



Licensing of **Digital Insurers & Takaful Operators**

In late 2020, the Central Bank of Malaysia (“**CBM**”) had introduced the Licensing Framework for Digital Banks (“**Digital Banking Framework**”). ‘Digital banking’ is described as a banking business which is carried on wholly or almost wholly through digital or electronic means and extends to cover Islamic digital banking. Following the launch of the Digital Banking Framework, the CBM had received by middle of 2021 a total of 29 different applications. Among the 29 applicants, Sea Group-YTL Berhad, Grab-Singtel, RHB Group-Axiata, Green Packet and iFAST are some of the notable applicants. Notwithstanding the large number of applications, the CBM will only be granting 5 digital banking licenses and the CBM is set to announce very soon in early 2022 the 5 successful applicants. With this, Malaysia will take the place of being the second country after Singapore in ASEAN to issue digital banking licenses.

As we await the announcement of the successful applicants of the digital banking licences, the CBM is now looking to introduce a licensing framework for digital insurers and takaful operators as an extension to the world of digital banking. At the start of the new year on 4 January 2022, the CBM had issued a discussion paper for the proposed framework (“**Proposed Framework**”) to obtain feedbacks from all stakeholders, interested applicants and the public. All feedbacks are to be submitted to the CBM by 28 February 2022. Under the Proposed Framework ‘digital insurance business’ and ‘digital takaful business’ means the insurance and takaful business, respectively, which is carried on wholly or almost wholly through digital or electronic means.



At present, it has been identified that the insurance and takaful industry presents many gaps, for instance:-

- (a) the lack of financial protection for at-risk groups such as the lower income groups who may not have the financial capability to purchase insurance coverage or plan for unexpected risk events, small-and-medium enterprises who may not have been protected against business disruptions due to unforeseen circumstances such as the COVID-19 pandemic or other community groups who may lack the awareness and understanding of the importance and need of insurance coverage;
- (b) the absence of affordable and suitable insurance protection coverage for certain areas such as cyber threats, business disruptions and climate-related risks amongst others in light of the transforming and evolving preferences, lifestyles, demographics and needs of society;
- (c) the sole reliance on person-to-person customer service and the limited number of touchpoints which results in long turn-around time and inefficiency, especially during this season of the pandemic.

In an effort to bridge these critical gaps within the insurance and takaful industry, the CBM hopes to introduce the Proposed Framework which sets out the proposed entry requirements and key assessment criteria for the licensing of digital insurers and takaful operators.

The CBM has indicated through the Proposed Framework that it would take a keen interest in applicants who can demonstrate the following value propositions:-

- (a) Inclusion - applicants who are able to develop and deliver affordable solutions that meet the needs of those at-risk groups and increasing access to insurance within and throughout the population;
- (b) Competition - applicants who can leverage on the expanding digital technology and differentiate themselves from the existing players by offering competitive on-demand, tailored and innovative solutions that are relevant to the public; and

- (c) Efficiency - applicants who can develop the industry processes and enhance customer satisfaction by promoting efficiency.

In addition to the value propositions, the CBM is also considering a lower minimum paid-up capital requirement of RM40,000,000-00 at the point of entry on the basis of lower operating costs in the absence of physical access points and heavier reliance on digital technology which improves cost efficiency and quicker turn-around time for delivery. Having said this, digital insurers and takaful operators are still required to comply with the CBM's policy under the Bank's Risk-Based Capital Framework for Insurers and Risk-Based Capital Framework for Takaful Operators in order to ensure prudent management of risks exposures.

It should also be noted that to be licensed with CBM under the Proposed Framework, digital insurers and takaful operators must establish and maintain a registered office in Malaysia pursuant to Section 46 of the Companies Act 2016. Nevertheless, digital insurers and takaful operators are still expected to carry on its operation wholly or almost wholly through digital or electronic means.



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