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## **INTRODUCTION**

These Guidelines has been drawn to set out the reporting requirements of related party transactions to ensure that they are conducted in an independent and transparent manner and on terms that are fair and reasonable. This is in line with Bank Negara Malaysia's (the Bank) effort in improving the level of corporate governance in the takaful industry.

## **SCOPE**

2. These Guidelines apply to all transactions between takaful operators and their related parties. A related party is defined to mean a person (including a body corporate) that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with; the takaful operator, and includes persons connected with the related-party. In these Guidelines, the term "control" has the same meaning as in the Takaful Act 1984 (the Act). Persons connected with the related party include:-

- (a) "relatives" in relation to a person, means:-
  - (i) a spouse of the person;
  - (ii) a brother or sister of the person;
  - (iii) a brother or sister of a spouse of the person;
  - (iv) a lineal ascendant or descendant of the person;
  - (v) a lineal ascendant or descendant of a spouse of the person;
  - (vi) a spouse of any person referred to in (ii), (iii), (iv) or (v);
  - (vii) a lineal descendant of a person referred to in (ii), (iii) or (vi);
  - (viii) an uncle, aunt or cousin of the person, or of a spouse of the person; or
  - (ix) a spouse, or a lineal ascendant or descendant, of the person referred to in (viii).
- (b) directors and shareholders of a related party which is a body corporate, and their relatives;
- (c) bodies corporate controlled by persons connected with a related party;

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- (d) trustees of a trust under which a related party or persons connected with the related party are beneficiaries; and
- (e) partners of a related party.

3. A related party transaction refers to the transfer of assets or liabilities, or the performance of services, by, to or for a related party irrespective of whether a consideration is given. In the context of takaful operators, related party transactions include, but are not confined, to:-

- (a) extensions of credit facilities;
- (b) purchases, sales or exchange of shares or assets;
- (c) guarantees or undertakings;
- (d) property rentals;
- (e) management and service agreements, including arrangements for the sharing of resources;
- (f) agency agreements;
- (g) retakaful arrangements; and
- (h) settlement of inter-company balances including payments in kind for takaful coverage.

4. Dividend payments and other distributions to shareholders are not normally regarded as related party transactions. However, to the extent that such payments involve a transfer of takaful funds to related parties, and controlling shareholders or directors can substantially influence amounts distributed, such payments and distributions have been included within the scope of related party transactions in these Guidelines.

## MINIMUM REQUIREMENTS

5. The following **general standards shall apply to all related party transactions** entered into by takaful operators:-

- (a) the transaction must not be prejudicial to the interests of the takaful operator, its participants, claimants or creditors;

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- (b) the terms and conduct of the transaction must be in compliance with relevant requirements of the Takaful Act 1984 and the Companies Act 1965, the Bank's guidelines and circulars and other applicable legislation in force;
- (c) the transaction must not result in an impairment of the takaful operator's financial condition;
- (d) the terms of the transaction must be fair and reasonable. The determination of fair and reasonable terms should be made with reference to an independent valuation or arm's length commercial terms;
- (e) full disclosure of the nature and extent of all related party transactions (irrespective of amounts involved) shall be made to the board of directors of the takaful operator. In the case of retakaful, disclosure need not be made for each retakaful cession, but disclosure of the nature and extent of automatic retakaful arrangements involving related parties should be made to the board;
- (f) all related party transactions involving an amount per transaction/contract exceeding the lower of RM250,000 or 1% of the takaful fund surplus determined at the end of the preceding financial year are deemed material transactions and shall be subject to the approval of the board. This requirement does not apply to retakaful cessions; and
- (g) the books, accounts and records of the takaful operator shall be maintained so as to clearly and accurately disclose the precise nature and details of the transactions.

#### **ADDITIONAL REQUIREMENTS FOR SPECIFIC TRANSACTIONS**

6. In addition to the minimum standards specified under paragraph 5 above, the **requirements below shall also apply to the following specific transactions:-**

- (a) Payment of dividends  
Takaful operators shall notify the Bank of any proposed payment of dividends (both interim and final) which, together with other dividends

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or distributions made to shareholders within the current financial year, exceeds the greater of 10% of its takaful fund surplus<sup>1</sup> at the end of the current financial year, or the net profit for the current financial year. Takaful operators shall not declare the dividend to its shareholders until 30 days after the Bank has received such notice of the proposed payment and has not disapproved the payment within the 30-day period. A takaful operator which intends to hold its annual general meeting before the expiry of the 30-day period should first obtain confirmation from the Bank that it has no objection to the proposed payment. Notwithstanding this, the takaful operator shall strictly comply with restrictions on the payment of dividend which are subject to the following:-

- (i) Section 4(2)(b) of the Takaful Act 1984;
- (ii) Section 18(1)(a) of the Takaful Act 1984;
- (iii) Section 365 of the Companies Act 1965;
- (iv) The payment would not impair its margin of solvency; and
- (v) For amount declared and paid as interim dividends in any financial year shall not exceed the amount of accumulated retained profits and general reserves available for distributions in the shareholders' fund from previous financial years and be determined on the basis of (i) – (iii) above.

(b) Purchase and sale of property

The prior approval of the Bank is required for the purchase or sale of property between takaful operator and its related party. The amount paid by the takaful operator for the purchase shall not exceed the lower of the value of the property determined through an independent valuation by a registered professional valuer or Jabatan Penilaian dan Perkhidmatan Harta (JPPH)<sup>2</sup>. In the case of a sale of property by the takaful operator to its related party, the consideration received by the

<sup>1</sup> Refers to actuarial surplus for family takaful fund or the surplus of assets over liabilities of the general takaful fund as applicable.

<sup>2</sup> Referrals to JPPH for valuations of property will be made by the Bank. For this purpose, takaful operators are required to ensure that valuation reports by registered professional valuer are submitted to the Bank together with their applications. The valuation reports should be prepared in accordance with JPPH guidelines.

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takaful operator shall not be less than the fair value of the property determined with reference to independent valuations by a registered professional valuer or JPPH.

(c) Settlement of contributions

Takaful operators are not permitted to accept payment for takaful contributions from any party (whether or not related to the takaful operator) in any form other than cash or cash equivalents except with the prior approval of the Bank. Cash equivalents are defined to include money or postal orders, valid payment cards, current dated valid cheques, bank drafts, cashier's orders, electronic fund transfers or any other mode of payment provided by a licensed financial institution. Terms of payment afforded to related parties should also be no more favourable than that generally allowed for other customers.

(d) Sharing of common resources

Cost allocations by a related party to a takaful operator for the sharing of common resource such as computer systems and physical premises shall be determined on an actual-incurred basis or using a fair and measurable basis for allocation. Flat charges or charges based on a percentage of contributions generated should not be used for cost allocations.

## **DISCLOSURE AND SUBMISSION**

7. Disclosure of related party transactions shall be made in the financial statements in accordance with the Malaysian Accounting Standards Board approved accounting standards on Related Party Disclosures (MASB 8) and the Bank's Guidelines on Financial Statements for Takaful Operators (GPT 6).

8. In addition, takaful operators shall submit to the Bank a statement of disclosure signed by the chief executive officer and a non-executive director providing information on all related party transactions entered into during the specified financial period which:-

- (a) are material (as defined in paragraph 5(f)); or
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(b) cumulatively involve a total consideration exceeding RM1 million in aggregate.

9 The statement of disclosure shall be submitted in the form attached (modified as appropriate) together with the takaful operator's statutory annual returns to the Bank and the monthly returns for the periods ending June and December each year through the Takaful Operators' Statistical System (TOSS). In addition to the information provided in the attachment, the takaful operator should also include in the statement of disclosure, any other elements of the transactions necessary for the understanding of the takaful operator's financial statements. Examples of 'other elements' required to be disclosed are pricing policies and appropriate explanations for any transaction that had taken place at an amount materially different from that obtainable on normal commercial terms.

#### **IMPLEMENTATION DATE**

10. These Guidelines shall be applied to all registered takaful operators with immediate effect.

### Statement of Disclosure on Related Party Transactions

(Name of Takaful Company)

During the financial period/year ended (date, month and year):-

- (a) the Company sold takaful to related parties on terms and conditions no more favourable than those available on similar transactions to its other employees or customers;
- (b) fees and charges paid by the Company to its related parties were based on normal commercial terms and conditions;
- (c) there were no transactions between the Company and its related parties which were of a material nature or which involved a total consideration exceeding RM1 million in aggregate\*;

or (whichever is applicable)

transactions between the Company and its related parties were as follows<sup>1</sup>:-

Name of related party	Nature of relationship with the Company	Description of transaction	Consideration amount received/(paid)	Gain/(Loss) on transaction
Total				

\* Delete whichever is not applicable

<sup>1</sup> Not including takaful certificates sold to related parties (subject to declaration under (a) above), retakaful cessions to related parties and dividends paid by the Company to its shareholders.



(d) total outstanding balances between the Company and its related parties as at the balance sheet date were as follows:-

	RM	Amount provided as doubtful debts RM
Amount due to related parties	XXX	-
Amount due from related parties	XXX	XXX

(e) an amount of RMXXX due from related parties was written off as bad debts.

\_\_\_\_\_  
Principal Officer  
Name:

\_\_\_\_\_  
Director\*  
Name:

\_\_\_\_\_  
Director\*  
Name:

Place:  
(Date and month) 20X4

\* The signatures of the directors are only required for submission submitted together with the annual returns.