



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Management of Insurance Funds

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PART A OVERVIEW

1. Introduction

Policy objective

- 1.1 The objectives of this policy document are to ensure the proper attribution of assets and liabilities to the business of a licensed insurer through the appropriate segregation of insurance funds, effective controls over withdrawals from insurance funds, and that proper records of a licensed insurer's policies and claims are maintained at all times.

Scope of policy

- 1.2 This policy document sets out-
- (a) requirements on the establishment and maintenance of insurance funds;
 - (b) composition of an insurance fund, including requirements on withdrawals;
 - (c) specific requirements for assets; and
 - (d) other requirements relating to submission and inspection by the Bank as well as register of policies and register of claims.

2. Applicability

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

3. Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to sections 47, 81 and 83 of the FSA.

4. Effective date

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

5. Interpretation

5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA unless otherwise defined in this policy 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; and

“**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.

6. Related legal instruments and policy documents

6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular –

- (a) policy document on Risk-Based Capital Framework for Insurers;
- (b) policy document on Appointed Actuary: Appointment and Duties; and
- (c) policy document on Operating Cost Controls for Life Insurance and Family Takaful Business.

7. Circulars superseded

7.1 The circulars listed in **Appendix I** are superseded.

PART B ESTABLISHMENT AND MAINTENANCE OF INSURANCE FUNDS**8. Separation of insurance funds**

- S** 8.1 A licensed general insurer must establish and maintain separate insurance funds for its Malaysian policies and for its foreign policies.
- S** 8.2 A licensed life insurer must establish and maintain separate insurance funds for its Malaysian policies and for its foreign policies according to the following categories:
- (a) ordinary participating life policies;
 - (b) ordinary non-participating life policies;
 - (c) annuities participating in profits;
 - (d) annuities not participating in profits; and
 - (e) policies in respect of investment-linked insurance business for each investment fund.
- S** 8.3 A foreign professional reinsurer must establish and maintain separate insurance funds in Malaysia for its Malaysian general policies and in accordance with paragraph 8.2, for its Malaysian life policies.

9. Exceptions on separation of insurance funds

- S** 9.1 Notwithstanding paragraphs 8.1 and 8.2, a licensed insurer, with the prior written approval of the Bank, may maintain one insurance fund for both its Malaysian policies and foreign policies if the total life or general insurance fund in respect of its foreign policies does not exceed RM5 million or 5% of the licensed insurer's total gross premium, whichever is lower.
- S** 9.2 A licensed insurer that has been granted approval under paragraph 9.1 to maintain one insurance fund for both its Malaysian and foreign policies under the foregoing paragraph 9.1 must-
- (a) submit together with its annual audited financial statements, a certificate by its external auditor stating the premium accounted in respect of its

- foreign policies during the financial year; and
- (b) in the case of a licensed life insurer, continue to observe the requirement to maintain the separate insurance funds set out in paragraphs 8.2(a) to 8.2(e).
- S** 9.3 If, at any time, the thresholds specified in paragraph 9.1 are exceeded by a licensed insurer in respect of its foreign policies, the licensed insurer must immediately establish and maintain a separate fund for its foreign policies in accordance with paragraph 8.1 and 8.2.
- S** 9.4 Notwithstanding paragraph 8.2, a licensed life insurer, with the prior written approval of the Bank, may maintain one insurance fund for both its ordinary participating life policies and annuities participating in profits, and another insurance fund for both its ordinary non-participating life policies and annuities not participating in profits, only if any insurance funds in respect of paragraphs 8.2(c) and 8.2(d) would not exceed the lower of-
- (a) 10 million ringgit; or
- (b) 10% of the total ordinary life insurance fund.
- S** 9.5 Where under exceptional circumstances, a licensed life insurer considers the basis of separation of insurance funds as set out in the paragraphs above to be inappropriate, the licensed life insurer must submit for the Bank's prior written approval, an alternative basis providing:
- (a) a justification on why it considers the basis of separation of the insurance funds to be inappropriate; and
- (b) a description of the approach that it proposes to adopt and reasons why the alternative basis is assessed to be more appropriate.
- S** 9.6 A licensed life insurer that writes both participating and non-participating life policies may maintain only one insurance fund for both these policies. However, the fund must be treated in its entirety as an insurance fund for participating life policies.

PART C COMPOSITION OF AN INSURANCE FUND**10. Assets attributed to an insurance fund**

- S** 10.1 A licensed insurer must maintain the assets of each insurance fund separately.
- S** 10.2 The value of an asset in each insurance fund must be determined in accordance with the requirements specified in the policy document on Financial Reporting.
- S** 10.3 The following assets must not be included in an insurance fund:
- (a) goodwill;
 - (b) any amount of capitalised expenditure; and
 - (c) any other item of expenditure similar to the item in paragraph 10.3(b) which is not realisable apart from the business, wholly or partly, to which that insurance fund relates.
- S** 10.4 For a licensed insurer carrying on life business, the amount of surplus arising from fair value gains on investment properties of the life fund which may be distributed to policy owners must be limited to the lower of 30% of the aggregate fair value gains (net of fair value losses) or 10% of the aggregate fair value of the investment properties.
- S** 10.5 A licensed insurer must maintain all relevant information supporting the valuations above for the Bank's review as and when required by the Bank.
- S** 10.6 A licensed insurer must obtain a valuation by an independent professional valuer to validate material fair value changes or revaluations at any time as and when the Bank may require and the cost of such validation must be borne by the licensed insurer.

11. Liabilities attributed to an insurance fund

- S** 11.1 The liabilities of an insurance fund must be valued in accordance with the requirements of the Risk Based Capital Framework for Insurers.

12. Expenses attributed to an insurance fund

- S** 12.1 Expenses must be attributed to the insurance fund against which the expenses were incurred.
- S** 12.2 Expenses which cannot be clearly identified as relating to a particular insurance fund must be allocated among the insurance funds on an equitable basis for each type of expense, to be determined by the Appointed Actuary or the officer in charge of the financial management of the licensed life insurer and to be consistently applied from year to year.

13. Withdrawals from an insurance fund

- S** 13.1 Under section 83(a) of the FSA, a licensed insurer must not make any withdrawal from an insurance fund unless the licensed insurer has complied with such requirements on withdrawals as may be specified by the Bank. Pursuant to section 47(1) of the FSA, these requirements are specified below.
- S** 13.2 For the purpose of withdrawals and the allocation of the surplus of assets over liabilities in respect of the life insurance funds, the term 'participating life policies' includes the following:
- (a) an extension of a participating life policy notwithstanding that the extension does not itself confer a right to the policyholder to participate in allocations, of which the amount or timing is at the discretion of the licensed insurer, from the assets a life insurance fund; or
 - (b) a non-participating policy which has an extension conferring a right to the policyholder to participate in allocations of which the amount or timing is

at the discretion of the licensed insurer, from the assets a life insurance fund.

- S** 13.3 Any withdrawals of the surplus from either a general insurance fund or life insurance fund must be made at the end of the financial year. In addition:
- (a) for a licensed general insurer, such withdrawals must be subject to all instruments or contracts that are binding on the licensed insurer or its constituent documents; and
 - (b) for a licensed life insurer, any withdrawals and allocation of the surplus must be made only on the recommendation of the Appointed Actuary and must be the lower of:
 - (i) the amount recommended by the Appointed Actuary, subject to the limits and proportions set out in this paragraphs 13.4 to 13.13; and
 - (ii) the amount after taking into account any instruments or contracts binding the licensed insurer, or its constituent documents.
- S** 13.4 When an Appointed Actuary recommends the distribution of the surplus of a life insurance fund, the surplus must only be distributed by way of:
- (a) a transfer out of that life insurance fund to the shareholders' fund; and/or
 - (b) for a life insurance fund relating to participating policies, bonus to policyholders.
- S** 13.5 In line with paragraph 9.6, where a licensed life insurer maintains one life insurance fund for its participating and non-participating policies, it must be treated as a life insurance fund consisting entirely of participating policies and as such, the surplus must be attributable wholly to the participating policies.
- S** 13.6 For a life insurance fund relating to non-participating policies, the surplus determined by an actuarial valuation as at the end of a financial year must first be applied to make good any deficit determined by an actuarial valuation of a life insurance fund relating to participating policies before any remaining surplus can be transferred to the shareholders' fund.

- S** 13.7 Where a licensed life insurer does not transfer any part of the surplus to its shareholders' fund under paragraph 13.6, there will be no subsisting entitlement for a subsequent transfer in respect of that remaining surplus, except on the basis of an actuarial valuation at the end of a subsequent financial year, and subject to the requirements in paragraph 13.6.
- S** 13.8 For the surplus of a life insurance fund relating to participating policies, the Appointed Actuary must not recommend that the surplus be transferred to shareholders if he is of the professional opinion that the surplus should be carried forward as an additional reserve to meet the licensed insurer's liabilities to policyholders and reasonable expectations of its policyholders, which are not specifically provided for in the actuarial valuation.
- S** 13.9 Where the Appointed Actuary has recommended the transfer of a surplus of a life insurance fund relating to participating policies, determined by actuarial valuation as at the end of a financial year, the licensed life insurer must not allocate an amount for transfer to its shareholders' fund that exceeds the maximum proportion as determined in a manner set out in Table 1.
- S** 13.10 The maximum proportion of the aggregate surplus which can be allocated for a transfer to the shareholders' fund under paragraph 13.9 is the weighted average computed by dividing the product of the amount within the thresholds and the corresponding proportion as per Table 1 by the aggregate of all life insurance funds relating to participating policies, as at end of the financial year, as illustrated below:

Table 1: Proportion of surplus of participating policies allocated for transfer to shareholders fund

Amount (or part thereof) of the aggregate of life insurance fund relating to participating policies as at the end of the financial year (RM '000,000)		Proportion
Range	Calculation (cumulatively)	
0-300	First 300	20%
301-600	Next 300	15%
601 and above	All exceeding 600	10%

Maximum proportion of amount (in RM '000,000) to be allocated for transfer to the shareholders' fund

$$= \frac{\left[\begin{array}{l} (Amount\ of\ first\ 300 \times 0.2) + \\ (Amount\ of\ next\ 300 \times 0.15) + (Amount\ exceeding\ 600 \times 0.10) \end{array} \right]}{\text{Aggregate of all life insurance funds relating to participating policies as at the end of the financial year}}$$

- S** 13.11 The surplus allocated for the purpose of declaring bonus to policyholders of participating policies must be in the aggregate of:
- the present value of the bonus using the valuation basis of the guaranteed benefits liability, in the case where the bonus is not immediately paid out but is accrued as an additional future obligation under the participating policy;
 - the actual amount payable, in the case where the bonus is immediately paid out upon declaration; and
 - the actual amount paid out, in the case where the bonus has already been paid out in anticipation of the current bonus declaration, or as terminal bonus.
- S** 13.12 Notwithstanding paragraph 13.11(a), for a participating life policy issued on or before 31 December 2009, the present value of the bonus must be determined by discounting the bonus cashflow according to the contingencies on which the bonus is payable, and by applying:
- the following mortality tables:
 - the Valuation Mortality Table 1996 for male lives;
 - the Valuation Mortality Table 1996 rated down three years for female lives;

- a(90)m annuitants mortality table rated down two years for annuities on male lives; or
- a(90)f annuitants mortality table rated down two years for annuities on female lives; and

(ii) the following rates of interest:

- 5% per annum (p.a.) for annuities;
- 4.5% p.a. for single premium policies; or
- 4% p.a for other policies.

S 13.13 Where an Appointed Actuary does not recommend the allocation of the entire surplus of the life insurance fund relating to participating policies, or where a licensed life insurer does not transfer any part of the surplus to its shareholders' fund, the policyholders or shareholders will not have any subsisting entitlement for a subsequent allocation or transfer in respect of that remaining surplus, except on the recommendation of the Appointed Actuary as at the end of a subsequent financial year, and subject to the requirements in paragraphs 13.9 and 13.12.

S 13.14 Where a life insurance fund is determined to be in deficit by an actuarial valuation as at the end of a financial year the licensed life insurer must:

(a) apply any amount, determined as transferable to the shareholders' fund in accordance with the requirements in this section from another life insurance fund, to make good the deficit; and

(b) immediately make good any deficit subsisting by a transfer from the shareholders' fund into the life insurance fund in compliance with the requirement in section 82(1)(b) of the FSA.

S 13.15 Where a licensed life insurer maintains more than one life insurance fund relating to participating policies in accordance to section 81(1) of the FSA, the licensed life insurer must not apply the surplus of a participating life insurance fund to make good the deficit, or to augment the surplus, in another participating life insurance fund except to the extent of the amount recommended by its Appointed Actuary as transferable to its shareholders' fund.

PART D SPECIFIC REQUIREMENTS RELATED TO ASSETS**14. Title of document and restrictions on assets**

- S** 14.1 An asset of a licensed insurer must be held in its corporate name and all documents evidencing its title or right to an asset must be in its corporate name, unless the licensed insurer has obtained prior approval of the Bank for assets to be held in the name of its nominee.
- S** 14.2 The documents referred to in paragraph 14.1 must be kept in Malaysia, unless-
- (a) the licensed insurer has received prior written approval from the Bank for the documents to be kept outside Malaysia, subject to any conditions that may be specified; or
 - (b) the documents are kept in the custody of the licensed insurer, or a bank, in the country where it is carrying on business to the extent that the assets relate to its business in that country.
- S** 14.3 The documents kept in Malaysia must be in the custody of-
- (a) the licensed insurer;
 - (b) a licensed bank; or
 - (c) where for any special reason a document is kept in the custody of any person other than the licensed insurer or a licensed bank on its behalf, then the licensed insurer must notify the Bank in writing of that person and the reasons for his custody and of any change in that custody and the reason for it.
- S** 14.4 In relation to paragraph 14.2(b), the licensed insurer must notify the Bank in writing of the custodian of its documents and must be able to produce a certificate from the custodian or its auditor verifying the existence of the documents to the Bank upon request.
- S** 14.5 A licensed insurer must be able to produce a document referred to in paragraph 14.2(a) and paragraph 14.3 to the Bank within such period as may

be specified by the Bank in a written notice to the licensed insurer or to the custodian of the documents.

- S** 14.6 A licensed insurer must obtain the prior written approval of the Bank to pledge or charge any of its assets or securities, except when the pledge or charge is for the following purposes:
- (a) to obtain utilities such as electricity, water, telephone, petrol supply and medical facilities;
 - (b) to obtain overdraft facilities to meet a temporary shortfall in current accounts maintained for the purpose of daily operations; and
 - (c) to secure a mortgage loan where the property is assigned for its own use.
- G** 14.7 The assets pledged or charged for which the Bank's prior written approval is required under paragraph 14.6 include those pledged or charged for a repurchase agreement (repo) entered into by a licensed insurer. The Bank may grant a one-off approval for all subsequent repos undertaken by a licensed insurer. However, any approval granted to the licensed insurer may be reviewed by the Bank from time to time, taking into account the adequacy and appropriateness of the licensed insurer's risk management as well as internal governance to manage risks associated with such transactions.
- S** 14.8 Any assets pledged or charged for the purpose referred to in paragraph 14.6(c) must not be sourced from the insurance funds of the licensed insurer.
- S** 14.9 The requirements related to assets in paragraphs 14.1 to 14.7 are also applicable to assets in the shareholders' fund of a licensed insurer.

PART E OTHER REQUIREMENTS

15. Register of policies and register of claims

- S** 15.1 A licensed insurer must establish and maintain –
- (a) a separate register for its Malaysian policies and for its foreign policies; and
 - (b) a separate register for claims under its Malaysian policies and for claims under its foreign policies,
- at its principle place of business in Malaysia, unless it has received written approval from the Bank for the registers to be kept outside Malaysia.
- S** 15.2 The register of policies and register of claims referred to in paragraph 15.1, must provide for the details specified in **Appendix II** and **Appendix III**.
- S** 15.3 A licensed insurer must enter into the respective registers –
- (a) every policy, immediately after its issue by, or transfer to, the licensed insurer; and
 - (b) every insurance claim, immediately upon the licensed insurer becoming aware of it,
- and no policy or insurance claim so entered must be removed from their respective registers so long as the licensed insurer is under any liability in respect of that policy or insurance claim.
- S** 15.4 A licensed insurer, at the request of a person having an interest in a policy or insurance claim, must inform that person whether or not the policy or insurance claim is entered in the register.

PART F APPENDICES**Appendix I List of circulars superseded**

1. *Direction to Establish Separate Life Insurance Funds (JPI: 28/1997)* issued on 10 May 1997
2. *Section 38 of the Insurance Act 1996 - Establishment of Separate Insurance Funds (JPI: 34/1997)* issued on 17 June 1997
3. *Approval to pledge assets under section 53 of the Insurance Act 1996 (JPI: 44/1999)* issued on 1 December 1999 ;and
4. *Application of Financial Reporting Standards (FRS):*
 - i. *FRS 140 : Investment properties*
 - ii. *FRS 116: Property , Plant and Equipment**(JPI: 3/2006)* issued on 28 February 2006

Appendix II Register of policies

(a) Life policies other than group life policies	(b) Group life policies	(c) General policies
(i) Name of policy owner	(i) Name of master policy owner	(i) Name of policy owner
(ii) Address of policy owner	(ii) Address of master policy owner	(ii) Address of policy owner
(iii) Policy number, cover note number or reference number	(iii) Policy number, cover note number or reference number	(iii) Policy number, cover note number or certificate number
(iv) Name of life insured (if different from policy owner)	(iv) Type of group life scheme	(iv) Class of insurance
(v) Age of life insured and whether admitted	(v) Period of insurance	(v) Subject matter of insurance
(vi) Name, relationship and address of nominee	(vi) Particulars of lives insured (either names or lives insured or class or description of persons insured)	(vi) Period of insurance
(vii) Date of commencement of policy	(vii) Premium rate	(vii) Perils insured
(viii) Policy plan (product type)	(viii) Premium amount	(viii) Sum insured
(ix) Sum insured	(ix) Particulars of sum insured	(ix) Gross premium
(x) Normal premium and additional premium for extra risks or supplementary benefits		
(xi) Mode of payment of premium		
(xii) Date of last payment of premium		
(xiii) Term and date of maturity of policy		
(xiv) Participating or non-participating life policy		
(xv) Premium default plan applicable (e.g. automatic policy loan, conversion to paid-up policy, extended term life policy and others)		

Appendix III Register of claims

(a) Life policies	(b) General policies
(i) Name of policy owner	(i) Name of policy owner
(ii) Address of policy owner	(ii) Address of policy owner
(iii) Policy number	(iii) Policy number, cover note number or certificate number
(iv) Name of life insured (if different from policy owner)	(iv) Class or description of insurance
(v) Name of claimant	(v) Name of claimant
(vi) Address of claimant	(vi) Address of claimant
(vii) Claim number	(vii) Claim number
(viii) If claimant is not the life insured, claimant's relationship with the life insured or policy owner (e.g. legal representative, nominee, beneficiary, trustee or assignee)	(viii) If claimant is not the life insured, claimant's relationship with the life insured or policy owner (e.g. legal representative, nominee, beneficiary, trustee or assignee)
(ix) Date of event giving rise to the claim	(ix) Date of event giving rise to the claim
(x) Date of first intimation	(x) Date of first intimation
(xi) Nature of claim	(xi) Nature of claim
(xii) Amount claimed	(xii) Estimate of claim amount
	(xiii) Amount claimed