth of existing, more mature firms, including state-owned enterprises.

The Private Equity (PE) enterprise management model offers lessons for policy makers for improving operational and investment effectiveness of portfolio enterprises, in particular the GLCs. PE could prove beneficial in nurturing enterprise restructuring to restore domestic and international competitiveness, in particular, in post-subsidy reform environments, where enterprises can no longer rely on large implicit, explicit, and interest rate subsidies, and have to face international competition.

Policy directions:

To put in place supporting reforms and environment to attract long-term focused private equity and venture capital entities to help finance and improve the operations of start-ups and small firms, as well as more mature firms in transition.

Brunei Success Story in Private Equity Financing

Company: Alliance Mineral Assets Ltd. ("AMA")

Location: Australia

Sector: Mining (rare metals)

Date of Investment
July 2014
Date of Exit
Sept 2014

Investor: SBI Islamic Fund (Brunei) Ltd ("SBIF")

What did the business need?

- ❑ Growth capital for strategic acquisitions
- ❑ New competences to gain market share

How did SBIF private equity backing create lasting value?

- ❑ Bought out minority investor
- ❑ Provided equity financing
- ❑ Assisted with AMA's listing on Catalist, Singapore Stock Exchange

What outcomes did SBIF private equity investment achieve?

- ❑ Creation of strong regional market leader in its field
- ❑ Excellent return for shareholders

Overview

Alliance Mineral Assets Ltd. ("AMA") is an Australian boutique mining producer of tantalite with ownership at Bald Hill Mine located at the Eastern Goldfields of Western Australia. Tantalum is a rare, non-radioactive metal which is ductile, easily fabricated, highly resistant to corrosion by acid, a good conductor of heat and electricity, and has a high melting point. Tantalum is widely used in the electronics industry and major end uses for Tantalum capacitors include automotive electronics, pagers, personal computers and portable telephones.

Australia has the second largest reserves of Tantalum in the world, and the Company will be one of the few producers of Tantalum in Australia. The Bald Hill Tantalite Mine has a proven history of production, and AMA is currently in the final stages of refurbishing the Bald Hill Treatment Plant.

SBIF invested into AMA in 2014 as cornerstone investor during IPO to help AMA obtain the physical and financial resources to become one of the largest producers and trader of Tantalum in the world by re-commencing the tantalite production in Bald Hill.

AMA completed an IPO (Catalist SGX) with its IPO share price rose by 58% on 25th July 2014 from SGD 0.23 per share and closed at SGD 0.365 per share on the first day of trading. SBIF exited from its successful investment via private placement and secondary sale in the capital market.

Source: SBI Brunei Sdn Bhd

Islamic Finance

The Potential of Islamic Finance

The economic shift from West to East is prompting significant growth in both Asia and the Islamic banking and finance sector. The table below provides a snapshot which depicts the current distribution of Islamic Finance segment by region. The table reveals that, although it is centred around the Gulf Cooperation Council (GCC) and Middle East and North Africa (MENA), there is a significant proportion of Islamic Finance activities in Asia. Asia also possesses a sizeable share of Islamic Assets and has been more actively raising capital funds using sukuk.

Breakdown of Islamic Finance Segments by Region (USD billion, 2015)

	Banking Assets	Sukūk Outstanding	Islamic Funds' Assets	Takāful Contributions
Asia	209.3	174.7	23.2	5.2
GCC	598.8	103.7	31.2	10.4
MENA (excl GCC)	607.5	9.4	0.3	7.1
Sub-Saharan Africa	24	0.7	1.4	0.5
Others	56.9	2.1	15.2	–
Total	*1496.5*	*290.6*	*71.3*	*23.2*

Source: IFSI Stability Report, 2016

The key statistics for Islamic Finance disclose the spectacular growth the industry achieved in last decade and future potential of Islamic Finance industry. As the Islamic Finance industry is still in its growth phase, major international financial industry players may venture into this segment to seize the benefits.

Figure 11: CAGR of Key Islamic Banking Factors for 2008-2014

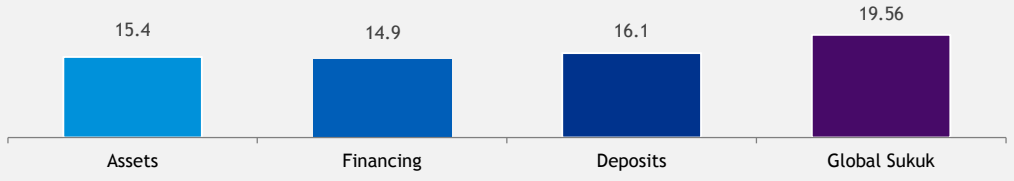
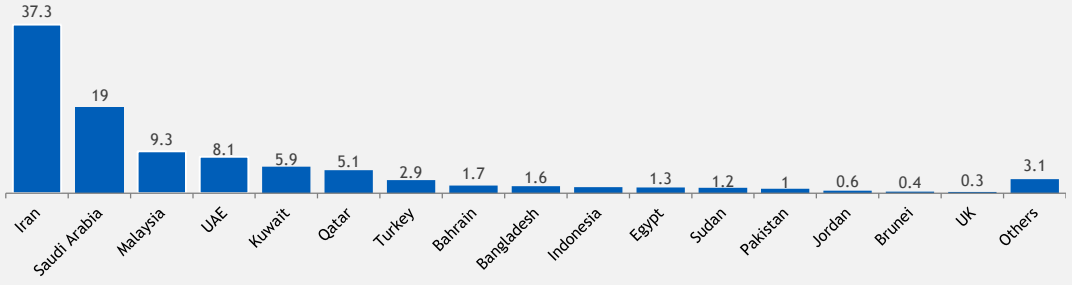


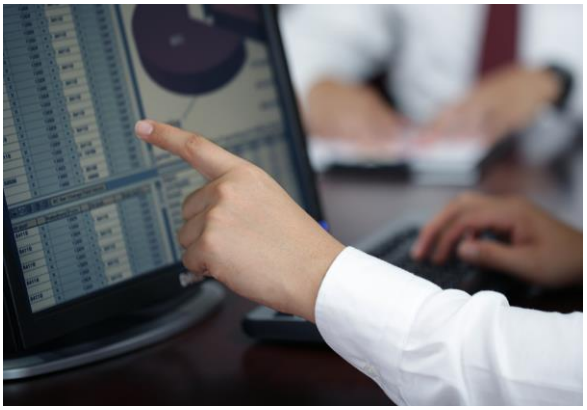
Figure 12: Shares of Global Islamic Banking Assets (2015)



Source: IFSI Stability Report, 2016

The distribution of Global Islamic banking assets reveals that, apart from Malaysia and Indonesia, Brunei Darussalam is the only country which has significant Islamic Banking assets in ASEAN. The rising volume of trade between Islamic countries, ASEAN and China will significantly benefit the growth of Islamic Finance in the region and Brunei Darussalam is strategically located to take advantage of this growth.

Islamic Finance: Financial Market Regulation



Brunei Darussalam has a dual legal system, one part of which is common law based and the other Syariah based. The regulatory framework for finance is quite comprehensive. It includes the Banking Order 2006, the Insurance Order 2006, and their respective 2008 Islamic banking/takaful counterparts i.e. the Islamic Banking Order, 2008 and the Takaful Order, 2008. The Securities Markets Order 2013 covers both conventional and Islamic securities business.

These Orders provide Brunei Darussalam with a generally adequate legal framework for the conduct of the banking, insurance and securities business. However, there are gaps that will need to be addressed as the local financial sector advances and, more particularly, for Brunei Darussalam to extend its role as a provider of financial services internationally.

Brunei Darussalam places considerable importance on ensuring that Islamic Finance operates in accordance with Syariah principles. Given the more challenging international environment, emphasis will increasingly be placed on enhancing the resilience of Islamic Finance, including in liquidity and crisis management, to complement the ongoing efforts in strengthening the relevant regulatory and legal framework for Islamic Finance and in promoting greater harmonisation in Syariah interpretations. AMBD is currently developing the Syariah governance framework which would be utilised in the governance of Islamic Financial Markets.

AMBD is responsible for carrying out the regulatory and supervisory functions mandated by all above stated Orders.

AMBD also works closely with various global financial institutions and central banks towards the standardisation of Islamic financial products and services.

Membership of International Islamic Forums & Bodies

AMBD has been at the very forefront of advocating and promoting international collaboration in the field of Islamic Banking by virtue of membership in multiple International Islamic Bodies like:

— Islamic Financial Services Board (IFSB)

— International Islamic Financial Market (IIFM)

At present, Brunei Darussalam has a two-tier Syariah governance structure comprising of:

— A centralised Syariah Financial Supervisory Board (SFSB), for which AMBD is the secretariat. The SFSB is established under the Syariah Financial Supervisory Board Order, 2006. It has a mandate to ascertain the Islamic law on any financial matter, to issue rulings on matters referred to it, and to advise on any Syariah issues relating to Islamic financial business, activities or transactions.

— An internal Syariah Advisory Body (SAB) within each Islamic financial institution (IFI). IFIs/SABs may consult with the SFSB, through AMBD, on Syariah matters relating to any business which is based on Syariah principles. SABs will be responsible for IFI's adherence and implementation SFSB guidelines and regulation as and when they are developed. SABs need to maintain necessary talent and manpower for building robust risk management frameworks for adherence to SFSB guidelines on Islamic Finance.

Islamic Finance: Financial Sector Infrastructure

In terms of the Syariah financial infrastructure, a key initiative currently developed by AMBD is the Syariah Governance Framework (SGF). The purpose of this framework is to help ensure that the structure, processes, products and services of Islamic Financial Institutions (IFIs) are in accordance with Syariah principles. In addition, the Syariah audit will continue to be conducted to ensure that the post approval of Islamic products and services continue to comply with Syariah principles. Another initiative will be to provide a product approval guideline which will provide a set of procedures for the IFIs to follow when determining the category of approval required from SFSB/AMBD for new Islamic financial products or any enhancement/variation made to an existing product.

The objectives of the Syariah Governance Framework are:

— Set out the expectations of AMBD on the IFI's Syariah governance structure, processes and arrangements to ensure that all its operations and business activities are in accordance with Hukum Syara';

— Provides a comprehensive guidance to the BOD, SAB and management of the IFI in discharging its duties in matters relating to Syariah; and

— Outline the Syariah Department functions relating to Syariah review, Syariah audit and Syariah research.

Islamic Finance: Financial Markets

Key focus of financial sector development for this decade is the strengthening of Brunei Darussalam as an international Islamic financial hub. Brunei Darussalam has affirmed the growing prominence of a more diverse foreign presence and the higher level of foreign participation in the domestic Islamic financial markets, particularly in the sukuk and takaful market. Initiatives will be put in place to further accelerate the internationalisation of Islamic Finance moving forward, thereby establishing a more significant role for the financial system in the intermediation of international financial flows. This will involve the introduction of more innovative Syariah compliant financial products and services that will meet the more diverse global demands for Syariah-compliant financial solutions.

PRESENT State of Islamic Financial Market	FUTURE State of Islamic Financial Market
1. Continuous program of sukuk issuance maintained by the government since 2006 2. Only two instances of initial public offering of shares and corporate sukuk in last two decades 3. Minimal secondary market trading within Brunei of capital market securities and trades happen mostly on 'over-the-counter' basis 4. Offering of mainly foreign Islamic funds and only one domestic Islamic fund to retail investors	1. Development of Syariah compliant capital market and Syariah compliant market index 2. Development of active money market for Banks 3. Encourage local corporates and institutions to issue sukuk 4. Encourage participation of retail investors in capital market 5. Create a favorable environment to raise capital by issuing IPO 6. AMBD to encourage development of Islamic funds, including REIT

On the issuance side of the market, there has, to date, been less activity, although since 2006, the Government has maintained a continuous program of sukuk issuance, with progressively longer maturities. Since 1993, there have been only two instances of significant issuance to the public by commercial enterprises. In 1993, the Islamic Bank of Brunei (now known as Bank Islam Brunei Darussalam) made an initial public offering of shares, and in 2005, the first corporate sukuk was issued by the Brunei Liquefied Natural Gas (BLNG) and Islamic Development Bank of Brunei Berhad (IDBB) Sukuk Al-Ijarah.

Virtually all bond issuance in Brunei Darussalam has been by way of sukuk instruments

At present the Brunei Government Sukuk is issued once a month, with 15 issuances scheduled for 2016. AMBD, as an agent to the Government for sukuk issuance, will introduce Longer term Government Sukuk and other suitable forms of sukuk. This will further extend the benchmark rate and expectantly will attract local bodies like municipal corporations etc. to raise capital by means of issuing sukuks.

Islamic Finance: Takaful

Takaful has been available in Brunei Darussalam since 1991, and by the end of 2015, had achieved a market share of 55% of total gross premiums. The four takaful operators that currently operate are direct competitors and offer similar products and services.

The takaful operators are connected to either BIBD or Perbadanan TAIB and have an advantage in providing protection to the respective bank customers. Due to this, the takaful operators are less reliant on the use of an agency force and focus on offering business directly at the takaful operators' office and branches. However, these takaful operators should also consider the use of telephone, email and online applications as alternative distribution channels.

In recent years, one takaful operator chose to move away from the initial Mudharabah concept applicable to most of its general takaful products and adopt the more cognisant Wakalah concept. More studies on takaful concepts and designing takaful products should be undertaken to aid in the development of the takaful market. Product development and limited investment opportunities continue to be a challenge to existing takaful operators.

The takaful market is heavily concentrated in the motor class and AMBD is encouraging general takaful operators to have a more balanced portfolio. The transformation of the family takaful industry is also encouraged such that family takaful products are able to offer comparably attractive returns and coverage in comparison to life insurance products.

In the short-term, AMBD is considering the use of Islamic windows by conventional insurers to spur interest and introduce competition to the takaful market, which are made up of local players.

"Takaful accounts for 55% of total general insurance premiums and 26% of life/family cover premium"

Policy directions:

a) Takaful operators should consider the use of telephone, email and online applications as alternative distribution channels.

b) To support the development of the takaful market, the industry should undertake further studies on takaful concepts with a view to innovate.

Islamic Finance: Banking System

A standout feature of the Bruneian financial sector is the prominence of Islamic financial services. These account for approximately half the total financial market. This places Brunei Darussalam amongst only a handful of countries where Islamic Finance is on a, more or less, equal or greater footing with conventional finance.

Islamic Banking was first introduced in Brunei Darussalam in the early 1990s and has since seen tremendous growth. In 2015, it held a significant role in Brunei Darussalam's banking industry with total assets of BND8.94 billion and deposits totaling BND7.34 billion which accounted for 52.4% and 51.5% of the total market share.

The operations of the licensed banks are governed by the provisions of the Banking Order, 2006 and the Islamic Banking Order, 2008. All fully licensed banks and finance companies operating in Brunei Darussalam are mandatory members of the Brunei Darussalam Deposit Protection Corporation which was established in January 2011.

Current banking system of Brunei Darussalam consists of eight banks comprising one Islamic Bank and seven conventional banks, as well as an Islamic Trust Fund which is set up under its own statute. Out of the eight banks, three are international, three regional and two domestic. In addition, there are three licensed finance companies, two are conventional and one is Islamic. The three finance companies are wholly owned subsidiaries of three licensed banks in Brunei Darussalam.

"Islamic banks account for 52.4% of total banking assets (as at Dec 2015) "

Islamic Finance: Market Entry Criteria for new players

Market Entry Criteria for Banks and Takaful Operator

Bank

Key Criteria considered for granting licence to Bank Applicants:

- Commitment to protect public interest including that of customers, creditors, depositors and prospects.
- Commitment to protect the security, reputation and economic interests of Brunei Darussalam in relation to financial matters.
- Applicants capability to maintain strong reputation in the financial community.
- Managerial Cadre including directors constitutes qualified and experienced personnel in finance industry.
- Applicant will at all times adhere to accounting standards and maintain adequate systems of control for its business and records.

Minimum paid up capital requirement

Bank	Minimum Paid Up Capital
Head Office in Brunei Darussalam	BND100 million
Head Office outside Brunei Darussalam	
— **Conventional banks**	BND1,000 million
— **Islamic banks**	BND500 million

Islamic Finance: Future Direction

Brunei Darussalam's standout comparative advantage in the international financial market is its strong credentials in Islamic Finance. According to ICD Thomson Reuters Islamic Finance Development Indicator 2014, Brunei Darussalam ranked 10th out of 92 countries that practise Islamic Finance. This makes Brunei Darussalam well-placed to grow an international role in investment management of Islamic products, and in the provision of takaful. There is a significant appetite from investors and policy-holders globally for Syariah compliant products. While Brunei Darussalam could seek to access that global and investor and policy-holder market directly, an alternative is to seek to access it indirectly, via existing institutions and financial centres with client bases holding an unsatisfied appetite for Syariah compliant products. Brunei Darussalam can potentially partner with those institutions and centres by bringing its Islamic Finance credentials to the relationship.

A parallel approach can be brought to expanding Brunei Darussalam's takaful industry into international markets. Takaful has made large strides in the local Brunei market in recent years, providing a base from which to take that experience and expertise to markets beyond Brunei Darussalam. Partnering with international insurers with a client base seeking takaful cover may be the most feasible strategy. This could include Brunei Darussalam establishing a takaful re-insurance capacity, although given Brunei Darussalam's small size, its capacity for being the ultimate bearer of risk necessarily is limited.

Policy directions:

Brunei Darussalam financial institutions to leverage its Islamic Finance credentials by way of joint ventures with international financial institutions such as funds managers and takaful operators. One way of doing this is by providing enabling environment for asset managers to bring Islamic funds worldwide into Brunei for Syariah-compliant rating and management for further worldwide distribution.

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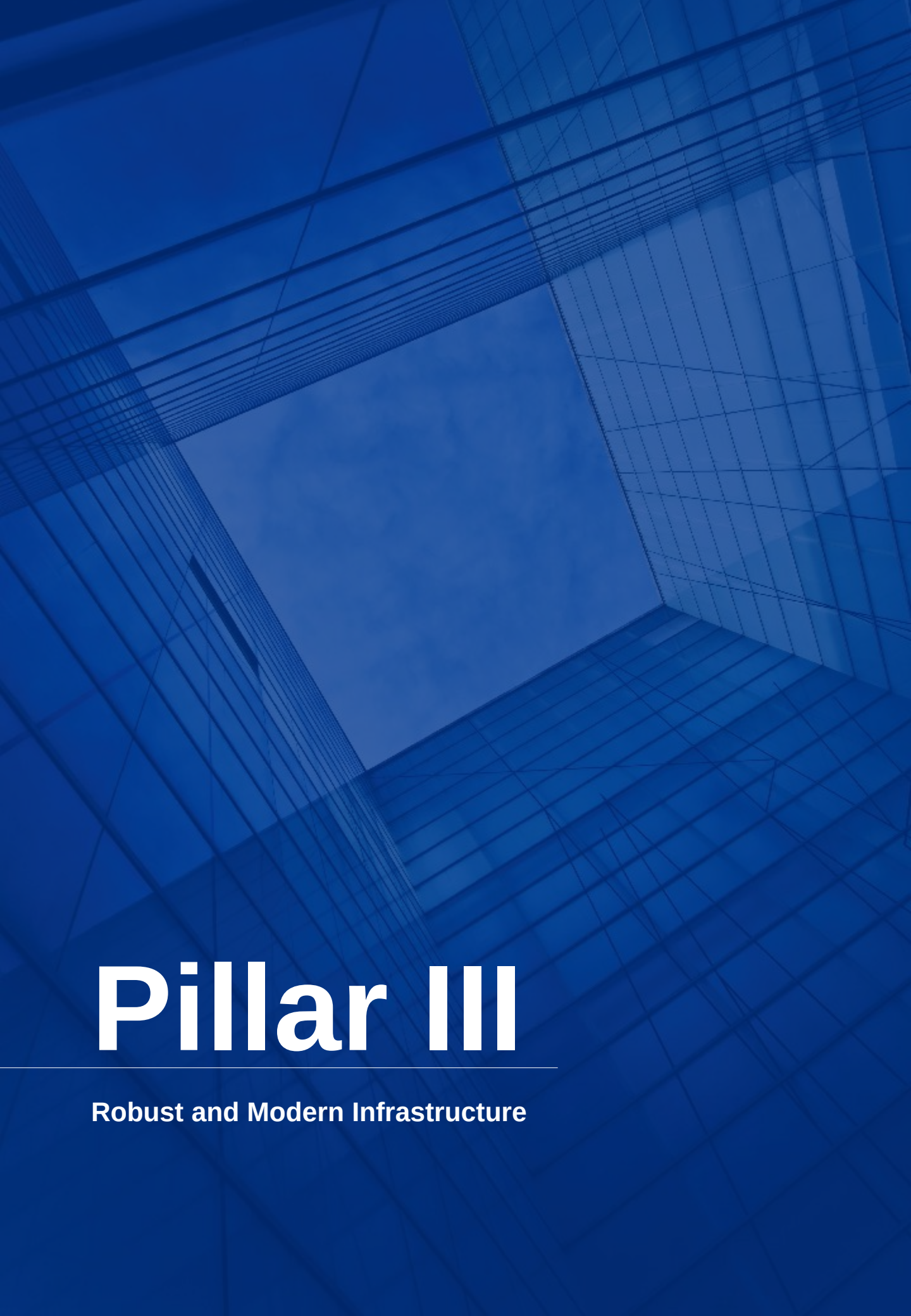


Pillar III

Robust and Modern Infrastructure

Pillar III: Robust and Modern Infrastructure

To compete successfully, financial centres must adapt to technologically dominated times and strive to be at the forefront of innovation and productivity. In aligning to become a regional financial centre power, Brunei Darussalam has made large strides to upgrade its hard and soft infrastructure. Through the Ministry of Communications and Authority for Info-communications Technology Industry (AITI), numerous strategic initiatives have been designed to transition the economy into a digital age via the National Digital Strategy 2016-2020.

Global Interconnectivity

Air Logistics Hub

Brunei Darussalam is located at a key strategic point between the ASEAN countries and industrial hubs of north Asia. To become a financial hub, Brunei Darussalam's connectivity to international and regional financial centres must be efficient and regular, facilitating business activity and investment into the Sultanate.

The modernisation of the Brunei International Airport in 2016 has included new check-in counters, passenger boarding gates and an additional 18,000 sq. meters of floor space. According to the BEDB, which is overseeing the project, baggage-handling capacity will increase by 50% to 1330 bags per hour. The upgrade also sees passenger capacity double to 3 million. Such upgrades should facilitate greater business activity in the Sultanate and support the drive to create a regionally competitive air logistics hub.

Looking ahead, Brunei Darussalam's national airline carrier, Royal Brunei (RB) has launched a new five-year plan (2016-2021) that is focused upon opening access to new markets and expanding the airlines regional network. It has been stated that RB intends to use its fleet of aircraft to expand its network to destinations such as Beijing, Tokyo, Australia and India. There is also the potential for alliance formation. In 2015, RB announced a strategic partnership with the UAE. Such partnership will raise the profile of Brunei Darussalam to an international audience and help forge new market entry.

It has been stated that Royal Brunei (RB) intends to use its fleet of aircraft to expand its network to destinations such as Beijing, Tokyo, Australia and India

Going forward, Brunei Darussalam plans to develop upon aviation agreement such as the Multilateral Agreement on the Liberalisation of International Air Transportation (MALIAT), 2001, that has promoted open air services between Brunei Darussalam, Chile, New Zealand, Singapore and the United States of America. Brunei Darussalam has ratified the ASEAN Open Skies policy (which is also known as the ASEAN Single Aviation Market (ASEAN-SAM)). This will allow carriers to cooperate across the ASEAN market with more freedom and in turn, enhance intra-regional trade, investment and traffic flow. It is perceived that ASEAN-SAM will lead to greater network competition and lowering ticket prices throughout the region.

Financial Hub

Currently, Brunei Darussalam lacks a tangible financial area to foster and cultivate business activity. AMBD, alongside the Ministry of Development, have called upon the necessity for a tangible area to support the financial services sector. Having a focal point for financial services activity will support the Government's efforts to catalyse a cluster process of various services and facilitate business activity. Further plans need to be outlined, but the establishment of a financial centre nucleus is on Brunei Darussalam's agenda.

Policy directions:

(a) Enhance the international and regional connectivity, through establishing new market routes. Support the fostering of new international alliances and partnerships to promote Brunei Darussalam globally and to key investor markets.

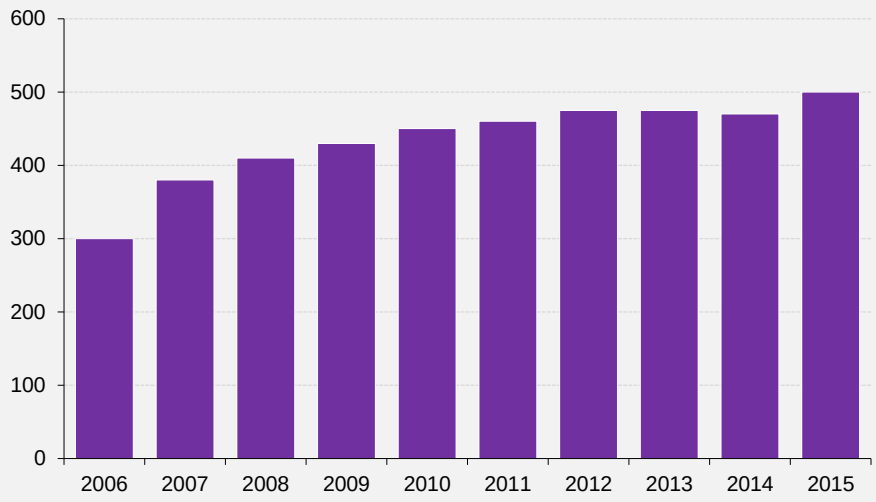
(b) Develop a financial sector nucleus that attracts financial service entities to a localised destination within Brunei Darussalam.

The ASEAN Open Skies policy will allow carriers to operate across the ASEAN market with more freedom and in turn, enhance intra-regional trade, investment and traffic flow.

Information Communications Technology (ICT)

In ICT, the government has initiated various strategic infrastructure projects to adapt Brunei Darussalam to an increasingly digital and globalised world. According to statistics from the Authority for Info-communications Technology Industry (AITI), the country and Bruneians are becoming progressively more connected with increasing subscriptions for fixed broadband and mobile internet.

Figure 13: Mobile Subscriptions, 2006-2015 (000)



Source: AITI

At the same time, various initiatives are put in place by AITI to achieve its vision to produce 'A Vibrant and Sustainable ICT Industry', encompassing areas such as accreditation, financial assistance, promoting innovation and creativity through local and international competition, human capacity building and also market access. The accreditation initiative gives ICT businesses recognition having maintaining a certain minimum technical, commercial and financial standards and thus allowing them to access to assistance provided by AITI such as grant, training subsidy and international expo. In terms of financial assistance, AITI Grant Scheme is aimed to encourage and strengthen R&D activities by local businesses where they produce innovative products with significant commercial potential and could proudly be labeled as 'Brunei-Made'.

To stimulate innovation and creativity in the ICT industry and to recognise the most innovative ICT products, Brunei Darussalam has established Brunei ICT Awards (BICTA). Brunei ICT companies has also been active in international ICT competition at the Asia-Pacific Level, namely the Asia Pacific ICT Alliance (APICTA) Awards.

His Royal Highness Prince Haji Al-Muhtadee Billah ibni His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah, The Crown Prince and Senior Minister at the Prime Minister's Office at the Brunei Info-Communication Technology (ICT) Awards, BICTA 2016 .

Next Generation of Broadband

Efficient and reliable international connectivity is essential for Brunei Darussalam to expand its role as an international financial centre. In 2012, a budget of BND230 million was approved to implement a national broadband initiative. This was backed by an initiative to construct a fibre-to-the-home (FTTH) broadband network. The target then was to connect to potentially 41,000 homes. As of the beginning of 2014, 15,000 subscribers are connected to this network. The Ministry of Communications has, under its National Broadband Strategy, set goals to ensure that all Bruneian homes and business can access a high-speed broadband service by 2017.

In the UN International Telecommunication Union ICT Development Index, 2015, Brunei Darussalam ranked 71/167 countries. Up 18 rankings from its 2010 score.

Adapting to Shifting Paradigms

It can also be observed, globally, that modern ICT technologies are driving paradigm shifts in the nature and delivery of financial services, including the emergence of new business models. Examples include new models for raising funding through peer-to-peer lending and crowd funding. The emergence of these kinds of 'FinTech' based models potentially will be disruptive to the traditional financial services landscape, and may bring new risks that will need to be managed. Yet, they also present potential opportunities for Brunei Darussalam to position itself in the region as a centre of innovation, and to contribute to achieving greater financial inclusion domestically.

In supporting the development of FinTech and at the same time to address the regulatory gaps in this new area, AMBD has recently established the FinTech Unit. Moving forward, this unit will continue to develop its capabilities and enhance knowledge sharing with other national regulators.

Policy directions:

(a) Support national ICT strategies which involve the financial sector.

(b) Take advantage of the developments in financial technology that can bring the financial sector forward and promote better financial inclusion.

(c) Assess the shifting paradigms of ICT in financial sector and the potential adoption of new technologies and trends.

An E-Payment Economy

Process innovation is a key feature of a customer-orientated financial services industry. ICT innovation is enabling innovation to help financial institutions with a range of means by which they can operate more efficiently and effectively, as well as provide customers with greater convenience and service, compared with what is possible using paper-based processes.

Nowadays, electronic records have replaced paper ledgers and payments are increasingly being made by electronic messaging (in place of cheques, and to some extent, notes and coin). Increasingly, the customer interface is via the internet, rather than by way of customers having to visit financial institutions' branch premises (or even an ATM). Various technological innovations in areas such as card payment, mobile technology and system virtualisation have helped to expand financial institutions' business offerings and customer reach.

All of this calls for the existence of and access to advanced ICT systems and capabilities in the financial system. Fundamentally, modern e-payment and e-commerce systems are prerequisites for a modern financial system.

Payment and Settlement System (PSS)

Significant advances have been made in recent years in laying the foundations for modernising payments arrangements in Brunei Darussalam. Developments are intended to pave the way for international integration and the ability to adapt to evolving payments instruments and methods. Key objectives are to reduce the use of cheque and cash payments over time, while facilitating the widespread use of electronic payments. Beyond this, integration with the ASEAN payment and securities markets is another priority.

In November 2014, AMBD implemented an electronic high value settlement system (Real-Time Gross Settlement System). The next step was to establish a linked Automatic Clearing House (ACH), which went live in May 2016. This enables electronic clearing of cheques to replace the manual cheque processing system and enables other electronic payments.

Further to this, AMBD is developing policies and plans for an interoperable market infrastructure for retail payments, which may include payment cards, internet banking, mobile phone payments and other new technology payment instruments. The objective is to ensure that all electronic payments are interoperable, such that all payment instruments and methods offered in Brunei Darussalam will be useable by all customers. Interoperability is essential in a small market such as Brunei Darussalam; otherwise electronic payment services tend not to be economically viable. AMBD is currently exploring various strategies to ensure both customers and providers can benefit from electronic payments.

On completion of these projects, Brunei Darussalam will have a modern, interoperable, national electronic payments system, comparable to those of most advanced countries. Whereupon it is likely that payments by cheque, and cash, will begin to diminish. Cheques and cash are comparatively expensive means of payment, and are less secure than their modern electronic counterparts. AMBD therefore has a specific objective to reduce the use of cheques by approximately 50% by 2020 and to ensure that all high-value inter-bank cheques are displaced by RTGS payments for risk management reasons.

Regarding government payments, AMBD plans to consider, in coordination with the Government, the benefits of a central Treasury account at AMBD for large disbursements and the possibility of migrating its payments onto the AMBD electronic platforms in due course. This will help to centralise Government liquidity in the RTGS system, in line with international best practice.

Beyond the domestic systems, AMBD is active in the planning groups for the integration of payments networks across ASEAN. This covers the long-term aim, but Brunei Darussalam's modern payment and settlement system will enable the country to keep pace with the requirements to participate fully in the ASEAN initiatives.

Policy directions:

(a) AMBD to complete the automated clearing house and thereafter an interbank retail payments infrastructure, thus providing Brunei Darussalam with a modern payments system, enabling reduction in the use of paper-based payment instruments, notably cheques. AMBD and the Government can provide a lead in transitioning their own payments from paper-based to electronic payments.

(b) AMBD is active in the planning groups for the integration of payments networks across ASEAN, which is expected to begin with RTGS and CSD Linkages, and will expand to cover retail payments, aiming at full interoperability of payment instruments across the 10 ASEAN countries.

Securities Registry, Trading and Settlement Systems

To support the bold ambitions of Brunei Darussalam's capital markets industry (see Pillar II), processes are needed to enable efficient centralised trading, changes in title to the securities that are traded and the associated payments required to 'settle' those trades.

AMBD is implementing a 'Central Securities Depository' (CSD) in order to bring under domestic control all the management of Sukuk issues and enable secondary market trading. The CSD will provide safe keeping of securities and operate as a registration and securities settlement system, to enable auction settlement and trading of Government Sukuk, and, potentially, corporate bonds. Within these systems, exchange of title and payment will occur simultaneously via a real-time interface with the RTGS (delivery versus payment, or DvP), so as to eliminate settlement risk from the system. Market rules for secondary market trading have been drafted and are under review with the banks.

Meanwhile, as highlighted in Pillar II, work is in progress to establish a national securities exchange, which will be able to interface with the AMBD's CSD. It is a necessary forerunner for Brunei Darussalam to be able to join the envisaged ASEAN integrated securities market. The CSD will be completed in 2016 and the securities exchange should come on-stream within the first half of this *Blueprint*'s 10 years horizon.

Policy directions:

To continue working on the establishment of the sukuk CSD and a securities exchange trading platform, and creation of the associated securities settlement system for effecting transfer of title of securities traded on a DvP basis via RTGS.

Financial Services Infrastructure Development

Credit Bureau

A key milestone in signifying the maturity of Brunei Darussalam's financial sector was the establishment of AMBD's Credit Bureau in 2012. Credit Bureau is the key tool of AMBD for lenders to determine their potential customers' credit-worthiness. Helping to mitigate the credit risk exposure of the sector, it provides banks information on clients and helps them to customise products for customers and price them accordingly. The bureau helps banks provide better services and potentially better terms to individual consumers and businesses. The Credit Bureau collects and consolidates factual information from its members, comprising all the licensed banks, finance companies and the Islamic trust fund, and provides them with an online facility to access customer and potential customer credit reports for the purpose of making credit worthiness assessments.

Benefits of the Credit Bureau		
I	Risk Management Tool	It is a risk management tool for the lenders, which aims to further enhance the credit risk management of the lenders. It can also be used to provide input to the Authority for policy decision-making.
II	Monitoring Credit Risk	It helps the lenders to monitor the credit position of their existing customers. So that the lenders can take remedial actions on deteriorating credits. It can benefit the lenders to reduce costs (operating cost & credit losses).
III	Customisation	It provides opportunity for the lenders to customise products/services based on the customers' risk profile - creates more innovative products in the market.
IV	Customer Choice	From the customers' perspectives, by having good credit standing on record, they would benefit with easier access to credit at more favourable rates and terms.

Subsequently, the Credit Bureau has extended collection of customer credit information to include that available from utility providers, and has extended its service to the public (including both individuals and commercial entities) by way of a Self-Inquiry and Dispute Resolution (SIDR) service. This service includes a facility whereby members of the public can obtain their own credit reports and to verify their credit information.

Currently, the Credit Bureau is confined in its offering of products, sources of data, and the customers it serves, because it operates under AMBD. There is potential to extend its scope by offering a wider range of services such as credit scoring and credit ratings; collecting information from other sources such as on trade credit, and court cases; and offering services to clients beyond the current subscribers, such as Government agencies, and other private agencies. These extensions, however, could take the current scope of the credit bureau beyond the functions of a monetary authority, and into a credit assessment role that would be more appropriately constituted as a commercial, fee-generating, business outside of, but regulated by, AMBD.

Collateral Registry

There is a need for upgrade of the current systems and/or processes for registering and enforcing a security interest in Brunei Darussalam for moveable property. At present, motor vehicles registered with the Land Transport Department, Companies Register registered under the Registrar of Companies and the Bill of Sale registered in the Attorney General's Chambers are the only types of security interests that can be used as collateral. The Collateral Registry, which is going to be fully online, will be combining all these three registers for the above types of security interests into one central national registry system.

AMBD is conscious of the importance of establishing a unified, notice-based and online collateral registry, a mechanism which is also pivotal to enabling banks to lend to SMEs, businesses and individual.

The Collateral Registry, which has started in December 2016, will enhance the business sector in that individual and businesses will easily get credit from financial institution by securing it with their movable property and the financial institutions including banks and finance companies can readily lend money to them knowing that their interest are secured in the form of movable property by registering the security interest under the Collateral Registry.

Policy directions:

(a) AMBD to develop other functions of the Credit Bureau in consultation with current and potential users. As the Credit Bureau's services extend into credit scoring and rating services and collection of data extends beyond AMBD's licensees, AMBD may review the existing legal and regulatory framework to transfer and license the current credit bureau operations to either a private entity or a Government-Linked Company, with AMBD having powers to regulate licensed credit bureaus/credit rating agencies.

(b) Operationalise the new Collateral Registry.

Cyber Security

With an increased focus on ICT and its progressive adoption, and recognising the growing complexity and threats from cyberspace, Brunei Darussalam has taken steps to enhance cyber security. Since 2014, the e-Government National Centre (EGNC) under the Prime Minister's Office, has been developing the National Cyber Security Framework to provide the overarching framework on managing cyber security at the national level.

2000
June
Putting into Effect the Computer Misuse Order, 2000

2004
May
The establishment of the Brunei National Computer Emergency Response Team (BruCERT)

2009
Introduction of the Cyber Security and Internet Etiquette Awareness Programme

2014
Embarking on the Implementation of the Brunei National Cyber Security Framework (In-Progress)

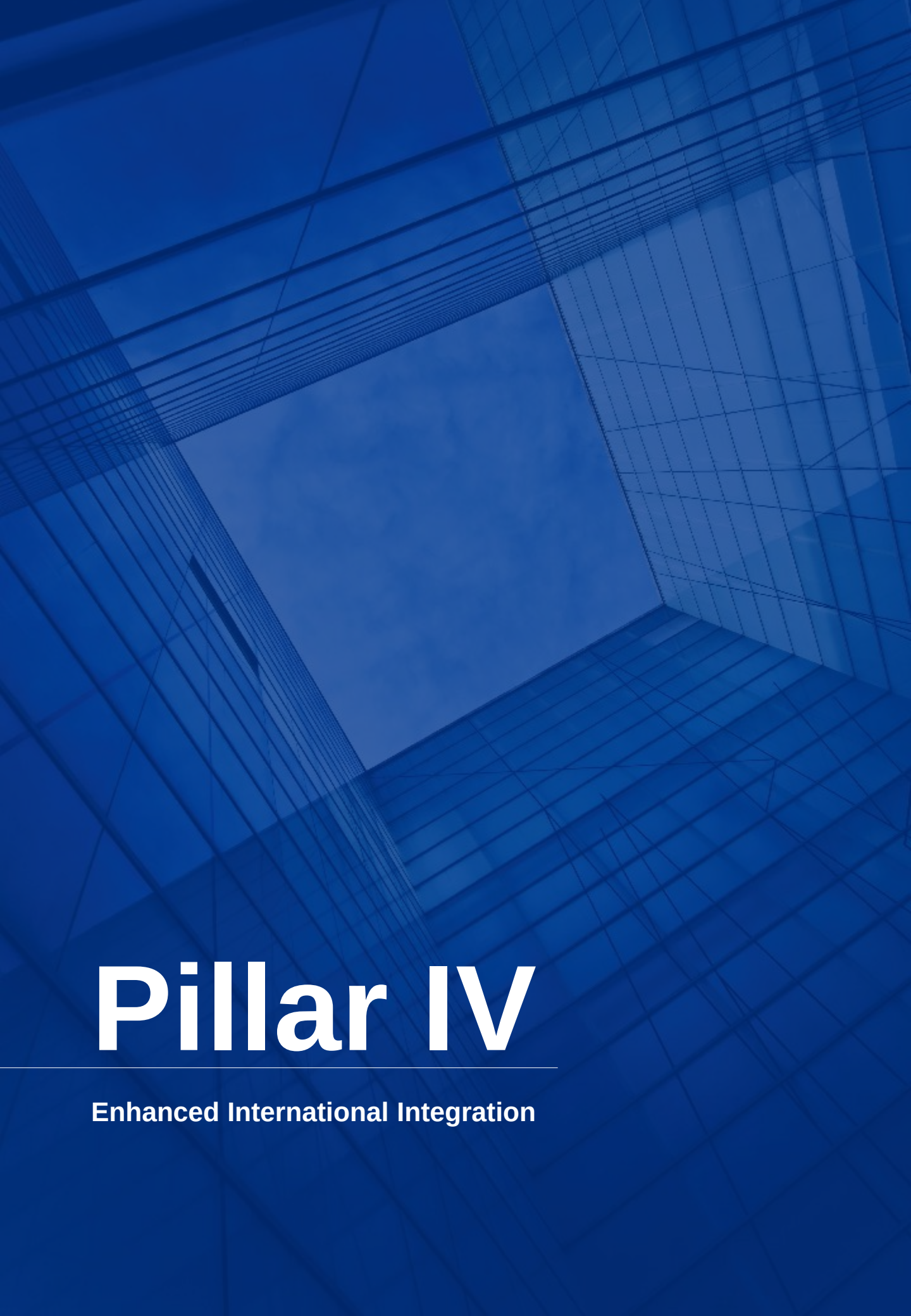
In December 2015, AMBD issued ICT Risk Management Guidelines to the banks and finance companies. These provide comprehensive guidance to financial institutions on managing the risks associated with technology-based systems and practices, and on the relevant internationally recognised standards.

As the international financial sector continues to evolve with new means and ways of delivering new services digitally, policies, legislations and best practices have to be constantly reviewed and updated to maintain relevance towards the ever-changing business environment.

The Government is focused on taking a lead in this area but seek the participation and contribution from the industry experts and academia to ensure that policies, legislation and best practices developed are well-formulated, adequate in coverage and relevant to the industries and public. Looking ahead, it is important that Brunei Darussalam studies, reviews and formulates necessary national legislation. While there has been the Computer Misuse Order from 2000, relevant new ones such the Data Protection Act and Cyber Security Act should be developed.

Policy directions:

To review, formulate and update necessary Cyber Security related frameworks, standards, and regulations in the financial sector.



Pillar IV

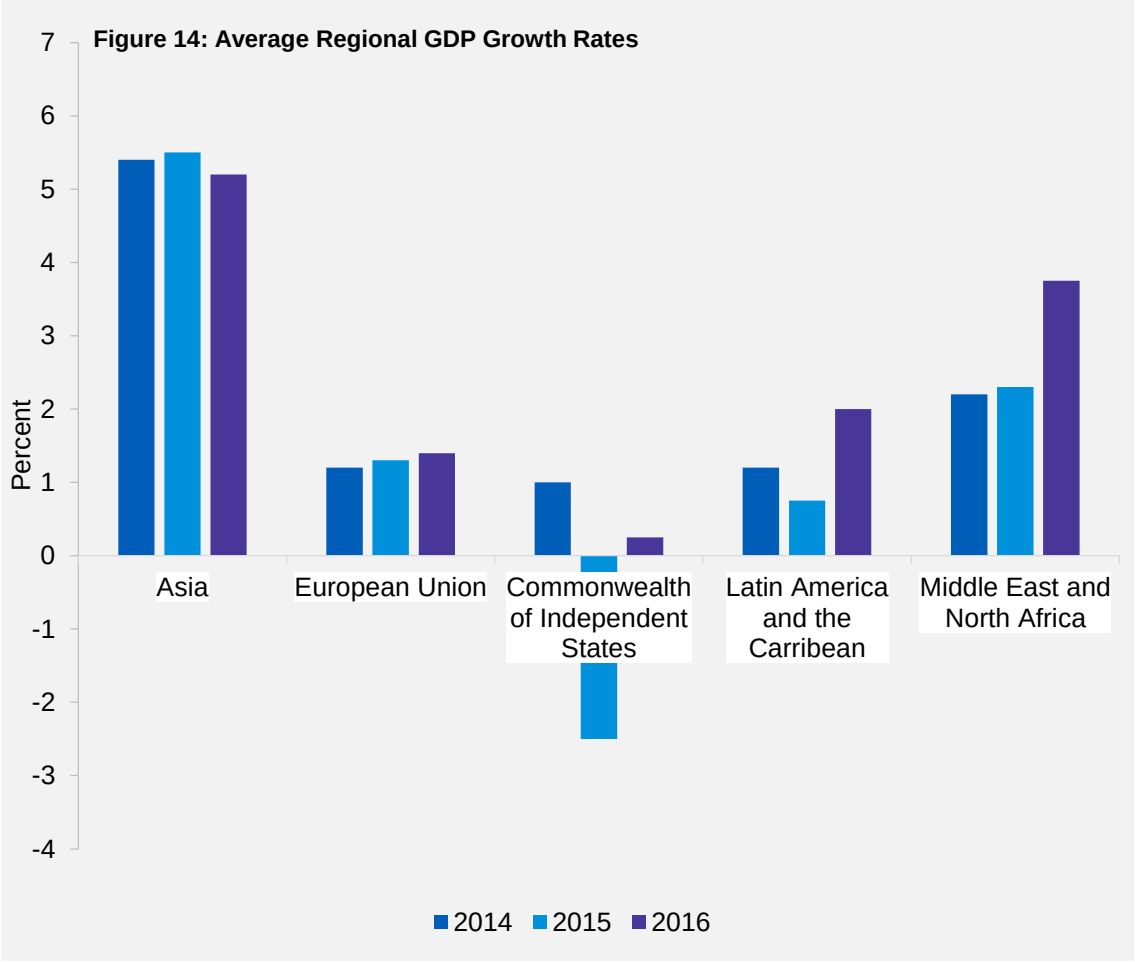
Enhanced International Integration

Pillar IV: Enhanced International Integration

Given the Sultanate's geographic location in Asia - the fastest growing region in the world - its membership of ASEAN and its augmenting reputation as a centre for Islamic Finance, Brunei Darussalam is well-positioned for its financial sector to achieve outward international integration.

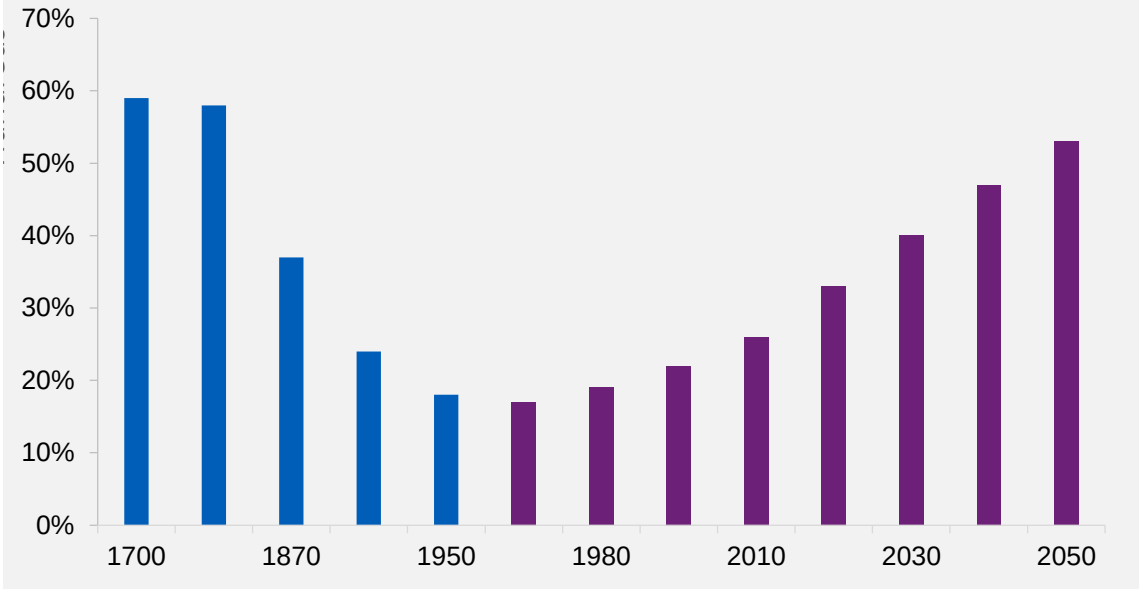
21st Century: Asia's Century

In recent decades, the centre of economic power has gradually shifted from West to East. In 2000, the region accounted for less than 30% of world output. By 2014, this contribution had risen to almost 40%. If it continues to follow its recent trajectory, by 2050, its per capita income could rise six-fold in purchasing power parity (PPP) terms to reach Europe's levels today. It would make some 3 billion additional Asians affluent by current standards.



Source: IMF, World Economic Outlook Database

Figure 15: Asia's share of global GDP, 1700-2050



Source: ADB

Asia's middle-class population is forecasted to grow from about 500 million to 1.75 billion by 2020. The rise of Asia's middle class is a fundamental trend driving Asia's ascendance. Not only does it intensify greater regional consumption, but the region's large cumulative market will also make Asia an increasingly key global consumer.

Ultimately, such favourable economic and demographic trends mean no multinational company can afford to overlook the investment into this large region.

ASEAN: Economic Interconnection

To manage the demands stemming from rapid urbanisation and industrialisation, Asia has vast infrastructural needs. To reach Asia's forecasted potential and investment requirements, the region would benefit from more effective and efficient intermediation of Asia's amassing surplus funds towards the vast investment opportunities in the region.

Within Asia, the ASEAN region has evolved into a strong position to capitalise on the range of opportunities emanating from the Asia-Pacific region.

Since 1984, Brunei Darussalam has been a central player in the multi-lateral organisation. It has witnessed the bloc transform itself into a major global hub of manufacturing and trade, as well as one of the fastest-growing consumer markets in the world. If ASEAN were a single country, it would already be the seventh-largest economy in the world, with a combined GDP of USD2.4 trillion in 2013. It is projected to rank as the fourth-largest economy by 2050. [6]

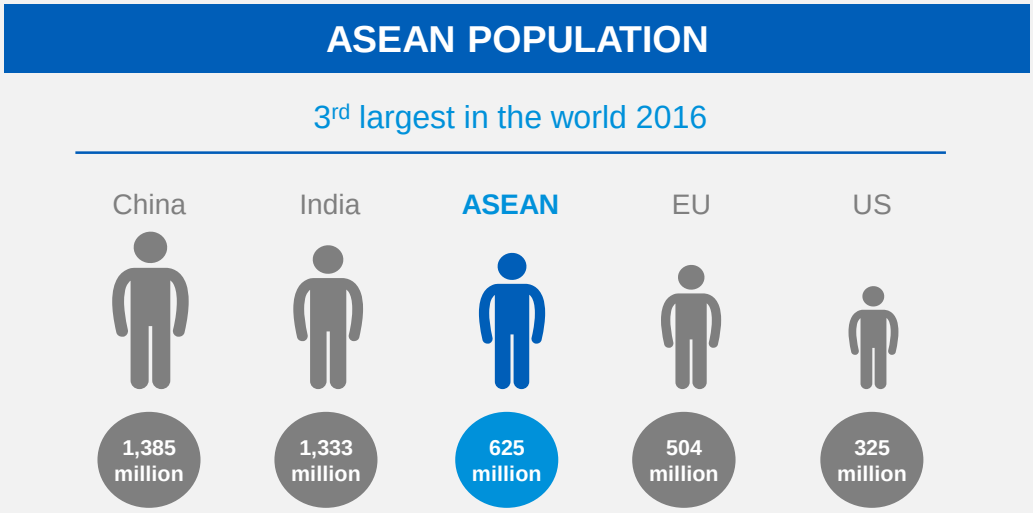
6 IHS

In 2016, the formation of the single market, through the ASEAN Economic Community, marks a significant step towards greater financial integration and financial stability. Already, intra-regional trade and investment has been impressive, amounting to 24.1% in 2014.[7] In January 2016, Brunei Darussalam-ASEAN trade reached BND2.1 billion, of which BND447m were imports from ASEAN.

As the AEC develops, the intra-trade figure is highly likely to expand. In order to leverage to colossal potential of the region, it is of top priority that Brunei Darussalam continues to help cultivate and strengthen economic and social linkages within the ASEAN bloc. Two schemes Brunei Darussalam is closely looking at include: the ASEAN Framework for Cross-Border Offerings of Collective Investment Schemes (CIS) and ASEAN trading link, which aims to enhance the capital markets of the region by developing closer relationships between ASEAN's various securities exchanges.

As Brunei Darussalam's financial sector maturity elevates and expands, the Sultanate intends to be the avenue for international investment into ASEAN and wider-region; while in Islamic Finance, Brunei Darussalam will position itself to become a leading player in the region.

Figure 16: ASEAN Population, 2016

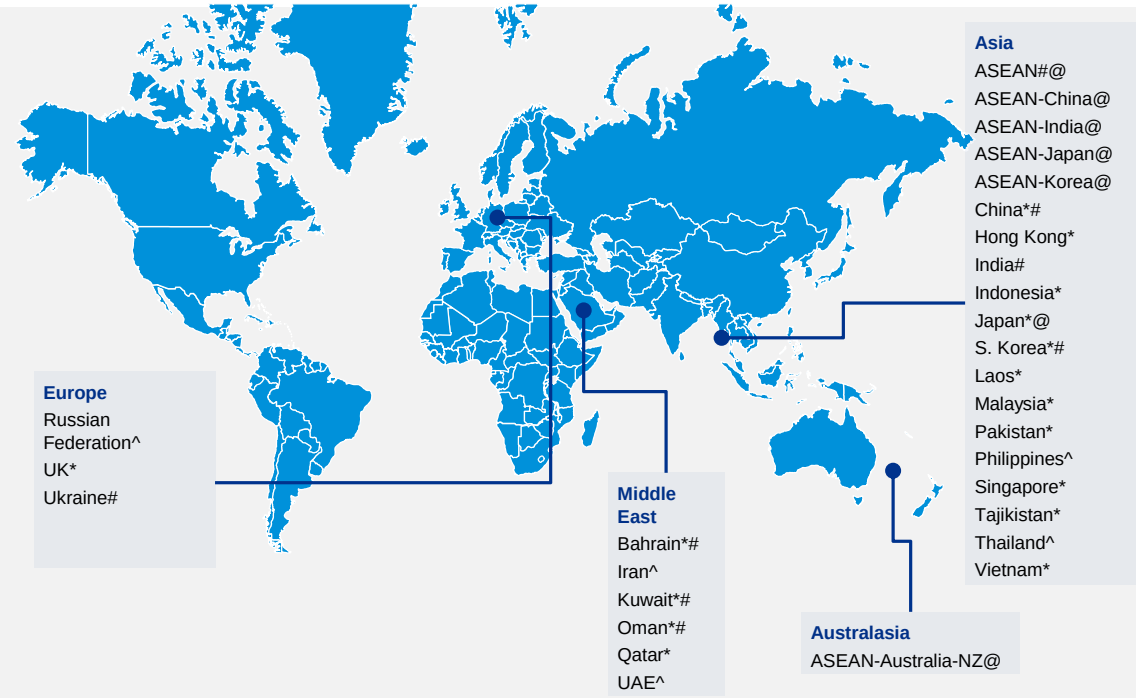


Source: World Population Clock

Over 50% of ASEAN's population is under the age of 30, making up a large portion of both the current and future workforce.

7 www.asean.org

Brunei Darussalam's Growing International Partnerships



Source: ASEAN Economic Community 2015: Progress and Key Achievements and BEDB

* Double Taxation Agreements
@ Free Trade Agreements
\# Bilateral Investment Treaties
^ Ongoing negotiations

Access to Key Markets

Brunei Darussalam views Free Trade Agreements (FTAs) as a central part of its foreign trade policy. FTAs are an important step for Brunei Darussalam to ensure that its people, goods, services and investments have continued access to wider markets around the world.

Brunei Darussalam has, through ASEAN, concluded FTAs with Australia and New Zealand, China, India, Japan and South Korea. Bilaterally, Brunei Darussalam has concluded an Economic Partnership Agreement with Japan (the Brunei-Japan Economic Partnership Agreement or BJEPA) and is a signatory to the Trans-Pacific Partnership Agreement. Being a member of ASEAN, it is also in negotiation with ASEAN's FTA partners to enter into a new proposed free trade agreement called the Regional Comprehensive Economic Partnership.

Trans-Pacific Partnership Agreement (TPPA)

Brunei Darussalam is a founding member (alongside Chile, New Zealand and Singapore) and signatory to the Trans-Pacific Partnership Agreement (TPPA). Potentially ascending to become the world's largest free trade arrangement, the TPPA covers approximately 40% of global trade. To date, parties of the TPPA include Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam. This agreement provides for increased cross-border and new market access opportunities for financial service providers within the TPP group of countries, whilst preserving national authorities' abilities to apply prudential requirements, including financial safety net measures.

> *The Trans-Pacific Partnership will reduce or eliminate tariffs on more than 18,000 categories for good*

After a historic signing ceremony in 2015, the next phase of the pact's development will see each signatory seek domestic ratification prior to official enactment. The TPPA additionally serves to promote the adoption of international best practices and standards in member countries' supervisory and regulatory practices, as well as enhanced transparency in the administrative processes of their financial regulators, especially in relation to their approval processes and licensing procedures.

As one of only four ASEAN signatories, Brunei Darussalam plans to capitalise on new investor channels, particularly from the US. The TPPA will also improve SME enterprises access to new markets – an important priority of the Government's economic diversification efforts. Looking ahead, Brunei Darussalam plans to support the domestic ratification of TPPA. To achieve this, the country will work on revising several pieces of legislation.

The TPPA would be the world's largest free trade agreement, encompassing 40% of global trade and 38% of global GDP.

Regional Comprehensive Economic Partnership (RCEP)

Brunei Darussalam is also a member of the Regional Comprehensive Economic Partnership (RCEP), a Free Trade Agreement (FTA) involving the ten ASEAN member countries and their six ASEAN-FTA Partners (Australia, China, India, Japan, Republic of Korea and New Zealand). The RCEP initiative aims to be a modern, comprehensive and mutually beneficial economic partnership within the region. The GDP of the proposed RCEP bloc would be USD23 trillion, making it the largest single market in the world, bigger than the Unites States and the European Union. Brunei Darussalam hopes to benefit from the advancement of economic linkages and integration within the region.

The GDP of the proposed RCEP bloc would be USD17 trillion, making it the largest single market in the world.

Professional Support Services

Another opportunity for Brunei Darussalam to expand into is to build its capacity and reputation as a provider of professional support services for financial institutions based in regional financial centres. Provision of these services requires a skilled workforce, particularly in accounting and law, as well as advanced IT capabilities.

Brunei Darussalam is well placed to develop competitive advantage as a provider of such services (similar to how Dublin and Manchester provide professional support services for London-based financial institutions). The English speaking workforce is well-qualified and office accommodation costs are lower than in larger, more established regional financial centres. Consideration could also be given to providing targeted incentives for institutions to establish a regional support centre located in Bandar Seri Begawan.

Fundamentally, Brunei Darussalam is fully open to successful international institutions locating in Brunei Darussalam and joining the significant number already here, whether to service the local market or as a base from which to service the regional market. Likewise, Brunei Darussalam's own leading financial institutions, particularly but not only those that provide Syariah compliant products, have the capacity and standing – as evidenced by investment grade credit ratings – to establish (initially niche) presences in regional markets, and to participate in international syndicated facilities.

In sum, Brunei Darussalam's strategy for international integration is multi-pronged. Given its strategic location, international openness, high quality and education of its labour force and drive for innovation, the country is uniquely positioned to take best advantage of Asia immense economic growth potential and align that to its growing credentials in the Islamic Finance sector.

Policy directions:

(a) Participate in ASEAN integration initiatives and to contribute towards the successful implementation of the ASEAN Economic Community (AEC).

(b) Participate in trans-border initiatives that will enable the growth of the financial sector, such as the ASEAN trading link and the ASEAN Framework for Cross-Border Offerings of Collective Investment Schemes (CIS).

(c) Support the domestic ratification of TPPA. To achieve this, the country will work on revising several pieces of legislation.

(d) Offer professional support (including back-office) services to financial institutions based in the large and higher cost financial centres in the region, e.g., Singapore, with which Brunei Darussalam has a very long-standing and close economic relationship.

Pillar V

Human Capital Development

Pillar V: Human Capital Development – Facilitating the Financial Sector's Growth

Raising Financial Literacy Standards

The financial services sector is an information processing and knowledge-based industry. Its success is underpinned by a skilled workforce, able regulators and knowledgeable financial consumers.

In terms of Brunei Darussalam's general workforce capabilities, the country's literacy rate is impressive. Within ASEAN, Brunei Darussalam has the second highest adult (96.8) and youth literacy rate (99.6%).[8] However, a National Financial Literacy Survey and Strategy conducted by the Centre for Strategic and Policy Studies (CSPS) in 2015 highlights that from a financial literacy perspective, there is scope for improvement.

Figure 17: Adult Literacy Rate, percent, 2011

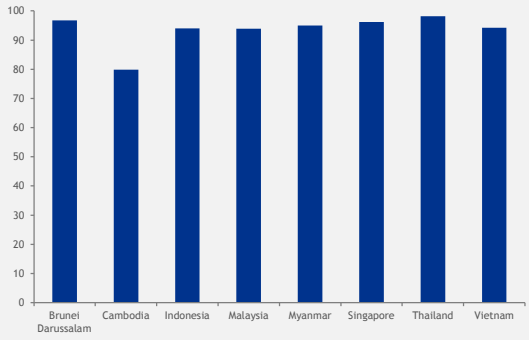
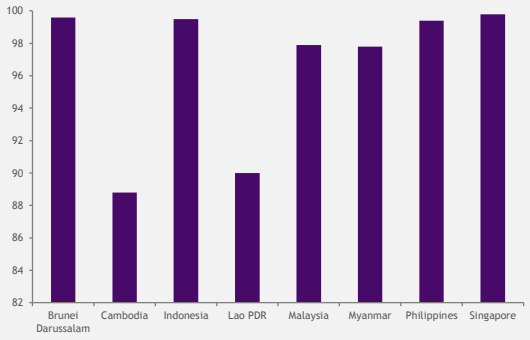


Figure 18: Youth Literacy Rate, percent, 2010



Source: ASEAN Statistics

The findings of the study recommended four strategic themes*: financial education; financial information and advice; institutional design; and governance and evaluation.* The findings gave policy recommendations to inform the National Strategy – among which recommended for a centralised taskforce be formed to include agencies from both the public and private sector to work closely in collaboration and cooperation towards the same goal, to achieve a more effective impact.

8 ASEAN Community Progress Monitoring System, 2012, http://www.asean.org/storage

Raising Public Awareness and Instilling Financial Discipline

Bruneians are having to adapt to a changing macro-environment. Having been nurtured in a high-standard of living environment and supported by various government subsidies, Bruneians are having to comprehend that for sustainable economic growth, there is a need for greater self-sufficiency and financial discipline. This is backed up by the findings of CSPS that references 49% of Bruneians do not actively save.

Aware that a holistic approach at the 'grass-roots' level is critical to raise national financial literacy standards, AMBD – in collaboration with the Ministry of Education, Ministry of Finance and other entities – have adopted a number of measures to promote a national savings culture. For instance, in 2016, National Savings Day roadshows and Financial Fun Fairs were held to promote AMBD's 'Financially Literate Generation' theme. Furthermore, financial planning talks have been led by the AMBD to raise awareness around financial planning and 'Get-Rich-Quick' schemes.

To align with unfolding trends in the financial and social world, Brunei Darussalam can focus on raising financial awareness and educational standards through developing targeted digital and social media platforms. The intention is to market industry training programmes, provide online financial education lessons and offer savings tips to the public. Considering Bruneians - particularly younger generations - are technologically sophisticated and connected to the internet, reaching out to a new generation through modern mediums is a necessity. For instance, AMBD launched a smartphone app whose function amongst others include educating the public on possible financial scams and providing an avenue for the public to forward enquiries to AMBD. Such initiatives will contribute to the Wawasan Brunei 2035's objective of developing a dynamic and sustainable economy, as well as a highly-skilled population.

Aligning the National Curriculum to the Future Economy

Similar to a number of countries, Brunei Darussalam is looking into aligning the national curriculum (at a primary and secondary level) to the country's economic vision, similar to Science, Technology, Engineering and Mathematics (STEM). STEM education has become a priority to many countries around the world as they look to build a STEM-educated workforce. Closely associating the national curriculum to the economic vision will help ensure Brunei Darussalam has a local workforce that is globally competitive and complimentary to the country's economic needs.

Looking ahead, the Centre for Islamic Banking, Finance and Management (CIBFM), a training arm established under AMBD, intends to engage with the Ministry of Education (MOE) to coordinate the introduction of Islamic Finance teaching into the national curriculum.

To currently support the Islamic Finance teaching that the MOE provides, the CIBFM has the Ascending Leaders in Islamic Finance (ALIF) initiative which is currently progressing, in collaboration with the Islamic Financial Advisory Unit of AMBD, the academicians from Universiti Brunei Darussalam (UBD) and UNISSA and a local Islamic bank, BIBD. The ALIF is a professional learning progression that aims to produce versatile leaders, innovators and experts in Islamic Finance. The professional learning pathway covers all Islamic Financial Sectors namely Islamic Banking, Takaful, Islamic Capital Markets and most importantly, Islamic Leadership is embedded in the program to equip the potential leaders and experts with the concept, principles and practices of Islamic Leadership and Management. ALIF can serve as a complement to Islamic Finance teachings that MOE provides.

To increase connections and visibility, the CIBFM also undertakes research including case study work in collaboration with the academicians, finance experts, Syariah scholars and financial institutions. The research works is disseminated in high-level meetings (local and international) and higher learning institutions including international reputable universities and business schools.

Ultimately, education providers play a foundational role in providing Brunei Darussalam with a skilled workforce, including for the financial sector. This begins with Brunei Darussalam's schools and extends to a need for tertiary-level training in the finance specialisations (accounting, law, business finance). UBD and UNISSA have important roles in this regard. Their finance degree programmes, at least at undergraduate level, need to be at international standard. Ministry-led initiatives, such as the National Entrepreneurship Agenda (NEA) are encouraging and have received strong support from domestic universities. The Entrepreneurial Village programme spearheaded by UBD aims to create and support high growth entrepreneurs, drive job creation and economic growth in the country, in line with Wawasan Brunei 2035.

Raising Financial Industry Standards

To supplement the growth of Brunei Darussalam's financial services, the country is heavily investing in raising financial literacy standards across its citizens.

The CIBFM serves as a dedicated Centre of Excellence in Brunei Darussalam for the professional development of the financial sector workforce. It provides extensive professional training in major disciplines such as Islamic Banking, Finance, Insurance, Capital Market as well as Management and Professional studies and is AMBD's License Examination Centre for certain financial sector qualifications, for example, those that must be obtained in order to be licensed as an insurance agent. Within a short period of time, CIBFM has amassed a number of achievements. Indeed, over 4000 people, from over 70 institutions have enrolled on programmes with CIBFM.

Figure 19: CIBFM Achievements

2014

- Creation of CIBFM Research and Knowledge management Department
- MoU with Islamic Research and Training Institute (IRTI), Islamic Development Bank Jeddah
- 10th Annual Brunei Darussalam Roundtable
- Registered as a Training Provider with Finance Accreditation Agency, Malaysia
- Examination Centre for pre-Contract Examination for Insurance Agents with Malaysian Insurance Institute
- Event Supporter for the 11th Kuala Lumpur Islamic Finance Forum

2015 - 2016

- Event Supporter of the Thematic Workshop on Islamic Financial Literacy, Universiti Islam Sultan Sharif Ali
- Appointed as Licensing Examination Centre by Autoriti Monetari Brunei Darussalam
- Inauguration of the Regular Roundtable Discussion on Islamic Banking, Finance and Economics Series
- Hosted the 9th South East Asian Central Banks (SEACEN) Research and Training Centre – Bank of Japan Intermediate Course on the Analytics of Macroeconomic and Monetary Policy Management
- Participated during AMBD Day 2015 – Facilitating Your Financial Future
- MOU with Kolej Universiti Islam Selangor, Malaysia
- Event partner for the AMANIE UNITAR Islamic Finance FORUM 2015
- Accredited as a Training Institution in the field of Banking, Finance and Management and the recognition of CIBFM's training programmes as Value Qualifications by Brunei Darussalam National Accreditation Council (BDNAC)
- Participated in the Global Money Week in March 2016
- Organised the HR Retreat "Getting The Best Out Of Your Employees" on 26 April 2016;
- Produced 9 more graduates under CIBFM's Flagship Programme, the Fiqh Muamalat Professional Programme where the graduation ceremony was held on 9 May 2016;
- Held the Financial Planning Association Day, in collaboration with Financial Planning Association of Brunei Darussalam
- MOU with Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) and Association of the National Development Financial Institutions in Member Countries of the Islamic Development Bank (ADFIM)

Some of the flagship signature programmes offered by the CIBFM include the Fiqh Mu'amalat Professional Programme (FMPP), the Financial Planning Practitioners' Programme (FPPP), and Qualifying Examination for Insurance/Takaful Agents (QEFITA). The FMPP has been designed to enhance and deepen qualified participants' understanding of Fiqh Mu'amalat. Supported and approved by the Syariah Financial Supervisory Board and AMBD, FMPP aims to prepare new leaders and professionals in Islamic Finance. FMPP which is part of the Ascending Leaders in Islamic Finance initiative, runs for a period of 14 months and delivered in collaboration with world class Syariah scholars.

Such programmes contribute to Brunei Darussalam's objective to become one of the world's leading centres and knowledge hubs for Islamic Finance. The scale of growth in Islamic Finance has resulted in heavy demands on Syariah scholars around the world and this represents a potential opportunity for Brunei Darussalam to capitalise upon since its Islamic Scholars are well versed in Syariah principles. With the Islamic Finance programmes offered by CIBFM, Brunei Darussalam's young and talented Syariah experts and Scholars are well-poised to develop alongside the rapid innovations taking place in the Islamic Finance sector.

Financial Professionalism and Integrity

To facilitate the growth of the financial services sector, it is not only technical skills that need to be developed. The financial industry needs to also demonstrate a strong culture of professionalism, integrity and ethics to instill public confidence in the domestic financial system. On this front, the CIBFM, in close collaboration with AMBD, is embarking on the Continuous Professional Development Framework (covering banking, insurance and capital market sectors). This initiative aims to elevate the competence, ensure quality assurance and to instil public confidence. The framework will provide benchmarks for good practice and develop Brunei Darussalam's reputation as an ethical financial hub.

International Collaboration

To cultivate a modern, competitive and vibrant financial ecosystem, Brunei Darussalam is committed to establishing alliances and partnerships with international institutions. Over the last few years, AMBD has established Memorandums of Understanding (MoUs) with a number of other national regulators such as: SC Malaysia, Monetary Authority of Singapore (MAS), China Securities Regulatory Commission (CSRC) and Capital Markets Board of Turkey. Moreover, AMBD is part of the Working Committee on Financial Inclusion (WC-FINC), which was established in order to facilitate greater financial inclusion in the ASEAN region, enhance economic growth, alleviate poverty and reduce income inequalities.

A good relationship and understanding between national regulators provides the confidence and trust needed to facilitate commerce. It also facilitates mutually beneficial initiatives and the exchange of information between the jurisdictions, enhancing the credibility of AMBD and other such government institutions.

The MoUs and international alliances such as through the WC-FINC, can also be used for capacity building through attachments and rotations. Sending Bruneians abroad to study and work in financially focused organisations will help enhance the financial literacy of the country and support the development of a 'train-the-trainer' approach that is key to keeping Brunei Darussalam's financial knowledge aligned to fast moving trends in the sector.

At an educational level, the CIBFM has pre-dominantly attracted locals (less than 10% are international students). However, a major intention of the CIBFM is to become a regional Centre of Excellence and attract foreign students. In 2015, the CIBFM hosted the 9th South East Asian Central Banks (SEACEN) Research and Training Centre – Bank of Japan Intermediate Course on the Analytics of Macroeconomic and Monetary Policy Management. CIBFM has established a number of cross-border partnerships, such as the MoUs with Islamic Research and Training Institute (IRTI) of Islamic Development Bank (IDB) Jeddah; Statistical, Economic and Social Research and Training Centre for Islamic Countries (OIC-SESRIC), Ankara and Association of National Development Finance Institutions in Member Countries of the IDB, Istanbul. Marketing CIBFM's courses, qualifications, educational attributes and disseminating research to an international audience through digital media, roadshows and events, will not only enhance Brunei Darussalam's soft power in Islamic Finance, but also the country's credibility as a financial knowledge hub.

Public and Private Sector Dialogue

Building the human skills and talent needed by providers of financial services, first and foremost, is the responsibility of the firms providing those services. 'Moving forward' internal strategies within the financial institutions themselves that focus on human capital development are needed. These need to address specific requirements of their workforce career progression, from the pre-employment stage, during employment stage, up to the executive and leadership positions. There must be a "ready" pool within each institution of professional and high calibre staff. Recruitment strategies must be well-designed to attract, grow and retain talents with the required skills and expertise.

Yet, human capital development has to be seen as a whole in Brunei Darussalam. It needs collaborated effort and regular dialogue between the CIBFM, other training providers, the financial industry, industry experts, Syariah Scholars, researchers and academicians to establish a strong platform for knowledge and skills enhancement.

Public-private sector initiatives are a stepping-stone towards improving the responsibility of companies enhancing their commitment to Brunei Darussalam's local talent. Moreover, public-private sector dialogue facilitates a more sustainable employee market that is trained to benefit the needs of both the company and country. In April 2016. State Street Corporation established a Memorandum of Understanding (MoU) with the Universiti Brunei Darussalam (UBD). It launched a variety of programmes aimed at improving local students' financial literacy through internships and financial lectures.

AMBD, as part of its regular supervisory engagement with institutions, will keep itself apprised of their levels of human capability in relation to the activities they undertake, and their programmes for developing those capabilities, through training and recruitment. Areas identified by AMBD where upgrading of skills and experience are required include legal, accounting and auditing services, and corporate governance (company secretaries and directors). Enhancement on internal strategies within education providers (schools and high learning institutions) and make financial education as a strong commitment.

Developing and Retaining Local Talent

There are young Bruneians abroad working in international financial centres. To benefit Brunei Darussalam's financial services sector directly and to ensure knowledge transfer takes place, it is fundamental that Brunei Darussalam stays in contact with Bruneians working overseas.

Targeting Skill Gaps

Brunei Darussalam has well-established accounting and legal professional bodies (the Brunei Darussalam Institute of Certified Public Accountants and the Law Society of Brunei Darussalam). However, currently the actuarial expertise needed by Brunei Darussalam's insurers is outsourced abroad. The government is pro-actively looking to address such gaps through analysing international best practices that address skill-gaps.

Foreign Expertise

Looking ahead, as the financial sector grows, there is a potential gap between the direct needs of the sector and the current experience and expertise of available workforce. Educating and enticing locals towards the financial sector is critical to the Brunei Darussalam's economic diversification, as well as attracting specialised foreign talent to bridge interim talent shortages.

Brunei Darussalam's Foreign Labour Benefits

- **No income tax**
- **Advanced educational system**
- **High social stability and safety**
- **Favourable allowances (Housing allowance, Transportation allowance, Education)**

In general, both the environment and the low cost of living, coupled with zero tax, combine to produce an attractive lifestyle with many advantages.

Future Policy Directions:

a) **Raising Financial Literacy Standards:** The financial services sector is an information processing and knowledge-based industry. Its success is underpinned by a skilled workforce, able regulators and knowledgeable users. To grow Brunei Darussalam's financial services sector, top-down and bottom-up methods must be adopted to improve domestic financial literacy standards.

b) **Raising Public Awareness and Instilling Financial Discipline:** To maintain economic sustainability, a financial discipline and a savings culture must be adopted. AMBD, in collaboration with Government Ministries, are to adopt a number of measures to promote a savings culture, such as national roadshows, events and digital media marketing.

c) **Aligning the National Curriculum to the Future Economy:** Closely associating the national curriculum to the economic vision will help ensure Brunei Darussalam has a local workforce that is globally competitive and complimentary to the country's economic needs.

d) **Raising Financial Industry Standards:** Education and training in finance, including Islamic Finance, must be credibly of the highest quality, globally recognised, and remain relevant. Brunei Darussalam's tertiary institutions need to provide qualifications in finance related subjects that, at least at the under-graduate level, are regarded as 'top notch''.

The CIBFM to continue to have a key role as a training Centre of Excellence, spanning:

i. Specialised skills in niche areas such as corporate finance, wealth management, investment advisory services and Syariah advisory. (The CIBFM is focusing on these topics).

ii. Continuous professional development.

iii. Leadership.

iv. Islamic Finance

v. Research and dissemination of that research to lift Brunei Darussalam's credibility and visibility as a financial centre

vi. CIBFM's approach to learning and development to be in close collaboration with the industry and other stakeholders.

e) **International Collaboration:** To cultivate a modern, competitive and vibrant financial ecosystem, Brunei Darussalam is committed to establishing alliances and partnerships with international institutions. A good relationship and understanding between national regulators provides the confidence and trust needed to facilitate commerce and facilitates mutually beneficial initiatives and the exchange of information between the jurisdictions, enhancing the credibility of AMBD and other such Government institutions.

f) **Public and Private Sector Dialogue:** Acquiring and developing the human skills and talent needed by providers of financial services, first and foremost, is the responsibility of the firms providing those services. AMBD, as part of its regular supervisory engagement with institutions, will keep itself apprised of their levels of human capability in relation to the activities they undertake, and their programmes for developing those capabilities, through training and recruitment.

g) **Developing and Retaining Local Talent:** There are young Bruneians abroad working in international financial centres. To benefit Brunei Darussalam's financial services sector directly and to ensure knowledge transfer takes place, it is fundamental that the country stays in contact with Bruneians working overseas.

h) **Foreign Expertise:** Educating and enticing locals towards the financial sector is critical to the Brunei Darussalam's economic diversification, as well as attracting specialised foreign talent to bridge the interim shortage whilst building the relevant financial services experience within the local workforce.

Recommendations

List of Recommendations

Pillar I: Monetary and financial stability		
1.1	**Monetary Stability**	(a) Brunei Darussalam to maintain the Currency Interchangeability Agreement (CIA) with Singapore, and the Currency Board framework, for the duration of this *Blueprint* and beyond. (b) Development of the market operations by AMBD to foster an efficient and competitive interbank money market and a secondary market in Government and private issuance of sukuk.
1.2	**Financial Supervision**	(a) AMBD to maintain a policy of licensing only demonstrably high quality banks, insurers/takaful operators, and capital market intermediaries. (b) Banks and insurers/takaful operators to be expected to maintain levels of capital adequacy, relative to the risks inherent in their balance sheets and operations, that: (i) Meet the required minimum international standards. (ii) Avoid unnecessary complexity (given the currently comparatively straight-forward nature of banking and insurance business in Brunei Darussalam). (c) Consideration over whether financial institutions in Brunei Darussalam should have a credit rating. (d) AMBD to continuously review and develop the legal and regulatory framework on par with international standards.
1.3	**Risk Based Supervision**	AMBD, in its prudential supervision of licensed financial institutions (banks, insurers/takaful operators, and capital market intermediaries), will: (a) Become more risk-based focused. (b) Work towards achieving full compliance with the frameworks of core principles promulgated by the international standard setters. (c) Develop and train a cadre of supervisors with the necessary skills and experience needed to uphold resilient and robust regulatory standards.

Pillar I: Monetary and financial stability (cont'd.)		
1.4	**Credit and Underwriting Risk Management**	(a) An increased focus on the core credit and underwriting risks in AMBD's risk-based supervision. For banks, AMBD will be looking to ensure that they have credit policies and practices that ensure: (i) Borrower Supervision (ii) Monitoring of Loans (iii) Diversify Loan Exposure (b) AMBD will require insurers and takaful operators to ensure that insurance and takaful risks are classified and priced effectively by taking into account risk differentiation and profiling.
1.5	**Home host arrangements for international Institutions**	(a) AMBD will focus its prudential supervision of branches of international banks, insurers and capital market intermediaries with a presence in Brunei Darussalam on effective home-host supervisory relationships with the foreign supervisors (including by way of participation in supervisory colleges), and on the adequacy of the oversight of the local branch by the institution's regional or head office and, subject to those arrangements being in place. (b) AMBD will focus its day-to-day prudential supervision attention on Brunei Darussalam's locally-owned banks and insurers.
1.6	**Macro-Prudential Policy**	AMBD will continue to monitor international practice in the use of macro-prudential policy, with a view, judiciously, to use macro-prudential tools to influence the rate of expansion in the financial sector where that is considered necessary to maintain macro financial and monetary stability.
1.7	**Deposit, policy-holder and investor protection**	(a) AMBD and BDPC to collaborate on maintaining crisis management preparedness. (b) The existing safety net could be extended to include a policy holders' protection fund, a takaful guarantee fund, motor insurance bureau and an investor compensation scheme.
1.8	**Strengthening AML/CFT Compliance**	(a) AMBD has responsibilities to supervise AML/CFT compliance in line with the Financial Action Task Force (FATF) Standards. (b) AMBD to continue to make AML/CFT supervision a priority and to establish a risk-based supervision program based on the National Risk Assessment.

Pillar II: Competitive and Innovative Financial Institutions and Services		
2.1	**Commercial Banks and Insurance/Takaful**	(a) Ensure continuous requirements are met for product disclosure by financial institutions that readily enables customers to compare products, including their pricing, offered by competing institutions. (b) Work with industry to tap into the potential to grow life insurance/family takaful in Brunei Darussalam especially on savings / investments; Also to take into account of technological innovation and its potential to shape the future of insurance, for example, by way of new on-line distribution channels and interfaces with customers. (c) Through public-private sector dialogue, raise the awareness of the benefits of insurance/takaful products through various mediums, including digital platforms and elevate the financial literacy of Bruneians around the need for insurance and takaful products.
2.2	**Capital Markets Development - Sukuk**	(a) Expand the domestic sukuk programme and channel sukuk into local market. (b) The objective of the current Government sukuk programme is to further develop Brunei Darussalam's yield curve as a benchmark for corporate sukuk and to provide a safe and liquid investment instrument for domestic financial institutions. (c) AMBD is considering the possibility of undertaking market operations for banking system liquidity-smoothing purposes, which would help anchor the short end of the yield curve.
2.3	**Capital Markets Development – Securities Exchange**	The launch of a securities exchange in Brunei Darussalam is expected to catalyse economic growth and business expansion through enabling alternative funding routes for Bruneian businesses.
2.4	**Capital Markets Development – Fund Management**	Structure fund management industry around core propositions that leverage Brunei Darussalam's competitive advantages, including: Islamic Fund Hub, Sustainable, Responsible and Impact Investing Fund Hub and Fund Management Services – Back Office Provider. It is important to note that these core propositions are not mutually exclusive and in many ways complement each other. Moreover, these options do not exclude any other opportunities that could be of interest for the Brunei Darussalam fund management sector.
2.5	**Private Equity and Venture Capital**	To put in place supporting reforms and environment to attract long-term focused private equity and venture capital entities to help financing and improving the operations of start-ups and small firms, as well as more mature firms in transition.

Pillar II: Competitive and Innovative Financial Institutions and Services (cont'd.)		
2.6	**Islamic Finance – Takaful**	(a) Takaful operators should consider the use of telephone, email and online applications as alternative distribution channels. (b) To support the development of the takaful market, the industry should undertake further studies on takaful concepts with a view to innovate.
2.7	**Future State of Islamic Financial Market**	(a) Development of Syariah compliant capital market and Syariah compliant market index. (b) Development of active money market for Banks. (c) Encourage local corporates and institutions to issue sukuk. (d) Encourage participation of retail investors in capital market. (e) Create a favorable environment to raise capital by issuing IPO. (f) AMBD to encourage development of Islamic funds, including REIT. (g) Brunei Darussalam financial institutions to leverage its Islamic Finance credentials by way of joint ventures with international financial institutions such as funds managers and takaful operators. One way of doing this is by providing enabling environment for asset managers to bring Islamic funds worldwide into Brunei for Syariah-compliant rating and management for further worldwide distribution.

Pillar III: Robust and Modern Infrastructure		
3.1	**Global Interconnectivity - Air Logistics Hub**	Enhance the international and regional connectivity, through establishing new market routes. Support the fostering of new international alliances and partnerships to promote Brunei Darussalam globally and to key investor markets.
3.2	**Tangible CBD**	Develop a financial sector nucleus that attracts financial service entities to a localised destination within Brunei Darussalam.
3.3	**ICT: Digital Strategy**	(a) Support national ICT strategies which involve the financial sector. (b) Take advantage of the developments in financial technology that can bring the financial sector forward and promote better financial inclusion. (c) Assess the shifting paradigms of ICT in financial sector and the potential adoption of new technologies and trends.
3.4	**E-Payments**	(a) AMBD to complete the automated clearing house and thereafter an interbank retail payments infrastructure, thus providing Brunei Darussalam with a modern payments system, enabling reduction in the use of paper-based payment instruments, notably cheques. AMBD and the Government can provide a lead in transitioning their own payments from paper-based to electronic payments. (b) AMBD is active in the planning groups for the integration of payments networks across ASEAN, which is expected to begin with RTGS and CSD Linkages, and will expand to cover retail payments, aiming at full interoperability of payment instruments across the 10 ASEAN countries. (c) To continue working on the establishment of the sukuk CSD and a securities exchange trading platform, and creation of the associated securities settlement system for effecting transfer of title of securities traded on a DvP basis via RTGS.

Pillar III: Robust and Modern Infrastructure (cont'd)		
3.5	**Financial Infrastructure**	(a) AMBD to develop other functions of the Credit Bureau in consultation with current and potential users. As the Credit Bureau's services extend into credit scoring and rating services and collection of data extends beyond AMBD's licensees, AMBD may review the existing legal and regulatory framework to transfer and license the current credit bureau operations to either a private entity or a Government-Linked Company, with AMBD having powers to regulate licensed credit bureaus/credit rating agencies. (b) To operationalise the new Collateral Registry.
3.6	**Cyber Security**	To review, formulate and update necessary Cyber Security related frameworks, standards, and regulations in the financial sector.

Pillar IV: Enhanced International Integration		
4.1	**International Partnerships**	(a) Participate in ASEAN integration initiatives and to contribute towards the successful implementation of the ASEAN Economic Community (AEC). (b) Participate in trans-border initiatives that will enable the growth of the financial sector, such as the ASEAN trading link and the ASEAN Framework for Cross-Border Offerings of Collective Investment Schemes (CIS). (c) Support the domestic ratification of TPPA. To achieve this, the country will work on revising several pieces of legislation. (d) Offer professional support (including back-office) services to financial institutions based in the large and higher cost financial centres in the region, e.g., Singapore, with which Brunei Darussalam has a very long-standing and close economic relationship.

Pillar V: Human Capital Development		
5.1	**Raising Financial Literacy Standards**	To grow Brunei Darussalam's financial services sector, top-down and bottom-up methods must be adopted to improve domestic financial literacy standards.
5.2	**Raising Public Awareness and Instilling Financial Discipline**	AMBD, in collaboration with Government Ministrie,s are to adopt a number of measures to promote a savings culture, such as national roadshows, events and digital media marketing.
5.3	**Aligning the National Curriculum to the Future Economy**	Closely associating the national curriculum to the economic vision will help ensure Brunei Darussalam has a local workforce that is globally competitive and complimentary to the country's economic needs.
5.4	**Raising Financial Industry Standards**	The CIBFM to continue to have a key role as a training Centre of Excellence, spanning: (a) Specialised skills in niche areas such as corporate finance, wealth management, investment advisory services and Syariah advisory. (The CIBFM is focusing on these topics). (b) Continuous professional development. (c) Leadership. (d) Islamic Finance. (e) Research and dissemination of that research to lift Brunei Darussalam's credibility and visibility as a financial centre. (f) CIBFM's approach to learning and development to be in close collaboration with the industry and other stakeholders.
5.5	**International Collaboration**	To cultivate a modern competitive and vibrant financial ecosystem, Brunei Darussalam is committed to establishing alliances and partnerships with international institutions. A good relationship and understanding between national regulators provides the confidence and trust needed to facilitate commerce and facilitates mutually beneficial initiatives and the exchange of information between the jurisdictions, enhancing the credibility of AMBD and other such Government institutions.

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5.8	**Foreign Expertise**	Educating and enticing locals towards the financial sector is critical to the Brunei Darussalam's economic diversification, as well as attracting specialised foreign talent to bridge the interim shortage whilst building the relevant financial services experience within the local workforce.

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