Artificial Intelligence in the Malaysian Financial Sector

A discussion paper issued by Bank Negara Malaysia (BNM)

Comments from ACCA to Bank Negara Malaysia

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We are ACCA (the Association of Chartered Certified Accountants), a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we have long championed inclusion and today proudly support a diverse community of over 257,900 members and 530,100 future members in 180 countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators, and other accountancy bodies, we are strengthening and building a profession that drives a sustainable future for all. Find out more at: www.accaglobal.com

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide feedback on Bank Negara Malaysia's discussion paper, *Artificial Intelligence in the Malaysian Financial Sector*.

Artificial Intelligence (AI) remains a subject of much interest, investment, and debate. A seemingly ubiquitous subject, its influence pervades much of personal and professional life.

AI clearly has its benefits and risks. The financial sector is significantly impacted by technology. It can enhance existing product experiences and spur the creation of new ones. It also comes with some abiding risks, including consumer safety risks stemming from new cyber threats and the vulnerabilities of AI technology, such as bias, hallucination, and explainability.

As part of informing our response, we convened a roundtable of various stakeholders and thought leaders from multiple sectors, including academia, public sector, professional services, financial services, and industry. And we heard from participants in financial services who have successfully leveraged AI. The roundtable highlighted various aspects, including the challenges of implementing AI. In preparing our response, we naturally reviewed relevant publications on the subject.

The balance between opportunity and risk continues to evolve, as does the technology. We recognise the rather delicate position this places the regulator in. We hope these perspectives contribute to a constructive and robust dialogue on how to responsibly leverage Artificial Intelligence in the Malaysian Financial Sector.

Our overall response to this consultation is informed by the fact that we are a public interest body in the education sector with members and students in accountancy and finance. As such, ACCA does not sell AI products, though our members and students may use them in the course of their work and training. As a neutral party regarding AI products in financial services, our overall view is that AI in finance is maturing rapidly, though still a work in progress.

Our response to this consultation highlights key messages:

- Regulation should remain flexible and principles-based to support innovation while managing emerging AI risks.
- Industry collaboration, including knowledge and best-practice sharing, is vital to leveraging AI effectively in the financial services sector.
- Addressing the AI talent gap requires multi-stakeholder efforts to attract, train, and retain talent across the financial sector.

We have provided specific comments to a selection of questions below.

Select Consultation Questions

10. Do you consider the current technology-neutral regulatory framework to be broadly sufficient in addressing risks associated with AI at this stage of development and adoption? In your view, what key risks associated with AI should be addressed through specific regulation?

ACCA emphasises that regulation should focus on outcomes rather than technology, aligning with a principles-based approach. This approach enables the regulatory flexibility necessary to accommodate emerging opportunities while responding adaptively to emerging risks.

This approach would also support BNM's commitment to preserving the principles of parity, proportionality, and neutrality in the oversight of AI-related activities within the financial sector.

While flexibility is important to accommodate rapid innovation, the need to avoid uncertainty and prevent businesses from adopting foreign regulatory approaches that do not adequately cater to the Malaysian context necessitates some prescriptive guidance for high-risk use cases. Our roundtable discussion noted that Malaysian subsidiaries of multinational companies are increasingly exposed to international AI regulation. This underscores the need for an approach that effectively balances the nuances of the wider regulatory space with local policy priorities.

Existing regulatory frameworks, including BNM's Risk Management in Technology (RMiT) policy document for the financial services sector, provide a necessary foundation with guidance on specific technologies such as cloud computing. Building on this, the existing structures need to ensure they incorporate any specific algorithmic risks stemming from AI use that traditional IT governance models were not designed to monitor. The two risks below were specifically noted during roundtable discussions.

- Bias and Fairness: AI algorithms can embed or amplify existing biases in training data, systemically leading to unfair outcomes for specific customer groups. This risk of systemic discrimination cannot be effectively managed solely through security or process controls defined for traditional IT systems.
- Explainability and Opacity: AI risk management must focus on decision quality and integrity. The use of large language models (LLMs) and opaque, unstructured training data sources complicates model validation and monitoring, posing a significant challenge to traditional supervisory methods. The inability to fully explain model outcomes (the "black box" problem) makes auditing difficult and frustrates accountability.

These risks, and more, are rightly noted in the discussion paper. BNM's introduction of stepped-up oversight requirements for cloud technology through previous amendments to RMiT establishes a precedent for using existing policy documents to govern emerging technologies. Since AI heavily relies on cloud infrastructure and introduces unique algorithmic risks, a similar, dedicated regulatory component within RMiT or a supplementary sectoral guidance is logically required to address specific emerging risks.

11. Are there specific areas where regulatory clarity, flexibility, or guidance would support responsible AI adoption? Please specify area, the applicable regulation, or policy document (if any), together with supporting information and rationale.

Regulatory clarity is needed to define the scope of AI governance. While traditional IT risk management has established protocols for ownership and incident response, equivalent frameworks for managing AI-related risks, particularly algorithmic risks, are still developing. During the roundtable, participants acknowledged that AI-related risks naturally fall under the remit of the risk committee. However, there is a clear need for more explicit guidance, not only on how to identify, monitor, and address these emerging risks, but also on where operational responsibilities and accountabilities lie. Uncertainties, such as which regulatory framework to apply or who owns emerging, unanticipated AI risks, increase the risk that things fall through the cracks. Clarifying this would help ensure that institutions can respond to AI-related threats with the same rigour applied to traditional technology risks.

Clarity is also needed in how to operationalise principles such as fairness, accountability, and transparency. ACCA recommends acting quickly on details to avoid prolonged uncertainty, which could delay upskilling and compliance preparation, especially for SMEs.[1]

Amending RMiT or issuing supplementary guidance to embed AI governance requirements would provide clarity. An area that would benefit from this is risk tiering. BNM can specify examples of high risk (unacceptable) and moderate or lower risk (acceptable) use cases. In line with this, BNM can also specify acceptable mitigants, such as when human judgment is required at critical junctures and when documentation is required to preserve accountability. Amending or supplementing existing frameworks to include AI-specific governance and risk controls would provide certainty and reduce ambiguity, enabling responsible innovation without imposing unnecessary burdens on low-risk applications.

The need for regulatory clarity and guidance also extends to the use of clear, consistent terminology. Subjectivity in this area can hamper industry dialogue on emerging AI issues. Supplementary guidance can establish consistent terminology for exchanging ideas, minimising ambiguity arising from different interpretations of key concepts.[2] In forming supplementary guidance to promote consistent use of terminology, BNM may consider adopting or adapting guidance from other known frameworks, assessing their suitability for the Malaysian market. Examples of these include, but are not limited to:

- Framework for Responsible and Ethical Enablement of Artificial Intelligence from The Reserve Bank of India
- A Pro-innovation Approach to AI regulation from the UK Government
- The EU Artificial Intelligence Act
- Relevant ISO/IEC Standards
    - 42001 - Information technology - Artificial intelligence - Management system
    - 23894 - Artificial intelligence - Guidance on risk management
    - 38507 - Governance of IT - Governance implications of the use of artificial intelligence by organizations
- AI Auditing Definitions from the International Association of Algorithmic Auditors

Also, mapping the terminology in BNM's supplementary guidance to other frameworks would further enhance international interoperability and collaboration.

[1] ACCA Report - Building the foundations for trusted artificial intelligence
[2] ACCA Report - AI assessments: enhancing confidence in the use of AI

12. Are industry-led guidelines useful in complementing regulatory expectations for the responsible and ethical use of AI? Are there any additional principles, safeguards or considerations that should be reflected in future guidance? What role should BNM play in supporting the development, adoption or harmonisation of industry-led standards and guidelines in the future?

Industry-led guidelines are highly valuable in complementing regulatory expectations by promoting best practices and ethical standards. ACCA agrees with BNM that a broader industry-wide collaboration could support more effective and responsible AI adoption across the financial sector. ACCA further notes the areas which BNM has identified for industry-wide collaboration as also being suitable for industry-led guidance:

1. ***Developing industry guidelines and best practices for AI risk management and governance***: Our roundtable discussion noted that effective risk tiering, for example, could inform an appropriate level of response and governance oversight, in line with the proportionality principle. The discussion further noted that some AI-related risks stem from the nature of the specific AI technology in use. For example, LLMs and Gen AI are inherently less explainable than Machine Learning, and thus pose greater risk in terms of bias and safety. Industry guidance would not only standardise this consideration but also provide robust guidance for responding to this nuanced risk and, more broadly, for operationalising the responsible AI principles noted in the discussion paper.

2. ***Facilitating knowledge-sharing on AI implementation and risk management***: Closely tied to the above point, our roundtable discussion revealed support for BNM's role in knowledge sharing. More specifically, BNM can leverage its oversight position to create industry-wide awareness of systemic AI-related risks as they emerge. One way to embed industry-wide best practices in AI risk management is to promote standardised reports that enable businesses to assess their AI system governance structures and their exposure to new compliance risks arising from AI use[3]. These evaluation tools can be revised periodically to suit the evolving needs of the Malaysian market. By raising industry awareness, BNM can lower systemic risk within the sector and provide an example for other sectors to follow.

   This can also be extended to the sharing of guidance around more immediate AI implementation challenges. For example, integrating AI systems with legacy systems often presents compatibility issues, and BNM can facilitate knowledge-sharing forums to promote best practices on these integrations.

3. ***Strengthening talent pipelines and AI expertise in the financial sector through coordinated efforts to attract, train, and retain AI talent***: The talent gap was recognised as a key development area in our roundtable discussion. Several instructive ideas were shared. For example, pairing domain experts with technical experts can provide the balance of technical depth and situational context needed to leverage AI responsibly and impactfully. ACCA endorses the idea of multidisciplinary collaboration, including between finance professionals and AI experts, as an integral part of AI literacy and adoption.[4]

   Our discussion also explored the current need for AI curriculum standards. This presents an opportunity for BNM to play a facilitative role by collaborating with

[3] ACCA Report - AI assessments: enhancing confidence in the use of AI
[4] ACCA Report - Quick guide to AI for accountants

relevant education authorities to develop AI competency frameworks, supporting an AI talent pipeline that embraces critical thinking and purposeful application of AI technologies.

ACCA believes this talent pipeline should account for the need to build trust in AI systems. This is because consumers require greater transparency about AI systems to trust their outputs. The audit and assurance profession can contribute significantly here by delivering that transparency. By virtue of their training, accountants bring professional scepticism and ethical grounding to the fore, crucial attributes in fostering trust.

4. ***Enhancing consumer awareness and understanding of AI in financial services through targeted education and financial literacy initiatives***: ACCA fully recognises the need to build public trust by explaining the benefits and responsibilities of interacting with AI-enabled services, while also raising awareness of potential risks such as data privacy concerns and deepfake fraud schemes. We endorse BNM's intent to facilitate this through relevant channels and interventions.

Multistakeholder feedback

An additional idea that could be incorporated into future guidance is the need to seek multi-stakeholder feedback throughout the AI development and deployment pipeline.

Since 'AI uses citizens' data, directly or indirectly, and its outputs affect these citizens' lives, it is important that individuals across all spectrums of business and society are involved in its development and deployment. These individuals should ideally represent the full socio-economic spectrum and be drawn from all sectors, balancing SME and larger organisations.[5]

There are additional benefits to multistakeholder inclusion in terms of risks and opportunities. As diverse stakeholder groups share novel insights, this approach could create early visibility of 'unknown-unknown' AI risks, enabling more effective risk management[5]. Also, the opportunities that diverse local stakeholders bring to light are more likely to have a better product-market fit and succeed. The idea of Malaysia being an AI producer resonated strongly during the roundtable session.

15. How can the Sandbox programme be enhanced to better support the development, testing, and deployment of AI innovations in financial services? Are there specific features or support mechanisms that would make the Sandbox more accessible or impactful for AI-related use cases?

ACCA recognises the value of sandboxes in creating the conditions needed for regulatory oversight while fostering creativity and innovation. In this spirit, we commend BNM for operationalising its own AI sandbox program. Our roundtable discussion explored ways to enhance the sandbox program. While these are not without their risks and limitations, we felt the need to share them here.

Firstly, given the computing resource limitations currently impacting AI development both in Malaysia and beyond, BNM could explore expanding the sandbox program's capacity in this area. Additional resourcing would attract more innovative use cases to the program and reduce the costs of AI development for participating businesses. This cost-benefit is especially consequential for SMEs who may not be able to develop and deploy AI products

[5] ACCA Report - Building the foundations for trusted artificial intelligence

without it. ACCA recognises that 'truly disruptive – as opposed to incremental – change often comes from SMEs and AI innovation is ripe for exactly this type of transformative change.'[6]

Secondly, BNM could, with due regard to consumer privacy and safety needs, provide access to anonymised data sets through its sandbox program. This will enable live testing and feedback on realistic data, a significant outcome in the product development journey, especially in the financial services sector, where considerations for consumer safety and protection can often seem at odds with innovation and development.

The roundtable discussion noted three connected preconditions for AI development to take off: data, talent, and industry use cases. The above enhancements, when made with due consideration for the responsible AI principles noted in the discussion paper, would make BNM's sandbox more impactful and accelerate the responsible deployment of AI innovations in financial services.

16. What challenges or opportunities in AI adoption would benefit most from industry-wide exploration or collaboration? What forms of collaboration (e.g., working groups, joint pilots, etc.) would be most effective in enabling testing and scaling of impactful use cases and resolving key implementation challenges?

While several significant challenges in AI adoption would benefit from collective industry action, one that we wish to reiterate here is the need for regular dialogue on data governance. More specifically, data protection and privacy concerns are heightened by the complexity of AI systems and the use of large, unstructured datasets. A roundtable participant reflected on how sensitivities around data use delayed the rollout of an AI project. The team wanted to ensure that responsible AI principles were adequately applied without compromise.

We reflected earlier in this response [see QN 15] on how principles for responsible AI can seem at odds with innovation. Finding the right balance in an evolving space requires regular dialogue.

Effective collaboration can take the form of cross-industry working groups, joint pilots, and knowledge-sharing platforms focused on these priority areas. These initiatives would enable testing and scaling of impactful use cases while addressing systemic risks and operational challenges. BNM can play a key role by convening these groups, facilitating regulatory sandboxes, and supporting the development of shared governance and risk management standards.

17. Would your organisation be interested in participating in BNM-facilitated knowledge exchange sessions with other industry players or stakeholders? If yes, what topics or areas should be included in such discourse?

ACCA remains committed to serving as a super-connector in the public good. In this spirit, we welcome the opportunity to share knowledge through joint events, roundtable discussions, and other formats.

Suggested topics include AI governance frameworks, cybersecurity and fraud prevention strategies, and global regulatory trends. On the skills gap, focus areas could include talent development and reskilling to support AI adoption. Closely related to talent, the need for considered, effective change management throughout the AI journey cannot be overstated.[7]

[6] ACCA Report - Building the foundations for trusted artificial intelligence
[7] ACCA Report - Smart alliance: Leading the future of technology in accounting

These discussions would promote shared learning, harmonisation of approaches, and collaborative problem-solving across the industry.

18. Please suggest the role BNM could play in facilitating and supporting industry-led initiatives that promote knowledge sharing and collaboration on AI-related matters within the financial sector.

The discussion paper rightly notes that AI can amplify certain financial sector vulnerabilities and pose systemic risks. These are helpful to reiterate as areas that would benefit from industry-wide collaboration:

- Third-party dependencies and service provider concentration
- Market correlations
- Cyber risk
- Model risk, data quality, and governance

We especially recognise the real risks posed by cyber threats, which are now enhanced by new AI capabilities such as deepfakes, spear-phishing, and social engineering. We note BNM has rightly identified cyber threats as a significant risk in the discussion paper. We recognise that it is also an immediate risk that warrants greater attention. In 2024, fraud cases in Malaysia resulted in losses of RM1,574,203,951.82 (approximately USD 373 m)[8], an increase of 29% from the prior year.

ACCA has long advocated for collaboration in risk management. It enhances risk discovery through shared intelligence and supports risk management through collective and coordinated action. We note that a collaborative approach is endorsed by BNM's RMiT policy, which provides the following guidance to financial institutions on Cyber Response and Recovery:

Financial institutions are strongly encouraged to collaborate and cooperate closely with relevant stakeholders and competent authorities in combating cyber threats and sharing threat intelligence and mitigation measures.

Our roundtable discussion explored how BNM can apply this idea to collaborate with relevant stakeholders and competent authorities in combating cyber threats at the sector level. Through public-private partnerships with platform providers like hyperscalers and telcos, BNM can create frameworks for enhanced threat oversight and discovery. Further, by partnering with other regulatory authorities, such as law enforcement, BNM can play a facilitative role in effective threat response.

This idea of more robust risk management through collaboration can extend beyond local borders. International collaborative partnerships at the ASEAN level and beyond would allow for even more risk and threat mitigation through greater, more effective oversight.

[8] Article - Cybercrime losses exceed RM1.5bil in 2024