



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Related Party Transactions

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PART A OVERVIEW

1. Introduction

Scope of policy

- 1.1 This policy document sets out the requirements to be applied to all related party transactions entered into by a licensed insurer and licensed takaful operator to ensure that such transactions are conducted on arm's length basis and in accordance with good governance and with appropriate disclosures.

2. Applicability

- 2.1 This policy document is applicable to all insurers licensed under the Financial Services Act 2013 (FSA) and takaful operators licensed under the Islamic Financial Services Act 2013 (IFSA).

3. Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to section 47(1) of the FSA and section 57(1) of the IFSA.
- 3.2 This policy document must be read together with the policy document on Granting of Credit Facilities.

4. Effective date

- 4.1 This policy document comes into effect on 30 June 2013.

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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 IFSA unless otherwise defined in this document.

5.2 For the purposes of this policy document:

“**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“**G**” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

“**cash equivalents**” include money or postal orders, payment cards, current dated cheques, bank drafts, cashier's orders, electronic fund transfers or any other mode of payment provided by a licensed financial institution;

“**licensed person**” collectively refers to a licensed insurer and licensed takaful operator, unless otherwise specified; and

“**material related party transaction**” means a related party transaction with any related party involving an amount per transaction or contract in excess of RM250,000 or 1% of the insurance or takaful fund surplus¹ determined at the end of the preceding financial year, whichever lower.

¹ Refer to the surplus of assets over liabilities of the general insurance or general takaful fund or actuarial surplus of the life insurance or family takaful fund, as applicable.

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6. Policy documents superseded

6.1 The policy documents listed in **Appendix I** are superseded.

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PART B REQUIREMENTS APPLICABLE TO ALL RELATED PARTY TRANSACTIONS

7. General principles and approval requirements

- S** 7.1 Any related party transaction entered into by a licensed person must:
- (a) not be prejudicial to the interests of the licensed person, its policy owners or participants, as the case may be, claimants or creditors;
 - (b) not adversely affect the financial condition of the licensed person; and
 - (c) be on an arm's length basis.
- S** 7.2 All material related party transactions (excluding reinsurance cessions and retakaful cessions) must be subject to prior approval of the licensed person's board of directors (board).
- G** 7.3 The board's approval in paragraph 7.2 for related party transactions involving provision of insurance cover or takaful cover may be in the form of underwriting authority delegated by the board to the senior management.
- S** 7.4 Any delegation under paragraph 7.3 must be clearly provided for in the licensed person's policy and procedures with appropriate reporting by the senior management to the board.
- S** 7.5 A licensed person must obtain prior written approval from the Bank to enter into or arrange with any person to enter into any transaction where a material gain can accrue to any of its directors or a company in which any of its directors has an interest in shares of 20% or more.
- S** 7.6 All related party transactions must be properly documented by the licensed person.

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PART C ADDITIONAL REQUIREMENTS APPLICABLE TO SPECIFIC RELATED PARTY TRANSACTIONS

8. Purchase or sale of property

- S** 8.1 A licensed person must obtain prior written approval from the Bank to enter into any related party transaction involving the purchase or sale of property and must ensure that the following criteria is complied with:
- (a) in the case of a purchase of property by the licensed person to a related party, the consideration for the purchase must not exceed the lower of value of the property determined through an independent valuation by a registered professional valuer or Jabatan Penilaian dan Perkhidmatan Harta (JPPH)²; and
 - (b) in the case of a sale of property by the licensed person to a related party, the consideration received by the licensed person must not be less than the value of the property determined through an independent valuation by a registered professional valuer or JPPH.

9. Settlement of premiums or contributions

- S** 9.1 Payment for insurance premiums or takaful contributions, as the case may be, from any person (whether or not a related party) to a licensed person or any of its agents must be in the form of cash or cash equivalents.

² Referrals to JPPH for valuations of property will be made by the Bank. For this purpose, licensed persons are required to ensure that valuation reports by independent valuers are submitted to the Bank, and comply with the requirements as specified by JPPH.

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10. Sharing of common resources

- S** 10.1 All fees and charges to be paid to a licensed person for the use of common resources, such as computer systems and physical premises, must be determined using a fair and measurable basis for allocation and include an actual-incurred basis.

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PART D DISCLOSURE AND REPORTING REQUIREMENTS

11. Disclosures

- S** 11.1 A licensed person must disclose all related party transactions in its financial statements in accordance with MFRS 124 on Related Party Disclosure and the requirements for licensed insurers and licensed takaful operators in the respective policy documents on Financial Reporting applicable to them.

12. Reporting to the board

- S** 12.1 A licensed person must report to the board the nature and extent of all related party transactions entered into by the licensed person (irrespective of amounts involved), including automatic reinsurance arrangements or retakaful arrangements, as the case may be. It is not necessary for such report to the board to include the following:
- (a) details of each reinsurance cession or retakaful cession, as the case may be; and
 - (b) insurance policies sold or takaful certificates issued, as the case may be, on terms and conditions which are in compliance with subparagraph 7.1(c) above.

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13. Reporting to the Bank

- S** 13.1 A licensed person must report its related party transactions to the Bank which:
- (a) are individually material; or
 - (b) involve a consideration exceeding RM 1 million in aggregate.

in the manner and frequency specified in paragraph 13.2 below. The reference to “material” in subparagraph (a) means in the context of a material related party transaction as defined in paragraph 5.2 above.

- S** 13.2 A licensed person must report its related party transactions by submitting to the Bank any information required, as set out in the Statement of Disclosure in Appendix II (modified as appropriate) together with its:
- (a) statutory annual financial statements; and
 - (b) quarterly/monthly financial statements for the periods ending June and December each year.

- S** 13.3 The Statement of Disclosure must be signed by the licensed person’s chief executive director (CEO) and a non-executive director.

- G** 13.4 Where relevant, the licensed person should elaborate in the disclosure submitted to the Bank elements of the transactions which are necessary for the understanding of the financial statements of the licensed persons. Examples of such elements include pricing policies and appropriate explanations for any transactions undertaken at an amount materially different from that obtainable on normal commercial terms.

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APPENDICES

Appendix I List of policy documents superseded

1. *Related Party Transactions (Consolidated)* issued on 26 October 2007
2. *Related Party Transactions for Takaful Operators* issued on 5 September 2008

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Appendix II Statement of disclosure

Statement of Disclosure on Related Party Transactions

(Name of Licensed Insurer or Licensed Takaful Operator)

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

- (i) the Insurer/Takaful Operator³ that sold insurance policies/issued takaful certificates³ to related parties on terms and conditions no more favourable than those available for similar transactions to its employees or customers;
- (ii) fees and charges paid by the Insurer/Takaful Operator³ to related parties were based on normal commercial terms and conditions;
- (iii) there were no transactions between the Insurer/Takaful Operator³ and related parties which were of a material nature or which involved a total consideration exceeding RM1 million in aggregate;

or (whichever is applicable)

material transactions between the Insurer/Takaful Operator³ and related parties were as follows⁴:

Name of related party	Nature of relationship with the Insurer/Takaful Operator ³	Description of transaction	Consideration of amount received/(paid)	Gain/(Loss) on transaction
Total				

³ Delete as appropriate

⁴ The following types of transactions need not be submitted to the Bank:

- (a) insurance policies sold or takaful certificates issued, as the case may be, on terms and conditions which are in accordance to subparagraph 7.1(c) above;
- (b) reinsurance cession or retakaful cessions, as the case may be, for related parties;
- (c) claims associated with subparagraphs (i) and (ii) above;
- (d) dividends paid to licensed person's shareholders;
- (e) deposits placed by the licensed person with a related deposit-taking institutions; and
- (f) bank charges and fees imposed by a related party.

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(iv) total outstanding balances⁵ between the Insurer/Takaful Operator³ and its related parties as at the balance sheet date were as follows:

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

(v) an amount of RMXXX due from related parties was written off as bad debts⁵.

Chief Executive Officer

Name:
Place: Kuala Lumpur
(date, month and year)

Director

Name:
Place: Kuala Lumpur
(date, month and year)

⁵ The aggregate amount for all related party transactions(including amounts due on the transactions referred to in footnote 4 which are excluded in the statement of disclosure)