



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Trade Credit Insurance and Trade Credit Takaful

Applicable to:

1. Licensed insurers carrying on general business
2. Licensed takaful operators carrying on general takaful business
3. Licensed banks
4. Licensed Islamic banks
5. Licensed banks carrying on Islamic banking business
6. Financial holding companies

TABLE OF CONTENTS

PART A	OVERVIEW	1
1.	Introduction.....	1
2.	Applicability	1
3.	Legal provisions	1
4.	Effective date.....	1
5.	Interpretation	1
6.	Related legal instruments and policy documents	2
7.	Policy documents superseded.....	2
PART B	POLICY REQUIREMENTS	3
8.	Offering of trade credit insurance and trade credit takaful.....	3
9.	Treatment of trade credit insurance and trade credit takaful by banking institutions	4
APPENDICES	5
Appendix 1	Submission requirements on trade credit insurance and trade credit takaful business.....	5
Appendix 2	Illustration on the computation of business limit on the size of trade credit insurance or trade credit takaful business	6

PART A OVERVIEW

1. Introduction

- 1.1 Trade credit insurance and trade credit takaful protect businesses against the risk of non-payment of goods and services by buyers. For cross-border transactions, such protection also helps businesses manage country risk, thus opening up access to new markets. For banking institutions, trade credit insurance and trade credit takaful can also be used to manage non-payment risk associated with trade financing portfolio.
- 1.2 This policy document sets out–
- (a) the approval process and requirements on the offering of trade credit insurance by a licensed insurer and trade credit takaful by a licensed takaful operator; and
 - (b) the treatment of trade credit insurance or trade credit takaful as credit risk mitigation (CRM) by a banking institution under the Capital Adequacy Framework applicable to it.

2. Applicability

- 2.1 This policy document is applicable to licensed insurers and licensed takaful operators, and in the case of banking institutions, as defined in paragraph 5.2.

3. Legal provisions

- 3.1 The requirements in this policy document are issued pursuant to–
- (a) sections 14(3), 47(1), 115(3) and 143(2) of the Financial Services Act 2013 (FSA); and
 - (b) sections 15(3), 57(1), 127(3) and 155(2) of the Islamic Financial Services Act 2013 (IFSA).
- 3.2 The guidance in this policy document is issued pursuant to section 266 of FSA and section 277 of IFSA.

4. Effective date

- 4.1 This policy document comes into effect on 3 May 2019.

5. Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and the IFSA, as the case may be, unless otherwise defined in this policy document.
- 5.2 For the purpose of this policy document–

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**Capital Adequacy Framework**” refers to the Capital Adequacy Framework (Basel II – Risk-Weighted Assets) or Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets), as the case may be;

“**banking institutions**” refers to–

- (a) a licensed bank;
- (b) a licensed Islamic bank, except for a licensed international Islamic bank;
- (c) a licensed bank under the FSA approved under section 15(1)(a) of the FSA to carry on Islamic banking business in accordance with the Guidelines on *Skim Perbankan Islam*; and
- (d) a financial holding company approved pursuant to section 112(3) of the FSA or section 124(3) of the IFSA and holds investments directly or indirectly in corporations that are engaged predominantly in banking business.

“**trade credit insurance or trade credit takaful**” refers to insurance or takaful cover that protects–

- (a) sellers against the risk of non-payment of goods and services by buyers; or
- (b) banking institutions against risk of non-payment associated with their trade financing portfolio.

6. Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular–
- (a) Capital Adequacy Framework (Basel II – Risk-Weighted Assets);
 - (b) Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets);
 - (c) Introduction of New Products by Insurers and Takaful Operators;
 - (d) Risk Governance; and
 - (e) Credit Risk.

7. Policy documents superseded

- 7.1 This policy document supersedes paragraph 3 of Part B of the circular on *Pengeluaran Bon/Jaminan Kewangan oleh Penanggung Insurans* (BNM/RH/CIR/003-7) issued on 11 August 2007.

PART B POLICY REQUIREMENTS

8. Offering of trade credit insurance and trade credit takaful

- 8.1 Section 14(3) of the FSA and section 15(3) of the IFSA stipulate that except with the prior written approval of the Bank, a licensed insurer or takaful operator must not carry on trade credit insurance business or trade credit takaful business¹.
- S 8.2** For purposes of obtaining the Bank's prior written approval referred to in paragraph 8.1, a licensed insurer or takaful operator shall apply in writing to the Bank for such approval and submit in its application the information required in **Appendix 1**.
- S 8.3** To offer trade credit insurance or trade credit takaful, as the case may be, a licensed insurer or takaful operator must have adequate technical capability to underwrite credit risk. This capability will be assessed by the Bank before the licensed insurer or takaful operator is allowed to carry on such business.
- S 8.4** In relation to paragraph 8.3, where a licensed insurer or takaful operator enters into a collaboration² with a foreign financial institution to offer trade credit insurance or trade credit takaful, as the case may be, the licensed insurer or takaful operator must ensure that there is a clear and structured plan to develop its own underwriting expertise.
- S 8.5** A licensed takaful operator must ensure that it offers trade credit takaful in a Shariah compliant manner.
- S 8.6** Unless otherwise specified by the Bank, the annual gross premium of trade credit insurance business or contribution of trade credit takaful business, as the case may be, shall not exceed 10% of a licensed insurer or takaful operator's total gross premiums or contributions of the preceding calendar year as illustrated in **Appendix 2**.
- S 8.7** A licensed insurer which was approved to carry on trade credit insurance business pursuant to the circular entitled "*Pengeluaran Bon/Jaminan Kewangan oleh Penanggung Insurans*" shall be deemed to be approved under section 14(3) of the FSA. For the avoidance of doubt, such a licensed insurer need not apply to the Bank for any further approval under section 14(3) of the FSA nor submit the information required under paragraph 8.2.

¹ On the basis that credit guarantee insurance business or credit guarantee takaful business includes trade credit insurance business or trade credit takaful business.

² For the purpose of tapping into expertise and support in specialised areas where the licensed insurers or takaful operators may have little or no experience. This may include, but not limited to, provision of technical expertise, underwriting and claims assistance.

9. Treatment of trade credit insurance and trade credit takaful by banking institutions

- G** 9.1 A banking institution may recognise trade credit insurance or trade credit takaful, as the case may be, as CRM under the Capital Adequacy Framework applicable to it.
- S** 9.2 Where a banking institution recognises trade credit insurance or trade credit takaful as CRM under the Capital Adequacy Framework applicable to it, the banking institution must ensure that the trade credit insurance or trade credit takaful satisfies the qualifying criteria for guarantees as stipulated in that Capital Adequacy Framework.

APPENDICES

Appendix 1 Submission requirements on trade credit insurance and trade credit takaful business

1. Product name and description;
2. Product benefits;
3. Target product launch date;
4. Proposed distribution channel(s) and target market;
5. Premium or takaful contribution and charges;
6. Targeted yearly business volume;
7. Risk appetite for underwriting e.g. obligor with rating A or equivalent, exposure to specific industry/sector etc.;
8. Underwriting criteria and tools for credit assessment e.g. use of internal rating system and determination of premiums or contributions based on expected credit loss etc.;
9. Plans to enhance internal underwriting expertise;
10. Impact to reserving and capital position, including capital required, capital available and capital adequacy ratio;
11. Proposed risk monitoring and control of key product risks identified;
12. Details of proposed reinsurance/retakaful arrangement;
13. Description on the collaboration with foreign insurers/takaful providers (if applicable) including the areas of support which the providers will be providing e.g. human resource, systems software etc.; and
14. In the case of a takaful operator–
 - (a) product structure, including diagrams or transaction flows;
 - (b) type(s) of Shariah contract used;
 - (c) deliberation by the Shariah committee, including–
 - (i) Shariah issues arising from the product (if any);
 - (ii) issues on *takyif fiqhi* (fiqh adaption) and relevant documents presented for deliberation of the Shariah committee which include fiqh literature, evidence and reasoning supporting the Shariah compliance of the product;
 - (iii) the appropriate current Shariah ruling and/or recognised Shariah standard (if any); and
 - (iv) minutes of the Shariah committee's meeting in respect of the product; and
 - (d) verification statement by the Shariah committee that the product structure does not attract any Shariah issue that has not been deliberated by the SAC. The statement must be signed off by the Chairman of the Shariah committee. In addition, the statement must include any dissenting views from any member of the Shariah committee and the Shariah committee's deliberation and conclusions reached on such views; and
 - (e) relevant resolution by the Shariah Advisory Council of Bank Negara Malaysia (SAC) that approved the product structure³.

³ For products that are subject to the SAC's prior approval or resolution, submission of information for such products shall be made after obtaining approval or resolution of the SAC.

Appendix 2 Illustration on the computation of business limit on the size of trade credit insurance or trade credit takaful business

$$\begin{array}{|l} \text{Business Limit of Trade Credit} \\ \text{Insurance or Trade Credit} \\ \text{Takaful Business,} \\ \text{for current year } n \end{array} = 10\% \times \begin{array}{|l} \text{Total Gross Premiums or} \\ \text{Contributions,} \\ \text{for year } (n-1) \end{array}$$