

Frequently Asked Questions

Microinsurance and Microtakaful

1. Does the Bank have a specific definition of “lower-middle income, poor or vulnerable” households?

No. The Bank provides the flexibility to licensed insurers or licensed takaful operators to assess and decide on a target group that would reasonably be considered lower-middle income, poor or vulnerable.

In identifying a suitable target group, licensed persons may refer to statistics on income distribution and information on various low-income communities which are available from various public sources, including:

- (a) Government agencies, such as the Department of Statistics Malaysia, the Department of Social Welfare Malaysia, the Ministry of Women, Family and Community Development and the Ministry of Agriculture;
- (b) Government publications on economic development initiatives such as the Government Transformation Programme; and
- (c) Reports on Malaysia by international developmental organisations, such as the World Bank and the United Nations Development Programme.

The Bank is open to discussing the above with the licensed person and can offer support by providing a platform for engagement with demand-side stakeholders, to the extent that it is within the means of the Bank.

2. What is a specific level of premium/takaful contribution or sum insured/participated that is acceptable to the Bank?

The Bank expects licensed persons to conduct due diligence to determine the appropriate and affordable level of premium/takaful contribution or sum insured/participated based on the intended target group’s profile. This is in view that the appropriate levels vary according to the target group’s income, protection needs, type of risk covered and the purpose of coverage. An overly prescriptive level of premium/takaful contribution or sum insured/participated may inadvertently exclude certain segments from access to insurance/takaful. The Bank recognises the importance of flexibility for licensed persons in designing products, in order to enable innovation at this nascent stage of microinsurance/microtakaful market development.

3. What are examples of “risk events” as set out in the guidance on microinsurance/microtakaful product characteristics, “Maximum three risk events covered, where each risk is distinctly and unambiguously defined”?

Examples of a “risk event” include:

- (a) Death;
- (b) Hospitalisation;
- (c) Illness;
- (d) Disability;
- (e) Flood;
- (f) Fire; and
- (g) Property or asset damage.

Such guidance on the number of risk events is to encourage simple and easy-to-understand products. Product complexity and ambiguity, especially where there are exclusions, may be perceived by the consumer as loopholes for licensed persons to not pay claims.

4. Are there restrictions on who can buy microinsurance/microtakaful products?

No. However, the microinsurance/microtakaful product should be designed to respond primarily to the financial protection needs of low-income households.

5. Are licensed persons allowed to write microinsurance/microtakaful products on a loss?

Yes, subject to the licensed person's compliance with all requirements set by the Bank, which includes the policy documents on *Risk-Based Capital Framework for Insurers*, *Risk-Based Capital Framework for Takaful Operators*, *Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) for Insurers*, *Internal Capital Adequacy Assessment Process for Takaful Operators* and *Introduction of New Products by Insurers and Takaful Operators*. Unless explicitly granted proportionate regulatory treatment by the Bank, microinsurance/microtakaful products are subject to the same requirements as all other insurance/takaful products.

Notwithstanding the licensed person's appetite to sustain losses, the product proposal should be supported by a realistic business plan that has a reasonable chance of medium to long-term sustainability, as well as a contingency plan to manage impact on policy owners/takaful participants if the product is to be withdrawn.

6. Can a life/family or general insurer/takaful operator offer both life/family and general microinsurance/microtakaful coverage?

No. Microinsurance/microtakaful products are subject to Section 16 of the Financial Services Act 2013 and Islamic Financial Services Act 2013, which means that the licensed person may only underwrite the business for which it is licensed to underwrite.

7. What are the Bank's expectations on the role of the industry in overall microinsurance/microtakaful development?

The industry is highly encouraged to initiate efforts to develop microinsurance/microtakaful products and business models, either collaboratively or at the individual company level. The Bank welcomes industry-led initiatives such as establishing an industry consortium or pool, exploring sustainable funding models¹, conducting research on low-income households, promoting demand for microinsurance/microtakaful, and introducing new innovations in distribution arrangements and technology. The Bank will provide the necessary support where possible.

¹ Licensed takaful operators in particular could explore leveraging on alternative sources of funding such as from *zakah*, *waqf* or *sadaqah* funds. See *Community Empowerment Initiative for Islamic Financial Institutions (IFIs)* (ISRA Islamic Finance Space, Issue 04, December 2015).

In recent industry publications² and written feedback from the industry, the industry has provided invaluable suggestions on potential products and distribution channels:

Product features and procedures	<ul style="list-style-type: none"> • Discrete protection units that can be bought as single or multiple units • Premium rebates if no claims are made in initial years • Joint promotion with other inclusive financial services such as microfinance • Easy renewal procedures such as walk-in to post office, direct debit, bank counters, deposit machines or kiosks
Distribution channels	<ul style="list-style-type: none"> • Post office outlets • Bank branches • NGOs • Petrol stations • Supermarkets • Resident associations • Co-operatives and unions • Mobile network operators • Direct channels
Payment channels	<ul style="list-style-type: none"> • Online banking • Mobile prepaid cards • Scratch cards • Touch 'n Go Cards

² See (i) *Protection Gap Study in Malaysia* (Malaysian Takaful Association, 2014) (ii) *Microtakaful – A Concept Paper* (Microtakaful Working Committee of Malaysian Takaful Association, 2015). These papers provide, among others, estimations of protection gaps and suggested measures to develop the microinsurance/microtakaful market.