Communication Session:
Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (DITO Framework)

2 December 2024
Conference Hall 1, Sasana Kijang

Protection gaps remain wide particularly among the “at-risk” segments in advancing inclusive protection

“At-risk” segments refer to those who may not have sufficient financial buffers in the case of unexpected events and with limited awareness/understanding of the value of such financial protection[1]



Business interruption
Only 15% of SMEs have protection cover



Long-term care
Inadequate healthcare services relating to long-term disabilities, further exacerbated by rising medical costs



Life/Family
Only 25% of lower-income working adults have some form of life/family takaful cover (general population: 59%)



Micro
Protection gaps still exist for vulnerable segments



Retirement
Inadequate products available to manage longevity risks arising from aging demographics and longer life expectancy



Climate-related
Heightened vulnerabilities to losses arising from climate events (e.g. floods)



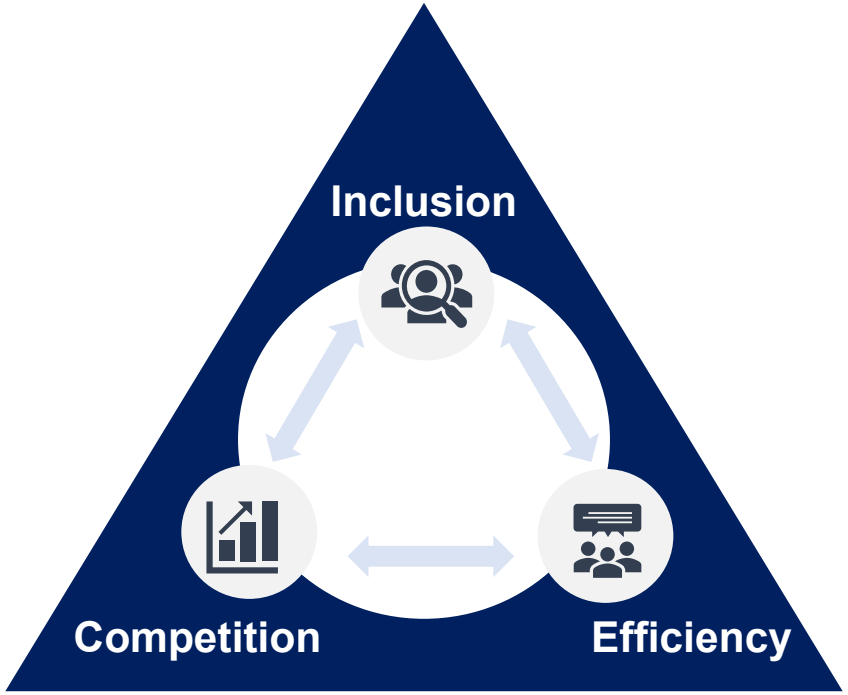
Unemployment
Limited offerings for income protection against unemployment, especially for self-employed/gig workers

1. The Bank’s Strategy Paper on Financial Inclusion Framework 2023 – 2026 also provides guidance the definition of unserved and underserved segments.

DITO framework aims to facilitate the entry of DITOs that can deliver <u>all three</u> value propositions of inclusion, competition and efficiency

Enhance financial resilience of consumers whose protection needs are currently either not served or not adequately served

Meaningful and responsible innovation that can transform consumer experience



The financial protection gap is widespread across income groups, occupation, geographical location, risk profile and activities

Introduce innovative products to cater to the diverse protection needs of consumers

Provide convenient and seamless consumer experience with greater cost savings

The DITO framework at a glance…

Addressing consumer and market needs

Meet all Inclusion, Competition and Efficiency value propositions

Minimum paid-up capital

Minimum RM30 million during the foundational phase

Foundational phase

Minimum 3 and maximum 7 years

Fully optimise digital means

Web-based or mobile based, limited physical access points may be permitted

Direct distribution

No distribution via agents/banca with in-person interaction with consumers

More focus accorded for the applicants to consult BNM

Application Window: 2 Jan 2025 – 31 December 2026 (2 years)



Consultation

Application submission & assessment by the Bank

Recommendation to Minister

Operational readiness review

Grant of licence & commencement of business

To align expectations, prior to submission of the formal application

- Intentions of the aspiring DITO
- The Bank's expectations

For the consultation process, interested applicants are required to come prepared with clarity on their business plan

1. Interested applicant to email ditf@bnm.gov.my with an expression of interest to apply

2. The Bank will inform interested applicant of the proposed date for consultation meeting with BNM

3. Interested applicant to agree on proposed date for consultation meeting

4. Interested applicant to submit the required information to the Bank at least 2 weeks before the consultation meeting

   Interested applicant may engage consultant to prepare for and invite them to attend the consultation meeting

5. The consultation meeting may be iterative. The Bank may limit the number of meetings, particularly where there are significant gaps



Consultation

Interested applicant to submit the following prior to scheduled consultation:

1 Description of business plan

With elaboration on

- *Business activities to meet the value propositions*
- *Technology architecture*
- *Potential risks and planned measures to manage risks*
- *Resources available*

2 Description of (prospective) shareholders

Value propositions should be well-supported…

Minimum required content outlined in the DITO PD

Business plan items	Minimum required content
1. **Value propositions**	The business plan must emphasise and be aligned with the value propositions that the applicant is offering. With respect to improving financial inclusion, competition and efficiency, the business plan shall include – (a) a description of the specific unserved and underserved target segments and the critical protection gaps that the applicant intends to serve; (b) the proposed protection products and services that will be offered and a description of how the proposed products and services will result in advancing the inclusion, competition and efficiency value propositions, that is aligned with the problem statements and challenge statements described in **Appendix I**; (c) an explanation on how the proposed products and services to be offered will address the specific needs of the target segment and identified critical protection gaps. This may include information on indicative pricing and how it is affordable for the target segment; (d) indicate in the pro-forma financial statements, the market share of business from the identified unserved and underserved segments relative to the overall projected operations; (e) relevant supporting information about the applicant that provides justification on the applicant's ability to deliver its inclusion, competition and efficiency value propositions; and (f) performance indicators that reflect the applicant's value proposition in driving the financial inclusion, competition and efficiency objectives. These indicators must be complemented by a monitoring and evaluation plan (including mitigating actions for potential of not meeting the performance indicators) to ensure the applicant's progress in fulfilling its value propositions and the financial needs of the identified target segments.

Key considerations in developing the value propositions

1. Identification of the areas listed must be supported by market studies and analyses of the relevant target segment and critical protection gap

2. Interested applicants may leverage on studies or analyses by external parties or publicly available references, but must be justified and credible

3. In identifying the relevant performance indicators, interested applicant may also refer to the Bank's desired outcomes and targets as outlined in the:
   - Financial Sector Blueprint 2022-2026
   - Strategy Paper on Financial Inclusion Framework 2023-2026

Note: For consultation process, description of the business activity and how the proposed product and/or service may advance the inclusion, competition and efficiency value propositions will be necessary

…alongside key information on exit plan

An applicant is to submit an exit plan for the foundational phase, on the following aspects:



Governance

- Roles/responsibilities of board, senior management and business units
- Robust policies, procedures, and management information systems



Exit Triggers

- Identification of factors and continuous monitoring of indicators/thresholds



Execution of measures that enables an orderly exit from the business

- Possible actions that can be undertaken under different scenarios



Communication and engagement strategy

- Identification of key stakeholders and clear action plans to sentiments and potential reputational risks

The exit plan is to be initiated under specific circumstances*:

1. Failure to deliver its business plan commitments or remain on a credible path to profitability
2. Failure to comply with licensing conditions or prevailing regulatory requirements by the end of the foundational phase
3. Failure by shareholders to comply with the shareholding conditions
4. Material operational disruptions

*Non-exhaustive