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Summary of Policy Document on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators Effective 2 January 2025

Contents	Page
A. Preamble	4
B. Eligibility Criteria	7
1. Value propositions	8
2. Eligible business models	12
C. Application procedures and submission requirements	14
1. Application process	15
2. Factors for considerations in assessing shareholders.	17
3. Business plan	19
4. Exit plan	20
D. Regulatory requirement	22
1. Foundational phase	23
2. More than one DITO license within a financial group	27

Contents	Page
3. Physical assess points	28
4. Scope of permitted distribution channels	29
5. Embedded insurance/takaful products	31

Bank Negara Malaysia (BNM) issued a new policy document (PD) on the Licensing and Regulatory Framework for Digital and Takaful Operators on 9 July 2024. This follows the Discussion Paper on Licensing Framework for Digital Insurers and Takaful Operators issued on 4 January 2022 and the Exposure Draft on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators issued on 25 November 2022. This policy document takes effect on **2 January 2025**.

With high digital technology advancement, this policy document aims to facilitate the entry of licensed digital insurers and takaful operators (“DITOs”) with **strong value propositions** to:

- Serve the unserved and underserved market
- Provide competitive offerings
- Enhance consumer experience

This policy document sets out requirements that account for differences in the business and operating models of licensed DITOs to unlock their full potential, while the associated risks are appropriately managed.

This includes:

- a) the **value of propositions required of licensed DITOs** in serving the insurance/takaful protection needs of consumers.
- b) the **types of business models** that can be adopted by licensed DITOs.
- c) the **application requirements** for the establishment and licensing of DITOs.
- d) the **regulatory requirements to be observed by licensed DITOs**, based on the principles of proportionality and parity. These include requirements applicable during the foundational phase and thereafter, among others, the minimum paid-up capital, prudential and business conduct requirements, permissible product distribution channels, and physical access points.

DITOs are required to comply with the **same rules and requirements** as other **ITOs**, except where targeted regulatory flexibilities have been granted during the foundational phase.

A licensed DITO shall operate for a minimum of **3 to 7 years** in a **foundational phase**, from the date the licensed DITO commences its digital/takaful business in Malaysia.

A licensed DITO is expected to have a minimum paid-up capital of **RM 30 million during the foundational phase** whereas a licensed DITO is expected to maintain a minimum paid-up capital of **RM 100 million after the foundational phase**.

A c t o m a t e

Eligibility Criteria

1. Value propositions

- Applicants are required to demonstrate meaningful value propositions that align with the best interest of Malaysia criteria as set out under Schedule 5 of the FSA or IFSA, ensuring long-term social and economic benefits for the country. Specifically, applicants must commit to achieving **ALL** of the following outcomes sustainably:
 - a) Inclusion** – Enhanced financial resilience of consumers whose protection needs are currently either not served or not adequately served (“unserved or underserved”).
 - b) Competition** – Innovative insurance/takaful products to cater to the diverse protection needs of consumers.
 - c) Efficiency** – Convenient and seamless consumer experience with greater cost savings.
- Applicants must show how technology-based solutions enhance inclusion, competition, and efficiency. They must ensure robust governance and internal controls to manage risks and prevent harm or unfair outcomes for consumers.

1. Value propositions

Value proposition 1: Inclusion

- Financial protection is crucial for **resilience** and **sustainability**, especially for **vulnerable groups**. Digital technology can enhance insurance/takaful accessibility by offering affordable products tailored to consumer needs.
- An applicant must demonstrate its capability to **meaningfully close critical protection gaps** in the Malaysian market and **serve consumer segments** whose protection needs are **currently unserved or underserved** by existing licensed ITOs in the market.
- Applicants should focus on closing these gaps, providing financial education, and addressing underserved needs such as gig workers, unemployment, liability, long-term care, business interruption, cyber risks, and climate-related risks.

1. Value propositions

Value proposition 2: Competition

- An applicant must demonstrate its capacity and plans to bring **meaningful innovations** to the market that **promote healthy competition** across the insurance and takaful sector and their value chain, as well as positive consumer outcomes that better reflect **changes in behaviours and risk profiles of consumers**.
- Applicants must be able to clearly differentiate themselves through the offering of innovative insurance/takaful products and value-added services to consumers. This must be supported by a sound understanding of the pain points faced by customers or, the needs and preferences of new customers that may not be served by existing licensed ITOs.

1. Value propositions

Value proposition 3: Efficiency

- An applicant must demonstrate its ability to **deliver fast, seamless and efficient end-to-end processes**, to bring about **greater cost savings** in the insurance and takaful value chain, as well as to deliver **better consumer outcomes and improved customer experience**.
- For example, online platforms may be utilised to **ease submission of documentation** by consumers, complemented by **transparency in processing of claims**, good and consistent levels of customer support and services, as well as **short turnaround times** by the applicants when dealing with customers.

2. Eligible business models

- The **licensed DITOs** with innovative business models facilitating the achievements of outcomes described in the value propositions **may**:
 - a) **fully assume insurance/takaful risks**, with reasonable ceding out of risks to reinsurer/retakaful operators, to manage their respective underwriting capacities.
 - b) **adopt risk-sharing protection models**, subject to meeting the **Bank's minimum criteria** to mitigate risks to consumers.
- There are limitations in the ability to fully meet the requirements of fully assuming the risk as specified in (a), licensed DITO may **gradually build up their underwriting capability** during foundational phase or via appropriate mechanisms such as arrangements to **cede out risk to reinsurers/retakaful operators** or **partnership with other ITOs**.
- The applicant must provide Bank with **credible plan to increase its underwriting capability**, retention level of their **insurance/takaful risks** by the end of the foundational phase, in addition to **demonstrating clear value propositions** to serve critical protection gaps in Malaysia.
- **Market players** serving as intermediaries such as financial advisers, insurance or takaful agents who **do not assume any insurance/takaful risks** are **scoped out** from this policy document.

2. Eligible business models

- **Minimum criteria for risk-sharing protection models**
 - a) effectively implement mechanisms to **assess the suitability and affordability** of the consumer participating in the risk-sharing protection model
 - b) effectively **manage the insurance/takaful risk and other risks** inherent in the risk-sharing protection model, including:
 - i. ensuring the sustainability of the risk sharing arrangement with **adequate access to liquidity and financial resources to meet claims** at all times.
 - ii. observing **sound underwriting practices** based on credible data to determine the number of premiums/takaful contributions required from policy owners/takaful participants.
 - iii. ensuring **adequate transparency and disclosures** to policy owners/takaful participants that facilitate understanding of the risk-sharing protection model.
- The Bank may **establish specific requirements** for risk-sharing protection models based on an assessment of submissions made by applicants.



A c t o m a t e

Application procedure and submission requirements

1. Application process

- An applicant shall submit a formal application for a digital insurance business or digital takaful business license following the procedures set out in Part C of the Policy Document on Licensing Procedures, including the requirement in paragraph 10.2 of the Policy Document on Licensing Procedures for any applicant to meet and discuss with the Bank before the submission of its application.
- The licensing **application period** is starting from **2 January 2025 until 31 December 2026**. Before submitting the application, all interested applicants **may consult the Bank** starting from **1 October 2024**.
- Existing licensed ITOs that wish to operate their business on digital platforms may apply to carry on digital insurance or takaful business through a separate body corporate, such as a subsidiary. However, the existing licensed ITOs are not required to obtain a separate license to digitalize their current operations.
- The **annual fee** payable by the DITO for one license is **RM25,000**.
- DITO will automatically become a member of PIDM once its DITO license is issued.

1. Application process

- Application for **more than one DITO license within a financial group**

In accordance to section 16 of FSA and IFSA, an applicant that wishes to carry on **both general and life/family businesses** shall apply for **separate licenses**, one license for a body corporate carrying on general insurance/takaful business, and one license for another body corporate to carry on life insurance/family takaful business.

2. Factors for considerations in assessing shareholders.

- Shareholders are in the position to **influence decisions** by which the business and affairs of a licensed DITO are carried out. It is important that the shareholders of a licensed DITO are persons of integrity and good reputation and maintain a sound financial position in order to minimise risks that could threaten the safety and soundness of the licensed DITO.
- The shareholders or prospective shareholders of an applicant are required to submit an application to the Bank pursuant to section 90 or 112 of the FSA or section 102 or 124 of the IFSA. Such application must be submitted together with the applicant's application for a licence to carry on digital insurance or digital takaful business, as the case may be.

2. Factors for considerations in assessing shareholders.

- The applicant's shareholder or prospective shareholder individually and where relevant, collectively, must demonstrate the ability to contribute to the applicant in the following areas:
 - a) robust risk management and compliance capabilities, which may be demonstrated by a **track record of operating in a regulated market environment**.
 - b) application of **transformative technology** in the development and delivery of insurance/takaful products, particularly to **address critical protection gap areas**.
 - c) access to **deep and robust consumer analytics** that may be utilised to improve and expand access to and promote responsible usage of insurance/takaful products, particularly among the **unserved and underserved segments**.
 - d) ability to continuously serve as a source of financial strength to the applicant.
 - e) with respect to an applicant applying for a license to carry on digital takaful business.

3. Business plan.

- An approved and comprehensive business plan by an applicant to assess the viability of the applicant's business strategies, its ability to deliver the intended value propositions, and determine whether the applicant has adequate financial, managerial and organizational resources in place to support its operations.
- Following section 9 of the FSA and IFSA, an applicant shall submit the information and documentation required under Part D of the Policy Document on *Licensing Procedures* to the Bank.
- Applicant is required to submit to the Bank a business plan consisting the information as required under paragraph 12 of the Policy Document on *Licensing Procedure*, as well as additional information outlined in Appendix II of Policy Document on *Licensing and Regulatory Framework for Digital Insurers and Takaful Operators*.
- The applicant must submit a **seven-year** business plan to the Bank.

4. Exit plan.

- An applicant with a DITO license should be prepared to voluntarily exit the market by surrendering its license and winding up its business if its **business model becomes unsustainable** during the foundational phase.
- The exit plan shall be initiated by the licensed DITO under specific circumstances, including but not limited to, the following:
 - a) **failure by the licensed DITO to deliver commitments as submitted in its business plan**, or to remain on a credible path to profitability
 - b) **failure by the licensed DITO to comply with the licensing conditions** imposed by the Minister or the regulatory requirements imposed by the Bank, including conditions set out in paragraph 13.10 by the end of the foundational phase;
 - c) **failure by the shareholders of the licensed DITO to comply with the shareholding conditions** imposed by the Minister or the Bank, as the case may be
 - d) **material operational disruptions experienced by the licensed DITO**, such as that caused by the loss of its key leadership, or inability to recover from widespread system failures.

4. Exit plan.

- As part of the exit plan, the applicant is required to demonstrate the following:
 - a) the necessary capabilities required to **extract and aggregate real-time data** on customers upon request, including up-to-date beneficiaries' contact information to facilitate any claim payouts
 - b) the **necessary capabilities and resources required to ensure continuity of services** throughout the implementation of the exit plan, with a specific focus on the continuity of services under outsourcing arrangements

A c t o m a t e

Regulatory requirements

1. Foundational phase

- A licensed DITO shall operate for a **minimum of three years but no more than seven years** in a foundational phase. The foundational phase serves as a period for the licensed DITO to demonstrate its viability and operational soundness, and for the Bank to observe associated risks.
- To facilitate the Bank's assessment and ongoing monitoring during the foundational phase, a licensed DITO shall submit the following information to the Bank on an **annual basis by 31 January** of each calendar year:
 - a) implementation progress of its business plan, including achievement of key performance indicators and the required value proposition commitments.
 - b) a report on the status of compliance with any licensing and/or shareholding conditions imposed on the licensed DITO by the Minister or the Bank, as the case may be.
- At the point of entry and during the foundational phase, a licensed DITO shall maintain at all times a **minimum paid-up capital of RM30 million**.

1. Foundational phase

- A licensed DITO shall continue to **comply with other prevailing capital adequacy requirements** under the Policy Documents on Risk-Based Capital Framework for Insurers and Risk-Based Capital Framework for Takaful Operators to ensure sufficient capital is held with prudent management of risk exposures, proportionate to the size and risk profile of its business.
- A licensed DITO shall **comply with existing regulatory requirements** including prudential and business conduct standards that apply to licensed ITOs.
- A licensed digital takaful operator carrying on digital takaful business shall comply with all the requirements in the Policy Document on *Shariah Governance*, except that **regulatory flexibility is allowed to be applied during** the foundational phase. In this regard, a licensed digital takaful operator must ensure that its **Shariah committee comprises at least three members** during the foundational phase. This is to allow the licensed digital takaful operator time to build the necessary capabilities that enable the sound deliberation of Shariah matters.
- For the avoidance of doubt, the licensed digital takaful operator shall fully comply with the requirement in paragraph 13.2 of the Policy Document on *Shariah Governance* by the end of the foundational phase

1. Foundational phase

- Unless otherwise approved by the Bank, a licensed DITO **shall operate for no more than seven years** in the foundational phase.
- By the **end of the foundational phase**, a licensed DITO must demonstrate, to the satisfaction of the Bank, that it has:
 - a) complied with all regulatory requirements applicable to existing licensed ITOs and specific regulatory requirements applicable to licensed DITOs as specified by the Bank
 - b) sufficiently built its underwriting capacity, capability and retention level of their insurance/takaful risks
 - c) put in place all critical systems, processes, and resources to support its business operations and effective risk management
 - d) reached and is **maintaining a minimum paid-up capital of RM100 million** for each licensed entity
 - e) met the reasonable thresholds for longer-term viability based on the indicators as described on page 29
 - f) achieved satisfactory progress in delivering the committed value propositions as described in its business plan.

1. Foundational phase

- To ensure that a licensed DITO meets the Bank's expectation of achieving long-term viability of its business, the Bank will assess the licensed DITO's position against the following indicators by the end of the foundational phase:
 - a) whether the licensed DITO has achieved its business plan targets, including adequate levels of business volume and risk pooling capacity. This may be demonstrated through gross earned premiums/takaful contributions, or number of in-force policies/takaful certificates
 - b) whether the licensed DITO has demonstrated its ability to achieve a credible path to profitability consistent with the long-term viability of its operations
- A licensed DITO that fails to fulfill the requirements specified on page 27 by the end of the foundational phase shall implement its exit plan, failing which enforcement actions may be taken by the Bank, including the revocation of the licensed DITO's license.

2. More than one DITO license within a financial group

- In the case where the Minister has granted one or more licenses to body corporates within a financial group to carry out digital insurance/digital takaful business, the licensed DITO shall comply with the following:
 - a) all existing regulatory requirements (including prudential and business conduct standards) applicable to licensed ITOs, as specified by the Bank
 - b) any specific requirement applicable to a licensed DITO, as specified by the Bank.
- **Each licensed DITO within the financial group** shall maintain at all times a **minimum paid-up capital of RM30 million** at the point of entry or during the foundational phase.
- Each licensed DITO shall appoint a dedicated person approved by the Bank as its appointed actuary.

3. Physical assess points

- A licensed DITO is **required to establish a registered office** in Malaysia. The establishment of physical offices by a licensed DITO is subject to the requirements of section 25(1) of the FSA and section 22(1) of the IFSA, as the case may be.
- A licensed DITO shall use its registered office only for the following purposes:
 - a) to facilitate the Bank's communication with the licensed DITO during the supervisory process, including examinations and engagements with the board and senior management of the licensed DITO.
 - b) for administrative purposes.
 - c) to facilitate investigations by the Bank or any other authority pursuant to applicable laws in the event of allegations pertaining to a commission of any offence.

4. Scope of permitted distribution channels

- A licensed DITO is required to ensure its **end-to-end operations** are carried on wholly or almost wholly through **digital** or electronic means.
- A licensed DITO shall mainly utilize **direct digital distribution channels** or **third-party platforms** as a distribution channel, including platforms operated by a licensed digital bank or a licensed Islamic digital bank.
- A licensed DITO is **not permitted** to use insurance agents, takaful agents, and bancassurance/bancatakaful channels that rely on in-person interaction with consumers for product distribution.
- A licensed DITO may:
 - a) utilise limited physical access points, especially in cases where the necessary digital infrastructures are unavailable to facilitate the submission of certified documents for claims, post-sales customer services, and handling of face-to-face customer complaints
 - b) subject to applicable regulatory requirements, make its product offerings available to consumers via approved financial advisers, approved Islamic financial advisers and approved insurance/takaful brokers due to the independent nature of such intermediaries.

4. Scope of permitted distribution channels

- Approved financial advisers, Islamic financial advisers, or insurance/takaful broker under the FSA and IFSA that **rely on in-person interactions** with customers can still be used to **carry out the distribution** of the DITO's product. However, **these intermediaries must**:
 - provide **independent advice and recommendations** to consumers
 - **not serve as the primary distribution** channel for a DITO.

5. Embedded insurance/takaful products

- A licensed DITO may embed and combine its insurance/takaful products with other products or services under the embedded insurance/takaful model.
- A licensed DITO shall offer embedded insurance/takaful products through its own direct digital distribution channels or third-party digital platforms.
- A licensed DITO must allow consumers to purchase the embedded insurance/takaful product on an **'opt-in'** basis and put in place mechanisms to obtain explicit written consent of the customer for each transaction.