



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Microinsurance and Microtakaful

Discussion Paper

Applicable to:

1. Licensed insurers
2. Licensed takaful operators

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As part of initiatives to promote financial inclusion, the Bank is developing a regulatory framework to facilitate the growth of the microinsurance/microtakaful market. This discussion paper provides guidance on the proportionate regulation of microinsurance/microtakaful products and the operating environment that is envisioned for microinsurance/microtakaful in Malaysia.

The Bank invites comments from all stakeholders on this discussion paper, including suggestions for particular areas to be enhanced and any alternative proposals that the Bank should consider. To facilitate the Bank's consideration, please support comments and suggestions with a clear rationale, accompanying evidence or illustration, as appropriate.

In the interim, prior to the issuance of the regulatory framework, an interested licensed insurer or licensed takaful operator may apply for proportionate regulatory treatment for a microinsurance or microtakaful product by submitting a product proposal for the Bank's approval. The Bank may collaborate with the licensed insurer or licensed takaful operator to enhance a proposal that has been submitted. The Bank welcomes industry-led initiatives, either collaboratively or at the individual company level, to develop microinsurance/microtakaful products and business models as well as to promote demand for insurance and takaful protection among low-income households.

Comments may be directed at any time until the finalisation of the framework to:

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PART A OVERVIEW

1 Introduction

- 1.1 The Financial Sector Blueprint 2011-2020 articulates the importance of financial inclusion to ensure balanced and sustainable economic growth as Malaysia progresses towards becoming a high-income nation. Pursuant to this objective is a recommendation for the industry to develop commercially sustainable microinsurance/microtakaful products in a cost-effective, accessible and easy-to-understand manner.
- 1.2 The microinsurance/microtakaful market in Malaysia is currently at a nascent stage of development. From the Bank's research and engagement with the industry, particularly companies that have proactively developed insurance and takaful protection targeted at low-income households, the Bank has been able to identify key challenges and imperatives for the successful rollout of microinsurance/microtakaful products. In response to these findings, the Bank is developing a proportionate regulatory framework (Framework) for such products to provide a more facilitative environment for the growth of the microinsurance/microtakaful market.
- 1.3 The overall objective of the Framework is to enable market growth and innovation, while preserving the quality and sustainability of microinsurance/microtakaful provision. Recognising the current stage of microinsurance/microtakaful development in Malaysia, this discussion paper¹ outlines the operating environment that is envisioned for microinsurance/microtakaful. In summary, this discussion paper:
- (a) establishes a shared understanding on the overarching vision for microinsurance/microtakaful development in Malaysia;
 - (b) describes the Bank's expectations on the characteristics of microinsurance/microtakaful products; and
 - (c) clarifies the areas of proportionate regulatory treatment that the Bank will consider for microinsurance/microtakaful products.
- 1.4 This discussion paper is to serve as guidance to the industry in developing microinsurance/microtakaful products and will be enhanced by the Bank on an ongoing basis by drawing on the lessons from collaborations with the industry. Upon determination of the final Framework, the Bank may issue standards, requirements and/or guidance under the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA) to give effect to the Framework.
- 1.5 In the interim, an interested licensed person may apply for proportionate regulatory treatment for a microinsurance/microtakaful product by submitting the relevant product proposal for the Bank's approval, in accordance with Part D of this document. The Bank may collaborate with the licensed person to enhance the product proposal, if necessary.

¹ The Framework outlined in this discussion paper has taken into consideration the feedback received following the Bank's consultation with the industry on 22 September 2015.

1.6 For purposes of this discussion paper:

“**industry**” means the insurance and takaful industry; and

“**licensed person**” collectively refers to a licensed insurer and licensed takaful operator.

2 Vision for microinsurance/microtakaful development in Malaysia

The role of microinsurance/microtakaful in social protection

2.1 Measures to reduce poverty and promote social mobility predominantly reside within the realm of structural economic policies and public social protection schemes. However, the availability of microinsurance/microtakaful products is highly important as an additional or alternative coping strategy for the household, as some households may not be covered by existing social protection schemes or may need additional protection beyond the scope of such schemes. This is supported by findings revealing that many Malaysians are ill-prepared to cope with unexpected expenses and loss of income².

2.2 Microinsurance/microtakaful offers an effective coping strategy by providing the following:

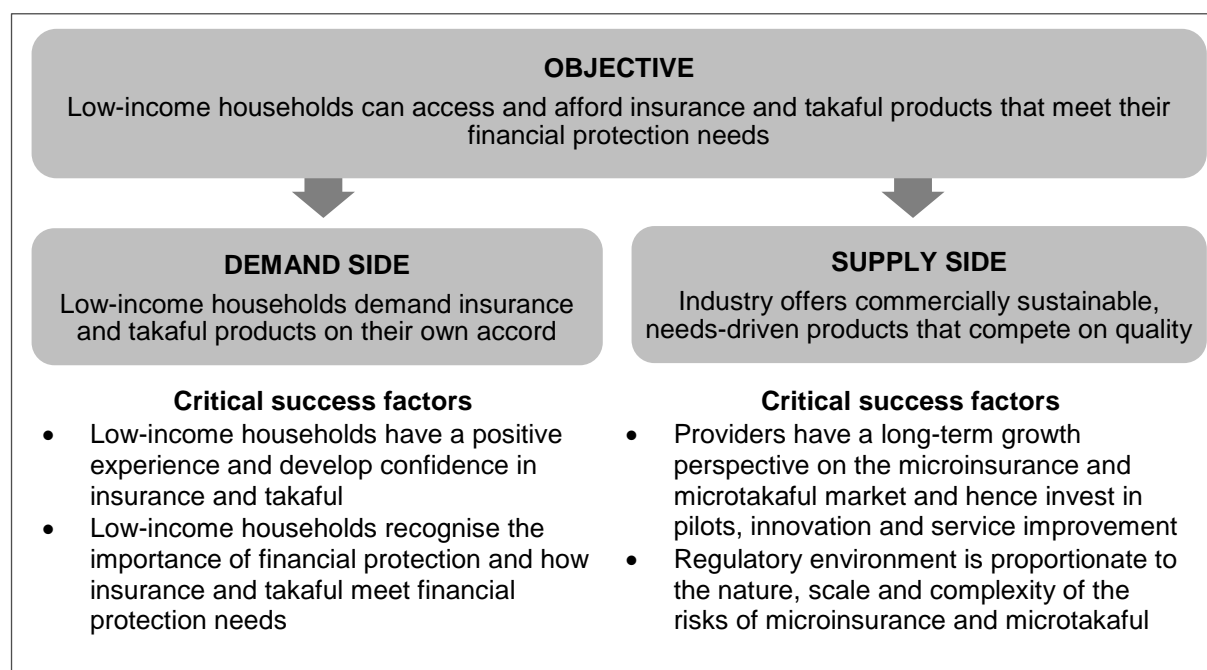
- (a) immediate temporary relief in the event of financial difficulty. This is most relevant to adverse events where the financial impact is not extremely high or permanent, or where microinsurance/microtakaful serves as a complement to other coping strategies;
- (b) access to financial resources to cope with sudden large expenses. These are adverse events where the financial impact is higher or permanent, or where microinsurance or microtakaful is the primary coping strategy; or
- (c) peace of mind from knowing that financial relief would be available in an easy and timely manner if an adverse event unexpectedly occurs, thus encouraging the household to undertake income-generation activities and improve its standard of living.

² Key observations from the Bank’s Financial Capability and Inclusion Demand Side (FCI) Survey, conducted nationwide in January 2015, include the following:

- (i) A significant majority of consumers are ill-prepared to meet unexpected expenses, with 76% of respondents admitting that they would have difficulty raising RM1,000 to meet emergency needs; and
- (ii) Most consumers indicated that they would face financial pressure in the event of a loss of income, with only 6% of respondents expressing confidence that they will be able to meet financial obligations for at least six months after income loss.

For more information, please see the *Financial Stability and Payment Systems Report 2015* (Bank Negara Malaysia, 2016).

Envisaged growth of the microinsurance and microtakaful market in Malaysia



2.3 Malaysia's environment presents a number of opportunities for microinsurance/microtakaful development. A majority of the population are active users of financial services³ and well connected via both physical⁴ and digital⁵ touchpoints, which provide opportunities for the industry to explore innovative distribution partnerships. With generally strong provision of public infrastructure and services such as education, healthcare and welfare support, the industry could also design products to provide protection that complements or tops up, rather than to entirely replace, the role of existing social protection schemes.

2.4 From the economic perspective, Malaysian household income has been increasing over the past decades, with the highest proportion of growth benefiting the bottom 40%⁶. Government initiatives, such as targeted income transfers, have helped increase the spending power of low-income households⁷. Coupled with the target to achieve an insurance/takaful penetration rate of 75% by 2020, this trend presents significant opportunities for the insurance and takaful industry to shift focus towards serving low-income households.

³ 92% of Malaysians have an active deposit account, while 98% of Malaysians have performing financing accounts (Bank Negara Malaysia, 2016).

⁴ At least 70% of Malaysians live within 5km of a petrol station, clinic or hospital, chain provision store, post office or bank branch (Bank Negara Malaysia, 2015).

⁵ Malaysia has broadband penetration rates of 91.7 per 100 inhabitants and mobile phone ownership of 144.8 per 100 inhabitants (Malaysian Communications and Multimedia Commission, 2015).

⁶ Median monthly household gross income increased by 26.4% across all Malaysian households, and 42.0% for the bottom 40% of Malaysian households between 2012-2014 (Department of Statistics Malaysia, 2012, 2014).

⁷ Word Bank (2014), 'Towards a Middle Class Society', *Malaysia Economic Monitor*.

- 2.5 A strong understanding among low-income households of how insurance/takaful can address their financial protection needs is also highly important to support the growth of the microinsurance/microtakaful market. In this respect, the Bank will support the industry and other key stakeholders in continuing to intensify insurance and takaful education for low-income households. By understanding the contextual peculiarities of the target group, partnering with the right intermediaries and employing the right sales and servicing approach at the right time, licensed persons may be able to overcome the awareness barrier to achieve commercial sustainability⁸.
- 2.6 Recognising the current stage of microinsurance/microtakaful development in Malaysia, the Bank's expectation is for a gradual evolution of products in tandem with increasing awareness amongst the target market. Other jurisdictions where microinsurance has been successful also started with modest growth in the early stages of market development; however, driven by continuous innovation in products and business models, many of these jurisdictions have observed strong scale and pace of growth in recent years. Overall, there is potential and volume in the lower-income market segment for microinsurance/microtakaful development, provided that the insurance and takaful industry adopts a long-term growth view and focus on improving the quality of service.

⁸ Research on low-income households' take-up of microinsurance in other countries have shown that, for first sales, trust and affordability are more impactful than an understanding of insurance. The understanding of insurance rises in importance at product renewals (Matul et al, 2013). For more information, see: Matul, Dalal, De Bock & Gelade (2013) 'Why People Do Not Buy Microinsurance and What Can We Do About It', *Microinsurance Paper No. 20*, Microinsurance Innovation Facility, International Labour Organization.

PART B CHARACTERISTICS OF MICROINSURANCE AND MICROTAKAFUL PRODUCTS

3 Overview

- 3.1 This part articulates the characteristics that microinsurance/microtakaful products should possess in order to ensure that:
- (a) such products meet the needs of low-income households and provide for them a positive experience with insurance and takaful; and
 - (b) product development is more efficient and therefore time-to-market is kept to a minimum.

4 Defining microinsurance/microtakaful

- 4.1 A microinsurance/ microtakaful product is an insurance/takaful product that is designed to respond to the financial protection needs of low-income households. In this respect:
- (a) “financial protection” means being able to access timely and adequate financial resources to:
 - (i) cope with major expenses; or
 - (ii) provide temporary or partial relief from financial difficulties arising from unexpected adverse events; and
 - (b) “low-income households” refers to poor, vulnerable or lower middle-income households⁹, particularly groups that have been previously excluded from access to insurance/takaful.
- 4.2 Licensed persons are expected to identify the intended target group for their microinsurance/microtakaful product, which could be delineated based on income threshold, demographics, occupation, location or communities¹⁰. Such delineation will facilitate the licensed person in developing a product and business model that are tailored to meet the specific needs and circumstances of an identified target group.

⁹ The following illustrate the potential target markets and market volume for microinsurance/microtakaful: (a) In 2014, 4.6 million households and 2.3 million individuals received BR1M payments (Khazanah Research Institute, 2014). (b) The bottom 40% households comprise an estimated 2.5 million households earning a gross median monthly household income of RM2,629 (Department of Statistics Malaysia, 2014).

¹⁰ Examples include rural districts, urban poor, agricultural workers, people with disabilities and microfinance clients.

5 Product principles and features

5.1 Overall, a microinsurance/microtakaful product should demonstrate the following principles:

Simple	<ul style="list-style-type: none"> • Products are offered and serviced in a manner that is easily understood by the target group. • Product features are self-explanatory such that minimal advice from intermediaries is needed. • Benefits, terms and conditions are straightforward with minimal exclusions and restrictions. • All disclosures, marketing materials and languages used respond to the target group's level of financial literacy.
Protection needs-driven	<ul style="list-style-type: none"> • Proportion of premium/takaful contribution allocated to financial protection is maximised. • Protection provided is relevant and meaningful in that it should not intentionally cover risks that the target group does not need.
Accessible	<ul style="list-style-type: none"> • Premium/takaful contribution is affordable for the target group. • Distribution channel is accessible and approachable for the target group. • Product features and processes suit the target group's circumstances¹¹. • All processes including premium/takaful contribution payment, policy/takaful certificate renewal, claims and enquiries are easily accomplished by the policy owner/takaful participant.
Efficient	<ul style="list-style-type: none"> • All processes are expedient and timely with particular focus on minimising time to claims pay-out. • Back-office administration is simplified, streamlined, and automated as much as possible.

5.2 As a guide, below are some examples of features that would be generally considered to be in line with microinsurance/microtakaful principles:

Product features	<ul style="list-style-type: none"> • Maximum three risk events covered, where each risk is distinctly and unambiguously defined • First-loss or fixed-benefit basis • Simple underwriting • No exclusions • 15-day free-look period and 30-day grace period for both general/life insurance and general/family takaful • Maximum 6-month waiting period for natural death, disability, and medical and health
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¹¹ Experience shows that a good product may perform poorly due to "barriers to action" (Matul et al, 2013), such as the policy owner/takaful participant not being clear on how to buy, renew or claim.

	<ul style="list-style-type: none"> • No waiting period for personal accident products • Single waiting period to apply across all risks in a single product
Servicing	<ul style="list-style-type: none"> • On-the-spot issuance of policy/takaful certificate at point of sale • Use of electronic payment channels in premium/takaful contribution and claims payment, such as direct debit and mobile money • Dedicated call centre or line for microinsurance/microtakaful policy owners/takaful participants
Claims	<ul style="list-style-type: none"> • Claims payout to be made not more than 7 working days from receipt of complete claims documentation • Immediate partial or interim payout to meet urgent needs pending full claims verification
Risk management	<ul style="list-style-type: none"> • Reliable and efficient IT and data systems to track transactions

- 5.3 Licensed persons should conduct due diligence to ensure that the proposed microinsurance/microtakaful product and overall business model are needs-driven and respond to the peculiar characteristics of the target group, rather than to merely downscale existing products. The due diligence conducted could include drawing on the licensed person's previous experience, conducting surveys and focus group sessions with the target group or collaborating with stakeholders that represent or understand the needs of the target group such as Government agencies and non-governmental organisations (NGOs).
- 5.4 In ensuring sustainability and efficiency, licensed persons should also develop cost-efficient and innovative business models, which include the use of community-centric distribution channels and technology-driven processes. The arising cost savings from such innovations can subsequently be translated to lower premiums/takaful contributions, or higher protection value for the policy owner/takaful participant. Given the financial vulnerability of low-income households, the Bank does not encourage proposals that fall back on traditional channels and processes with inefficient cost structures that consume a large proportion of premiums/takaful contributions.
- 5.5 For further guidance on the product development process, a self-assessment guide is set out in *Appendix 1*. While the guide is not exhaustive or mandatory, licensed persons are encouraged to consider the checklist of questions set out in the guide to ensure close alignment with the microinsurance/microtakaful principles from the start of product development, therefore enabling a more efficient discussion with the Bank at a later stage.

PART C AREAS OF PROPORTIONATE REGULATION

6 Overview

- 6.1 This part articulates the areas of regulation to which the Bank will consider applying proportionality for microinsurance/microtakaful products. The overarching objective is to provide sufficient flexibility for the industry to optimise cost and innovate across the value chain, while safeguarding the interests of policy owners/takaful participants. This will enable the industry to:
- (a) customise products and services to better suit the needs of the target group;
 - (b) reduce operational costs to provide better protection value to policy owners/takaful participants and improve likelihood of commercial sustainability; and
 - (c) achieve volume and wider outreach via innovative distribution models.
- 6.2 Apart from the specific proportionate regulatory treatment approved by the Bank for a microinsurance/microtakaful product, all other standards and requirements specified or issued by the Bank in policy documents or other instruments as well as any requirements in the FSA and IFSA, that are applicable to insurance/takaful products, will also apply to microinsurance/microtakaful products.

7 Product development

- 7.1 Licensed persons may be granted approval to depart from the:
- (a) Fire Tariff (Tariff) issued by the General Insurance Association of Malaysia (PIAM) or any subsequent revisions to the Tariff for products that cover fire, flood or other perils that are currently subject to the Tariff; and
 - (b) requirement in the *Code of Good Practice for Life Insurance Business* and *Guidelines on Family Takaful Products* that the sum insured/participated by a personal accident extension to a life policy or family takaful certificate shall not exceed five times the sum insured by the policy/participated by the takaful certificate.

8 Intermediaries in product distribution

Appointment of microinsurance/microtakaful agent

- 8.1 Licensed persons may be allowed to appoint entities apart from traditional agents¹² to distribute microinsurance/ microtakaful products. For the purposes of this discussion paper, such dedicated entities will be termed “microinsurance/microtakaful agents”. Microinsurance/microtakaful agents will be allowed to distribute only microinsurance/microtakaful products as approved by the Bank.

¹² “Traditional agents” refers to all insurance or takaful agents and intermediaries, whether registered or exempted from registration, that are defined under the relevant intercompany agreements or guidelines of PIAM, LIAM and MTA (See Footnote 14).

- 8.2 Microinsurance/microtakaful agents will be excluded from all applicable definitions of traditional agents in the relevant intercompany agreements or guidelines of PIAM, Life Insurance Association of Malaysia (LIAM) and Malaysian Takaful Association (MTA)¹³. As such, microinsurance/microtakaful agents will not be subject to the requirements specified in the corresponding rules such as:
- (a) registration with the relevant association;
 - (b) qualifications, written examinations, training and Continuing Professional Development;
 - (c) minimum requirements for persistency, maintenance of contract and promotion; and
 - (d) number of licensed persons the agent is allowed to represent.
- 8.3 Licensed persons will not be required to observe limits on commission and agency-related expenses for microinsurance/microtakaful agents as specified in the following policy documents:
- (a) *Guidelines to Control Operating Costs of General Insurance Business*,
 - (b) *Guidelines to Control Operating Costs of Life Insurance Business*;
 - (c) *Guidelines on Operating Costs of Family Takaful Business*;
 - (d) *Guidelines on Medical and Health Insurance Business (Revised)*;
 - (e) *Guidelines on Medical and Health Takaful Business*;
 - (f) *Guidelines on Investment-Linked Insurance/Takaful Business*;
 - (g) *Guidelines on Bancassurance*; and
 - (h) *Guidelines on Bancatakaful*.

Responsibilities of microinsurance/microtakaful agents

- 8.4 Provided that any assigned responsibilities are commensurate with their capacity, microinsurance/microtakaful agents:
- (a) will be required to sell only microinsurance/microtakaful products as approved by the Bank;
 - (b) may assist with marketing, effecting the contract, claims submission and claims payout; and
 - (c) may describe the product features and relevant processes including premium/takaful contribution payment, policy/takaful certificate renewal and claims procedures. However, further queries will need to be routed to the licensed person.
- 8.5 Microinsurance/microtakaful agents will not be allowed to provide advice to customers, which includes conducting needs analyses or recommending between different types of microinsurance/microtakaful products.
- 8.6 Subject to their capacity, microinsurance/microtakaful agents will be allowed to distribute more than one product or the products of more than one licensed person.

¹³ *Inter-Company Agreement on General Insurance Business (ICAGIB)* (PIAM), *Revision To Resolution No: 4/99 – Rules on the Registration of Intermediaries (RRI)* (LIAM), *Guidelines on Minimum Qualitative Criteria for the Life Agency Force (revised 20 July 2010)* (LIAM), *Guidelines on Minimum Qualitative Criteria for the Family Takaful Agency Force* (MTA), and *Rules on the Registration of Takaful Intermediaries (RRTI)* (MTA)

Selection of microinsurance/microtakaful agents

- 8.7 Licensed persons are expected to establish internal selection criteria to ensure that selected microinsurance/microtakaful agents are sufficiently capable and reliable to discharge assigned responsibilities competently.
- 8.8 In selecting microinsurance/microtakaful agents, licensed persons will be required to ensure that due diligence on the selected agent has been conducted, particularly on its reputation and ability to discharge its responsibilities competently. As guidance, the following can be considered:
- (a) if the selected agent is an individual, then the individual is a member of or registered with an established entity; and
 - (b) if the selected agent is not an individual, it is an established entity which:
 - (i) is approved, registered with or licensed by the relevant authorities; and
 - (ii) has permanent business premises or office and an established core business or function.
- 8.9 Examples of entities that licensed persons can consider for appointment as microinsurance/microtakaful agents include:
- (a) NGOs;
 - (b) retail or chain provision stores;
 - (c) agent banks;
 - (d) societies, co-operatives and unions;
 - (e) amenities and facilities such as hospitals, clinics and petrol stations; and
 - (f) individuals¹⁴ who are formal members of or registered with the entities above.

Conduct of microinsurance/microtakaful agents

- 8.10 Licensed persons will be responsible and accountable for the oversight of and management of risks arising from the conduct of their microinsurance/microtakaful agents.
- 8.11 In ensuring effective oversight of microinsurance/microtakaful agents, licensed persons will be required to:
- (a) establish a contractual agreement with their microinsurance/microtakaful agents that specifies the rights, responsibilities and expectations of all parties. The licensed person will need to ensure that the contract does not contain any clause that would prevent the licensed person from modifying or terminating the microinsurance/microtakaful agency contract pursuant to a directive by the Bank;
 - (b) establish measures to enable customers to identify and verify the identity of their microinsurance/microtakaful agents. The licensed person will need to issue a formal identification document to their

¹⁴ Examples include (i) community leaders, such as committee members of residents' associations and established religious associations such as mosques, *baitulmal* and *zakat* institutions, and village heads; and (ii) members of community organisations, such as members of a registered single mothers association.

- microinsurance/microtakaful agents, such as an authority card, that microinsurance/microtakaful agents will be required to clearly display to the customer; and
- (c) develop and implement effective and efficient procedures to monitor and control the conduct of their microinsurance/microtakaful agents. This includes the maintenance of a proper record of all microinsurance/microtakaful agency arrangements as well as conduct and performance tracking.
- 8.12 Licensed persons will be required to develop and conduct training to ensure that their microinsurance/microtakaful agents are sufficiently competent to discharge their responsibilities at an acceptable standard of service quality. The training will need to encompass, at the minimum:
- (a) product features;
 - (b) standard operating procedure for marketing, selling, servicing and claims;
 - (c) code of ethics and conduct;
 - (d) protection of customer information; and
 - (e) fraud detection mechanisms including identification of counterfeit money and anti-money laundering and combating of financing terrorism (AML/CFT) procedures.

Remuneration of microinsurance/microtakaful agents

- 8.13 Licensed persons are provided the flexibility to ascertain the structure and amount of remuneration for their microinsurance/microtakaful agents.
- 8.14 The licensed person will need to ensure that the remuneration structure minimises erosion of protection value and aims to achieve the following:
- (a) minimise the microinsurance/microtakaful agent's bias towards promoting microinsurance/microtakaful products with higher premiums/takaful contributions but do not meet the customer's needs;
 - (b) incentivise agents to provide better quality and consistency in service delivery; and
 - (c) incentivise agents to maintain high level of persistency.
- 8.15 Examples of remuneration structures that licensed persons can consider are as follows:
- (a) a fee that is not linked to the premium/takaful contribution amount;
 - (b) absolute fee amount per service rendered, such as per issuance or per claims paid out; and
 - (c) a climbing fee structure that is linked to policy/takaful certificate renewals.

Flexibility for traditional agents that distribute microinsurance/microtakaful products

- 8.16 For the purposes of distributing microinsurance/microtakaful products, a traditional agent may be allowed to depart from the applicable limit on the number of licensed insurers and licensed takaful operators that the agent is allowed to represent under PIAM, LIAM and MTA requirements.

9 Product disclosure and documentation

- 9.1 Licensed persons may be granted the flexibility by the Bank to depart from the policy documents on *Product Transparency and Disclosure* (PTD), *Guidelines on Family Takaful Products* and *Code of Good Practice for Life Insurance Business* and instead adopt a proportionate approach to disclosure and documentation. In general, licensed persons will be required to maintain good disclosure principles and practices¹⁵.
- 9.2 Licensed persons may be allowed to customise product disclosure and documentation for microinsurance/microtakaful products to ensure that they are sufficiently simple and self-explanatory to suit the literacy level or language proficiency of the target group. Good disclosure practices include reducing duplicative information and the number of actual documents involved, or using simple graphic representations.
- 9.3 Where the microinsurance/microtakaful product is distributed via microinsurance/microtakaful agents, the licensed person will be required to ensure that its direct contact details are prominently displayed or communicated to the customer, which includes the policy owner/takaful participant. This is to ensure that customers are able to easily contact the licensed person for further information and queries that are beyond the scope of the microinsurance/microtakaful agent.
- 9.4 Licensed persons are required to provide to customers, at minimum, the following documentation and information at each stage of the contractual process:
- (a) **Pre-contractual**
- (i) An information sheet on the microinsurance/microtakaful product, which can be in the form of a marketing brochure, the Product Disclosure Sheet as per the policy document on PTD, a booklet, a card or other forms. The information sheet will be required to include, at a minimum, the following:

Product features	<ul style="list-style-type: none"> • Coverage, benefits, exclusions
Premiums/ takaful contributions	<ul style="list-style-type: none"> • All-inclusive premium/takaful contribution payable • Frequency and method of payment • Premium/takaful contribution duration
Terms and conditions	<ul style="list-style-type: none"> • Free-look period • Waiting period • Grace period (including circumstance in which policy/takaful certificate would lapse)
Claims	<ul style="list-style-type: none"> • Timeline to point of payout
Contact details	<ul style="list-style-type: none"> • Licensed person's contact details (mailing address, telephone and fax number, email address)

¹⁵ For further elaboration, see Paragraph 8 of the policy document on *Product Transparency and Disclosure*.

- (b) **Point of entering contract**
 - (i) Insurance or takaful contract;
 - (ii) Information sheet as per above;
 - (iii) Claims procedures and claims form, including claims documentation self-checklist;
 - (iv) Nomination form for life insurance/family takaful and personal accident insurance/takaful products; and
 - (v) Reminder to update the licensed person if the policy owner/takaful participant's contact details change.
- (c) **During term of contract**
 - (i) At minimum, the policy owner/takaful participant will need to be updated when the policy/takaful certificate has lapsed.

10 Product servicing and claims

- 10.1 In general, in simplifying and streamlining claims processing and payout, licensed persons will need to:
- (a) apply appropriate risk management principles, such as for fraud management or IT risks arising from electronic payments; and
 - (b) ensure the convenience and continuity of end-to-end servicing and claims are not compromised.
- 10.2 Where the licensed person accepts substitute documents for claims settlement, the licensed person will need to take steps to minimise fraud risk, such as:
- (a) accepting substitute documents for purposes of an interim or partial claims payout only, pending receipt of complete documentation; or
 - (b) ensuring substitute documents are from or verified by reliable and credible sources such as:
 - (i) publicly available information drawn from reliable sources such as reports in mainstream newspapers;
 - (ii) community leaders such as the village head, cooperative heads, resident association committees;
 - (iii) government institutions; or
 - (iv) reliable technology-driven data such as satellite data.
- 10.3 Licensed persons may also be granted flexibility to outsource claims handling and payout functions to their microinsurance/microtakaful agents, traditional agents or a third-party administrator, subject to the risk management principles set out in the policy documents *Guidelines on Outsourcing for Insurers* and *Guidelines on Outsourcing for Takaful Operators*.

PART D PRODUCT PROPOSAL

11 Details on submission of product proposal

- 11.1 A licensed person which seeks to apply for proportionate regulatory treatment as set out in Part C for a microinsurance/microtakaful product will need to submit the product proposal for the Bank's approval. The submission will need to include the information set out in Appendix 2. Upon submission of the proposal, the Bank may collaborate with the licensed person to enhance the proposal towards meeting the microinsurance/microtakaful principles and commercial sustainability in a balanced manner.
- 11.2 For any variation to or extension¹⁶ of the approved microinsurance/microtakaful product and business model, the licensed person will be required to submit an addendum¹⁷ to the Bank at least 30 days prior to the effective date of the variation or extension. The addendum will need to clearly set out a comparison between the original and revised or extended features or model, reasons for the revision or extension and a description of impact on the experience of policy owners/takaful participants.
- 11.3 In general, the licensed person will be required to ensure that its microinsurance/microtakaful product remains true to the microinsurance/microtakaful principles, and that the good experience of policy owners/takaful participants is not affected. The Bank may require performance data or other information on the microinsurance/microtakaful product to be submitted by the licensed person from time to time. The Bank may also consider withdrawing any flexibility granted in the event that policy owners'/takaful participants' experience was adversely affected or that the product is no longer consistent with the microinsurance/microtakaful principles.
- 11.4 All applications or addendums shall be directed to the following:
- (a) For licensed insurers:

Pengarah
Jabatan Pembangunan Sektor Kewangan
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur

¹⁶ This includes introducing new plan options, or the takaful or insurance equivalent of the initially approved microinsurance or microtakaful product that bear the same product features.

¹⁷ Life insurance, family takaful and medical and health insurance/takaful products are subject to existing requirements under the policy document on Introduction of New Products (INP). Where licensed persons are required to make concurrent submissions pursuant to this discussion paper and the INP, the licensed person may forward a single consolidated submission to each relevant Department in the Bank, clearly highlighting the information or revisions that are relevant to each Department.

(b) For licensed takaful operators:

Pengarah
Jabatan Perbankan Islam dan Takaful
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur

APPENDICES

APPENDIX 1 Self-assessment guide for product development

Licensed persons are encouraged to consider the questions set out below¹⁸ to guide the microinsurance/microtakaful product development process and ensure close alignment with the microinsurance/microtakaful principles.

Simple	<ol style="list-style-type: none"> 1. Are the terms of the product clear and simple so microinsurance/microtakaful agents can easily describe it? 2. Are the terms of the product clear and simple so customers can easily assess its implications without needing advice? 3. Are the policy documents easy for customers to read and understand? 4. Do you make sure that customers understand the coverage of the product, how to pay premiums/takaful contributions and how to make a claim? 5. Can you confirm that customers know if they are covered by microinsurance/microtakaful?
Protection needs-driven	<ol style="list-style-type: none"> 1. Have you actively researched customer needs and demand? 2. Have you confirmed that your product responds to the target group's needs and demand? 3. Are the coverage amounts sufficient to cover the policy owner/takaful participant's financial loss? 4. Is the premium/takaful contribution fair compared to the value of the protection? 5. Can customers opt-out if the product has no value to them? 6. Do you have a means of educating customers on the value of the product?
Accessible	<ol style="list-style-type: none"> 1. Can customers easily get information about the product? 2. Do customers know where and how to buy the product? 3. Is the distribution channel approachable and accessible to the customer? 4. Are all procedures, including purchase, premium/takaful contribution payment, renewal, claims and enquiries, easy for customers and any person entitled through them to accomplish? 5. Are the claims forms, documents and requirements easy for policy owners/takaful participants to understand and meet?

¹⁸ Adapted from: McCord, M.J. (2012) *SUAVE Checklist for Microinsurance Products: Enhancing the potential for success*, MicroInsurance Centre.

	<ol style="list-style-type: none"> 6. Are claims paid via a channel that is easy for the policy owners/takaful participants to actually access the funds? 7. Do you have front office staff that can clearly and efficiently respond to questions from customers including policy owners/takaful participants? 8. Is there an effective means for policy owners/takaful participants and any person entitled through them to lodge a complaint?
Efficient	<ol style="list-style-type: none"> 1. Would claims reach the policy owner/takaful participant at a time that is needed to provide effective relief to the policy owner/takaful participant? 2. Are claims processes structured in a way to get policy owners/takaful participants paid as fast as possible? 3. Have costly manual processing and transactions been eliminated or automated as much as possible? 4. Does the licensed person and distribution channel have the appropriate infrastructure to track data and facilitate expedient procedures? 5. Can premium/takaful contribution payments and data be transacted electronically and in real time? 6. Do you have process maps for microinsurance/microtakaful and review them regularly for improvements that might lead to greater efficiency?

APPENDIX 2 Requirements on content of product proposals

In submitting a microinsurance/microtakaful product proposal for the Bank's approval, the licensed person will need to enclose the following information:

1. All information specified under Paragraph 13.4 of the policy document on *Introduction of New Products*, where applicable to the proposed product.
2. Additional supporting information as follows:

	Additional Information Required
Intermediaries and target market	<p>(a) An explanation on how the profile and needs of the intended target group of the proposed product were identified. This could include:</p> <ol style="list-style-type: none"> (i) the licensed person's previous experience; (ii) surveys conducted; (iii) engagement with the target group or their representatives; and (iv) other credible and reliable sources of information such as government data. <p>(b) If a microinsurance/microtakaful agent is to be appointed, the submission will need to include:</p> <ol style="list-style-type: none"> (i) internal selection criteria for the microinsurance/microtakaful agent; (ii) a description of the assigned responsibilities of the microinsurance/microtakaful agent; (iii) structure and amount of remuneration for the microinsurance/microtakaful agent; (iv) procedures to ensure oversight of and management of risks associated with the conduct of the microinsurance/microtakaful agent; and (v) a detailed description of the training plan for microinsurance/microtakaful agent, including training content and hours required. <p>(c) A process map that clearly shows the end-to-end flow from marketing and sales, servicing to claims payout. This includes:</p> <ol style="list-style-type: none"> (i) the sequence of interaction between the customer and any intermediaries; (ii) payment channels; and (iii) key timelines.
Summary of financial impact analysis	<p>(a) An explanation on how the licensed person will aim to achieve commercial sustainability of the product.</p> <p>(b) A contingency and exit plan, particularly in managing customer expectations, if the product is to be withdrawn.</p>