Frequently Asked Questions on the Policy Document on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators

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(This replaces the version published on 9 July 2024)

1.0 Glossary

DITO policy document	Policy document on *Licensing and Regulatory Framework for Digital Insurers and Takaful Operators* issued on 9 July 2024
DITO	Licensed digital insurer and/or digital takaful operator
ITO	Licensed insurer and/or takaful operator
Licensing Procedures	Policy document on *Application Procedures for New Licences* under FSA and IFSA issued on 27 December 2019
FSA	Financial Services Act 2013
IFSA	Islamic Financial Services Act 2013

2.0 Applicability of the DITO policy document

2.1 What insurtech entities that are Insurance-as-a-Service (IaaS) providers that need to apply for DITO licence(s)?

For purposes of the DITO policy document, IaaS providers are defined as entities that offer modular technology-based services across the insurance or takaful value chain which can be viewed from these dimensions:

(a) IaaS providers that operate as risk carriers (with the capability and capacity to assume insurance/takaful risks directly);
(b) IaaS providers that aspire to operate as risk carriers to assume insurance/takaful risks directly but may not have the immediate capability or capacity yet to assume insurance/takaful risks;
(c) IaaS providers that operate as insurance and takaful intermediaries distributing insurance and takaful products on behalf of ITO or DITO and have no plans to assume insurance/takaful risks directly; and
(d) IaaS providers that carry out services on behalf of ITO or DITO (e.g. Software-as-a-Service, Platform-as-a-Service, Infrastructure-as-a-Service), services that do not fall within the roles of an insurance/takaful intermediary or services with no assumption of insurance or takaful risks directly.

IaaS providers as described under paragraphs 2.1(a) and 2.1(b) of this FAQ may apply for DITO licence(s). Specifically for IaaS providers as described under paragraph 2.1(b) of this FAQ, interested prospective applicants should apply with proposed arrangements to gradually build up their underwriting capacity and capabilities during the foundational phase as outlined in paragraph 8.4 of the DITO policy document. Apart from those that aspire to be risk carriers or operating as risk carriers (as per paragraphs 2.1(a) and 2.1(b) above), the Regulatory Sandbox continues to be an available avenue to test innovative products and solutions[1] for IaaS providers, provided that they meet the eligibility requirements to be admitted to the Regulatory Sandbox.

[1] For further information on the Regulatory Sandbox, please refer to the policy document on *Financial Technology Regulatory Sandbox Framework.*

2.2 What are the potential entry pathways or expectations for IaaS providers with no intention to apply for DITO licence(s)?

(a) For an IaaS provider operating as a digital intermediary as per paragraph 2.1(c) of this FAQ–

(i) if the activities being carried out fall within the definition of financial advisory business, Islamic financial advisory business, insurance broking and takaful broking business in the FSA or IFSA, the IaaS provider will need to be approved by the Bank pursuant to section 11 of the FSA or IFSA to carry out the respective activities[2]; and

(ii) for an IaaS provider serving as a corporate agent to distribute insurance or takaful products on behalf of ITO and/or DITO, the IaaS provider will have to be appointed by ITO or DITO as a tied agent[3]. Once appointed, the IaaS provider would be subject to the respective ITO or DITO's oversight with respect to its activities in line with the terms of the agency contract[4].

(b) For IaaS providers operating as service providers on behalf of an ITO or DITO as per paragraph 2.1(d), the IaaS provider would be subjected to the respective ITO or DITO's oversight with respect to the terms of its outsourcing agreement[5] and technology risk management[6].

3.0 Value propositions

3.1 Must all three value propositions (i.e. inclusion, competition and efficiency) be fulfilled by the interested prospective applicant?

Yes. As outlined in paragraph 7.1 of the DITO policy document, all DITO must meet **all** three of the value propositions (i.e. inclusion, competition and efficiency). Further details on how DITO may achieve these value propositions are described in paragraph 7 and Appendix I of the DITO policy document.

3.2 Is there any guidance from the Bank on the definition of the unserved and underserved segment that the interested prospective applicant can refer to?

The Strategy Paper on *Financial Inclusion Framework 2023 – 2026* (issued by the Bank on 23 June 2023) can be used as guidance on the definition of unserved and underserved segments[7], where six key characteristics are laid out:

(a) physically challenging to reach given limited geographical accessibility;

(b) unable or need assistance to conduct digital transactions or adopt digital solutions, due to a lack of digital literacy, capability or connectivity;

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[2] For further information on the application procedures, please refer to the policy document on *Application Procedures To Carry On Financial Advisory Business and Islamic Financial Advisory Business* as well as the FAQ and *Application Form on Application to Carry on Approved Insurance Broker and/or Takaful Broker* on the Bank's website. Once approved, the IaaS provider would then be subjected to the relevant requirements as set out by the Bank.

[3] A DITO may only appoint fully digital corporate agents. Individual agents that rely on face-to-face or in-person interactions with consumers for product distribution as outlined in paragraph 15.7 of the DITO policy document are not allowed.

[4] For further information on the Bank's requirements in relation to the appointment of agents by ITO and DITO, please refer to the policy document on *Professionalism of Insurance and Takaful Agents*.

[5] For further information on the outsourcing arrangements for ITO or DITO, please refer to policy document on *Outsourcing*.

[6] For further information on technology risk management, please refer to the policy document on *Risk Management in Technology (RMiT)*.

[7] For further information on the definition of unserved and underserved segments, please refer to Diagram 5 of the Strategy Paper on *Financial Inclusion Framework 2023 – 2026*.

(c) face difficulties obtaining financial services given their risk profiles;
(d) face difficulties accessing financial products due to information asymmetry or concerns on commercial viability especially in new growth areas;
(e) are vulnerable or likely to be more vulnerable due to personal circumstances, including changes in circumstances that increase their risk of experiencing financial distress or harm; and/or
(f) gaps in financial literacy hindering the effective take-up and meaningful usage of financial products and services.

DITOs may also identify other unserved and underserved segments beyond those listed under paragraph 3.2(a) to paragraph 3.2(f) above, if there is credible data and relevant market research to support such market demands.

3.3 Are there any protection gaps for the unserved and/or underserved segments that should be prioritised by the interested prospective applicant?

As outlined in paragraph 7.6 of the DITO policy document, DITO must address critical protection gaps for the unserved and/or underserved segments. The examples of critical protection gaps outlined in paragraph 7.6 and Appendix I of the DITO policy document are not intended to be exhaustive. As such, interested prospective applicants can also identify other critical protection gaps that better meet the needs of the Malaysian market and are consistent with the inclusion, competition and efficiency value propositions.

In offering products to meet the critical protection gaps, DITO must ensure the product design can be easily understood by self-directed customers with proper disclosures to allow customers to make informed choices, in line with the requirements set out by the Bank. DITO is encouraged to complement its products with financial education efforts to maximise the inclusion impact to the intended target segment.

4.0 Business plan

4.1 Can the interested prospective applicant refer to external studies to outline how it will improve the value proposition outcomes in the business plan?

Yes. The minimum required content of the business plan regarding the interested prospective applicant's value propositions is outlined in Table 2 of Appendix II of the DITO policy document. Identification of the areas listed must be supported by market studies and analyses of the relevant target segment and critical protection gap of the interested prospective applicant.

While applicants may leverage studies or analyses conducted by external parties or based on publicly available references, they must justify and demonstrate the credibility and relevance of those studies or analyses in supporting the DITO's business plan.

4.2 What are examples of key performance indicators that should be included in the interested prospective applicant's business plan?

Expectations on the key performance indicators that reflect the interested prospective applicant's value propositions are outlined in Table 2 of Appendix II of the DITO policy document. In identifying the relevant performance indicators, interested prospective applicants may also refer to the Bank's desired outcomes and targets as outlined in the *Financial Sector Blueprint 2022-2026* and Strategy Paper on *Financial Inclusion Framework 2023-2026*.

5.0 Track record, governance and resources

5.1 Why is an interested prospective applicant[8] required to demonstrate its track record of operating in a regulated environment in its application?

A good track record of operating in a comparable regulated environment provides data points for the Bank to assess the interested prospective applicant's ability to comply with prevailing regulatory requirements applicable to DITO. In assessing the track record, the Bank may also take into consideration the experience of an interested prospective applicant who was previously admitted into the Regulatory Sandbox for live testing.

5.2 Can an interested prospective applicant submit anonymised curriculum vitae of the proposed key responsible person?

As set out in paragraph 13.1 of the *Licensing Procedures*, the interested prospective applicant must provide the name and current curriculum vitae of a proposed key responsible person that is not anonymised to facilitate the Bank's assessment on whether the proposed key responsible person is suitable with the requisite competence and experience.

5.3 Can a DITO share its customer data with its parent company, other stakeholders or strategic partners, and vice versa as an integral part of the business model?

In developing the business model and integrating their ecosystems with stakeholders, DITO should ensure that any data sharing between entities adhere to all relevant data protection laws and regulations, including the Bank's policy document on *Management of Customer Information and Permitted Disclosures.*

5.4 On the minimum capital funds for a DITO, is the interested prospective applicant required to demonstrate the availability of the capital funds during submission of the application for the DITO licence(s)?

The interested prospective applicant must indicate the source(s) of funds that would be made available to meet the minimum paid-up capital requirement for the application of the DITO licence(s). A successful applicant must provide the Bank with supporting documents to confirm that the required funds have been transferred and fully paid-up to the entity that is the proposed DITO, prior to the issuance of the DITO licence(s).

6.0 Distribution channel

6.1 Can financial advisers and brokers that rely on face-to-face or in-person interactions with customers be used to carry out the distribution of the DITO's products?

Yes. The financial adviser and broker must be an approved financial adviser, approved Islamic financial adviser or approved insurance/takaful broker under the FSA or IFSA. These intermediaries are subject to the requirements set out by the Bank, where these intermediaries must provide independent advice and recommendations to consumers to facilitate well-informed decisions. However, these intermediaries should not serve as the primary distribution channel for a DITO.

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[8] As defined in paragraph 1.5 of *Licensing Procedures*, where the proposed licensed person has not been established/incorporated, the applicant should be the controlling and/or majority shareholder of the proposed licensed person.

7.0 Requirements applicable to DITO

7.1 Is a DITO expected to comply with the same requirements as other ITOs?

As specified in paragraph 13.5 of the DITO policy document, all DITOs are required to comply with the same rules and requirements as other ITOs, except where targeted regulatory flexibilities have been granted during the foundational phase as set out in paragraph 13.7 and paragraph 14.3 of the DITO policy document or as approved by the Bank at its discretion on a case-by-case basis. Examples of applicable requirements include, but are not limited to:

(a) *Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Financial Institutions;*
(b) *Electronic Know-Your-Customer (e-KYC);*
(c) *Fit and Proper Criteria;*
(d) *Fair Treatment of Financial Consumers;*
(e) *Internal Capital Adequacy Assessment Process (ICAAP) for Insurers;*
(f) *Internal Capital Adequacy Assessment Process for Takaful Operators;*
(g) *Introduction of New Products by Insurers and Takaful Operators;*
(h) *Management of Customer Information and Permitted Disclosures;*
(i) *Management of Participating Life Business;*
(j) *Management of Insurance Fund;*
(k) *Prohibited Business Conduct;*
(l) *Risk-Based Capital Framework for Insurers;*
(m) *Risk-Based Capital Framework for Takaful Operators; and*
(n) *Takaful Operational Framework.*

For further information on the applicable regulations, please refer to the Bank's website.

7.2 What are the key requirements regarding cloud adoption that interested prospective applicants should refer to?

In adopting cloud technology, a DITO must comply with the policy document on *Risk Management in Technology* (RMiT). In particular, the DITO must:

(a) consult the Bank prior to the first-time adoption of public cloud for critical systems; and
(b) notify the Bank on any subsequent adoption of public cloud for critical systems, by submitting the notification together with their necessary updates to the Bank.

The Bank does not currently restrict a DITO from subscribing to cloud providers outside of Malaysia, provided that all necessary safeguards are in place. Aside from the policy document on *RMiT*, a DITO should also refer to the policy document on *Outsourcing*, where relevant.

8.0 Foundational phase

8.1 Why is a DITO required to operate for a minimum of three years and can only operate for a maximum of seven years in the foundational phase?

Based on the experiences in other countries, it takes at least three years for an entity offering financial products and services to realistically set up and scale up their operations (including putting in place necessary systems and processes) such that there are sufficient data points to ascertain its business viability and operational soundness. In the Malaysian context, this minimum period is necessary to allow the Bank to meaningfully assess and form a view on the capability and capacity of the DITO in the longer term. The minimum period of three years in the foundational phase is similarly applied to digital banks.

However, a DITO can only operate for maximum period of seven years in the foundational phase (longer than the digital banks[9]). This is intended to provide the DITO with a more reasonable timeframe to demonstrate, to the satisfaction of the Bank, the achievements of the areas as described in paragraph 13.10 of the DITO policy document (including fulfilling its business plan commitments and demonstrating credible prospects for long-term viability of its business). This timeframe is consistent with experiences of DITOs in other countries and considers the discernible protection gaps that remain critical for many segments of consumers in Malaysia.

At the end of the foundational phase, the DITO must demonstrate its ability to meet the standards on par with that applied to all existing ITOs.

8.2 For a financial group with more than one DITO licence, will the financial group be expected to exit for each of the licences, if only one DITO is unable to fulfill the requirements under paragraph 13.10 of the DITO policy document by the end of the foundational phase?

No. Only the DITO that is unable to meet the requirements under paragraph 13.10 of the DITO policy document by the end of the foundational phase is required to exit the market.

8.3 Can a licensed DITO extend Foundational Phase beyond 7 years?

Any extension of Foundational Phase is subject to exercise of discretion by the Bank. In the event the Foundational Phase is extended, the regulatory flexibility pertaining to the requirement to maintain lower minimum capital funds during the extended period is subject to the Minister's discretion, as such regulatory flexibility will only be accorded subject to Minister's approval to amend the relevant Gazette Orders.

9.0 Operational readiness

9.1 What are the consequences of unsatisfactory results of the operational readiness assessment for a DITO?

In the event that the Bank is not satisfied with the outcomes of the operational readiness review, the DITO will not be allowed to commence its digital insurance business or digital takaful business, as the case may be.

10.0 Application procedures, fees and levies

10.1 When is the window to submit an application for DITO licence(s)?

The application window will begin from 2 January 2025 until 31 December 2026. Prior to submitting the application, all interested prospective applicants must consult the Bank.

10.2 Who should an interested prospective applicant contact for purposes of consulting with the Bank?

As a pre-requisite for the submission of a formal application to the Bank, all interested prospective applicants must send an email the Bank via DITF@bnm.gov.my to express their interest to submit a formal application and secure a consultation session with the Bank. Any submission made without prior consultation with the Bank will be returned without being assessed.

10.3 What is the licence fee for DITO?

The annual fee payable by the DITO for one licence is RM25,000. For further information, please refer to the *Financial Services (Fees) Regulations 2014* or the *Islamic Financial Services (Fees) Regulations 2014*, as published on the Federal Gazette website.

[9] Digital banks can operate for a maximum period of five years in the foundational phase.

10.4 Does a DITO need to be a Perbadanan Insurans Deposit Malaysia (PIDM) member?

Yes. Pursuant to section 36(2) of the Malaysia Deposit Insurance Corporation Act 2011, an interested prospective applicant granted with a DITO licence will automatically become a member of PIDM once its DITO licence is issued. For further information on PIDM membership, please refer to https://www.pidm.gov.my/en.

10.5 What does an interested prospective applicant need to prepare for the consultation with the Bank?

To initiate the request for consultation with the Bank, interested prospective applicants are required to submit, at minimum, the following information to the Bank (via email to DITF@bnm.gov.my) in advance of the first consultation meeting with the Bank:

(a) Description of business plan that includes:
   (i) Elaboration on the proposed business activities to meet the proposed value propositions;
   (ii) Elaboration on the risks associated with the proposed business activities and planned measures to manage such risks;
   (iii) Elaboration of the technology architecture and planned measures to manage technology risk(s); and
   (iv) Description on the resources available to support the interested prospective applicant's business model and activities (e.g. evidence of funding or indicative plans to secure funding and other resources, in particular manpower); and

(b) Details of shareholders or prospective shareholders, including the curriculum vitae of key responsible persons (e.g. proposed directors, members of Shariah committee, chief executive officer and senior officers), and background on the business activities associated with the shareholders.

10.6 How long does the consultation period last?

Interested prospective applicants may consult the Bank throughout the licensing application window.

10.7 Can an interested prospective applicant engage consultants to prepare the application to be submitted to the Bank as well as to attend the consultation sessions with the Bank?

Interested prospective applicants may engage consultants in preparing the application to be submitted to the Bank. However, the interested prospective applicant is responsible and accountable for all the information contained in the formal application, including the accuracy of the information.

Interested prospective applicants may invite their appointed consultants to attend the consultation sessions, but the interested prospective applicant must be present at all the consultation meeting(s) with the Bank.

10.8 Who should submit the application?

Where the proposed DITO has yet to be established or incorporated, the interested prospective applicant should be the proposed controlling and/or majority shareholder of the proposed DITO. For an interested prospective applicant applying under an established or incorporated company, the application should be submitted by the proposed DITO.

10.9 What if an interested prospective applicant submitted an incomplete application?

Interested prospective applicants who submit incomplete applications will be notified of the missing documents or information and will be required to submit the missing documents or information within 14 working days from the date of such notification. If the interested prospective applicant fails to submit the missing documents or information within the stipulated timeline, the application will be returned without being assessed. For avoidance of doubt, interested prospective applicants should refer to paragraph 9 of the DITO policy document on the application process as well as paragraph 11.3 and 12.3 of the DITO policy document on the submission requirement for the business plan and exit plan, respectively.

10.10 Does a returned application indicate that the application will not be recommended to the Minister?

Yes. This is given that a returned application has not been assessed by the Bank either because the document or information submitted by the interested prospective applicant is incomplete or that an interested prospective applicant did not secure any consultation sessions with the Bank, prior to the submission of a formal application. Any resubmission will be treated as a new submission by the Bank.

10.11 Will direct and indirect shareholders of an applicant be required to submit an application under section 90 FSA/ section 102 of IFSA?

Yes. As outlined in paragraph 10.6 of the Licensing Procedures, all direct and indirect shareholders with an effective interest of more than 5% of the interested prospective applicant's shares are required to submit the documents and information specified in the Policy Document on Application Procedures for Acquisition of Interest in Shares and to be a Financial Holding Company, along with the DITO application. For avoidance of doubt, interested prospective applicants may wish to refer to Schedule 3 of FSA or IFSA for more information on interest in shares.

10.12 If one of the shareholders is a licensed person, does the shareholder need to apply for approval under section 85 of FSA or section 97 of IFSA?

Yes, the licensed person, which is or will be a shareholder of the proposed DITO, is required to submit the application for approval under the above-mentioned provisions and as outlined in paragraph 8.1 of the policy document on *Equity Investment*.

10.13 Is a DITO required to be a member of the Financial Ombudsman Scheme?

As stipulated in paragraph 10.11 of the Licensing Procedures, a DITO is required to be a member of the approved financial ombudsman scheme operated by Financial Markets Ombudsman Service upon being licensed. Section 126 of FSA and section 138 of IFSA, read together with the Financial Services (Financial Ombudsman Scheme) Regulations 2015 (*published in the Gazette as P.U.(A) 211/2015*) and Islamic Financial Services (Financial Ombudsman Scheme) Regulations 2015 (*published in the Gazette as P.U.(A) 210/2015*) set out the relevant requirements, including those relating to membership, obligations of the financial service providers.

10.14 In addition to the eligibility criteria outlined in the policy document, are there any other criteria to be considered when assessing an interested prospective applicant for DITO?

Yes, the Bank will not recommend to the Minister to grant a licence to any interested prospective applicants -

(a) that do not meet the financial health criteria outlined in Practice Note 17/2005 (PN 17)[10], including issues such as significant losses over consecutive financial periods, and other indicators of financial instability such as default in payment by a listed issuer;
(b) with a charge for a criminal offence relating to dishonesty or fraud under any written law or the law of any country, territory or place outside Malaysia that could impact their ability to operate, has been proven against the applicant;
(c) in respect of whom an order of detention, supervision or deportation has been made or placed under any form of restriction or supervision under any law relating to prevention of crime, drug trafficking or immigration;
(d) that are an undischarged bankrupt, has suspended payments or have compounded with their creditors whether in or outside Malaysia;
(e) involved in ongoing insolvency proceedings or restructuring processes that could hinder their operational capabilities;
(f) that provide false, misleading or inaccurate information in their application submissions;
(g) that fail to disclose material information relevant to their financial health and business operations;
(h) associated with reputational issues that could adversely affect their credibility and customer trust;
(i) with affiliations to entities (e.g., is or was a director of a company) that has gone into insolvency, liquidation or administration, or directly concerned in the management of the business of such company or a company referred to in items (b), (d) or (h) above, as a result of known reputational issues, including unethical practices and financial misconduct; and
(j) with a history of poor corporate governance practices, including lack of oversight, weak internal controls, and governance-related issues, including unresolved conflicts of interest that could compromise the discharge of their fiduciary duties or decision-making.

11.0 <u>Exit plan</u>

11.1 What are the considerations that should be provided or included as part of the exit plan?

As set out in paragraph 12 and Appendix III of the [DITO policy document], a DITO should be prepared to voluntarily exit the market by surrendering its licence and winding up its entire business in the event that its business model becomes unsustainable during the foundational phase. In developing the exit plan, applicants, among others:

(a) may prepare exit plans at the segment level to support the overall exit plan;
(b) must provide for different exit options. The DITO should also include elaboration on the identification of possible action(s) that can be taken under different scenarios. This should take into account stages of development/complexity of the DITO's business and include challenges and mitigation measures;
(c) may include a shareholder or affiliate entity who is an ITO to assume the assets and liabilities of the DITO, or the sale of certain business lines for continuity of the insurance and/or takaful business; or
(d) for exit plans involving shareholders, should be guided by paragraph 12 of the DITO policy document as well as existing requirements relating to shareholders, such as those stipulated in the *Licensing Procedures*.

[10] Issued by Bursa Malaysia.