


# FINANCE IN TRANSITION

 A 2025 Year-End  
An FSCL Report



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# SETTING THE SCENE FOR 2025

## Chapter 1



The year 2025 will be recalled by financial historians as a period of quiet recalibration rather than dramatic upheaval. Unlike earlier cycles defined by exuberant rallies, speculative excesses, or abrupt collapses, this was a year in which restraint emerged as the dominant ethic across financial systems. Markets did not roar; they adjusted. Institutions did not lurch from crisis to crisis; they re-examined assumptions, rebalanced priorities, and reasserted the value of discipline. Prudence, often an unfashionable virtue during periods of easy money, returned to the centre of financial decision-making. This recalibration did not occur in isolation. It unfolded against a backdrop of global uncertainty, geopolitical flux, and structural economic shifts that tested not only balance sheets but also institutional credibility and foresight.

For economies such as New Zealand and Malaysia, both deeply enmeshed in global trade and capital flows yet fundamentally different in structure and trajectory, 2025 served as an examination of maturity. These were not economies facing existential collapse, nor were they riding waves of unchecked optimism. Instead, they navigated a world where the margin for error had narrowed and where credibility, adaptability, and governance mattered as much as growth itself. Finance, insurance, and fintech were no longer peripheral facilitators of economic activity. They became mechanisms through which uncertainty was redistributed, risk was absorbed or transferred, and resilience was, in some cases, consciously engineered.

Globally, the defining macroeconomic context of 2025 was the slow and uneven unwinding of the post-pandemic monetary tightening cycle. Inflation had retreated from its earlier peaks, but it remained uncomfortably persistent in several sectors. Housing costs, services inflation, and energy-linked pricing pressures proved resistant to rapid correction. Central banks found themselves navigating an increasingly complex policy corridor. The task was no longer simply to crush inflation, but to do so without inflicting disproportionate damage on employment, financial stability, or social cohesion. Policy signals became cautious and incremental, reflecting an awareness that credibility rested not on dramatic moves but on consistency and clarity.

This cautious stance had tangible consequences for global liquidity and capital pricing. The era of abundant, low-cost capital receded decisively into history. Funding conditions tightened, albeit unevenly across regions and sectors. Risk premia adjusted upward, compelling investors to differentiate more carefully between quality and speculation. Valuations across asset classes became more sensitive to fundamentals, governance standards, and cash flow durability. Financial institutions recalibrated their appetite for leverage, duration risk, and exposure to volatile sectors. The global financial system did not seize up, but it slowed and became more discriminating.

New Zealand entered this environment with a heightened sensitivity to external currents. As a small, open economy, it has long been exposed to shifts in global interest rates, commodity prices, and investor sentiment. Its reliance on agricultural exports, housing finance, and offshore wholesale funding channels amplified these vulnerabilities. In 2025, this exposure was neither hidden nor denied. Policymakers and market participants alike acknowledged that resilience would depend less on insulation from global forces and more on preparedness and adaptability.

The country's regulatory and institutional architecture played a critical role in shaping outcomes. The Reserve Bank of New Zealand (RBNZ), having undergone significant evolution in mandate and approach over the preceding decade, approached 2025 with an assertive yet measured posture. Macroprudential tools were deployed with a clear focus on financial stability rather than short-term stimulus. Capital adequacy requirements, stress testing regimes, and conduct oversight frameworks provided a degree of insulation against abrupt shocks. Financial markets, therefore, operated within a disciplined environment that constrained excess even as it allowed for selective opportunity.



This discipline was particularly evident in the banking and housing finance sectors. Mortgage lending growth moderated as households grappled with higher debt servicing costs and adjusted consumption patterns accordingly. The housing market, long a focal point of both economic growth and systemic risk, entered a phase of consolidation rather than collapse. Banks intensified their scrutiny of borrower resilience, expanded hardship support frameworks, and refined their assessment of loan-to-income dynamics. The emphasis shifted from volume-driven growth to sustainability and asset quality.

Insurance markets in New Zealand faced their own recalibration. Extreme weather events, increasingly frequent and severe, translated into rising claims and complex questions about long-term insurability. Pricing models were revisited, coverage terms reassessed, and reinsurance arrangements renegotiated. These developments sparked broader societal conversations about risk sharing, affordability, and the role of the state versus the private sector in managing climate-related losses. Insurers found themselves at the intersection of financial logic and social expectation, a position that required careful navigation.

Fintech innovation in New Zealand did not dissipate in this more constrained environment, but it became more pragmatic. The emphasis moved away from disruption for its own sake toward tangible improvements in efficiency, compliance, and customer experience.

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“From a strategic perspective, 2025 reinforced the principle that financial markets reward patience and discipline more than short-term opportunism. Across New Zealand and Malaysia, institutions emphasizing governance, risk management, and capital adequacy navigated uncertainty with notable resilience. The gradual normalization of monetary conditions highlighted the importance of building buffers during periods of expansion rather than reacting defensively during downturns. For FSCL, 2025 strengthened the conviction that sustainable value creation in financial services depends on harmonizing commercial objectives with regulatory expectations and broader societal needs” - *Riaz Patel, Director at FSCL*

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“The events of 2025 highlighted the interconnected nature of domestic and global financial systems. Developments far beyond national borders had tangible effects on liquidity, investor confidence, and operational risk. At the same time, robust local institutions and clear regulatory frameworks proved critical in mitigating external shocks. The year demonstrated that innovation must proceed hand in hand with accountability. Digital transformation and fintech offer immense opportunities, but only when grounded in prudence, transparency, and long-term vision. These lessons will continue to shape FSCL’s strategy in the years ahead”  
- *Rezan Patel, Director at FSCL*

Payments systems became faster and more interoperable. Regulatory technology solutions gained traction as institutions sought to manage compliance obligations more effectively. Digital interfaces improved, but always within the boundaries set by consumer protection and data security requirements. Innovation persisted, but it did so with a clearer appreciation of cost, risk, and integration.

Malaysia's experience in 2025 unfolded along a different, though equally instructive, trajectory. As a diversified emerging market economy, Malaysia benefited from structural trends that reshaped global production and trade. Efforts by multinational corporations to diversify supply chains away from excessive concentration worked to Malaysia's advantage, particularly in electronics, semiconductors, and advanced manufacturing. These shifts generated investment inflows, employment opportunities, and demand for sophisticated financial services.

At the same time, Malaysia faced familiar challenges associated with openness and growth. Currency volatility reflected both global capital movements and domestic policy signals. External demand fluctuated as major trading partners adjusted to slower growth and evolving geopolitical alignments. Domestic consumption required careful stimulation to support growth without reigniting inflationary pressures. Policymakers were tasked with balancing ambition and restraint, a task mirrored within the financial sector itself.

Malaysia's finance and fintech ecosystems responded with a blend of expansion and discipline. The banking sector remained well capitalised, supported by prudent regulation and a conservative approach to risk. Lending growth was targeted rather than indiscriminate, with particular attention paid to sectors aligned with long-term national development priorities. Asset quality remained a central concern, and provisioning practices reflected an awareness that global volatility could quickly translate into domestic stress.

The fintech narrative in Malaysia was more expansive than in many peer markets, but it was not unbridled. Digital banks that had been licensed in earlier years progressed from pilot phases to broader commercial engagement. Their growth was incremental, shaped by regulatory expectations around capital, governance, and risk management. E-wallets and digital payment platforms deepened their penetration into everyday commerce, supported by government initiatives aimed at financial inclusion and cashless transactions. Small businesses, informal sector participants, and underserved communities increasingly found themselves integrated into the formal financial system.

Regulators maintained a firm but enabling stance. Innovation was encouraged, but not at the expense of prudential standards or consumer protection. Data governance, cybersecurity, and operational resilience were treated as foundational requirements rather than secondary considerations. This approach furthered an ecosystem characterised by steady scaling and practical utility rather than speculative exuberance. The result was a fintech sector that complemented traditional finance rather than seeking to supplant it entirely.

Geopolitical considerations permeated financial decision-making throughout 2025. Strategic competition between major powers, ongoing regional conflicts, and uncertainty around trade policy influenced capital flows and investment decisions. For Malaysia, shifts in trade arrangements had immediate implications for export-oriented industries and their financing structures. Supply chain financing, trade credit, and foreign exchange risk management assumed heightened importance. Financial institutions incorporated geopolitical analysis into credit assessments and strategic planning with a seriousness previously reserved for macroeconomic indicators.

New Zealand, though geographically distant from many geopolitical flashpoints, was not immune to their effects. Trade diversification became a strategic imperative, both to reduce concentration risk and to enhance economic resilience. Funding sources were scrutinised for stability and alignment with long-term national interests. Geopolitical risk, once a peripheral consideration for many financial institutions, moved decisively into the mainstream of risk management practice.

Equally transformative was the elevation of sustainability and climate risk from aspirational discourse to operational reality. In 2025, climate considerations were no longer framed as distant threats or optional disclosures. They became integral to assessments of financial stability, asset valuation, and long-term viability. Regulators in both New Zealand and Malaysia signalled unequivocally that climate risk belonged within the core remit of financial supervision.

Banks undertook detailed assessments of transition risk within their loan portfolios, examining exposure to carbon-intensive industries and the potential impact of regulatory or technological shifts. Insurers refined catastrophe models and reassessed underwriting assumptions in light of more frequent extreme events. Investors demanded greater transparency around stress testing, scenario analysis, and governance frameworks. Product design and capital allocation decisions increasingly reflected environmental considerations, embedding sustainability into the architecture of finance rather than treating it as an adjunct.



Technology continued to act as both enabler and disruptor throughout the year. Core banking modernisation, cloud adoption, and advanced data analytics were no longer discretionary investments. They became prerequisites for operational efficiency and competitive relevance. Institutions that lagged in modernisation found themselves exposed to higher costs, slower response times, and elevated operational risk. Cybersecurity threats intensified in sophistication and frequency, compelling sustained investment in resilience, monitoring, and incident response capabilities.

Consumers, for their part, exhibited rising expectations. Digital interfaces were no longer novelties; they were baseline requirements. Customers demanded immediacy, transparency, and reliability, while remaining acutely sensitive to breaches of trust or data misuse. Meeting these expectations without compromising regulatory compliance or security posed a defining challenge for financial institutions in 2025.

As these dynamics converged, the societal perception of financial intermediaries evolved. Banks, insurers, and fintech firms were increasingly viewed not merely as service providers but as stabilising institutions with systemic responsibilities. Their responses to economic stress, natural disasters, and technological disruption carried consequences that extended well beyond shareholders. Trust, once implicitly granted, required continuous reinforcement through transparency, fairness, and operational competence.

Conduct regulation assumed heightened prominence. Complaints handling, the treatment of vulnerable customers, and the alignment of incentives with customer outcomes became focal points of supervisory attention. Institutional credibility came to be measured not solely by profitability or growth, but by behaviour and resilience under pressure. The ledger remained important, but it was no longer sufficient on its own.

For Fintrade Securities Corporation Ltd (FSCL), the events of 2025 reaffirmed enduring principles. Operating across jurisdictions and engaging with diverse segments of the financial ecosystem, FSCL observed the convergence of traditional finance and technology, the recalibration of risk appetites, and the centrality of regulatory credibility.

# MONETARY POLICY AND CENTRAL BANK POSTURE

## Chapter 2



Monetary policy in 2025 stood at a carefully balanced inflection point for both New Zealand and Malaysia, shaped as much by restraint as by action. After several years of forceful tightening undertaken to arrest post-pandemic inflationary surges, central banks entered the year acutely aware that the most visible phase of the battle had passed, but the war itself was not entirely over. Inflation had cooled from alarming highs, though it refused to settle comfortably within target bands. Services inflation, housing-related costs, and other structurally entrenched components remained stubborn. Growth, meanwhile, lacked vigour. It persisted, but unevenly, revealing pockets of fragility across households, businesses, and financial markets. In this environment, monetary policy decisions carried heightened asymmetry. Even modest adjustments risked producing outsized consequences for confidence, asset prices, and household welfare.

For central banks, the challenge of 2025 was not one of urgency but of judgment. The question was no longer whether inflation needed to be contained, as that imperative was broadly accepted. Instead, the task lay in determining how firmly to hold the line without inflicting cumulative damage on already strained balance sheets. Financial conditions were tight enough to expose vulnerabilities, but not so restrictive as to induce systemic distress. This narrow corridor demanded exceptional precision. Errors of excess zeal risked choking off recovery and eroding public trust. Errors of premature accommodation risked unanchoring inflation expectations and undermining institutional credibility painstakingly built over preceding years.

In New Zealand, the Reserve Bank of New Zealand approached 2025 with a clear appreciation of these complexities. Having implemented a series of substantial rate hikes in earlier years, the central bank entered the year conscious of the lagged transmission of monetary policy. The effects of higher rates were still unfolding across the economy, particularly within households carrying elevated levels of mortgage debt. New Zealand's long-standing exposure to housing finance meant that changes in policy rates reverberated deeply and persistently through consumption patterns, refinancing behaviour, and broader economic sentiment.

The RBNZ's posture in 2025 was therefore defined less by action than by vigilance. Policy rates were held firm for much of the year, reflecting a belief that restraint was already doing its work. Elevated borrowing costs continued to influence household behaviour, encouraging deleveraging, curbing discretionary spending, and reshaping risk appetites. Rather than accelerate tightening, the central bank chose to observe, assess, and communicate. This approach recognised that monetary policy operates not only through interest rates but also through expectations, confidence, and credibility.

Communication assumed heightened importance. RBNZ statements throughout the year emphasised the anchoring of inflation expectations as a non-negotiable priority. Even as headline inflation figures showed signs of easing, the central bank resisted any narrative of premature victory. It consistently highlighted the persistence of underlying inflationary pressures and the risks associated with complacency. At the same time, official communications acknowledged the tangible burden imposed by higher rates, particularly on first-time homeowners and heavily leveraged households. This acknowledgement was not merely rhetorical. It signalled an awareness of social and distributional impacts, reinforcing the perception of a central bank attuned to lived economic realities rather than abstract targets alone

This dual messaging performed a stabilising function. Markets were reassured that monetary discipline would not be abandoned at the first sign of relief. Households and businesses, meanwhile, received a signal that the tightening cycle was not open-ended. Policy firmness was framed as necessary but finite, contingent on data rather than dogma. For financial institutions, this clarity reduced uncertainty. Banks were better positioned to plan capital allocation, manage funding profiles, and calibrate credit strategies without fearing abrupt policy reversals.





The implications for New Zealand’s banking sector were pronounced but constructive. Lending growth slowed, driven more by moderated demand than by supply-side restriction. Borrowers approached credit with greater caution, reflecting both higher servicing costs and a more sober economic outlook. Banks responded by intensifying stress testing, refining serviceability assessments, and strengthening early intervention frameworks for customers exhibiting signs of distress. Engagement with vulnerable borrowers became more proactive, aligning prudential considerations with conduct expectations.

Capital buffers, built up in preceding years through regulatory reforms and retained earnings, proved adequate. This adequacy reinforced confidence not only among regulators but also among investors and depositors. Monetary policy, in this context, exerted influence beyond macroeconomic aggregates. It shaped institutional behaviour, reinforcing conservative risk cultures, disciplined underwriting standards, and a renewed emphasis on balance sheet resilience. The banking system did not merely endure tight policy; it internalised its lessons.

In Malaysia, the monetary policy narrative of 2025 unfolded under a distinct set of circumstances. Bank Negara Malaysia (BNM) entered the year with inflation relatively contained compared to many peer economies. Structural factors, including administered prices and targeted subsidies, played a role in moderating headline figures. However, growth dynamics were more exposed to external variables. Malaysia’s openness to trade, sensitivity to global demand, and exposure to currency movements meant that domestic conditions could shift quickly in response to developments abroad.

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| “The experience of 2025 highlighted the maturity of monetary institutions in both New Zealand and Malaysia. Central banks demonstrated that restraint can be as powerful as action when supported by credible communication. For market participants, the key lesson was the importance of discerning policy intent rather than reacting solely to headline decisions. At FSCL, we viewed the year as a reminder that long-term strategies must be grounded in an informed understanding of monetary transmission and the dynamics of financial stability”  
- *Riaz Patel, Director at FSCL*

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| “Monetary policy in 2025 reinforced the interconnectedness between macroeconomic conditions and institutional behaviour. Stable, predictable central bank postures allowed financial institutions to plan with greater confidence, even amid global uncertainty. From our perspective, the year showcased that effective monetary policy is not defined by dramatic shifts, but by consistency, clarity, and trust. These principles continue to guide FSCL’s evaluation of risk and opportunity across markets”  
- *Rezan Patel, Director at FSCL*

BNM's task was therefore one of balance rather than suppression. The objective was to support domestic economic momentum without jeopardising price stability or financial confidence. Interest rate decisions were framed within a broader policy narrative that prioritised continuity, predictability, and responsiveness. Rather than relying on blunt instruments, the central bank adopted a calibrated approach, adjusting its stance as data evolved while maintaining a steady policy anchor.

Policy communications from BNM, throughout 2025, reflected this philosophy. Statements consistently emphasised data dependence, underscoring the importance of monitoring both global and domestic indicators. Developments in major economies such as the United States, the Eurozone, and China featured prominently in assessments, given their implications for trade flows, capital movements, and investor sentiment. At the same time, domestic factors such as employment trends, consumption patterns, and credit growth remained central to deliberations.

The ringgit's performance occupied a visible place in policy considerations. Exchange rate stability was not pursued through rigid targeting, but volatility was carefully monitored given its implications for inflation, corporate balance sheets, and investor confidence. Capital flow dynamics, shaped by global interest rate differentials and risk appetite, required constant attention. BNM's responses avoided abrupt shifts. Instead, they reinforced its reputation as a stabilising anchor, capable of navigating external turbulence without overreaction.

This emphasis on continuity and predictability yielded tangible benefits. Banks were able to plan funding and lending strategies with confidence. Businesses gained clearer visibility on borrowing costs, enabling more informed investment decisions in manufacturing, infrastructure, and services. Households experienced a degree of stability in credit conditions, supporting consumption without encouraging excess. Monetary policy thus complemented broader economic management, aligning macroeconomic stewardship with domestic financial development.

Across credit markets, the effects of BNM's approach were evident. Corporate borrowers, particularly in export-oriented and high-value manufacturing sectors, continued to access financing under conditions that balanced prudence with opportunity. Infrastructure projects aligned with national development priorities proceeded with a clearer understanding of funding dynamics. Small and medium enterprises benefited from stable credit availability, often facilitated through digital platforms that reduced friction and expanded access.

Households engaged with credit more cautiously, reflecting both policy signals and broader economic uncertainty. Digital channels played an increasingly prominent role, particularly as fintech and e-payment solutions deepened financial inclusion. The expansion of digital banking and wallet ecosystems broadened participation in the formal financial system, but within a framework shaped by regulatory oversight and prudential discipline. Banks operated in an environment that encouraged responsible expansion rather than unchecked growth.



A defining feature of 2025 was the convergence of monetary policy and financial stability considerations in both New Zealand and Malaysia. Central banks no longer treated these domains as separate or sequential. Policy deliberations integrated assessments of asset prices, leverage, interconnectedness, and structural vulnerabilities. In New Zealand, this integration was most visible in the sustained focus on housing market dynamics. Mortgage leverage, household indebtedness, and their implications for bank balance sheets remained central to analysis.

In Malaysia, the scope was broader. Household debt, corporate leverage, and the rapid expansion of digital financial services all featured in stability assessments. The rise of fintech introduced new forms of intermediation, data dependency, and operational risk. Monetary authorities recognised that innovation, while beneficial, required careful calibration to prevent the accumulation of opaque or poorly understood risks. This holistic approach reflected an evolved understanding of how monetary conditions interact with financial structures.

Global conditions added further complexity. Shifts in interest rate expectations in major economies influenced capital flows, exchange rates, and domestic funding costs. Both the RBNZ and BNM faced the challenge of interpreting global signals through domestic lenses. Mechanical alignment with foreign central banks risked inappropriate outcomes. Instead, both institutions emphasised independence and context, reinforcing the principle that credible monetary policy must be tailored rather than mimetic.

Market responses underscored this point. Investors reacted not solely to policy rates, but to the coherence and transparency of policy frameworks. Clear articulation of objectives, constraints, and trade-offs enhanced credibility. Consistency over time reinforced trust. In an environment marked by uncertainty, communication became a policy instrument in its own right.

The implications of monetary policy extended beyond banks to insurers and long-term investors. Higher interest rates improved yields on fixed-income portfolios, easing pressure on profitability and solvency. This development was particularly relevant for insurers managing long-duration liabilities. However, increased market volatility and valuation adjustments required sophisticated asset-liability management. Institutions invested in enhanced risk monitoring, scenario analysis, and portfolio diversification. Central bank guidance provided a stabilising reference point, enabling long-term planning despite short-term fluctuations.

Fintech firms also felt the indirect but significant influence of monetary conditions. Tighter funding environments sharpened investor scrutiny. Business models predicated solely on scale or rapid user acquisition faced increasing pressure to demonstrate sustainable revenue streams and disciplined cost structures. In Malaysia, where digital banking and e-wallet ecosystems continued to expand, central bank oversight ensured that growth remained aligned with prudential norms. In New Zealand, fintech activity gravitated toward areas that complemented existing financial infrastructure, such as payments efficiency, regulatory technology, and operational resilience.

By the end of 2025, the cumulative effect of these approaches became clear. Inflationary pressures had moderated without triggering recessionary collapse. Financial stability had been preserved, and systemic crises avoided. This outcome did not arise from dramatic policy manoeuvres. It reflected deliberate choices grounded in restraint, transparency, and institutional trust. Challenges remained. Household debt continued to weigh on consumption, and external volatility posed ongoing risks. However, the overarching posture of monetary authorities reinforced confidence in the system's capacity to adjust gradually.

For FSCL, the monetary environment of 2025 reinforced the necessity of nuanced interpretation. Policy rates alone provided an incomplete picture. Forward guidance, regulatory commentary, and financial stability assessments offered critical context. Understanding monetary policy required attention to tone, sequencing, and institutional intent as much as to numerical settings. This holistic analytical approach enabled informed engagement with markets, reinforcing the enduring value of disciplined research, long-term perspective, and respect for institutional credibility.

The monetary policy, in the past year, was defined not by spectacle but by stewardship. Central banks demonstrated that restraint, exercised with clarity and conviction, could stabilise expectations and guide economies through complexity. In doing so, they reaffirmed the central role of trust in modern monetary governance, a trust built slowly, tested continuously, and sustained through disciplined action and thoughtful communication.

# MACROECONOMIC PERFORMANCE AND FISCAL POLICY

## Chapter 3



The macroeconomic landscape of 2025 unfolded as a year of cautious consolidation for both New Zealand and Malaysia. Unlike periods characterised by dramatic acceleration or sudden contraction, this year was defined by measured adjustment and steady recalibration. Economies were navigating the aftershocks of post-pandemic monetary tightening, elevated borrowing costs, and the persistent influence of external volatility. Growth patterns were determined less by sudden market exuberance and more by the disciplined interaction of structural realities, policy frameworks, and domestic adaptation to a higher interest rate environment.

Fiscal policy, in turn, assumed a stabilising role, tasked with reinforcing economic resilience, supporting targeted growth, and avoiding the pitfalls of short-term excess. The interaction between macroeconomic performance and fiscal choices became a defining feature of 2025, highlighting the complex interplay between government stewardship, market behaviour, and household and corporate decision-making.

In New Zealand, economic performance reflected subdued growth with sectoral unevenness. Household consumption, a cornerstone of domestic economic momentum, softened noticeably as elevated borrowing costs reduced disposable incomes. The housing market, a long-standing engine of growth, remained restrained, with transaction volumes, property price appreciation, and construction activity adjusting to tighter financial conditions. This moderation was compounded by the lagged impact of previous rate hikes: many households remained exposed to high mortgage servicing burdens, necessitating caution in discretionary spending. Export activity, particularly in agricultural commodities, dairy, and niche high-quality products, offered a partial offset.

However, commodity prices fluctuated in response to global supply-demand imbalances, weather patterns affecting crop yields, and geopolitical tensions affecting shipping and trade flows, underscoring the external vulnerabilities embedded in New Zealand's trade-dependent economy.

Inflation in New Zealand showed signs of gradual moderation over the course of the year, but structural pressures persisted. Service sector costs, insurance premiums, and local government rates remained elevated, reflecting enduring structural dynamics rather than transitory shocks. Labour market conditions softened slightly, with wage growth lagging behind household inflation, yet overall employment levels remained resilient. This pattern suggested a labour market absorbing policy pressures with measured adjustment rather than abrupt disruptions, allowing for a gradual rebalancing of supply and demand across sectors. Taken holistically, New Zealand's macroeconomic trends painted a picture of an economy managing the tension between restraint and resilience, requiring households, firms, and policymakers to recalibrate expectations and adapt to a more disciplined growth environment.

Fiscal policy in New Zealand during 2025 was explicitly oriented toward prudence and sustainability. Budgets reflected a commitment to measured expenditure, targeted social support, and medium-term debt management. Rather than deploying broad-based fiscal stimulus, the government focused on strategic interventions that bolstered long-term resilience. Infrastructure investments were concentrated in transport, energy, and digital connectivity, while health services received sustained funding to manage evolving demands on public resources. Social policy measures prioritised relief for vulnerable households, addressing the cost-of-living pressures exacerbated by higher interest rates and persistent inflation. By avoiding counterproductive spending surges, fiscal authorities reinforced the credibility of monetary policy and supported overall macroeconomic stability.

This alignment between fiscal restraint and monetary tightness produced meaningful benefits for financial markets. Investors perceived coherence between government budgets and central bank policy, contributing to stable sovereign funding conditions. Government bond yields reflected confidence in the institutional framework, and domestic capital markets operated with reduced volatility. Banks, insurers, and fintech firms were able to plan with greater certainty, as funding benchmarks remained predictable and market expectations anchored. Across sectors, this predictability translated into more measured lending practices, disciplined capital allocation, and a focus on operational efficiency rather than speculative risk-taking.

Malaysia, in contrast, experienced a macroeconomic trajectory shaped by its status as a diversified emerging market with a strong manufacturing base and trade exposure. Growth, in 2025, was supported by a combination of domestic consumption, business investment, and export-oriented activity, particularly in electronics, advanced manufacturing, and services integrated into regional supply chains. Consumer spending remained resilient, buoyed by stable labour markets, rising urban incomes, and targeted government support measures, including cost-of-living allowances and selective subsidies for essential goods. At the same time, external headwinds, including slower growth in key trading partners, currency fluctuations, and geopolitical uncertainty, moderated the pace of expansion, requiring policymakers to calibrate interventions carefully to maintain macroeconomic equilibrium.

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| “The macroeconomic developments of 2025 reaffirmed fiscal discipline as a cornerstone of financial stability. In both New Zealand and Malaysia, credible fiscal frameworks enhanced investor confidence, strengthened institutions, and mitigated vulnerability to external shocks. The year reinforced that sustainable growth is achieved not through episodic stimulus alone, but through consistent policy alignment, long-term planning, and responsible public finance management”

- *Riaz Patel, Director at FSCL*

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| “Fiscal policy in 2025 played a quiet yet decisive role in shaping economic outcomes. Targeted interventions, underpinned by a clear commitment to sustainability, allowed both economies to navigate a challenging environment without destabilising markets. For FSCL, these experiences provide evidence that effective macroeconomic stewardship depends on patience, transparency, and an unwavering focus on long-term resilience, guiding strategic evaluation across financial sectors and markets alike”

- *Rezan Patel, Director at FSCL*



Inflationary pressures in Malaysia remained comparatively contained, providing fiscal authorities with greater operational latitude. This allowed the government to pursue growth-supportive measures without triggering immediate price instability, a luxury not available to all emerging markets. Public investment initiatives were prominent in fiscal planning, particularly in strategic infrastructure projects such as transport corridors, energy efficiency programmes, and digital connectivity upgrades. These initiatives were not merely countercyclical; they were intended to enhance the country's long-term competitiveness, strengthen regional trade linkages, and foster productivity growth across key industrial sectors. By linking fiscal support to structural objectives, policymakers aimed to embed resilience within the economy rather than relying solely on cyclical stimulus.

Malaysia's fiscal stance in 2025 reflected a careful balancing act between consolidation and development priorities. Revenue measures emphasised broadening the tax base and improving compliance, while expenditure policies prioritised efficiency, targeted impact, and sustainability. Subsidy rationalisation continued as a politically sensitive but necessary reform, redirecting resources toward high-priority social and infrastructure initiatives without imposing undue hardship on households. Together, these measures indicated a gradual shift toward a more sustainable and credible fiscal structure, capable of supporting growth while reinforcing market confidence.

The macroeconomic and fiscal environment of Malaysia in 2025 had significant implications for financial markets. Stable fundamentals and credible policy management reassured investors and limited volatility in sovereign and corporate debt markets.

Predictable issuance patterns and disciplined fiscal oversight supported manageable risk premiums, while equity markets exhibited cautious optimism, with valuations increasingly reflecting corporate earnings fundamentals rather than speculative fervour. Banks and fintech firms operated within an environment where prudent balance sheet management, capital discipline, and risk assessment were essential for sustained growth. Digital finance adoption, including e-wallets and digital banking, benefited from fiscal clarity and infrastructural investments, reinforcing the positive feedback loop between policy coherence and market confidence.

The contrast between New Zealand and Malaysia in 2025 illustrates the diversity of macroeconomic adjustment pathways. New Zealand's emphasis on restraint and inflation control mirrored structural sensitivities arising from household leverage, mortgage market dynamics, and housing-driven growth. Malaysia's strategy, sustaining growth through targeted fiscal interventions and infrastructure investment, reflected its role as a trade and manufacturing hub navigating external uncertainty. In both cases, policy choices were shaped by structural imperatives rather than ideological predispositions, underscoring the pragmatic nature of effective macroeconomic management.

The implications for banks, insurers, and fintech firms were immediate and tangible. In New Zealand, slower growth necessitated conservative lending practices, heightened credit scrutiny, and careful monitoring of household and corporate exposures. In Malaysia, steadier expansion supported transactional volumes, investment financing, and digital adoption, though disciplined risk management remained paramount. Fiscal signals, particularly around public investment and targeted social spending, informed strategic and operational planning, guiding institutions in identifying sectoral opportunities and allocating capital with foresight.

From a systemic perspective, 2025 reinforced the importance of policy coordination. Monetary and fiscal authorities in both jurisdictions recognised the interdependence of their actions. While institutional mandates remained separate, outcomes were mutually reinforcing - fiscal prudence bolstered central bank credibility, while transparent and predictable monetary policy facilitated effective fiscal planning. This coherence enabled both economies to navigate uncertainty with measured confidence, mitigating the risks associated with uncoordinated or reactive policy responses.

For FSCL, the macroeconomic and fiscal landscape of 2025 underscored the value of comparative and cross-jurisdictional analysis. Understanding how different policy mixes influence growth, stability, and risk profiles provides critical insight for strategic decision-making, risk differentiation, and opportunity identification. The year demonstrated that macroeconomic stability is a dynamic achievement, reliant on continuous calibration, disciplined governance, and the alignment of policy levers with structural realities.



# BANKING SECTOR DEVELOPMENTS AND RESILIENCE

## Chapter 4



The banking sector in 2025 occupied a central position in the economic adjustments of both New Zealand and Malaysia. As the effects of post-pandemic monetary tightening continued to ripple through households, businesses, and capital markets, banks were the primary conduits through which policy impacts were transmitted and absorbed. The year tested the sector not only in terms of balance sheet strength but also in governance standards, risk culture, operational resilience, and the capacity to reconcile commercial objectives with systemic responsibility. Across both jurisdictions, the resilience of banks was not demonstrated through rapid growth or expansion but through measured adaptation, disciplined strategy, and the capacity to maintain stability in the face of multiple pressures.

In New Zealand, the banking system entered 2025 in a position of strength and preparedness. Years of regulatory emphasis on stronger capital buffers, enhanced stress testing frameworks, and improved risk assessment protocols had positioned banks to manage elevated borrowing costs and household debt pressures effectively. This structural resilience proved critical as mortgage holders and small businesses continued to adjust to the higher interest rate environment. Credit growth slowed, reflecting subdued demand rather than constraints imposed by banks themselves. Institutions adopted conservative approaches, prioritising asset quality, diligent monitoring of emerging credit risks, and proactive engagement with customers over aggressive expansion of their loan books. These practices ensured that lending decisions were guided by sustainability rather than short-term profit maximisation, reinforcing confidence in the system's stability.

Housing finance remained the most significant area of exposure for New Zealand banks. Elevated debt servicing costs increased the proportion of borrowers experiencing financial strain, particularly among individuals and households that had recently entered the housing market. Banks responded with a multi-faceted approach that combined rigorous monitoring of arrears, expanded hardship assistance programmes, and refined serviceability assessments for new lending. Non-performing loan ratios rose modestly but remained within manageable ranges. These outcomes signalled that while the system was absorbing stress, the foundational health of the banking sector remained intact. Institutions emphasised early intervention and proactive communication with customers, recognising that the prevention of distress was as important as the management of arrears.

Funding conditions for New Zealand banks in 2025 reflected a high degree of stability. Access to offshore wholesale markets remained reliable, supported by strong sovereign credit ratings and transparent regulatory oversight. At the same time, competition for domestic deposits intensified as banks sought to strengthen funding resilience. Higher term deposit rates were offered, and institutions increasingly focused on customer retention through enhanced service offerings, loyalty programmes, and relationship management. While these strategies increased funding costs, they reduced reliance on potentially volatile external sources and enhanced the long-term sustainability of the banking system. Domestic deposits became a more strategically valuable source of liquidity, allowing banks to operate with confidence even amid global uncertainty.



Operational resilience remained a priority for New Zealand banks. Investments in digital infrastructure, process automation, and customer-facing technology platforms accelerated during 2025. These initiatives were not purely aimed at competitive advantage but also reflected a recognition that efficiency and reliability were central to managing risk and maintaining customer trust. Cybersecurity measures were expanded, with sophisticated monitoring systems and rapid incident response capabilities deployed to mitigate operational and reputational risks. This focus on operational stability ensured that banks could manage both the direct effects of monetary tightening and the indirect pressures arising from technological disruption and evolving consumer expectations.

Malaysia's banking sector faced a different, yet equally complex, set of pressures and opportunities in 2025. Moderate economic growth supported steady demand for credit across corporate, retail, and infrastructure segments. Banks benefited from diversified loan portfolios that spanned manufacturing, trade finance, construction, infrastructure projects, and consumer lending. Prudential regulation remained robust, with supervisory authorities emphasizing proactive risk management, comprehensive reporting, and transparent disclosure practices.

This regulatory oversight ensured that credit expansion occurred in a measured and sustainable manner, preventing overextension of balance sheets and reducing systemic vulnerability.

Asset quality in Malaysia remained broadly stable throughout 2025. Legacy support measures introduced during the pandemic had largely been withdrawn, allowing banks to assess underlying credit risk more accurately. Forward-looking risk assessment tools, enhanced provisioning frameworks, and scenario analysis became standard practice. Household indebtedness, while elevated, was mitigated by stable employment conditions, rising urban incomes, and targeted fiscal support measures. This combination of factors reduced the likelihood of widespread credit stress and allowed banks to maintain confidence in both retail and corporate portfolios.

A distinctive feature of Malaysia's banking sector during the year was the coexistence of traditional banks alongside newly licensed digital banks. Rather than displacing incumbents, these digital entrants complemented the banking ecosystem, creating competition in specific niches such as retail deposits, payments, small business financing, and digital wealth management. Incumbent banks responded by accelerating their own digital transformation initiatives, improving user experience, and integrating fintech partnerships into their service offerings. These efforts not only enhanced operational efficiency but also strengthened customer engagement, demonstrating that innovation and prudential stability could coexist in a balanced and mutually reinforcing manner.

Across both New Zealand and Malaysia, regulatory engagement played a critical role in shaping banking sector behaviour. Supervisory authorities emphasised early identification of emerging risks, rigorous disclosure standards, and proactive customer engagement practices. Stress testing exercises were broadened in scope, incorporating severe and diverse scenarios including climate-related shocks, cyber incidents, operational disruptions, and sudden market volatility. The expansion of risk assessments beyond traditional financial metrics reflected lessons learned from prior periods of instability and highlighted the evolving responsibilities of banks to manage a wider spectrum of risks. Institutions were increasingly required to integrate macroeconomic developments, technological change, and environmental considerations into strategic and operational planning.

Profitability dynamics in 2025 were shaped by a combination of higher net interest margins and rising operating costs. Elevated interest rates supported margin expansion, but these gains were partially offset by higher funding costs, increased investment in digital infrastructure, compliance expenditures, and human capital development. Banks that had previously invested in operational efficiency, risk management systems, and workforce training were better equipped to manage these pressures. Conversely, institutions that delayed modernization faced heightened operational strain and increased exposure to regulatory scrutiny. This dynamic underlined the long-term value of strategic foresight and sustained investment in both people and systems.

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| “The performance of the banking sector in 2025 reaffirmed the value of preparation, discipline, and forward-looking strategy. Institutions that entered the year with strong capital positions, mature risk frameworks, and comprehensive operational infrastructure were able to navigate pressure without compromising stability or stakeholder confidence. The measured and strategic response of banks in both New Zealand and Malaysia reflects the success of long-term regulatory reform and reinforces confidence in the sector’s capacity to support economic recovery and sustained financial stability”  
- *Riaz Patel, Director at FSCL*

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| “What stood out in 2025 was the banking sector’s capacity to adapt effectively without resorting to excessive risk taking. Competitive pressures, technological change, and economic uncertainty were addressed through strategic adjustment, operational discipline, and a focus on long-term resilience. At FSCL, we view this period as evidence that resilience is built through consistency, prudence, and foresight. These qualities will remain essential as financial systems continue to evolve in complexity, interconnectedness, and societal significance. Lessons of 2025 underscore the importance of strategic investment in governance, risk culture, technology, and human capital as foundations for sustainable banking operations in the years ahead” - *Rezan Patel, Director at FSCL*



The role of banks as intermediaries in capital markets also evolved in 2025. Advisory services, structured finance solutions, and risk management products gained prominence as corporate clients navigated uncertain economic conditions. Banks deployed their balance sheets selectively, favouring transactions that were aligned with long-term client relationships and strategic sectors. This careful and measured approach reinforced stability, reduced exposure to speculative activity, and demonstrated the ability of banks to support sustainable economic activity. Financial institutions increasingly positioned themselves as partners to clients, providing tailored solutions rather than pursuing volume-driven growth.

In both New Zealand and Malaysia, the social dimension of banking emerged as a central consideration. Public and regulatory expectations extended beyond profitability and growth to encompass fairness, accessibility, and support for customers facing financial stress. Conduct frameworks and complaints handling mechanisms were tested throughout the year, prompting further refinement of governance structures, operational transparency, and customer engagement practices. Banks recognised that trust, integrity, and responsiveness were essential to resilience, and that the preservation of reputation was inseparable from financial performance. Institutions increasingly embraced a holistic view of their role in society, balancing commercial objectives with broader social responsibility.

For FSCL, the developments in the banking sector during 2025 highlighted the enduring importance of institutional strength, operational preparedness, and regulatory credibility.



Banks that combined prudent risk management with adaptive strategies emerged more resilient and were better positioned to navigate future cycles. The events of the year demonstrated that resilience is not a static attribute, but the result of sustained investment in people, systems, governance, and strategic foresight. Institutions that approached challenges with discipline, planning, and measured response were able to maintain stability and preserve stakeholder confidence, even in an environment marked by economic uncertainty and technological disruption.

Across New Zealand and Malaysia, 2025 underscored that banking resilience depends on a combination of strong capitalisation, operational efficiency, regulatory engagement, and proactive risk management. Banks that successfully navigated the year balanced competing pressures, adapted to evolving market conditions, and maintained trust with stakeholders. The experiences of the year illustrate that resilience is built incrementally and requires continuous attention to both micro-level operational practices and macroeconomic developments. Strategic foresight, disciplined governance, and adaptive planning emerged as central determinants of performance and stability, confirming that the banking sector can act as a stabilising force even in periods of significant economic adjustment.

# PAYMENTS EVOLUTION AND NEW FINANCIAL RAILS

## Chapter 5



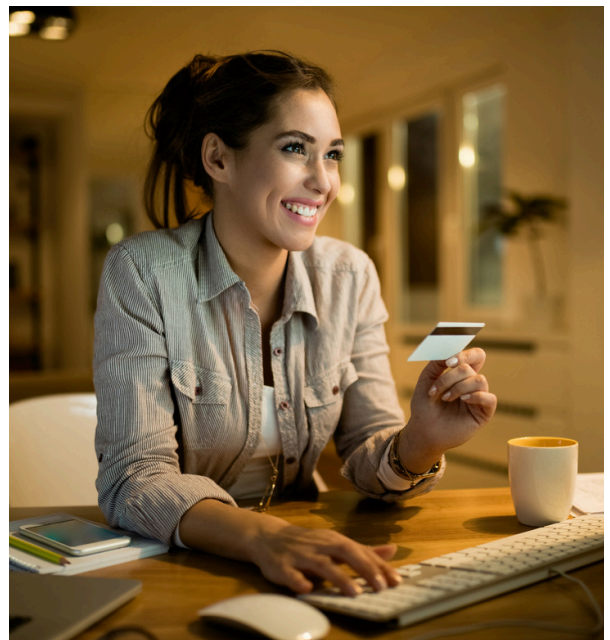
Payments infrastructure emerged as one of the most dynamic and quietly transformative segments of the financial system in 2025. While monetary policy decisions and headline banking results often dominated public attention, developments in the payments space carried profound implications for the efficiency, inclusiveness, and resilience of financial systems. In both New Zealand and Malaysia, 2025 marked a period of transition where incremental modernization gave way to structural reconfiguration. Legacy systems that had supported decades of financial activity were increasingly seen as insufficient for the needs of a digital economy. Real-time and near real-time payment capabilities, interoperability across providers, and the integration of advanced data analytics became central priorities for policymakers, banks, fintech firms, and payment service providers.

In New Zealand, the evolution of payments in 2025 was driven by a clear recognition that existing infrastructure, although reliable, could no longer meet the demands of a rapidly digitalising economy. Consumers increasingly expected immediacy, transparency, and continuous availability, drawing on experiences from other digital platforms in areas such as e-commerce, entertainment, and communications. Businesses, particularly small and medium enterprises, sought faster settlement cycles to improve cash flow management, reduce counterparty risk, and enhance operational efficiency. These pressures accelerated initiatives to adopt real-time payments and settlement systems, reinforcing the capacity of banks and payment providers to manage liquidity and risk more effectively.

Banks, payment service providers, and industry bodies responded with a renewed focus on upgrading core payment systems and strengthening governance frameworks. Collaborative initiatives, rather than isolated proprietary solutions, became the preferred path forward. Financial institutions increasingly recognised the systemic value of interoperability and standardisation, understanding that a fragmented approach would elevate operational risk and inhibit the adoption of new technologies. The industry invested in infrastructure that allowed seamless integration across platforms, enabling both legacy institutions and fintech entrants to operate on shared rails. This approach enhanced efficiency, reduced duplication, and supported innovation at the periphery of the financial ecosystem, including merchant services, peer-to-peer transfers, and digital wallet ecosystems.

Consumer behaviour in New Zealand shifted decisively toward electronic and contactless payments during 2025. Cash usage continued its long-term decline, particularly in urban centres, while debit cards, credit cards, mobile wallets, and direct account-to-account transfers gained increasing prominence. The adoption of contactless payment technology was supported by both cultural acceptance and regulatory guidance. Security protocols, robust dispute resolution mechanisms, and consumer protection frameworks reinforced public confidence in digital payments. These developments not only reflected technological adoption but also a broader cultural shift toward a digital-first financial mindset. Households and businesses alike began to rely on faster, more predictable settlement cycles as integral components of everyday economic activity.

The corporate sector in New Zealand also engaged intensively with payments modernization. Small and medium enterprises, which account for a substantial portion of the national economy, sought payment solutions that improved liquidity management and reduced operational complexity. Real-time settlement of invoices, automated reconciliation systems, and integrated digital payment platforms enhanced efficiency, reduced administrative costs, and enabled businesses to redirect resources toward growth initiatives. Larger corporates leveraged new payment rails to optimize treasury operations, manage cash buffers more dynamically, and reduce exposure to settlement delays.



The convergence of digital banking, cloud-based accounting systems, and real-time payment infrastructure marked a significant step forward in the modernization of the financial ecosystem.



Malaysia's payments landscape in 2025 demonstrated both scale and sophistication. Digital payments had achieved widespread adoption in prior years, and 2025 focused on deepening usage while enhancing interoperability across platforms. E-wallet providers expanded their reach beyond conventional retail transactions into sectors such as public transport, government services, utility payments, and peer-to-peer transfers.

This expansion stressed the role of digital payments as a foundational layer of everyday economic activity, enabling rapid transaction settlement, improving transparency, and increasing efficiency across the economy.

Policy support played a critical enabling role in Malaysia's payments evolution. Authorities actively promoted cashless transactions to enhance efficiency, reduce informality in the economy, and improve financial inclusion. National initiatives to integrate interoperable QR payment frameworks facilitated seamless transactions across multiple providers. By ensuring compatibility between competing digital wallets and payment applications, policymakers reduced friction for consumers, encouraged competition based on service quality rather than network dominance, and strengthened overall system integrity. In this context, regulatory frameworks focused on standardization, secure authentication, and transaction monitoring while allowing providers the flexibility to innovate.

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| “The progress of payments infrastructure in 2025 illustrated how foundational systems can drive broad-based efficiency gains across the economy. In both New Zealand and Malaysia, collaboration, standardization, and investment in resilience proved more valuable than isolated technological innovation. From our perspective, the focus on interoperability, governance, and operational robustness will be critical as payment systems continue to evolve in speed, complexity, and strategic importance. The experiences of 2025 confirm that systemic stability and efficiency are closely intertwined with technological modernization and collaborative oversight” - *Riaz Patel, Director at FSCL*

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| “Payments innovation in 2025 reinforced the principle that trust is the cornerstone of adoption. Faster and more convenient systems deliver value only when supported by robust safeguards, transparency, and accountability. At FSCL, we view the evolution of payment rails as a strategic priority, recognising that payments infrastructure enables innovation across banking, fintech, and capital markets. The year demonstrated that efficiency, inclusion, and resilience are mutually reinforcing, and that forward-looking investment in payment systems can enhance economic productivity, consumer welfare, and systemic confidence”  
- *Rezan Patel, Director at FSCL*

For Malaysian banks, the proliferation of non-bank payment providers necessitated strategic recalibration. Traditional revenue streams, particularly those tied to card interchange fees and transaction charges, came under pressure. In response, banks invested in value-added services, digital ecosystem partnerships, and integrated solutions linking payments to lending, savings, and wealth management. This collaborative approach allowed banks to leverage the capabilities of fintech firms without ceding strategic control, creating mutually beneficial arrangements that strengthened resilience and expanded service offerings. As a result, banks were able to remain relevant in a rapidly evolving digital economy while maintaining prudent risk management practices and compliance with regulatory standards.



Across both jurisdictions, the evolution of payments raised important considerations around risk management, operational resilience, and governance. Faster settlement reduced traditional settlement risk but simultaneously increased the importance of real-time fraud detection, cybersecurity, and system redundancy. Financial institutions invested heavily in monitoring systems, authentication technologies, behavioural analytics, and machine learning models to detect and prevent fraudulent activity. Consumer education campaigns complemented technological measures, ensuring that customers understood potential risks and best practices for secure usage. Regulators updated supervisory frameworks to reflect the evolving risk profile, incorporating cyber threats, operational disruptions, and fraud scenarios into oversight and stress testing.

Data emerged as a central theme in payments innovation during 2025. Transactions generated rich insights into consumer behaviour, liquidity flows, spending patterns, and economic activity. Responsible utilization of this data enabled financial institutions to improve product design, enhance credit assessments, optimize liquidity management, and deliver more personalised services. At the same time, the increased reliance on data heightened concerns regarding privacy, consent, and security. Regulators, banks, and fintech firms faced the ongoing challenge of balancing innovation with trust. Ensuring transparency in data usage, obtaining informed consent, and deploying robust cybersecurity frameworks became critical imperatives. The management of payment data evolved into a strategic consideration with implications for financial inclusion, operational efficiency, and regulatory compliance.

The broader economic impact of payments modernization became increasingly apparent in 2025. Faster settlement cycles improved working capital efficiency for businesses, enabling more agile inventory management and shorter billing cycles. Digital payment records enhanced transparency, facilitating accurate reporting, auditing, and compliance. For government agencies, the expansion of electronic payments provided better visibility into economic activity, enabling more targeted interventions, improved tax collection, and enhanced policy design. Economists and financial analysts began to recognize the multiplier effects of modernized payment systems on productivity, financial stability, and economic inclusiveness.

From a systemic perspective, payments infrastructure in 2025 was increasingly regarded as critical national infrastructure. Resilience planning, redundancy, and contingency arrangements received heightened attention, with institutions investing in backup data centres, disaster recovery protocols, and cross-platform interoperability. Cross-border payments, particularly within the Asia Pacific region, became a focus for policymakers and financial institutions seeking to facilitate seamless international commerce. Coordination among central banks, financial institutions, and regulatory authorities enhanced reliability, reduced settlement risk, and promoted efficient liquidity flows across borders. This recognition of payments as both an operational and strategic component of financial systems marked a shift in how infrastructure investments were prioritized and governed.

The social dimension of payments also gained prominence. Financial inclusion remained a central objective in both New Zealand and Malaysia. In New Zealand, efforts targeted underbanked communities, rural populations, and segments historically reliant on cash transactions, ensuring that digital access did not exacerbate inequality. In Malaysia, government-supported initiatives facilitated the adoption of e-wallets and digital accounts among lower-income households, small merchants, and rural populations. By combining technology deployment with financial literacy campaigns, both countries reinforced the principle that payments modernization should benefit society broadly while maintaining systemic integrity.

For FSCL, developments in payments during 2025 highlighted the strategic importance of infrastructure-level innovation. Payments may appear operational in nature, but they serve as the backbone of financial system efficiency, transparency, and inclusiveness. The year demonstrated that well-governed, interoperable, and resilient payment rails are essential enablers of sustainable financial sector growth. The capacity of banks, fintech firms, and regulators to collaborate effectively, balance innovation with prudential oversight, and integrate data responsibly became critical determinants of sectoral success.

The transformative potential of payments modernization came to the fore in 2025. Both New Zealand and Malaysia demonstrated that structural improvements in payment rails could influence broader economic behaviour, support financial inclusion, enhance operational resilience, and strengthen trust in the financial system. The emphasis on collaboration between traditional banks, fintech firms, and regulators underscored the importance of alignment between innovation and prudential oversight. Faster settlements, interoperable networks, rich data insights, and secure platforms collectively reshaped the financial ecosystem, ensuring that payments became not merely a transactional utility but a strategic enabler of growth, inclusion, and stability in a digital economy.

# FINTECH PRODUCT CYCLES AND THE FUNDING ENVIRONMENT

## Chapter 6



Fintech in 2025 entered a phase of consolidation characterised by sharper scrutiny, clearer differentiation, and a decisive shift from growth narratives to sustainable business models. After years defined by abundant capital, aggressive expansion, and wide experimentation, the sector was compelled to mature. Investors, regulators, and industry participants alike demanded evidence of economic utility, risk discipline, and governance robustness. Product cycles shortened, funding became more selective, and regulatory expectations hardened. In New Zealand and Malaysia, these forces played out in distinct yet instructive ways, demonstrating how fintech ecosystems adapt when capital discipline replaces exuberance and when market participants are compelled to prioritise sustainable, verifiable outcomes over headline growth metrics.

Globally, the funding environment in 2025 was defined by caution and deliberate assessment. Venture capital flows into fintech stabilised at levels well below the peaks of previous years, reflecting a recalibration of risk appetite. Investors prioritised profitability, unit economics, governance readiness, and regulatory alignment. Late-stage funding rounds were fewer, more rigorously priced, and subject to stringent performance criteria. Early-stage capital, while still accessible, favoured ventures with narrowly defined problem statements and clear paths to market adoption rather than broad, untested platform ambitions. This recalibration created a Darwinian landscape within fintech, accelerating the exit of weaker players and intensifying competition among those with demonstrable traction. Funding discipline, rather than abundance, became the defining condition for sectoral resilience and longevity.

In New Zealand, fintech development in 2025 was increasingly pragmatic and problem driven. The ecosystem, though smaller in scale compared to larger markets, benefited from strong regulatory alignment and a culture of institutional trust. Rather than pursuing disruptive rhetoric, New Zealand fintech firms positioned themselves as enablers for incumbent financial institutions, providing tools and solutions that complemented existing infrastructure.

Payment efficiency, compliance technology, and data driven financial services were areas of particular focus. Regtech solutions addressing regulatory reporting, anti-money laundering obligations, and customer due diligence gained traction, particularly as the regulatory environment became more complex. By providing technology that directly alleviated compliance burdens, fintech firms strengthened their relevance to established institutions and improved overall systemic efficiency.

Funding conditions for New Zealand fintech firms reflected this pragmatic orientation. Capital raising remained possible, but only for ventures with clear revenue pathways, demonstrable product-market fit, and established institutional partnerships. Investors preferred businesses that complemented, rather than bypassed, existing financial infrastructure. This alignment not only mitigated regulatory friction but also accelerated enterprise adoption, reinforcing the credibility of fintech as a strategic partner to banks, insurers, and capital markets participants. Valuations in this environment remained disciplined, reflecting investor attention to risk-adjusted returns and long-term viability rather than headline growth metrics or user acquisition alone.

Malaysia's fintech landscape in 2025 was more expansive, reflecting both the country's larger domestic market and deliberate policy ambition to position itself as a regional fintech hub. The ecosystem benefited from strong digital adoption among consumers, a diverse financial sector, and supportive regulatory initiatives. Product innovation concentrated on digital banking, payments, lending platforms, insurance technology, and wealth management solutions. Unlike earlier years, however, scale alone no longer guaranteed investment or market success. Investors and regulators alike demanded evidence of sound risk management, robust data governance, and comprehensive consumer protection practices.



Fintech firms needed to demonstrate that their offerings were not only innovative but operationally sustainable and compliant with both prudential and conduct requirements.

The rollout and maturation of digital banks in Malaysia played a defining role in shaping fintech product cycles. These institutions transitioned from initial customer acquisition phases to an operational focus encompassing portfolio quality, cross selling, and process efficiency.

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| “The fintech cycle in 2025 marked a decisive shift from experimentation to execution. In both New Zealand and Malaysia, the market rewarded firms that demonstrated discipline, clarity of purpose, and respect for regulatory boundaries. From our perspective, the convergence of fintech and traditional finance represents a natural evolution, strengthening the overall financial ecosystem when managed responsibly. The year 2025 reinforces the importance of integrating innovation with operational rigor and governance, ensuring that fintech contributes to both efficiency and stability” - *Riaz Patel, Director at FSCL*

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| “What distinguished fintech performance in 2025 was not innovation alone but the capacity to operationalise it sustainably. Funding conditions imposed necessary discipline, encouraging better governance, sharper product focus, and clearer alignment with regulatory expectations. At FSCL, we view this phase as constructive, laying the foundation for fintech models that are resilient, investable, and capable of delivering long-term value within regulated financial systems. The year demonstrated that sustainable fintech growth depends on the harmonisation of strategy, technology, and compliance”  
- *Rezan Patel, Director at FSCL*



Their growing market presence exerted competitive pressure on both traditional banks and standalone fintech firms, raising expectations for service reliability, product sophistication, and regulatory compliance. Digital banks, in particular, emphasised integrated ecosystems where payments, lending, savings, and investment products could co-exist in a single digital environment, reinforcing customer retention and operational efficiency while setting benchmarks for smaller fintech entrants.

Funding dynamics in Malaysia during 2025 reflected a bifurcation between strategic and speculative capital. Strategic investors, including banks, corporates, and long-term institutional funds, played an increasingly prominent role. These investors favoured fintech solutions that integrated seamlessly into broader financial ecosystems, delivering measurable operational and revenue synergies. Speculative capital receded, particularly in areas where regulatory trajectories remained uncertain or monetisation models were weak. This shift contributed to sectoral stability and encouraged disciplined growth, but it also heightened barriers to entry for new participants and increased the premium on regulatory and operational credibility.

Across both jurisdictions, notable fintech verticals underwent recalibration in 2025. Buy now pay later solutions, digital lending platforms, and embedded finance models experienced slower expansion as providers tightened underwriting standards and reassessed credit risk frameworks. Regulatory scrutiny intensified, particularly around disclosure, transparency, interest rate practices, and consumer protection. Fintech firms responded by refining product design, implementing more robust credit assessment protocols, and investing in advanced risk analytics and monitoring tools. These adjustments indicated a decisive pivot from rapid scaling to sustainable, responsible innovation.

The emphasis shifted from headline growth metrics to long-term viability, profitability, and alignment with systemic stability.

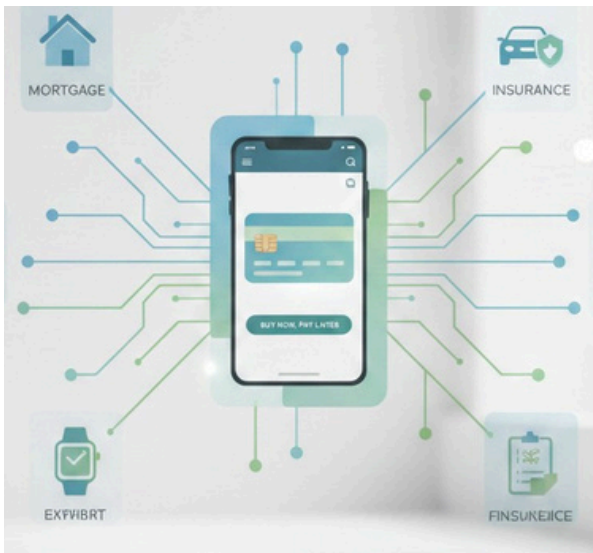
Wealth technology evolved in parallel, although with regional nuances. In New Zealand, digital advisory and portfolio management tools targeted specific market segments, emphasising cost efficiency, compliance, and simplicity. Firms focused on automated investment advice for retail customers, streamlined compliance reporting, and integration with traditional banking channels. In Malaysia, wealth platforms benefitted from rising retail investor participation, buoyed by digital literacy campaigns, mobile adoption, and access to financial education. At the same time, market volatility reinforced the importance of suitability frameworks, risk assessment, and investor protection. Across both markets, trust emerged as a critical differentiator, influencing both adoption rates and the willingness of consumers to allocate assets through digital channels.

Technology architecture became a competitive factor, in its own right, during 2025. Fintech firms that invested early in scalable, secure infrastructure were better positioned to withstand the twin pressures of tighter funding and heightened regulatory scrutiny. Cloud-native architectures, modular design, advanced cybersecurity protocols, and robust data management systems became baseline expectations for investors, institutional partners, and regulators. Those that failed to modernise their technology stacks faced operational fragility, reduced investor confidence, and, in some cases, market exit. The convergence of technology readiness, regulatory compliance, and business viability highlighted the increasingly complex operational environment in which fintech firms operated.

A defining characteristic of the fintech sector in 2025 was the convergence between innovation and institutionalality. Fintech was no longer viewed as a disruptive external force but as an integral component of financial system evolution. This convergence demanded maturity from founders, discipline from investors, and clarity from regulators. Fintech firms were expected to demonstrate operational rigor, evidence-based product design, and adherence to legal and regulatory frameworks. Where these elements aligned, fintech created tangible value in efficiency gains, risk reduction, and enhanced consumer experience. Where they did not, market exit followed rapidly, reflecting the selective pressures imposed by capital scarcity, regulatory scrutiny, and institutional expectations.

For FSCL, developments in fintech during 2025 reinforced the importance of selectivity, analytical depth, and contextual understanding. Not all innovation carries equal value, and not all growth is sustainable. The sector's evolution demonstrated that fintech success increasingly depends on alignment with regulatory frameworks, credible funding structures, operational robustness, and clear economic utility. Strategic engagement with fintech requires understanding product lifecycles, assessing capital structures, and evaluating governance frameworks in addition to market traction.

The funding environment and product cycles also underscored the importance of timing and adaptability. Start-ups and digital ventures needed to anticipate regulatory trends, investor expectations, and market demand to remain viable.



Those that successfully adapted were able to transition from experimental models to scalable, investable businesses. Those that failed to align with systemic requirements experienced accelerated attrition. In this sense, the fintech sector in 2025 became a proving ground for resilience, adaptability, and strategic foresight.

For investors, the period offered a valuable lesson in discipline. Capital allocation decisions were increasingly informed by thorough due diligence, scenario testing, and governance assessments.

The focus shifted from user acquisition metrics to sustainable revenue models, risk-adjusted returns, and long-term operational feasibility. Institutions and funds that recalibrated their investment approach were better positioned to support fintech ecosystems capable of delivering both innovation and systemic stability.

The year gone by represented a pivotal year in the evolution of fintech. The sector transitioned from rapid expansion and experimentation to disciplined growth and operational maturity. New Zealand and Malaysia provided contrasting yet instructive case studies of how fintech ecosystems respond to tighter funding, elevated regulatory scrutiny, and the need for demonstrable economic utility. Product cycles shortened, risk management frameworks strengthened, and investment focus shifted decisively toward sustainable business models. Strategic alignment between investors, regulators, and fintech innovators emerged as the key determinant of sectoral resilience and long-term success. Fintech in 2025 was no longer solely about disruption; it had become a critical enabler of efficiency, inclusiveness, and innovation within broader financial systems.

# DIGITAL BANKING AND REGULATORY EXPERIMENTS

## Chapter 7



Digital banking in 2025 moved decisively from conceptual experimentation into a phase of institutional reality. What had once been framed as a potentially disruptive alternative to traditional banking matured into a regulated, capital intensive, and closely scrutinised segment of the financial system. The year marked a transition in which technology, governance, and prudential oversight intersected to shape how financial services were delivered, monitored, and evaluated. In both New Zealand and Malaysia, digital banking initiatives reflected deeper regulatory philosophies, market structures, and socio-economic priorities. Observing developments across these two jurisdictions offers a valuable lens through which to understand how innovation behaves when fully embedded within established prudential frameworks and subject to real-world operational constraints.

Globally, digital banking in 2025 was no longer judged primarily by user acquisition, market share expansion, or superficial growth metrics. Investors, regulators, and customers increasingly evaluated digital banks on their ability to manage risk effectively, protect customer deposits, comply with conduct standards, and contribute meaningfully to the stability and resilience of the financial system. This shift represented a profound departure from earlier cycles, during which novelty and scale often overshadowed operational fundamentals and risk management. The recalibration of expectations created a new operational environment, where survival depended as much on disciplined execution and adherence to regulatory guidance as on technology or innovation alone.

In New Zealand, the digital banking narrative unfolded within a conservative regulatory environment that prioritised system stability, consumer protection, and the integrity of existing financial infrastructure. Rather than issuing a wave of standalone digital banking licences, authorities adopted a cautious approach. They encouraged innovation within established institutional frameworks, enabling fintech and technology-led initiatives to integrate with traditional banking balance sheets. Digital banking in New Zealand primarily took the form of challenger brands, technology-led subsidiaries, and digitally native service layers provided by incumbent banks. This framework allowed innovation to proceed, while maintaining safeguards that ensured operational continuity, risk management, and consumer confidence.

This measured approach offered several advantages during 2025. Digital banking offerings were able to leverage established risk management practices, stable funding sources, and regulatory familiarity, which mitigated exposure to unexpected operational or financial shocks. Customers benefited from improvements in service delivery, digital accessibility, and convenience without being exposed to untested institutional structures or unproven financial models. The trade-off was a slower pace of visible disruption, but this was compensated by the preservation of trust and continuity within the broader financial system. Incremental progress in service quality, transaction efficiency, and customer engagement contributed to long-term systemic stability and reinforced confidence in the evolving digital banking landscape.

Regulatory engagement in New Zealand played a central role in shaping these outcomes. Supervisory authorities emphasised conduct, transparency, disclosure, and operational resilience, particularly in areas related to outsourcing, cloud reliance, and third-party service providers. Digital banking initiatives were required not only to demonstrate technological capability but also to establish robust governance frameworks and accountability mechanisms. Compliance with these expectations reinforced the principle that innovation must operate within clearly defined supervisory boundaries. It highlighted the interdependence between technological adoption, operational discipline, and regulatory compliance, shaping the emerging characteristics of a responsible digital banking sector.

Malaysia's digital banking experience in 2025 presented a more expansive and instructive model of sectoral evolution. Following the issuance of digital banking licences in earlier years, the period under review marked the moment when these institutions moved beyond preparatory stages into active market participation. Digital banks began offering a range of products, including deposit accounts, payments solutions, consumer financing, small business loans, and in some instances, basic wealth management services. Their entry reshaped competitive dynamics within retail and small business banking, prompting traditional banks to accelerate digital transformation initiatives and rethink service delivery models.

The policy intent behind Malaysia's digital banking agenda was explicit. Regulators positioned these institutions as instruments to enhance financial inclusion, operational efficiency, and sectoral competition.



Licensing frameworks were designed to balance the potential for innovation with prudential safeguards, including phased capital requirements, activity limitations, and intensive supervisory oversight. In 2025, these safeguards proved critical as digital banks navigated practical operational challenges such as customer onboarding, digital identity verification, credit assessment, and fraud mitigation. These measures ensured that digital banking expansion contributed positively to system stability while supporting broader financial sector development goals.

Operational realities strengthened initial optimism. Customer acquisition costs exceeded early expectations, reflecting the ongoing challenges of building trust, educating the market, and differentiating services in a competitive environment. Credit underwriting models required continual refinement to account for behavioural risk, macroeconomic volatility, and sector-specific exposures. Compliance obligations, particularly in areas such as anti-money laundering, data protection, and cybersecurity, demanded significant investments in technology and human capital. These experiences point that regardless of technological advantage, digital banks encounter many of the same structural constraints as traditional institutions, including capital adequacy, risk management, and operational resilience.

At the same time, digital banks in Malaysia demonstrated areas of genuine differentiation. User interfaces were designed for ease of navigation, and onboarding processes reduced friction for underserved customer segments. Integration with e-wallet ecosystems, merchant platforms, and payment networks created innovative use cases that extended beyond traditional banking, including peer-to-peer transfers, merchant financing, and digital payroll solutions. These innovations exerted competitive pressure on incumbent banks, compelling them to accelerate digital transformation initiatives and integrate similar capabilities into their service offerings. The dynamic interplay between traditional and digital-first institutions strengthened the overall financial ecosystem, encouraging innovation without compromising prudential oversight.

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“Digital banking in 2025 illustrated the transition from conceptual promise to institutional responsibility. The experiences of New Zealand and Malaysia demonstrate that regulatory discipline is not an obstacle to innovation but a condition for its durability. Digital banks that succeed will be those that internalise the obligations of trust, resilience, and accountability inherent in financial intermediation. The year highlighted the necessity of embedding governance, compliance, and operational risk management at the core of strategic and technological decision making” - *Riaz Patel, Director at FSCL*

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“The regulatory experiments surrounding digital banking in 2025 offered valuable lessons in balance. Allowing innovation while enforcing prudential safeguards requires clarity, patience, and continuous engagement. At FSCL, we view 2025 as evidence that digital banking must evolve as an integral part of the financial system, not apart from it. Successful institutions will combine technological agility with institutional discipline, ensuring credibility, stability, and longevity in a rapidly changing sector. The integration of digital innovation into established financial frameworks will define the sustainability and systemic contribution of digital banking models in the years ahead”

- *Rezan Patel, Director at FSCL*

Regulatory experimentation extended beyond licensing and operational supervision. Both New Zealand and Malaysia continued to utilise sandbox frameworks, pilot programs, and thematic reviews to evaluate new products and delivery models in real time. In 2025, these instruments evolved from novelty mechanisms into core components of supervisory strategy. Regulators leveraged these initiatives to collect data, assess emerging risks, and refine policy responses, ensuring that innovation remained aligned with systemic safety and consumer protection objectives. The iterative nature of these experiments allowed authorities to respond to rapidly changing technology environments while maintaining continuity in oversight and risk assessment.

Operational resilience emerged as a critical regulatory focus during the year. Digital banks, along with digitally enabled traditional institutions, were required to demonstrate robust business continuity planning, cyber defence capabilities, and incident response frameworks. Dependence on third-party technology providers, cloud infrastructure, and fintech partnerships heightened concerns about concentration risk and service continuity. Supervisory expectations increasingly reflected the recognition that technology failures could have systemic consequences if not adequately mitigated. Institutions were required to embed redundancy, monitoring, and recovery mechanisms across critical operational functions, reinforcing a culture of preparedness and foresight.

Consumer protection remained another defining theme of 2025. The shift toward digital channels, while delivering efficiency and convenience, amplified risks related to mis-selling, inadequate disclosure, identity verification, and vulnerable customer segments. Regulatory guidance emphasised transparency in pricing, clear communication of terms, robust complaints handling, and suitability assessments. Institutions were encouraged to invest in customer education, multi-channel support, and technology-enabled monitoring to identify and address potential harm. These measures reinforced the principle that trust is fundamental to digital banking adoption and that convenience cannot be achieved at the expense of accountability or protection.

The interaction between digital banks and traditional incumbents matured significantly during the year. Partnerships, white-label arrangements, shared technology infrastructure, and integrated service offerings became increasingly common. These collaborative models blurred the distinction between incumbents and challengers, reflecting a broader ecosystem approach to financial services. Rather than a zero-sum competition, digital banking evolved into a distributed network of actors, each contributing distinct capabilities while collectively enhancing customer reach, efficiency, and innovation. This ecosystem perspective facilitated the scaling of digital services, mitigated risk concentration, and encouraged shared learning across institutions.



For the broader financial system, digital banking developments in 2025 carried both opportunities and challenges. Efficiency gains, financial inclusion, and convenience were tangible, particularly in markets such as Malaysia with high digital adoption and underserved customer segments. However, technological dependencies, concentration of critical platforms, and potential for rapid loss of confidence in digital channels remained areas of systemic concern. Regulators responded by reinforcing stress testing, recovery planning, resolution frameworks, and scenario analysis applicable to digital institutions. The focus on resilience ensured that gains in innovation were balanced by safeguards against operational, financial, and reputational risk.

The evolution of digital banking in 2025, for FSCL, reinforced the importance of regulatory alignment, strategic realism, and operational discipline. Technology alone does not confer resilience, nor does innovation alone guarantee long-term sustainability. Sustainable digital banking requires capital adequacy, robust governance frameworks, risk awareness, and long-term operational commitment. The year demonstrated that regulatory experimentation, when conducted within clear boundaries, can enable innovation without compromising financial stability or consumer protection. Strategic engagement with digital banks requires understanding their institutional design, operational processes, and compliance structures, as well as evaluating market potential and systemic impact.

So, 2025 represented a watershed year for digital banking. The sector moved from experimental promise to operational reality, demonstrating that technological innovation must be embedded within strong governance, regulatory alignment, and operational discipline. New Zealand and Malaysia offered complementary lessons in the balance between conservatism and ambition, risk management and innovation, and regulation and market growth. Product offerings matured, operational resilience frameworks strengthened, and regulatory experimentation provided both guidance and oversight. It demonstrated that sustainable digital banking relies not only on user adoption or technological novelty but on a comprehensive approach that integrates risk management, compliance, consumer protection, and strategic foresight. Digital banking in 2025 became an essential enabler of inclusion, efficiency, and innovation while reinforcing the stability and integrity of financial systems in an increasingly digital world.

# INSURANCE MARKETS, CLIMATE RISK AND STRUCTURAL REPRICING

## Chapter 8



The insurance sector in 2025 occupied a position of heightened strategic importance within the financial system. Once perceived primarily as a background mechanism for risk transfer, insurance emerged as a frontline institution confronting climate volatility, evolving asset valuations, and heightened societal expectations. Across both New Zealand and Malaysia, insurers were compelled to reassess long-held assumptions about risk, pricing, and coverage. Structural forces, both environmental and financial, reshaped the economics of protection, compelling the sector to navigate a complex and evolving landscape.

Globally, the insurance industry entered 2025 under sustained and multi-dimensional pressure. Years of elevated catastrophe losses, largely driven by climate-related events, had eroded underwriting margins and strained reinsurance capacity. Simultaneously, capital providers demanded higher returns in an environment of rising interest rates and persistent market volatility. Regulators intensified scrutiny of solvency positions, stress testing frameworks, and governance practices. This combination of pressures forced insurers to confront an uncomfortable reality: risk was no longer behaving in accordance with historical averages. Traditional actuarial models, which relied on predictable frequency and severity of claims, were increasingly inadequate in the face of climate-driven volatility, demographic shifts, and the evolving financial expectations of policyholders.

In New Zealand, the insurance market faced particularly acute challenges in 2025. Extreme weather events over the preceding decade had generated significant claims volumes, particularly in property and general insurance lines. By mid-year, these losses were reflected in higher premiums, stricter underwriting criteria, and, in some high-risk regions, withdrawal of coverage altogether. Insurers were required to strike a careful balance between maintaining commercial viability and fulfilling social responsibility obligations. This tension influenced market behaviour throughout the year, shaping both product design and distribution strategies.

Premium adjustments in New Zealand were both necessary and contentious. Rising reinsurance costs, driven by global capital constraints and prior loss experience, were passed through to domestic premiums. Policyholders confronted higher costs and reduced coverage options, sparking public debate around affordability, insurability, and the social implications of risk management. Regulators monitored these developments closely, recognising that the withdrawal of insurance could have cascading effects on housing finance, infrastructure development, and municipal planning. Mortgage lenders, construction firms, and local authorities were acutely aware of the risks posed by insufficient coverage, which could impact collateral valuation and project feasibility.

Life insurance and health insurance in New Zealand also underwent a period of recalibration. Longer-term assumptions around morbidity, longevity, and healthcare cost inflation were revisited, in light of evolving demographic trends and rising service costs. Insurers placed greater emphasis on risk selection, digital underwriting, and cost management practices. Technology emerged as an enabling tool, supporting faster application processing, automated risk assessment, and customer communication. However, technological adoption did not remove the fundamental challenge of aligning premiums with changing risk profiles and societal expectations. Insurers had to combine quantitative analysis with qualitative judgment, ensuring that pricing remained sustainable without excluding significant segments of the population.

Malaysia's insurance sector in 2025 presented a contrasting but equally instructive landscape. Market growth remained positive, underpinned by rising household incomes, relatively low insurance penetration, and policy initiatives designed to enhance financial protection. General insurance experienced particular momentum, driven by increasing public awareness of risk, regulatory mandates, and initiatives to expand coverage in areas such as motor, property, and liability insurance.





The penetration of microinsurance and digital distribution channels further expanded access to previously underserved communities, demonstrating the sector's potential to contribute to financial inclusion objectives.

Despite these favourable trends, Malaysian insurers were not immune to global pressures. Climate-related events, while less frequent than in some regions, introduced volatility into claims experience, particularly in coastal and flood-prone areas. Medical inflation continued to challenge health insurers, requiring careful adjustments in product design, cost sharing, and pricing frameworks.

Regulatory authorities responded by reinforcing capital adequacy standards, promoting prudent reserving, and encouraging product innovation that balanced affordability with long-term sustainability. Insurers were incentivised to develop solutions that incorporated both risk mitigation and financial protection, reflecting a holistic view of coverage in the context of evolving societal expectations.

A defining theme across both New Zealand and Malaysia in 2025 was the integration of climate risk into insurance strategy. Insurers increasingly treated climate risk not as a peripheral concern, but as a core underwriting variable. Advanced scenario analysis, catastrophe modelling, and geospatial risk mapping became central to decision making.

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| “The insurance sector’s experience in 2025 highlighted the necessity of confronting risk honestly and proactively. Structural repricing, while challenging, is preferable to gradual erosion of solvency and the accumulation of unaddressed exposures. Insurers that invest in robust risk assessment, strengthen capital reserves, and maintain disciplined underwriting practices are better positioned to fulfil their role as stabilising institutions in an increasingly uncertain environment. From our perspective, the alignment of strategy, capital, and risk management is central to long-term resilience” - *Riaz Patel, Director at FSCL*

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| “Insurance in 2025 demonstrated the limits of relying on historical assumptions. Climate volatility, medical inflation, and evolving societal expectations necessitated a recalibration of both pricing and operational strategy. Sustainability in insurance depends on transparency, governance, and an unwavering commitment to long-term stability. At FSCL, we view the sector’s evolution as a powerful reminder that effective insurance markets must integrate risk management, capital planning, and social responsibility, while remaining adaptive to structural and environmental change” - *Rezan Patel, Director at FSCL*



These tools allowed insurers to anticipate the financial impact of extreme weather events, rising sea levels, and other environmental shifts, informing pricing strategies, capital allocation, and reinsurance purchasing. Beyond financial considerations, the integration of climate risk prompted insurers to engage more actively with policymakers, local authorities, and community organisations to promote resilience and risk mitigation measures.

Reinsurance markets played a critical role in shaping insurance outcomes in 2025. Global capacity constraints, rising attachment points, and evolving risk appetites forced primary insurers to retain a larger proportion of risk on their balance sheets. This change heightened the importance of capital strength, robust solvency management, and risk diversification strategies. Smaller insurers faced strategic challenges in securing affordable reinsurance, influencing consolidation dynamics, partnerships, and mergers.

The market increasingly rewarded institutions that combined analytical sophistication with disciplined capital management, reflecting the convergence of operational, financial, and strategic priorities.

Technology adoption accelerated within the insurance sector during 2025, though its role was evolutionary rather than revolutionary. Digital distribution channels, including mobile applications and online platforms, improved reach and operational efficiency, particularly in Malaysia.

Claims automation, predictive analytics, and fraud detection algorithms enhanced underwriting precision and reduced processing times. Nevertheless, technology did not fundamentally alter the underlying economics of risk.

Insurers that relied exclusively on digital solutions without addressing pricing adequacy, capital sufficiency, and claims volatility found themselves vulnerable. Technology served as a complement rather than a substitute for rigorous risk management and strategic planning.

From a systemic perspective, insurance developments in 2025 highlighted the interconnectedness between protection markets and broader financial stability. Reduced insurability affected credit decisions, asset valuations, and public sector finances.

For example, a withdrawal of property insurance in high-risk regions could undermine mortgage lending, depress real estate markets, and complicate municipal infrastructure projects. Policymakers increasingly recognised that the availability and affordability of insurance were prerequisites for economic resilience, particularly in the face of climate uncertainty and shifting demographic pressures. The strategic importance of insurance extended beyond individual policyholders to the health of financial markets and public institutions.

Regulatory frameworks evolved to address these systemic implications. Supervisory authorities in both New Zealand and Malaysia emphasised proactive capital monitoring, enhanced disclosure, and rigorous stress testing for climate and catastrophe scenarios. Insurers were encouraged to integrate long-term risk management into product design, investment strategy, and corporate governance. In Malaysia, regulators promoted innovative products that incentivised preventative measures, such as flood-resistant property coverage or health plans linked to wellness programmes. In New Zealand, oversight focused on ensuring that premium adjustments remained equitable and that social objectives, such as maintaining housing affordability, were balanced with commercial imperatives.

Capital management and structural repricing became defining features of 2025. Insurers faced a dual imperative: to maintain solvency and profitability while delivering coverage that remained credible and meaningful.

Long-term capital planning, portfolio optimisation, and retention of prudent risk buffers became essential practices. Insurers increasingly leveraged stress testing to model extreme weather events, inflationary shocks, and macroeconomic volatility. These exercises informed strategic decisions on pricing, product design, reinsurance purchasing, and capital allocation, highlighting the integrated nature of risk, finance, and strategy in contemporary insurance markets.

Innovation within the insurance sector in 2025 was primarily focused on risk differentiation, sustainability, and operational efficiency rather than purely disruptive products. For example, parametric insurance solutions, which trigger payouts based on predefined weather or catastrophe indices, gained prominence as a mechanism to transfer climate-related risk efficiently. Usage-based insurance models, particularly in motor and commercial lines, allowed premiums to more accurately reflect behaviour and exposure. Such innovations complemented traditional insurance products while addressing the pressures of capital cost and claims volatility.

Insurers faced structural pressures from climate risk, cost inflation, capital market expectations, and societal scrutiny, in 2025. The sector responded with disciplined repricing, enhanced underwriting standards, and accelerated adoption of technology to support operational efficiency. Reinsurance strategies were refined, and regulatory oversight became more integrated and forward-looking.

The interplay between commercial viability and social responsibility emphasized the essential role of insurance as a stabilising institution within the financial system.

As markets adapted to these pressures, the year showed that resilience in insurance requires a synthesis of robust risk assessment, strategic capital allocation, regulatory alignment, and operational discipline. The lessons of 2025 will continue to shape product design, capital management, and regulatory frameworks for years to come, providing a foundation for sustainable growth in a climate-conscious, risk-aware world.

For FSCL, the insurance landscape of 2025 reinforced the importance of rigorous risk assessment, structural repricing, and long-term capital discipline. The year demonstrated that insurance markets cannot be insulated from structural change or from shifts in environmental, demographic, and financial conditions. Adaptation is essential, requiring institutions to balance commercial imperatives with social responsibility and systemic stability. 2025 underscored the critical role of insurance as a stabilising pillar of the economy, providing protection not only for individual policyholders but for the broader financial system.

# CAPITAL MARKETS, LIQUIDITY CYCLES AND INVESTOR BEHAVIOUR

## Chapter 9



Capital markets in 2025 reflected a year of careful recalibration rather than unrestrained optimism. Following periods of heightened volatility, a gradual tightening of monetary conditions, and shifting geopolitical dynamics, investors in New Zealand and Malaysia approached markets with heightened selectivity and caution. While risk appetite persisted, it was disciplined, data-driven, and closely aligned with underlying fundamentals. This environment reshaped the way capital was raised, allocated, and valued, influencing both the structure of financial intermediation and the behaviour of market participants. Rather than seeking rapid expansion or speculative gains, corporate and institutional actors focused on resilience, strategic clarity, and sustainable returns.

Globally, capital markets in 2025 operated under the enduring shadow of restrictive monetary policy. Although the trajectory of interest rates stabilised in certain major economies, the era of abundant, cheap liquidity had clearly passed. Investors, accustomed to the expansionary conditions of prior cycles, now demanded higher risk premia, particularly for long-duration assets and speculative growth narratives that relied heavily on optimistic cash flow projections. Equity valuations, especially in sectors sensitive to leverage or cyclical demand, came under pressure. The shift in global investor expectations influenced local market behaviour in both New Zealand and Malaysia, as domestic participants recalibrated their assumptions around funding, valuation, and strategic growth.

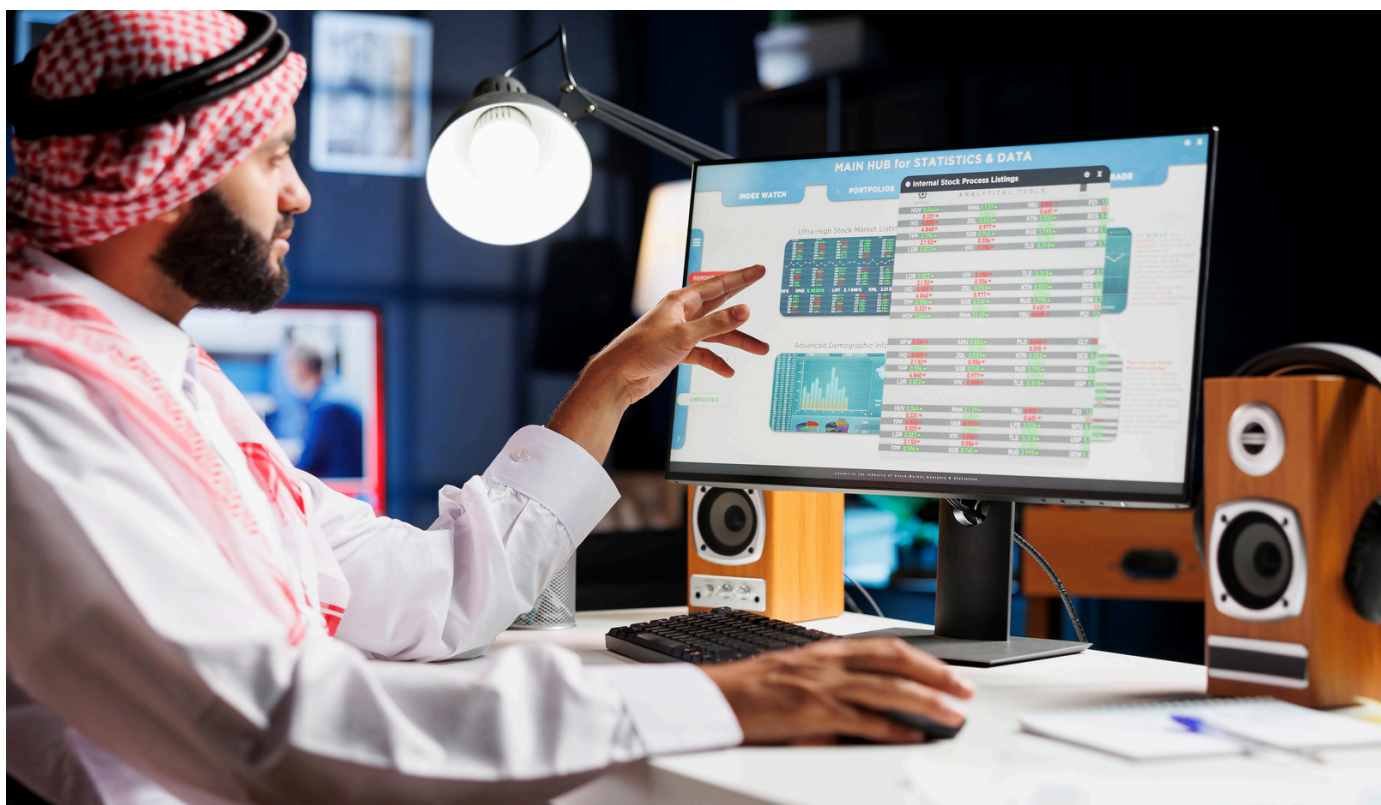
In New Zealand, equity markets in 2025 were characterised by a cautious optimism that reflected both domestic resilience and external uncertainty. Investors prioritised transparency, predictable earnings, and strong balance sheet positions. Companies with demonstrated pricing power, robust operational cash flow, and resilient business models attracted sustained attention, while entities with opaque reporting or aggressive leverage profiles faced greater scrutiny. The market environment rewarded disciplined corporate governance and operational clarity, and firms that maintained a coherent narrative around profitability and risk management found it easier to secure investor confidence. Conversely, speculation based on momentum or headline growth was less tolerated, reflecting a maturing and more sophisticated investor base.

Initial public offerings in New Zealand remained selective throughout 2025. Many issuers deferred public listings in the absence of compelling valuation support, instead opting to raise capital privately or optimise balance sheets internally. When secondary offerings occurred, they were primarily designed to reinforce financial strength rather than fund aggressive expansion. This reflected a broader strategic shift among corporates from growth at all costs to a focus on resilience, capital adequacy, and long-term sustainability. Investors responded positively to these measured approaches, recognising the value of firms that aligned strategy with prevailing macroeconomic realities and maintained robust liquidity buffers.

Debt markets assumed an increasingly prominent role in New Zealand in 2025. Corporate bond issuance expanded modestly, as firms sought to secure funding at defined maturities amidst expectations of gradual normalisation in interest rates. Investor preference leaned towards higher quality credits, with spreads remaining sensitive to sector-specific and macroeconomic risks. Infrastructure, utilities, and regulated sectors benefited particularly, given the stability of their cash flows, transparent regulatory frameworks, and relatively predictable earnings streams. Bonds offering exposure to these sectors attracted strong demand from institutional investors seeking both yield and security, reinforcing the role of debt markets as a stabilising element in overall capital allocation.

Malaysia's capital markets in 2025 exhibited greater dynamism, reflecting a combination of market depth, domestic investor engagement, and policy measures designed to enhance capital formation. Equity issuance in Malaysia benefited from both corporate strategy and favourable regulatory conditions, enabling companies to access a diverse investor base. While valuations remained disciplined, growth-oriented sectors linked to digitalisation, regional trade, and industrial expansion attracted investor attention, reflecting Malaysia's broader economic trajectory. Companies that could demonstrate operational efficiency, strategic coherence, and regulatory compliance found the environment conducive to both equity and hybrid capital raising.

The Malaysian bond market continued to serve as a cornerstone of financial intermediation. Government, quasi-sovereign, and corporate issuers leveraged bond markets to refinance existing obligations, extend maturities, and manage interest rate risk.



Islamic finance instruments maintained a distinctive role, appealing to both domestic and international investors through compliance with Shariah principles and their unique risk-return profiles. The growing sophistication of both conventional and Islamic markets provided investors with diversified options, while also reinforcing the depth and resilience of Malaysia's capital structure.

Investor behaviour across both New Zealand and Malaysia in 2025 reflected lessons learned from prior cycles of volatility and excess. Portfolio construction emphasised diversification, liquidity management, and downside protection. While passive investment strategies retained relevance due to their cost efficiency and market exposure, active management regained prominence as dispersion between outperforming and underperforming assets widened. Investors increasingly evaluated companies not only on financial performance, but also on governance quality, operational resilience, and adaptability to macroeconomic and environmental shifts. Strategic allocation became as important as tactical positioning, reflecting a more sophisticated approach to risk-adjusted returns.

Foreign investor participation in 2025 was highly selective and responsive to a range of local and global signals. Capital flows were sensitive to currency movements, monetary policy shifts, and geopolitical developments. Markets perceived to offer regulatory clarity, macroeconomic stability, and predictable policy trajectories benefited from sustained engagement, while those subject to uncertainty or volatility experienced heightened sensitivity in both equity and debt instruments. Institutional investors demonstrated an increasing preference for jurisdictions with transparent disclosure standards, clear investor protections, and robust capital market infrastructure, reflecting a global trend towards risk-adjusted allocation over speculative exposure.

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| “Capital markets in 2025 rewarded prudence and disciplined execution while penalising speculative excess. The recalibration observed across equity and debt markets reflects a maturing investor mindset shaped by prior volatility and evolving macroeconomic realities. From our perspective, both intermediaries and issuers must maintain focus on fundamentals, governance, and risk management to navigate this environment effectively. Strategic foresight, credible disclosure, and transparent operations were decisive factors in market outcomes during this period”  
- *Riaz Patel, Director at FSCL*

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| “The behaviour of capital markets in 2025 reinforced the cyclical nature of liquidity, sentiment, and valuation. Stability is not achieved through constant intervention or artificial stimulus, but through consistent application of regulatory frameworks, disciplined participation, and alignment of investor and issuer expectations. At FSCL, we view the year as strengthening the foundations of long-term capital allocation, demonstrating that markets function best when participants balance prudence with informed risk-taking, and when confidence is underpinned by transparency, clarity, and institutional credibility”  
- *Rezan Patel, Director at FSCL*

Technology continued to influence capital markets, primarily by enhancing efficiency and transparency rather than fundamentally altering market dynamics. Electronic trading platforms, algorithmic execution, and enhanced data analytics improved price discovery and reduced operational friction. Disclosure mechanisms became more sophisticated, enabling investors to make more informed decisions. Despite these technological advances, cyclical dynamics, macroeconomic conditions, and behavioural biases continued to shape market outcomes. Sentiment remained influenced by global risk narratives, geopolitical developments, and shifts in monetary policy expectations, underscoring the enduring importance of human judgment in capital allocation.

Regulatory oversight prioritised market integrity and investor protection. Authorities in both New Zealand and Malaysia reinforced disclosure standards, monitored market conduct, and reviewed clearing and settlement arrangements to ensure resilience. Supervisors also focused on stress testing market infrastructure and maintaining confidence during periods of heightened volatility. These measures were designed to enhance trust, reduce systemic risk, and ensure that capital markets continued to function efficiently as intermediaries between savers and borrowers.

Capital formation in 2025 increasingly reflected the integration of long-term strategic thinking and short-term operational discipline. Issuers focused on aligning capital-raising activities with business strategy, risk management frameworks, and investor expectations. Debt instruments were structured to optimise liquidity, manage interest rate exposure, and support strategic investment, while equity instruments were increasingly designed to attract long-term, stable shareholders rather than transient speculative capital.



This strategic alignment reinforced market stability, encouraged prudent investment, and enhanced the overall credibility of financial intermediation in both New Zealand and Malaysia.

The role of intermediaries, including investment banks, brokers, and asset managers, remained crucial in shaping market outcomes. Intermediaries were called upon not only to execute transactions, but also to provide advisory insights, facilitate risk management, and ensure that capital flows aligned with both regulatory and economic realities. The year reinforced the value of disciplined intermediation, with advisory capacity and credibility emerging as key differentiators. Firms that combined technical expertise with deep understanding of macroeconomic, regulatory, and sector-specific dynamics were better positioned to support both issuers and investors.

For FSCL, developments in capital markets during 2025 stressed the enduring importance of disciplined intermediation, transparency, and strategic alignment. Capital markets function best when pricing reflects risk accurately, information flows efficiently, and participants operate within a clearly defined framework. The year demonstrated that sustainable capital formation depends on trust, credibility, and the consistent application of standards across equity, debt, and derivative markets. Investors, issuers, and regulators each played complementary roles in ensuring the robustness of the system.

The experience of 2025 also highlighted the importance of behavioural awareness in market participation. While fundamentals provided a framework for pricing and allocation, sentiment, confidence, and perception remained powerful drivers of market movements. The interaction between macroeconomic news, corporate disclosures, and investor psychology reinforced the need for careful communication, clarity of policy, and consistent market engagement. Firms and regulators alike benefited from understanding how narratives shape behaviour and influence liquidity cycles, particularly during periods of adjustment.

Across both New Zealand and Malaysia, capital markets reflected an environment where caution was rewarded and excess was penalised. Investors emphasised resilience, risk management, and disciplined valuation, while issuers aligned strategy with long-term sustainability. Debt markets provided critical support for liquidity and infrastructure, while equity markets focused on operational excellence and transparency. Foreign participation remained selective, highlighting the importance of macroeconomic stability, policy clarity, and robust market frameworks. Technology enhanced efficiency but did not replace the fundamental importance of governance, discipline, and strategic foresight.

Capital markets adjusted to the realities of tighter liquidity, shifting global risk premia, and evolving regulatory expectations, in 2025. Equity and debt markets reflected a growing emphasis on fundamental valuation, transparent disclosure, and disciplined risk management. Investor behaviour became more selective, focused on sustainability, diversification, and downside protection, while intermediaries were called upon to provide strategic advisory and execution expertise. The experience of the year reinforced the importance of credible regulation, robust capital frameworks, and informed participation in sustaining efficient and resilient financial markets.

# WEALTH MANAGEMENT, ASSET ALLOCATION AND CROSS BORDER CAPITAL FLOWS

## Chapter 10



Wealth management and asset management in 2025 occupied a pivotal position at the intersection of macroeconomic uncertainty, demographic evolution, and increasingly sophisticated investor expectations. After several years characterised by market volatility, persistent inflationary pressures, and shifts in monetary policy regimes across the globe, clients in New Zealand and Malaysia approached both capital preservation and growth with heightened caution. The focus of wealth strategy shifted decisively away from chasing speculative returns towards constructing portfolios capable of withstanding structural and cyclical market shocks. In this environment, advisors and asset managers were tasked not only with optimising financial outcomes but also with reinforcing confidence, providing clarity, and anchoring client decision-making through periods of uncertainty.

On a global scale, the wealth management industry in 2025 faced a period of recalibration. High net worth individuals, family offices, and institutional allocators increasingly reassessed assumptions around diversification, liquidity, correlation, and risk concentration. Traditional distinctions between asset classes blurred, influenced by cross-cutting considerations such as geopolitical exposure, climate-related risk, and divergent policy stances among major economies. Investors were no longer content to rely solely on formulaic asset allocation models or historical patterns of returns.

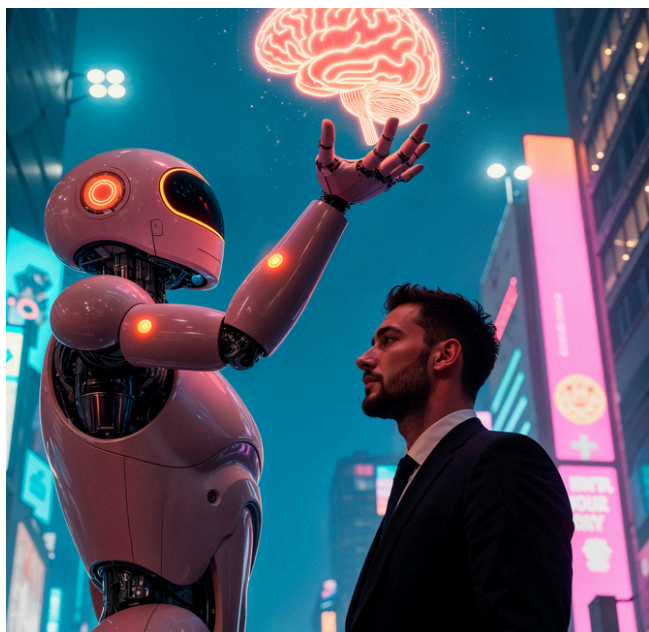
Instead, they required advisors and fund managers to adopt a more nuanced approach, incorporating scenario planning, stress testing, and strategic foresight into portfolio design. The ability to align financial objectives with both macroeconomic realities and client-specific risk tolerance became a defining characteristic of effective wealth management.

In New Zealand, wealth management activity in 2025 reflected the characteristics of a mature yet evolving market. The domestic investor base remained relatively conservative, prioritising income-generating assets, capital stability, and transparent investment structures. Equities, high-quality fixed income instruments, and property-related investments continued to dominate portfolios, although allocations were increasingly adjusted to account for higher interest rates, sector-specific valuation pressures, and sensitivity to global economic cycles. Investors exhibited a clear preference for financial instruments that balanced risk and reward, emphasising predictability over speculative upside. This emphasis on stability reflected broader societal attitudes towards capital preservation and underscored the importance of trust between investors and advisors.

Managed funds and KiwiSaver schemes played a central role in New Zealand's household wealth accumulation. Asset managers concentrated on cost efficiency, strong governance, and the delivery of long-term performance consistency. Passive investment strategies retained significant relevance due to their low-cost structure and broad market exposure, but active management regained prominence as sectoral and geographic dispersion widened. Clients were increasingly willing to engage with managers who demonstrated robust risk management capabilities and the ability to provide downside protection. Advisors were expected to communicate complex financial concepts in accessible terms, ensuring clients understood not only the potential returns but also the inherent risks associated with their portfolios.

Private markets attracted a growing, though selective, cohort of New Zealand investors during 2025. Private equity, private credit, and infrastructure assets offered potential diversification benefits, opportunities for inflation hedging, and access to sectors not fully represented in public markets. Nevertheless, concerns about liquidity, valuation transparency, and fee structures tempered enthusiasm. Advisors were required to exercise careful judgment, balancing the promise of higher returns against the operational realities of less liquid instruments. Risk-adjusted analysis, scenario planning, and long-term horizon alignment became essential tools for both advisors and clients in evaluating private market opportunities.

Malaysia's wealth management landscape in 2025 displayed greater momentum and dynamism. Rising affluence, expanding demographics, and increasing financial literacy contributed to robust growth in both the mass affluent and high net worth segments.



Banks, asset managers, and independent advisors actively competed to capture client relationships, often through bundled offerings that integrated investment products, insurance solutions, and advisory services. This integrated approach enhanced client engagement, reinforced loyalty, and allowed for more holistic wealth planning. Advisors were expected to demonstrate proficiency not only in investment strategy but also in estate planning, tax efficiency, and cross-border asset management, reflecting the increasing complexity of wealth stewardship in the Malaysian context.

Asset allocation in Malaysia in 2025 reflected a cautiously growth-oriented posture. Equities remained a core component of portfolios, complemented by high-quality fixed income instruments, structured products, and alternative investments. Islamic finance instruments continued to play a significant role, offering clients diversification and alignment with religious and ethical preferences. Regulators actively monitored product complexity, disclosure, and suitability, reinforcing conduct standards across the advisory value chain. The emphasis on governance, transparency, and client protection reflected a broader trend of balancing innovation with prudence, particularly as investors explored newer instruments and strategies.

Cross-border investment emerged as a defining feature of wealth management in 2025. Investors in both New Zealand and Malaysia increasingly recognised the importance of geographic diversification as a means of managing domestic concentration risk and accessing global growth opportunities. Capital flows were influenced by relative interest rate differentials, currency expectations, geopolitical developments, and perceptions of political and regulatory stability. Cross-border allocation allowed investors to participate in dynamic markets while mitigating domestic risk, enhancing portfolio resilience, and providing access to sectors or industries not represented locally.

For New Zealand investors, offshore allocation remained an essential element of portfolio construction. Exposure to global equities, particularly in developed markets, provided a hedge against the limitations of a smaller domestic market and offered potential for enhanced returns. Currency management gained prominence as exchange rate volatility directly influenced realized returns. Advisors incorporated hedging strategies, scenario analysis, and sensitivity testing to ensure that international exposure complemented overall portfolio objectives. The goal was not simply to achieve higher returns, but to create a portfolio that remained resilient under a variety of economic and currency conditions.

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| “Wealth management in 2025 reaffirmed the centrality of capital preservation and prudent growth in uncertain environments. Cross-border diversification, when executed thoughtfully, enhances portfolio resilience, mitigates domestic concentration risk, and enables participation in global opportunity. From our perspective, advisors and asset managers must combine rigorous analysis with behavioural insight to serve clients effectively, ensuring that strategic allocation decisions are both disciplined and adaptive”  
- *Riaz Patel, Director at FSCL*

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| “The evolution of asset management and cross-border flows in 2025 reflects a more discerning investor mindset. Returns are evaluated alongside liquidity, governance, regulatory alignment, and systemic risk. At FSCL, we view this period as reinforcing the value of structured allocation, regulatory awareness, and long-term orientation in wealth management. The integration of careful portfolio design with informed cross-border capital deployment will remain central to achieving sustainable outcomes for investors in both New Zealand and Malaysia”  
- *Rezan Patel, Director at FSCL*



Malaysian investors also displayed growing sophistication in cross-border allocation. Regional investments within the Asia Pacific gained prominence, reflecting economic growth, trade integration, and sectoral opportunity. Selective exposure to developed markets allowed for further diversification while maintaining access to liquidity and governance standards. Cross-border capital allocation was influenced by a mix of investment motives, educational and migration planning, and business expansion considerations. Regulators maintained a careful balance, ensuring that capital mobility did not undermine domestic financial stability while allowing investors to pursue global opportunities.

Asset managers operating across borders in 2025 faced heightened regulatory and operational complexity. Divergent disclosure standards, taxation regimes, and reporting requirements increased compliance obligations and operational cost. At the same time, technology enabled more efficient portfolio monitoring, client reporting, and communication, partially offsetting these challenges. Firms with scale, robust governance frameworks, and integrated operational capabilities were better positioned to manage the complexities of cross-border investment and to serve clients with confidence. Institutional strength and the ability to navigate regulatory frameworks became decisive competitive advantages in this environment.

Environmental, social, and governance considerations continued to influence asset management strategies, albeit with a more pragmatic approach. In 2025, ESG integration focused on risk assessment, stewardship, and long-term value creation rather than broad exclusionary mandates. Investors demanded clarity on how sustainability considerations translated into portfolio performance, risk-adjusted returns, and strategic impact.

Advisors were required to provide evidence of alignment between ESG policies, investment outcomes, and client objectives, reinforcing accountability and trust.

Market volatility during the year reinforced the behavioural dimension of wealth management. Advisors played a critical role in moderating client expectations, discouraging reactive or emotional decision-making, and reinforcing adherence to long-term strategy. Trust, communication, and consistent engagement proved as valuable as technical expertise in guiding investor behaviour. Wealth management evolved into a discipline that combined financial acumen with behavioural insight, requiring a nuanced understanding of human decision-making under uncertainty.

Wealth and asset management was characterised by a shift from opportunistic growth towards resilience, discipline, and long-term strategic focus. Investors in New Zealand emphasised income stability, capital preservation, and conservative diversification, while Malaysian clients pursued growth opportunities in a more dynamic market environment. Cross-border investment emerged as a critical mechanism for managing risk and accessing global opportunity, facilitated by technology and informed advisory practices. ESG considerations, behavioural guidance, and regulatory compliance further shaped portfolio construction.

For FSCL, the year reinforced the principle that wealth management success depends on the integration of disciplined allocation, cross-border perspective, robust governance, and client-centric insight. Developments in wealth and asset management highlighted the enduring importance of disciplined allocation, long-term perspective, and cross-border awareness. Capital moves not only in response to returns, but also in reaction to confidence in institutions, regulatory frameworks, and governance standards. The year demonstrated that successful wealth management relies on aligning global opportunity with local understanding, combining technical sophistication with practical insight into investor needs and market realities.

# GEOPOLITICAL RISK AND ITS TRANSMISSION INTO FINANCIAL MARKETS

## Chapter 11



Geopolitical risk in 2025 emerged not as a peripheral factor to be acknowledged in passing, but as a central influence actively shaping financial decision making. Markets no longer treated political developments as episodic shocks that could be easily absorbed and quickly discounted. Instead, they were increasingly understood as structural conditions that determined capital allocation, pricing behaviour, and institutional strategy. For financial systems in New Zealand and Malaysia, 2025 illustrated the degree to which global political tensions transmit through trade channels, capital flows, foreign exchange markets, and investor sentiment. In many ways, the year showcased the interdependence between geopolitics and financial stability, demonstrating that economic outcomes cannot be fully separated from political context.

The international environment entering 2025 was defined by persistent strategic rivalry, fragmented supply chains, and recalibrated alliances. Major economies pursued industrial policy, strategic autonomy, and national security objectives with renewed intensity. These priorities reshaped global trade flows, access to advanced technologies, and investment screening regimes. As countries sought to protect critical sectors and secure essential supply chains, financial markets were compelled to reassess assumptions about the stability of global integration and the effectiveness of traditional risk diversification strategies. Investors began to internalise the possibility that geopolitical developments could have structural and lasting effects, rather than temporary disruptions to be weathered passively.

One defining feature of geopolitical risk in 2025 was its endurance. Unlike the short-lived crises of earlier decades, contemporary tensions proved persistent, multi-faceted, and interconnected. Conflicts, sanctions regimes, and diplomatic standoffs often overlapped with economic competition, regulatory divergence, and technological protectionism. These overlapping dynamics made risk difficult to hedge using conventional instruments, thereby increasing uncertainty premiums across asset classes. In this context, investors and financial institutions were required to develop a more sophisticated understanding of risk transmission, one that accounted for indirect channels, second-order effects, and prolonged periods of market adaptation.

In New Zealand, geopolitical risk largely manifested through indirect economic and financial channels. As a small, open economy with deep trade linkages, New Zealand was sensitive to shifts in global demand, commodity prices, and supply chain stability. In 2025, disruptions to shipping routes, port congestion, and heightened trade friction influenced both export revenues and import costs. These developments had cascading effects on corporate earnings expectations, sectoral valuations, and currency movements. New Zealand's reliance on agricultural exports, particularly dairy, meat, and horticultural products, made the economy particularly attuned to global trading conditions. When supply chains were disrupted or tariffs imposed by key partners, firms faced increased input costs and volatility in sales, which, in turn, influenced equity valuations and investor sentiment.

Financial markets in New Zealand responded with cautious positioning. Equity investors favoured companies with strong domestic orientation or diversified international exposure, while sectors highly exposed to global trade volatility, such as commodities, shipping, and industrial manufacturing, faced valuation pressure. The New Zealand dollar exhibited sensitivity not only to domestic macroeconomic fundamentals but also to evolving global geopolitical dynamics. Currency markets reflected a composite of domestic economic indicators, foreign interest rate differentials, and perceived exposure to trade or diplomatic disruptions. Investors increasingly incorporated scenario analysis into portfolio construction, simulating the impact of protracted trade disputes, regional security tensions, or global supply chain shocks on both returns and liquidity.

Malaysia's exposure to geopolitical risk in 2025 was more direct and multifaceted. Situated at the crossroads of global trade routes and regional manufacturing networks, Malaysia simultaneously faced both opportunity and vulnerability. Strategic competition among major powers influenced investment decisions across technology, semiconductors, advanced manufacturing, and critical infrastructure. Capital inflows, particularly foreign direct investment and portfolio flows, responded sensitively to perceptions of policy alignment, neutrality, and strategic positioning. Financial markets in Malaysia were therefore attuned to both regional developments in Southeast Asia and global power dynamics, with market participants weighing the economic benefits of open investment against the risks of entanglement in geopolitical disputes.

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| “Geopolitical risk in 2025 demonstrated its capacity to influence markets through subtle yet persistent channels. Political developments now shape economic outcomes as much as traditional financial metrics. From our perspective, disciplined risk assessment, scenario planning, and proactive engagement with emerging risks are indispensable for navigating this complex environment effectively” - *Riaz Patel, Director at FSCL*

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| “The transmission of geopolitical risk into financial markets during 2025 highlighted the limitations of short-term market memory and reactive strategies. Stability depends on institutions that anticipate disruption and build resilience into their structures, rather than reacting only after events unfold. At FSCL, we view geopolitical awareness as an integral component of financial strategy, governance, and client advice. Understanding both the direct and indirect channels of risk is essential for long-term value preservation and informed capital allocation”  
- *Rezan Patel, Director at FSCL*

Geopolitical developments influenced Malaysia's financial markets through multiple channels. Equity markets reflected shifts in foreign investor participation, with foreign institutional investors adjusting holdings based on perceived country risk and sectoral exposure. Bond markets were sensitive to changes in interest rate expectations, inflationary pressure driven by commodity price volatility, and currency risk. Policymakers faced the dual challenge of maintaining an open investment environment to support economic growth while safeguarding strategic assets, mitigating systemic risks, and ensuring financial stability. This balancing act shaped regulatory responses, disclosure requirements, and guidance on foreign participation in sensitive sectors.

Energy and commodity markets provided a particularly vivid illustration of how geopolitical risk transmitted into financial systems in 2025. Price volatility driven by conflict, supply restrictions, or strategic stockpiling had immediate and broad impacts on inflation expectations, monetary policy, and investor behaviour. Rising oil and gas prices affected inflation dynamics, influencing central bank policy stances and ultimately shaping interest rate markets and asset valuations. Agricultural commodities, metals, and rare earth elements exhibited heightened sensitivity to geopolitical events, demonstrating the direct link between global politics and domestic financial conditions. Both New Zealand and Malaysia, as participants in these global markets, were exposed to the resultant transmission of risk into corporate balance sheets, investor portfolios, and public finance outcomes.

Sanctions and financial fragmentation emerged as another significant transmission channel. Restrictions on cross-border payments, capital flows, and technology transfer created a complex compliance environment for banks and other financial institutions. While New Zealand and Malaysia were not primary targets of sanctions, their financial institutions were nonetheless required to navigate an increasingly intricate network of regulatory obligations. Compliance costs rose, operational burdens increased, and correspondent banking relationships were influenced by heightened due diligence requirements. This environment reinforced the importance of robust risk management frameworks, proactive monitoring, and scenario planning for institutions engaged in international transactions.

Investor behaviour in 2025 reflected heightened sensitivity to geopolitical narratives. Risk premiums expanded during periods of escalation and contracted cautiously during periods of diplomatic engagement or de-escalation. Markets displayed episodic volatility rather than sustained panic, suggesting a degree of adaptation to ongoing uncertainty. Investors became more discerning in assessing the credibility and duration of geopolitical events, often focusing on structural implications rather than immediate headlines.





Portfolio construction evolved in response, with investors seeking exposure to assets perceived as resilient to geopolitical shocks, such as infrastructure, defence-related industries, and domestic consumption themes. At the same time, cross-border diversification strategies required rigorous due diligence around jurisdictional risk, legal frameworks, and regulatory alignment.

Central banks and financial regulators closely monitored the transmission of geopolitical risk in 2025. Stress testing frameworks increasingly incorporated scenarios related to trade disruptions, sudden capital flow reversals, currency shocks, and cyber risk. Policymakers and supervisors emphasised preparedness, communication, and policy continuity to anchor market expectations in periods of heightened uncertainty. Monetary authorities also engaged in scenario modelling, examining the potential impact of supply chain shocks, commodity price spikes, and strategic investment restrictions on both financial stability and macroeconomic outcomes.

For financial institutions, the persistence and complexity of geopolitical risk necessitated a broader conception of risk management. Traditional market and credit risk models were insufficient to capture second-order effects or the interdependencies created by global strategic competition. Institutions invested in scenario planning, intelligence gathering, and governance structures capable of responding to rapid changes in both domestic and international environments. Risk committees incorporated geopolitical expertise, while boards were required to consider strategic exposures alongside traditional financial metrics. Operational continuity planning, liquidity management, and strategic capital allocation became central to institutional resilience.

Geopolitical risk in 2025 was both pervasive and persistent. New Zealand and Malaysia experienced its influence through trade disruptions, currency fluctuations, commodity price volatility, capital flow shifts, and investor behaviour. Institutions were required to incorporate geopolitical analysis into decision making, scenario planning, and risk management. Central banks and regulators reinforced the importance of preparedness, transparency, and policy continuity. Investors increasingly sought assets resilient to geopolitical shocks while remaining attentive to cross-border exposures.

For FSCL, the year highlighted that the financial system operates within a political context, and understanding the channels through which geopolitical developments influence markets is indispensable for maintaining stability, confidence, and strategic foresight. The events of 2025 reinforced the view that geopolitical risk is now a permanent and structural feature of the financial landscape. Financial markets function within political realities, not in isolation from them. Understanding transmission mechanisms, including trade exposure, capital flows, and behavioural response, is essential for prudent intermediation and responsible capital allocation. Investors and institutions must integrate geopolitical awareness into portfolio design, risk modelling, and strategic planning to ensure resilience under both normal and stressed conditions.

# SUSTAINABLE FINANCE AND CLIMATE-LINKED CAPITAL MARKETS

## Chapter 12



Sustainable finance in 2025 advanced beyond aspirational signalling to become structurally embedded within the operations of financial markets. What had once been treated as a supplementary stream of investment or a tool for reputational enhancement evolved into a critical component of risk management, capital allocation, and regulatory compliance. Climate-linked capital markets emerged as a pivotal interface between environmental objectives and financial discipline. For New Zealand and Malaysia, 2025 demonstrated both the potential and the limitations of using financial instruments to price long-term climate risk, allocate resources efficiently, and influence corporate behaviour.

At a global level, sustainable finance entered 2025 under heightened scrutiny. Investors, regulators, and issuers began to demand measurable outcomes, shifting attention from the sheer volume of green or sustainable issuance to the quality, credibility, and strategic coherence of those instruments. Market participants increasingly evaluated whether sustainability-linked loans, green bonds, or other climate-focused instruments were truly integrated with corporate strategy or simply served as marketing statements. This shift was driven by growing awareness of greenwashing risks, inconsistencies across voluntary standards, and the gap between stated corporate ambitions and tangible impact. Stakeholders demanded evidence that financing decisions reflected long-term environmental outcomes as much as financial returns.

In New Zealand, in 2025, sustainable finance reflected both the country's exposure to climate-related events and the maturity of its regulatory framework. The economy's sensitivity to natural hazards, including flooding, wildfires, and severe storms, heightened the awareness of both transition and physical risks among investors and financial institutions. Banks and asset managers increasingly incorporated climate considerations into lending, credit assessment, and portfolio construction.

Firms operating in sectors with direct exposure to environmental regulation, such as agriculture, forestry, energy, and property development, were expected to disclose climate risks in a transparent and actionable manner. Regulatory guidance reinforced the integration of climate factors into governance, risk assessment, and strategic planning. Climate disclosures became a central aspect of corporate reporting for large firms, influencing capital raising, investor confidence, and corporate behaviour.

Green bonds and sustainability-linked loans gained traction as instruments to finance climate-oriented initiatives in New Zealand, but issuance volumes remained measured rather than expansive. Market participants prioritised credibility, aligning frameworks with internationally recognised standards such as the Climate Bonds Initiative and the Loan Market Association's sustainability-linked loan principles. Issuers sought to demonstrate that proceeds supported projects with verifiable environmental impact, while investors applied rigorous due diligence to ensure alignment with both stated objectives and broader transition pathways. This focus on transparency and accountability reinforced the notion that financial markets could play a constructive role in directing capital toward sustainable outcomes when credibility and oversight were emphasised.

Banks in New Zealand assumed a growing role within the sustainable finance ecosystem in 2025. Lending policies increasingly incorporated climate risk screening, particularly for sectors exposed to both regulatory scrutiny and physical hazards. For instance, real estate developers seeking funding for properties in flood-prone areas faced elevated scrutiny and potentially higher capital charges, reflecting the anticipated cost of climate-related losses.

Similarly, companies engaged in energy-intensive production were evaluated for transition readiness and emissions management. The integration of these considerations into lending decisions influenced not only capital allocation but also broader market behaviour, accelerating the repricing of assets in environmentally sensitive regions. Banks sought to balance their role as intermediaries with their responsibility to ensure systemic resilience and promote prudent investment practices.

Malaysia's sustainable finance landscape in 2025 displayed stronger momentum than in New Zealand, reflecting a combination of policy support, market depth, and the prominence of Islamic finance instruments.

The issuance of green sukuk and sustainability-linked sukuk expanded considerably, offering structures aligned with both environmental objectives and investor preferences. These instruments provided investors with a means of participating in climate-aligned projects while adhering to Shariah principles, which placed a premium on transparency, accountability, and ethical investment. The inclusion of sustainability features in sukuk, such as performance-linked coupon adjustments, reinforced the linkage between financial cost and measurable outcomes, thereby embedding environmental accountability into the cost of capital.

Infrastructure financing represented a significant component of Malaysia's climate-linked issuance. Renewable energy projects, including solar, wind, and biomass installations, attracted domestic and international capital, supported by both commercial and development finance institutions. Investments in sustainable transportation and resilience-focused infrastructure also grew, reflecting government priorities around reducing emissions and enhancing urban adaptability. Regulatory guidance provided clarity on eligible activities, reporting obligations, and impact measurement, enhancing market confidence. However, issuers faced ongoing challenges in ensuring long-term project viability, particularly in the face of evolving policy frameworks, technology advancements, and changing market expectations. Investors and financiers were required to balance the promise of high-impact sustainability outcomes with realistic assessments of execution risk and economic return.

Across both jurisdictions, sustainability-linked instruments evolved in sophistication during 2025. Performance targets increasingly incorporated measurable metrics such as emissions reductions, energy efficiency improvements, water conservation, and social outcomes linked to community development or workforce inclusion. Financial instruments were structured to incorporate pricing adjustments in the event of target underperformance.



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| “Sustainable finance in 2025 moved closer to its intended purpose of aligning capital allocation with long-term risk and opportunity. Markets responded positively when frameworks were credible, disclosures were transparent, and outcomes were measurable. From our perspective, climate-linked finance must be grounded in financial discipline to retain investor confidence and deliver tangible benefits” - *Riaz Patel, Director at FSCL*

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| “The evolution of climate-linked capital markets in 2025 highlighted the importance of integrity, consistency, and measurable accountability. Financial instruments that link the cost of capital to performance outcomes reinforce responsibility, strengthen governance, and provide investors with reliable signals. At FSCL, we view sustainable finance as most effective when it complements sound corporate governance, realistic transition planning, and a disciplined approach to risk and return” - *Rezan Patel, Director at FSCL*



For example, interest rates on sustainability-linked loans or yields on bonds could adjust upward if issuers failed to meet their stated objectives. This financial linkage to performance represented a material advance in market discipline, aligning incentives for issuers with investor expectations while signalling that sustainability commitments carried both reputational and economic consequences.

Investor behaviour reflected a growing realism around the integration of sustainability and finance. Asset managers, institutional investors, and family offices increasingly evaluated climate considerations alongside traditional risk and return metrics rather than treating them as separate or substitutive. The quality of data, comparability across issuers, and the integrity of assurance processes became central to investment decisions. Where disclosures were inconsistent or strategies appeared superficial, capital allocation responded accordingly, favouring issuers with clear transition pathways and credible governance frameworks. Investors also demonstrated an appetite for instruments that provided measurable impact without compromising financial performance, reflecting a maturing approach to responsible investment.

Regulatory engagement intensified across both New Zealand and Malaysia. Supervisory authorities emphasised consistency in taxonomy, reporting standards, and risk management frameworks. Central banks and regulators encouraged financial institutions to incorporate climate scenarios into stress testing, linking environmental outcomes to financial resilience and systemic risk management. Regulatory frameworks sought to reduce uncertainty and enhance confidence, ensuring that sustainability-linked finance was not merely a reputational tool but a mechanism for credible, measurable change.

Engagement also extended to verification and assurance processes, with regulators supporting market infrastructure that enabled investors to track performance against stated objectives.

Despite these advances, challenges persisted throughout 2025. The measurement of climate risk, particularly for long-duration assets such as infrastructure or property, remained complex. Transition pathways varied widely across sectors, regions, and regulatory environments, complicating cross-market comparability. Market participants acknowledged that sustainable finance alone could not resolve structural climate challenges. Policy coherence, long-term public investment, and supportive technological innovation were essential complements. Financial instruments provided signals and incentives, but the systemic transformation required to achieve net-zero emissions or climate resilience depended on coordinated action across government, industry, and society.

For financial markets, the significance of sustainable finance lay less in headline issuance volumes and more in behavioural transformation. Investors and issuers gradually internalised climate risk in a manner that influenced pricing, tenor, and engagement. Market participants became more attuned to both physical and transition risks, and capital allocation increasingly reflected these considerations. The emergence of credible sustainability-linked markets demonstrated that financial instruments could act as levers for change, yet highlighted the limitations of market-based mechanisms when used in isolation.

For FSCL, the developments in sustainable finance during 2025 reinforced the importance of disciplined market practice. Credibility, transparency, and alignment with long-term economic and environmental realities are essential for climate-linked capital markets to function effectively. Instruments that overstated impact or lacked rigorous verification risked undermining confidence in the broader sustainable finance ecosystem. Successful integration of sustainability considerations into financial markets depends on maintaining financial discipline, ensuring rigorous reporting, and aligning incentives with measurable outcomes.

Sustainable finance and climate-linked capital markets marked a phase of maturation in 2025. Both New Zealand and Malaysia demonstrated the ability to integrate environmental objectives into core financial decision making. Investors and issuers responded to credible frameworks, transparent reporting, and enforceable outcomes. Regulatory engagement ensured consistency, accountability, and systemic confidence. The year showed that sustainable finance can influence capital allocation meaningfully when credibility, discipline, and long-term alignment underpin market structures.

# TECHNOLOGY RISK, CYBER RESILIENCE AND OPERATIONAL RISK AS SYSTEMIC CHALLENGES

## Chapter 13



By 2025, technology risk and cyber resilience had emerged as central considerations within financial systems, moving decisively from operational margins into the core of systemic stability discourse. The financial sector had become deeply reliant on digital infrastructure, cloud computing, third-party service providers, and real-time connectivity. This transformation meant that operational risk was no longer a concern limited to individual institutions. Instead, it became a systemic issue, with vulnerabilities capable of propagating quickly across markets, institutions, and jurisdictions. Both New Zealand and Malaysia experienced the realities of this interconnected landscape, highlighting how embedded technology, if inadequately governed, could transmit disruption and financial instability at scale.

The evolution of technology risk in 2025 reflected the cumulative effects of years of digital transformation. Core banking systems, payment networks, trading platforms, and customer interfaces increasingly operated in a connected environment, often spanning multiple countries and relying on shared technology providers. While this architecture delivered unparalleled efficiency, scale, and convenience, it simultaneously concentrated risk. A failure in a critical system or a disruption at a key node could cascade far beyond its immediate operational boundaries. Institutions, regulators, and market participants became acutely aware that the resilience of one actor could influence the functioning of the entire financial ecosystem.

Cyber threats during 2025 grew in both sophistication and strategic intent, marking a decisive shift in how financial institutions perceived digital risk. Attacks were no longer confined to isolated incidents driven by opportunistic criminals seeking quick financial gain. Instead, institutions confronted coordinated, multi-vector campaigns designed to disrupt operations, erode public trust, and, in some cases, exert strategic or geopolitical leverage. Cyber risk matured into a systemic concern, capable of influencing financial stability in ways previously associated only with market or liquidity shocks.

Ransomware incidents provided the most visible illustration of this shift. Major financial service providers, including payment processors, data custodians, and shared technology vendors, became high-value targets. Rather than encrypting single systems, attackers increasingly sought to paralyse entire service ecosystems, exploiting interdependencies between banks, insurers, and fintech platforms. In several cases, attacks on third-party vendors cascaded across multiple institutions simultaneously, demonstrating how supply chain vulnerabilities could amplify damage far beyond the original point of compromise.

Unlike traditional operational risks, cyber threats exhibited speed, scale, and opacity. Failures could propagate almost instantaneously across interconnected systems, leaving little time for containment. A single compromised credential or software update had the potential to expose millions of customer records or disrupt critical payment flows. The intangible nature of cyber assets further complicated response efforts, as institutions struggled to assess the full extent of breaches while managing public communication and regulatory obligations.



The consequences of major cyber incidents in 2025 extended well beyond immediate financial losses. Reputational damage often proved more enduring, undermining customer confidence and investor trust. Regulatory sanctions followed in cases where governance, oversight, or incident response frameworks were deemed inadequate. In extreme scenarios, prolonged service outages raised concerns about systemic disruption, particularly when core payment or settlement infrastructure was affected. These episodes reinforced the understanding that cybersecurity was inseparable from overall financial stability.



In response, financial institutions elevated cyber resilience from a technical function to a board-level priority. Investment increased in threat intelligence, real-time monitoring, and incident response capabilities. Stress testing and scenario planning began to incorporate severe cyber events alongside traditional financial shocks. Collaboration between institutions and regulators intensified, reflecting recognition that cyber risk was collective rather than isolated. By the end of 2025, cybersecurity emerged not merely as a defensive necessity, but as a central pillar of institutional credibility, operational continuity, and trust in the financial system.

Ultimately, the year underlined that digital resilience now shapes competitive advantage, regulatory confidence, and public faith, making cybersecurity investment not a discretionary cost but an essential safeguard for modern finance in an increasingly contested digital domain globally and locally.

In New Zealand, cyber resilience became a priority for regulators and boardrooms alike. Financial institutions invested heavily in the development of detection, response, and recovery capabilities. Sophisticated monitoring systems, advanced threat intelligence tools, and automated anomaly detection were deployed across critical infrastructure. Regulatory authorities emphasised that preventing cyber incidents was necessary but insufficient. They focused on resilience, containment, and continuity, recognising that breaches were increasingly inevitable. Stress testing exercises incorporated realistic cyber scenarios, requiring institutions to demonstrate operational continuity under conditions of partial or full system compromise. Institutions were expected to illustrate their ability to maintain critical services, protect client data, and communicate effectively with stakeholders during incidents.

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| “Technology risk in 2025 demonstrated its potential to trigger systemic disruption rather than remaining an isolated operational issue. Cyber resilience must therefore be embedded at the highest levels of governance. From our perspective, institutions that integrate operational risk into strategic and capital allocation decisions will be better positioned to maintain trust and continuity in an increasingly digital financial system”  
- *Riaz Patel, Director at FSCL*

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| “The experience of 2025 showed that operational resilience is achieved not merely through technology investment but through clarity of accountability, rigorous testing, and a culture of preparedness. Financial institutions must view cyber risk as a strategic consideration, ensuring that governance, human factors, and technological safeguards are aligned. At FSCL, we regard cyber and operational risk management as essential to safeguarding market integrity, institutional credibility, and long-term stability”  
- *Rezan Patel, Director at FSCL*

Operational risk management in New Zealand also underwent a significant evolution, particularly in relation to outsourcing and third-party service providers. Cloud computing, managed services, and fintech partnerships had become integral to daily operations, but they also introduced concentration risks and contractual complexities. Institutions were required to conduct comprehensive mapping of critical dependencies, develop contingency and exit strategies, and ensure that governance structures extended beyond organizational boundaries.

Oversight of vendors included regular audits, performance monitoring, and contractual obligations that aligned accountability with risk exposure. Regulators emphasised that operational risk management should not be treated as a compliance exercise alone but as a strategic function essential to safeguarding stability.

Malaysia's experience mirrored these concerns but unfolded in a more diverse institutional and technological landscape. Rapid digitalisation, including widespread adoption of mobile banking, e-wallets, and digital payment platforms, expanded the attack surface considerably. The convenience of instant, online financial transactions created additional points of vulnerability. Financial institutions in Malaysia faced the dual challenge of maintaining service availability for millions of users while simultaneously defending against increasingly complex cyber threats. The intensity of the digital ecosystem meant that operational disruptions could quickly impact retail customers, corporates, and market infrastructure alike, amplifying reputational and systemic consequences.

Regulatory authorities in Malaysia responded by enhancing cyber governance expectations and operational resilience standards. Institutions were required to perform regular penetration testing, vulnerability assessments, and incident simulations to evaluate preparedness. Third-party risk management was reinforced, mandating that banks and financial service providers demonstrate adequate oversight of external vendors. Disclosure and reporting obligations were clarified, ensuring that critical incidents were communicated promptly to regulators and relevant stakeholders. These measures sought to maintain public confidence in a highly digitised financial ecosystem and to mitigate the potential for cascading operational failures.

A defining feature of technology risk in 2025 was its profound interconnection with other categories of financial risk. Cyber incidents had immediate implications for market behaviour, affecting share prices, liquidity conditions, and investor sentiment. Operational disruptions could interfere with payment systems, settlement cycles, and credit availability, demonstrating that operational failures could no longer be considered isolated events. The interdependence of technology, liquidity, and market confidence elevated operational risk to a macroprudential concern. Regulators and institutions alike began to acknowledge that technology resilience was inseparable from broader financial stability considerations.

Data integrity and governance emerged as critical dimensions of operational resilience. Financial institutions increasingly relied on analytics, machine learning, and automated decision-making to manage portfolios, allocate credit, and monitor risk. The quality, accuracy, and security of data became central to institutional performance and regulatory compliance. Inaccuracies, data manipulation, or unauthorized access could propagate across algorithms, models, and decision-making processes, producing outcomes that threatened trust, compliance, and financial stability. Institutions began implementing rigorous data governance frameworks, emphasizing accountability, traceability, and auditability across data management processes.

Human factors remained a significant source of vulnerability in 2025. Despite advances in technology, social engineering, insider threats, and operational errors continued to feature prominently in incidents. Financial institutions recognised that cyber resilience depended as much on people and culture as on technical systems. Investment in training, scenario-based exercises, and awareness programmes became routine. Boards were encouraged to establish accountability mechanisms, promote a culture of vigilance, and integrate operational risk considerations into strategic decision-making. Organisations that successfully combined human, technological, and procedural safeguards demonstrated a higher degree of preparedness and resilience.

Cross-border coordination posed additional challenges. Many technology providers operated globally, but regulatory frameworks were still primarily national. Incident response often required cooperation between regulators, institutions, and service providers across jurisdictions, a process complicated by differing standards, reporting requirements, and enforcement practices. The lack of uniformity underscored the need for greater alignment, mutual recognition, and structured information-sharing mechanisms. International forums, supervisory colleges, and coordinated stress testing exercises began to play an increasingly important role in addressing systemic operational vulnerabilities.

Financial market infrastructure attracted particular attention throughout 2025. Payment systems, clearing houses, trading platforms, and other centralised infrastructures were recognised as critical nodes whose disruption could impair the functioning of markets. Regulators conducted targeted reviews of resilience arrangements, examining backup systems, recovery time objectives, communication protocols, and governance oversight. The ability of these infrastructures to operate continuously under adverse conditions became a key determinant of overall market confidence and stability.

Investment in cyber resilience grew substantially during 2025, though outcomes varied widely across institutions. Entities with mature governance, integrated risk frameworks, and strategic prioritisation of operational resilience demonstrated improved detection, response, and recovery capabilities.

Others struggled to embed resilience into strategic planning, treating operational preparedness primarily as a technical function rather than as a systemic responsibility. The disparity in preparedness levels highlighted the ongoing challenge of aligning technology risk management with organisational culture, strategic objectives, and regulatory expectations.

The year 2025 marked a turning point in the perception and management of technology risk within financial systems. The reliance on digital infrastructure and third-party service providers brought unprecedented efficiency but also introduced systemic vulnerabilities. Cyber threats grew more sophisticated, operational interdependence intensified, and human factors continued to influence outcomes. Both New Zealand and Malaysia demonstrated that robust governance, comprehensive risk management frameworks, and regulatory oversight were essential to maintaining operational continuity.

This emphasizes that technology risk, cyber resilience, and operational preparedness are central to financial stability, not merely operational considerations, and that systemic resilience requires continuous vigilance, investment, and strategic foresight.

For FSCL, the experiences of 2025 reinforced the understanding that technology risk, cyber resilience, and operational preparedness are inseparable from financial stability. Cyber threats and operational disruptions can propagate rapidly, impacting not only individual institutions but also the broader financial system. Institutions that fail to address these risks holistically expose themselves, their clients, and counterparties to significant financial and reputational harm. Effective risk management requires a combination of technical safeguards, organisational culture, governance structures, and strategic oversight, integrated into every level of decision-making.

# REGULATORY COORDINATION, SUPERVISORY EVOLUTION AND FINANCIAL GOVERNANCE

## Chapter 14



The year 2025 illustrated a financial system evolving in complexity, where regulatory coordination and supervisory development became central to maintaining stability. Rather than pursuing uniformity, authorities across the globe and regionally in New Zealand and Malaysia focused on pragmatism and adaptability. Interconnected markets, technological integration, climate-related exposures, and geopolitical fragmentation meant that regulators were required to reconcile national mandates with cross-border realities. The developments of 2025 demonstrated that effective governance depends less on rigid harmonisation and more on clarity of purpose, institutional credibility, and practical cooperation among supervisory bodies and market participants.

Globally, supervisory authorities entered 2025 facing a landscape in which risk had become multidimensional. The convergence of digitalisation, climate change, geopolitical tension, and market volatility demanded broader risk frameworks and faster response mechanisms. Traditional distinctions between prudential supervision, conduct regulation, and systemic oversight became increasingly blurred as financial risks migrated across institutional, sectoral, and geographic boundaries. Authorities were compelled to move toward integrated supervisory approaches that emphasised coordination both within domestic agencies and across jurisdictions. These approaches recognised that effective supervision required a holistic understanding of risk, linking financial, operational, technological, and reputational exposures.

In New Zealand, financial regulation in 2025 continued to reflect a conservative and transparent approach. Supervisory authorities prioritised stability, depositor protection, and market integrity over rapid expansion of regulatory tools. Instead of frequent changes to rules or legislation, regulators emphasised deepening engagement with institutions, conducting thematic reviews, and applying enforcement consistently. This method reinforced confidence in the regulatory framework and allowed institutions to plan and invest with certainty. Regulatory decisions were increasingly framed as risk-informed rather than reactive, allowing the system to anticipate potential vulnerabilities while maintaining operational predictability.

Coordination among domestic regulators in New Zealand remained a defining strength of the supervisory architecture. Banking, insurance, and capital market authorities actively shared information, aligned supervisory objectives, and conducted joint reviews in areas of overlapping responsibility. In 2025, this coordination extended to emergent and systemic concerns, including operational resilience, climate risk, and cyber preparedness. Regulators increasingly emphasised governance accountability, placing clear responsibilities on boards and senior management to ensure that institutions addressed these risks proactively. The expectation that leadership actively engaged in risk oversight became a standard metric of supervisory evaluation, influencing both strategy and reporting practices.

Malaysia's regulatory environment in 2025 presented a more dynamic context, reflecting the diversity, growth orientation, and evolving complexity of its financial system. Authorities sought to balance innovation with stability, supporting developments in digital banking, Islamic finance, capital market deepening, and emerging financial technologies. Supervisory frameworks were applied iteratively, allowing regulators to respond to market feedback, innovation cycles, and evolving risk profiles. This dynamic approach required continuous engagement with institutions, industry associations, and policy makers to ensure that supervision remained effective without unnecessarily constraining market development.



Inter-agency coordination in Malaysia proved critical due to the breadth of financial activity. Banking, insurance, capital markets, payments oversight, and digital financial services all required continuous alignment to prevent gaps, redundancies, or inconsistent regulatory treatment. Regulators strengthened mechanisms for communication, data sharing, and collaborative assessment, ensuring that risks were monitored comprehensively. Coordination extended to policy formulation, risk scenario planning, and supervisory reviews, reflecting a systemic understanding of interdependencies across sectors. These efforts supported the broader objective of maintaining financial stability while accommodating growth and innovation.

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“Regulatory coordination in 2025 demonstrated that financial stability is achieved through clarity, consistency, and engagement rather than frequent rule changes. Supervisory evolution must remain grounded in actual risks, institutional behaviour, and systemic realities. From our perspective, strong governance and constructive regulatory interaction form the foundation of sustainable financial systems. Institutions that actively integrate supervisory guidance into strategy enhance both resilience and long-term credibility” - *Riaz Patel, Director at FSCL*

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“The experience of 2025 reinforced the value of pragmatic cooperation among regulators. Fragmentation cannot be entirely eliminated, but it can be effectively managed through dialogue, alignment of objectives, and shared standards. At FSCL, we view regulatory awareness, governance discipline, and active engagement as critical to maintaining trust across markets, ensuring stability, and supporting cross-border operations. Effective governance requires both institutional commitment and supervisory clarity to safeguard confidence in an increasingly complex financial landscape” - *Rezan Patel, Director at FSCL*

Cross-border regulatory cooperation assumed increasing significance in 2025. Financial institutions operating regionally faced divergent regulatory requirements, reporting standards, and supervisory expectations. Compliance complexity grew as institutions had to reconcile domestic mandates with international standards. Regulators responded by engaging in bilateral dialogues, entering memoranda of understanding, participating in international standard-setting bodies, and coordinating supervisory exercises. Although full harmonisation of rules remained elusive, these practical cooperation efforts mitigated fragmentation, ensured information flow, and supported more consistent oversight of cross-border activities. Supervisory colleges and joint working groups became important platforms for sharing intelligence, stress testing methodologies, and emerging risk indicators.

The supervisory focus reflected experiences learned from prior volatility and stress episodes. Stress testing frameworks were expanded beyond traditional financial and credit risks to incorporate non-traditional dimensions such as climate scenarios, cyber events, operational disruptions, and geopolitical shocks. These exercises evaluated the capacity of institutions to withstand prolonged and complex stress, considering interdependencies among balance sheets, liquidity buffers, and market infrastructure. Disclosure standards were refined to improve transparency, comparability, and reliability of risk information, helping market participants make informed decisions. Enforcement actions emphasized the expectation that institutions maintain robust internal controls, ethical conduct, and resilience frameworks to support overall system stability.

Technology played a critical enabling role in supervision throughout 2025. Regulators increasingly employed data analytics, artificial intelligence, and supervisory technology to enhance monitoring capabilities and identify emerging risk patterns. These tools allowed authorities to detect anomalies, track exposures, and monitor compliance in near real-time. Despite these technological advancements, regulators remained conscious of the limits of automation. Quantitative insights were complemented by qualitative assessments, supervisory judgement, and engagement with institutional leadership. The combination of data-driven analysis and human oversight ensured that supervision remained nuanced, adaptive, and capable of responding to complex and evolving risks.

Financial governance emerged as a central theme in 2025, linking regulatory objectives with institutional behaviour. Regulators in both New Zealand and Malaysia reinforced expectations around board oversight, risk culture, accountability, and strategic risk management. Governance failures were increasingly seen not as isolated compliance issues but as potential precursors to systemic instability. Institutions were required to demonstrate robust governance structures, including active engagement by boards in risk assessment, independent audit and compliance functions, and clear reporting lines. Governance became both a supervisory lens and a critical factor influencing market confidence.

The interaction between regulation and market development received careful attention. Authorities acknowledged that excessive rigidity could stifle innovation, constrain capital formation, and reduce market competitiveness.



Conversely, insufficient oversight could undermine confidence, create vulnerabilities, and amplify systemic risks. In 2025, regulatory evolution sought to strike a balance between flexibility and accountability. Clear rules and supervisory guidance provided boundaries within which markets could operate efficiently, supporting growth while safeguarding stability. Regulatory engagement emphasized dialogue with institutions, forward-looking assessment of risk, and adaptive approaches to policy implementation.

For FSCL, the regulatory landscape of 2025 highlighted the importance of proactive engagement, regulatory literacy, and strategic alignment. Institutions that anticipated supervisory expectations, incorporated governance and risk requirements into planning, and aligned internal frameworks with supervisory priorities were better positioned to navigate the complexity of evolving financial systems. Regulatory coordination, though imperfect, remained essential to maintaining market integrity, promoting transparency, and mitigating fragmentation in a globally interconnected environment. The capacity to adapt, communicate, and integrate regulatory expectations into decision-making became a core component of institutional resilience.

Notably, 2025 marked a year in which regulatory coordination and supervisory evolution were tested by the convergence of technology, climate risk, market volatility, and geopolitical uncertainty. New Zealand and Malaysia demonstrated different approaches to regulation, reflecting national priorities, institutional structures, and market characteristics. Despite these differences, common principles emerged: integrated supervision, pragmatic cooperation, clear governance expectations, and the use of technology as an enabling tool. Effective regulatory engagement contributed to financial system resilience, strengthened market trust, and provided a foundation for sustainable growth. This underscores that supervision and governance are ongoing processes, requiring continuous adaptation, communication, and foresight to manage evolving financial risks effectively.

# SYNTHESIS, STRATEGIC LESSONS AND THE ROAD AHEAD INTO 2026

## Chapter 15



The year 2025 will be remembered as a period defined by consolidation, strategic recalibration, and deep institutional reflection across banking, insurance, asset management, and capital markets. For both New Zealand and Malaysia, the year was not characterised by spectacular crises or by unrestrained market exuberance. Instead, it became a study in measured adaptation. Financial outcomes increasingly reflected structural forces rather than short-term cyclical momentum. Monetary restraint, geopolitical uncertainty, climate-linked risk, digital dependence, and evolving regulatory frameworks converged in ways that reshaped both market behaviour and institutional strategy. So, 2025 became a year in which institutions recognised that resilience and sustainability are no longer optional but integral to long-term financial stability.

Markets demonstrated resilience not because volatility was absent, but because governance structures, capital discipline, and regulatory credibility imposed necessary constraints. Both jurisdictions shifted the emphasis from speed to sustainability, from disruption to integration, and from growth-centric narratives to balance sheet strength. This recalibration was deliberate and reflective of what was learned from prior market cycles and systemic shocks. Policymakers, institutional leaders, investors, and intermediaries all played a role in embedding prudence and foresight into decision-making processes.

The banking and payments sectors provided one of the clearest illustrations of this trend. By 2025, digital transformation had moved beyond novelty to infrastructure. Digital banking models, fintech platforms, and payment rails were evaluated primarily on their reliability, compliance, and operational resilience. Innovation continued, but it was framed within clearly defined prudential boundaries.

In New Zealand, institutional adoption of digital frameworks remained cautious, reflecting the priorities of governance, capital adequacy, and risk mitigation. Malaysia, by contrast, pursued a more expansive model of digital experimentation, integrating fintech solutions and mobile-based financial services more aggressively into daily financial intermediation. Despite the differences in approach, both jurisdictions revealed the same underlying principle: trust, reliability, and robust risk management remain the pillars of financial intermediation.

Insurance markets in 2025 further underscored the systemic need for structural honesty in pricing and risk allocation. Climate volatility, natural disasters, and cost inflation compelled insurers to confront exposures transparently. Premium adjustments, reinsurance constraints, and coverage recalibrations tested public tolerance and the flexibility of policy frameworks. These pressures, however, reinforced the insurance sector's central role in supporting economic resilience. The experience demonstrated that underpricing risk provides no true protection; it merely defers instability. New Zealand's insurance market reflected gradual adaptation to these structural realities, while Malaysia embraced a combination of regulatory guidance and market innovation to price risk more sustainably. Both markets began to internalise the principle that adequate risk pricing is a societal safeguard rather than a purely commercial decision.



Capital markets exemplified disciplined investor behaviour and selective capital allocation. Liquidity was available but conditional, flowing primarily to issuers that demonstrated transparency, sound governance, and credible valuation narratives. Equity issuance remained limited, as companies deferred listings absent supportive pricing, while debt markets assumed a more prominent role in funding corporate resilience. Intermediaries and asset managers rediscovered the enduring value of fundamentals. Market discipline emerged as a defining theme, with investors and regulators alike placing a premium on predictable earnings, balance sheet strength, and risk-adjusted returns. Behavioural restraint and selective risk-taking distinguished the year from periods characterised by indiscriminate capital deployment.



Wealth and asset management provided additional insight into investor psychology and strategic thinking. Portfolio construction increasingly emphasised diversification, liquidity management, and downside protection. Cross-border capital flows were driven as much by confidence in institutional frameworks as by expected returns. Environmental, social, and governance considerations evolved toward pragmatic integration, reinforcing risk management objectives rather than serving symbolic purposes. Advisors played an indispensable role in guiding clients through volatile conditions, anchoring expectations, and facilitating decisions grounded in long-term strategic thinking. Trust, communication, and clarity of purpose proved as valuable as quantitative analytics.

Geopolitical risk functioned as a persistent backdrop rather than a series of episodic shocks this year. Trade disputes, regional conflicts, sanctions, and diplomatic shifts transmitted into financial markets through commodity pricing, capital flows, and investor sentiment. Both New Zealand and Malaysia witnessed tangible effects of these risks on currency markets, equity valuations, and foreign investor participation. Institutions increasingly recognised that political developments are inseparable from economic realities. Consequently, risk management frameworks expanded to incorporate scenario analysis, strategic foresight, and multi-layered contingency planning alongside traditional financial metrics.

Technology risk and cyber resilience emerged as systemic priorities throughout the year. Operational disruptions no longer remained confined to individual firms; interconnected infrastructure, third-party dependencies, and real-time market connectivity amplified the potential for cascading effects. Regulators and institutions responded by elevating operational resilience to board-level accountability. In 2025, regulatory expectations extended beyond compliance to strategic preparedness, ensuring that cyber and technology risk were integrated into enterprise risk management frameworks. The sophistication of technology investment needed to be matched by the quality of organisational preparedness, human capital, and governance oversight. Institutions that recognised this holistic approach distinguished themselves as leaders in systemic resilience.



Regulatory coordination illustrated a pragmatic philosophy that valued clarity and credibility over rigid uniformity. Supervisory authorities in New Zealand applied steady, conservative frameworks, deepening engagement rather than frequently modifying rules. Malaysia pursued a dynamic, developmental stance that encouraged innovation while safeguarding stability. Both approaches highlighted the importance of institutional credibility, transparency, and consistency. Cross-border regulatory cooperation, though imperfect, proved functional and essential for mitigating the challenges posed by divergent national frameworks. Governance discipline became the unifying expectation across sectors, ensuring that institutions internalised both domestic and international regulatory priorities

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“This year demonstrated that stability is not defined by the absence of change, but by the capacity to adapt responsibly to structural shifts. Moving into 2026, financial institutions must remain anchored in fundamentals while remaining alert to emerging risks and opportunities. Disciplined governance, strategic patience, and proactive engagement will continue to define sustainable success”  
- *Riaz Patel, Director at FSCL*

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“Looking ahead to 2026, the priorities for institutions are clear. Resilience, transparency, and accountability must guide decision-making at every level. Markets will continue to evolve, but trust remains their foundation. At FSCL, we see the coming year as an opportunity to consolidate the gains made through prudence in 2025 while engaging confidently with a more demanding financial and regulatory landscape. The ability to integrate innovation, sustainability, and risk management into coherent strategies will define the leaders of the next cycle”  
- *Rezan Patel, Director at FSCL*

When taken together, the developments of 2025 present a financial system that is neither retreating from innovation nor surrendering to instability. The year was marked by alignment: technological innovation was balanced with prudence, sustainability objectives were reconciled with financial discipline, and growth strategies were embedded within governance structures. This alignment did not eliminate risk; rather, it improved the capacity of institutions and markets to absorb, manage, and respond to it. Institutional resilience, effective risk communication, and disciplined capital allocation became the defining hallmarks of the year.

Looking forward into 2026, several trajectories are apparent. Monetary policy in major jurisdictions is expected to transition gradually from restraint toward measured normalisation, albeit at uneven speeds across countries. This will test asset valuations, liquidity strategies, and investor patience. Institutions that fortified balance sheets and liquidity buffers in the past year will be better positioned to navigate this monetary environment. Those that relied on short-term gains or leveraged expansion without adequate buffers may encounter pressures requiring reassessment.

Digital finance in 2026 is likely to deepen in complexity rather than broaden indiscriminately. Optimisation, interoperability, and resilience will define competitive advantage. Digital banks, fintech platforms, and payment networks will be increasingly evaluated on profitability, regulatory compliance, and contribution to systemic stability. Regulators are expected to maintain rigorous scrutiny, particularly around operational risk, cybersecurity, and consumer protection. Institutions that integrate compliance and operational resilience into strategic planning will gain both credibility and market advantage.

Insurance markets will continue to grapple with climate-linked risk. In 2026, collaboration between insurers, governments, and capital markets is expected to expand, particularly around shared risk, catastrophe financing, and resilience-linked instruments.

Sustainability-linked insurance structures may gain prominence, provided pricing remains transparent and actuarially sound. Both New Zealand and Malaysia are likely to explore mechanisms for integrating climate risk into capital planning, reinsurance strategies, and long-term investment portfolios. The interplay between private sector innovation and public sector guidance will shape market outcomes.

Capital markets in 2026 are expected to reward patience, selectivity, and fundamentals-driven behaviour. Equity issuance may recover modestly where valuations reflect underlying performance, while debt markets will remain crucial for funding infrastructure and transition projects. Investor participation will continue to be influenced by geopolitical considerations, policy clarity, and the credibility of issuers. Institutional and retail investors alike will demand transparency, governance, and measurable outcomes as prerequisites for engagement.

Sustainable finance will encounter its defining moment in 2026. Market participants will scrutinise outcomes over mere commitments, distinguishing credible transition strategies from superficial alignment. Instruments that link financial performance to measurable environmental or social outcomes will gain legitimacy, while those lacking substance may face investor resistance.

The process of integrating sustainability into mainstream capital markets will deepen, creating incentives for genuine action and robust disclosure.

Technology and cyber risk will remain non-negotiable priorities. Institutions that view resilience as a strategic investment rather than a compliance exercise will gain competitive advantage. Recovery capabilities, scenario planning, and governance oversight will continue to be central to operational strategy. Regulators will emphasise preparedness, accountability, and systemic interdependencies, reinforcing that cyber resilience is essential to both institutional credibility and market stability.

For Fintrade Securities Corporation Ltd, the outcomes of 2025 and the outlook for 2026 reinforce a consistent philosophy. Financial markets function optimally when innovation is disciplined, governance is strong, and risks are acknowledged rather than obscured. Long-term credibility is built through measured decision-making, regulatory engagement, and operational resilience. Institutions that integrate strategy, risk management, and stakeholder trust are best positioned to thrive in increasingly complex financial landscapes.

The synthesis of the year gone by points to a financial system that has matured in both sophistication and discipline. It highlights the interdependence of technology, governance, capital markets, regulatory oversight, and investor behaviour. The lessons for 2026 are clear: measured innovation, disciplined capital allocation, robust governance, credible sustainability integration, and operational resilience are not optional enhancements. They are fundamental requirements for a financial system that can withstand structural, cyclical, and geopolitical shocks. Institutions that internalise these will not only protect capital and preserve trust, but also create a foundation for sustainable growth, cross-border credibility, and long-term stability.