



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Licensing and Regulatory Framework for Digital Insurers and Takaful Operators

Policy Document

Applicable to:

1. Applicants under section 10 of the Financial Services Act 2013 (FSA) to carry on digital insurance business
2. Applicants under section 10 of the Islamic Financial Services Act 2013 (IFSA) to carry on digital takaful business
3. Licensed digital insurers
4. Licensed digital takaful operators
5. Shareholders of proposed licensed digital insurers and proposed licensed digital takaful operators
6. Prospective shareholders of licensed digital insurers and licensed digital takaful operators

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PART A OVERVIEW

1. Introduction

- 1.1 Digital technology advancements have enabled significant transformations in the insurance and takaful sector, through innovative product design, risk-responsive underwriting practices, more efficient claims management processes and seamless services to consumers. Innovative applications of digital technology such as artificial intelligence (AI) including generative AI, machine learning (ML), the Internet of Things (IoT), distributed ledger technology and digital marketplaces have expanded the range and accessibility of insurance/takaful products to the wider population, underpinned by simple and affordable financial protection to meet the diverse needs of consumers beyond traditional protection coverage. The insurance and takaful landscape have also witnessed the increasing partnership between licensed insurers and takaful operators (“ITOs”) with insurtechs offering modular technology-based services across the insurance and takaful value chain. Such partnerships promote innovation through the exchange of expertise as well as greater efficiencies in the licensed ITOs’ operations and processes.
- 1.2 One of the aspirations in the Bank’s *Financial Sector Blueprint 2022–2026* is to close protection gaps by advancing digitalisation of the financial sector and elevating the dynamism of the insurance and takaful sector. In achieving this outcome, this policy document sets out the licensing and regulatory requirements for digital insurers and takaful operators¹. This policy document aims to facilitate the entry of licensed digital insurers and takaful operators (“DITOs”) with strong value propositions to serve the unserved and underserved market, provide competitive offerings and enhance consumer experience via the adoption of advanced digital technology and innovative business models. The Bank expects that the entry of licensed DITOs will increase the dynamism of the Malaysian insurance and takaful landscape by complementing the role and services offered by existing licensed ITOs.
- 1.3 The Bank acknowledges that digital technology and innovative business models bring about a different set of opportunities and risks to the Malaysian financial sector. As such, a balanced approach that facilitates the continuous development of a sound, progressive and inclusive financial system, while safeguarding financial soundness and the interests of policy owners and takaful participants is adopted in calibrating the appropriate licensing and regulatory requirements.

¹ This policy document is a follow-up from the Discussion Paper on *Licensing Framework for Digital Insurers and Takaful Operators* issued on 4 January 2022 and the Exposure Draft on *Licensing and Regulatory Framework for Digital Insurers and Takaful Operators* issued on 25 November 2022, respectively.

- 1.4 This policy document sets out requirements that account for differences in the business and operating models of licensed DITOs to unlock their full potential, while ensuring appropriate safeguards are in place to manage the associated risks. This includes:
- (a) the value propositions required of licensed DITOs in serving the insurance/takaful protection needs of consumers;
 - (b) the types of business models that can be adopted by licensed DITOs;
 - (c) application requirements for the establishment and licensing of DITOs; and
 - (d) regulatory requirements to be observed by licensed DITOs, based on the principles of proportionality and parity². These include requirements applicable during the foundational phase and thereafter, among others, the minimum paid-up capital, prudential and business conduct requirements, permissible product distribution channels and physical access points.
- 1.5 As the risks relating to digital insurance/takaful and digitalisation of the insurance and takaful value chain may be different with evolving market conditions, the Bank may review the requirements imposed on licensed DITOs including specific obligations and requirements for licensed DITOs to manage such risks.

2. Applicability

- 2.1 This policy document is applicable to–
- (a) an applicant applying for a licence under section 10 of the Financial Services Act 2013 (“FSA”) or section 10 of the Islamic Financial Services Act 2013 (“IFSA”) to carry on digital insurance business or digital takaful business, as the case may be;
 - (b) a licensed digital insurer or a licensed digital takaful operator (“licensed DITO”);
 - (c) the shareholders of a proposed licensed DITO who require an approval under section 90 of the FSA or section 102 of the IFSA for the holding of interest in shares of a proposed licensed DITO; and
 - (d) the prospective shareholders who require an approval under section 90 of the FSA or section 102 of the IFSA for the acquisition of interest in shares in a licensed DITO.
- 2.2 For avoidance of doubt, in addition to the requirements that must be complied with by an applicant (e.g. requirements under Part C), this policy document also sets out certain requirements that must be adhered to by successful applicants i.e. licensed DITOs (e.g. requirements under Part D).

² Entry requirements will be calibrated to commensurate with the size, profile and scope of business of licensed DITOs (“proportionality”), and that the same type of risks will be regulated similarly as in the case of licensed ITOs based on the “parity” principle.

3. Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to–
- (a) sections 9, 25(1), 47(1), 123(1) and 143 of the FSA; and
 - (b) sections 9, 22(1), 57(1), 135(1) and 155 of the IFSA.
- 3.2 The guidance in this policy document is issued pursuant to section 266 of the FSA and section 277 of the IFSA.

4. Effective date

- 4.1 This policy document comes into effect on 2 January 2025.

5. Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and IFSA, as the case may be, unless otherwise defined in this policy document.

- 5.2 For the purpose of this policy document–

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplement and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**consumer**” refers to individuals, households or businesses, or all of these, as the case may be;

“**digital insurance business**” refers to insurance business as described in section 5(4) of the FSA which is carried on wholly or almost wholly through digital or electronic means;

“**digital takaful business**” refers to takaful business as defined and described in sections 2(1) and 5(4) of the IFSA which is carried on wholly or almost wholly through digital or electronic means;

“**foundational phase**” for a licensed DITO, refers to the minimum period of three years and the maximum period of seven years, from the date the licensed DITO commences its digital insurance or digital takaful business in Malaysia;

“licensed digital insurers or licensed digital takaful operators” or **“licensed DITOs”** refer to–

- (a) a person licensed under section 10 of the FSA to carry on digital insurance business; or
- (b) a person licensed under section 10 of the IFSA to carry on digital takaful business;

“risk-sharing protection model” includes an insurance or takaful arrangement managed or administered by a licensed DITO, where policy owners/takaful participants agree to pool premiums or takaful contributions to provide financial benefits upon the occurrence of one or more specified events. In relation to such arrangement, the licensed DITO may be responsible to promote the sustainability of the risk-sharing protection arrangement in accordance with the terms and conditions of the policy or takaful certificate.

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, including any amendments or reissuance thereafter, in particular–
- (a) *Application Procedures for New Licences under Financial Services Act 2013 and Islamic Financial Services Act 2013 (“Licensing Procedures”)* issued on 27 December 2019;
 - (b) *Application Procedures for Acquisition of Interest in Shares and to be a Financial Holding Company (“Acquisition Procedures”)* issued on 27 December 2019;
 - (c) *Approach to Regulating and Supervising Financial Groups* issued on 21 May 2014;
 - (d) *Corporate Governance* issued on 3 August 2016;
 - (e) *Financial Technology Regulatory Sandbox Framework* issued on 29 February 2024;
 - (f) *Fit and Proper Criteria* issued on 28 June 2013;
 - (g) *Fair Treatment of Financial Consumers* issued on 27 March 2024;
 - (h) *Guidelines on Product Transparency and Disclosure* issued on 31 May 2013³;
 - (i) *Prohibited Business Conduct* issued on 15 July 2016;
 - (j) *Outsourcing* issued on 23 October 2019;
 - (k) *Responsibility Mapping* issued on 29 December 2023;
 - (l) *Risk-Based Capital Framework for Insurers* issued on 17 December 2018;
 - (m) *Risk-Based Capital Framework for Takaful Operators* issued on 17 December 2018;
 - (n) *Risk Management in Technology* issued on 1 June 2023;
 - (o) *Shareholder Suitability* issued on 18 August 2016;
 - (p) *Shariah Governance* issued on 20 September 2019; and
 - (q) *Takaful Operational Framework* issued on 26 June 2019.

³ The Bank is currently reviewing the requirements on *Product Transparency and Disclosure*.

PART B ELIGIBILITY CRITERIA

7. Value propositions

- 7.1 In line with the best interest of Malaysia criteria as set out under Schedule 5 of the FSA or IFSA, applicants are required to demonstrate, to the Bank's satisfaction, meaningful value propositions that will contribute towards long-term social and economic benefits for Malaysia. Specifically, applicants shall be committed to drive **all** of the following outcomes in a sustainable manner:
- (a) **Inclusion** – Enhanced financial resilience of consumers whose protection needs are currently either not served or not adequately served (“unserved or underserved”);
 - (b) **Competition** – Innovative insurance/takaful products to cater to the diverse protection needs of consumers; and
 - (c) **Efficiency** – Convenient and seamless consumer experience with greater cost savings.
- 7.2 Applicants are encouraged to consider the problem statements and challenge statements outlined in **Appendix I**, which provide examples of critical protection gaps and issues experienced by consumers. Nevertheless, applicants may also identify other key protection gaps to meet the needs of the Malaysian market that are consistent with the outcomes outlined in paragraph 7.1. The identification of such protection gaps to demonstrate the applicant's value propositions shall be compelling and supported by credible data and relevant market research.
- 7.3 Applicants are also encouraged to adopt new and emerging technology-based solutions⁴ in their business model and operations that would contribute to the meaningful achievement of their value propositions. In this regard, the applicant must demonstrate tangible evidence on how such technology-based solutions contribute to the inclusion, competition and efficiency value propositions, and whether the applicant's governance arrangements and internal controls are sufficiently robust to ensure associated risks are appropriately managed and mitigated, as well as ensure such solutions do not lead to harm or unfair outcomes to consumers.

⁴ Such as big data, AI (including generative AI), ML, IoT, distributed ledger technology or quantum computing etc.

Value proposition 1: Inclusion

- 7.4 Financial protection is an important tool to promote resilience and sustainability, thus contributing towards reducing poverty and improving social and economic conditions, particularly for more vulnerable segments of society. Digital technology can increase the subscription of insurance/takaful products through the development and offering of affordable products that address various protection needs of consumers and facilitate easy access to such insurance/takaful products. Adoption of emerging technology in a fair and ethical manner, underpinned by robust and transparent governance framework can facilitate financial inclusion. For example, adoption of advanced analytical tools in underwriting can improve risk assessments and the understanding of customer profiles and behaviours through its ability to analyse wider and alternative data sources. This in turn would allow offerings of more suitable protection products with tailored coverage and pricing.
- 7.5 Protection gaps remain particularly significant among the “at-risk” segments which may not have sufficient financial buffers in the case of unexpected risk events. For example, only 15% of the small-and-medium enterprises (“SMEs⁵”) have insurance/takaful cover (typically against fire and property damage risks)⁶ and only 25% of working adults among households in the lower income group have some form of life insurance or family takaful cover (in contrast to the working adults of the general population that stood at 59%)⁷. These protection gaps exist partly due to the following factors:
- (a) market frictions, inefficiencies and failures as well as limited financial buffers, resulting in the undersupply of suitable and affordable insurance/takaful products for the “at-risk” segments; and
 - (b) limited awareness and lack of understanding of the value of such financial protection.
- 7.6 In relation to the ***inclusion*** value proposition, an applicant must demonstrate its capability to meaningfully close critical protection gaps in the Malaysian market and serve consumer segments whose protection needs are currently unserved or underserved by existing licensed ITOs in the market. This should include efforts in providing financial education to ensure individuals make responsible and informed decisions to improve their financial well-being. These critical protection gaps include, but not limited to, financial protection for retirement, gig workers, unemployment, liability, long-term care, business interruption, cyber risks, and climate-related risks. Please refer to **Appendix I** for further details on these protection gaps.

⁵ As defined by SME Corporation Malaysia.

⁶ Source: Asia Insurance Review (2019) *Malaysia: SME face underinsurance risk*. In Malaysia, there are about 1.2 million SMEs accounting for 97% of total business establishments in 2020 (Source: Department of Statistics Malaysia).

⁷ Source: BNM internal data (2020).

Value proposition 2: Competition

- 7.7 Globally, there remain significant opportunities for the insurance and takaful sector to adopt innovative and transformative digital technology⁸. This may be attributed to, among others, traditional delivery channels and consumer engagement practices that have limited touchpoints or interactions if no claims are made following the purchase of an insurance/takaful product. Changes in consumer preferences, lifestyles and demographics in recent years have provided new opportunities for the insurance and takaful sector to increase the level of engagement with consumers and be more responsive in introducing and pricing products that can promote positive behaviours to enhance consumers' risk profiles and financial resilience. These may materialise in the form of more personalised and innovative insurance/takaful coverage which are embedded within the purchase journey of a product or service via a platform, to meet the protection needs of consumers – when and where it is needed the most.
- 7.8 In relation to the **competition** value proposition, an applicant must demonstrate its capacity and plans to bring meaningful innovations to the market that promote healthy competition across the insurance and takaful sector and their value chain, as well as positive consumer outcomes that better reflect changes in behaviours and risk profiles of consumers. Applicants must be able to clearly differentiate themselves through the offering of innovative insurance/takaful products and value-added services to consumers. This must be supported by a sound understanding of the pain points faced by customers or, the needs and preferences of new customers that may not be served by existing licensed ITOs.

Value proposition 3: Efficiency

- 7.9 There is scope for applicants to leverage digitalisation to bring about greater efficiency and create a more seamless experience for consumers, from onboarding to claims payment. This in turn will bring about more responsible and risk-informed pricing practices that are sustainable in the long-term. For example, online platforms⁹ may be utilised to ease submission of documentation by consumers, complemented by transparency in processing of claims, good and consistent levels of customer support and services, as well as short turnaround times by the applicants when dealing with customers.
- 7.10 In relation to the **efficiency** value proposition, an applicant must demonstrate its ability to deliver fast, seamless and efficient end-to-end processes, to bring about greater cost savings in the insurance and takaful value chain, as well as to deliver better consumer outcomes and improved customer experience.
- 7.11 To reflect the value proposition commitments above and in meeting the best interest of Malaysia criteria effectively, the shareholders of an applicant may offer an enforceable undertaking pursuant to section 259 of the FSA or section 270 of the IFSA. Appropriate conditions may be imposed on a licensed DITO pursuant to section 10(4) of the FSA and IFSA reflecting the value proposition commitments that the licensed DITO must fulfil.

⁸ Source: International Insurance Society (2020) *The Insurance Industry's Innovation Challenge*.

⁹ This may include the use of technology-based solutions to perform accurate assessments of the insurance or takaful claims.

8. Eligible business models

- 8.1 The Bank recognises that licensed DITOs may adopt a range of business models that align with their respective capabilities and expertise to meet diverse consumer demands across the insurance and takaful sector and their value chain. In establishing their operations, some DITOs opt for full assumption of insurance/takaful risks (by leveraging on appropriate risk-transfer mechanisms to manage their underwriting capacities), while others administer risk-sharing arrangements with fresh approaches to respond to the insurance/takaful protection needs of consumers.
- 8.2 Under this policy document, it is expected that innovative business models should facilitate the achievement of the outcomes described in paragraph 7. In this regard, licensed DITOs may:
- (a) fully assume insurance/takaful risks, with reasonable ceding out of risks to reinsurers/retakaful operators, where relevant, to manage their respective underwriting capacities; or
 - (b) adopt risk-sharing protection models, subject to meeting the Bank's minimum criteria to mitigate risks to consumers.
- 8.3 Some market players have also directed their focus to serve as intermediaries to connect consumers with licensed ITOs without assuming insurance/takaful risks directly. In this regard, intermediaries such as financial advisers, insurance or takaful agents, and insurance brokers which are currently not assuming any insurance/takaful risks and not planning to do so in the future are scoped out from this policy document.
- 8.4 Where there are limitations in the ability to fully meet the requirements under paragraph 8.2(a), licensed DITOs may gradually build up their underwriting capacity and capability during the foundational phase. In this regard, an applicant aspiring to be a licensed DITO may explore suitable arrangements to build up its underwriting capacity and capability via appropriate mechanisms such as arrangements to cede out risks to reinsurers/retakaful operators or partnerships with other ITOs.
- 8.5 The applicant must provide to the Bank and be ready to implement a credible plan to increase its underwriting capacity, capability and retention level of their insurance/takaful risks by the end of the foundational phase, in addition to demonstrating clear value propositions to serve critical protection gaps in Malaysia.

- 8.6 Specifically for applicants aspiring to be a licensed DITO with proposed partnership arrangement with another ITO to gradually build up its underwriting capacity and capability as per paragraph 8.4, the applicant must submit the following information as part of its formal application:
- (a) details of the partner ITO (e.g. name, address, contact details, organisational structure);
 - (b) details of the operating model, including any centralised and shared services or functions between the applicant and the partner ITO; and
 - (c) estimated timeline for the applicant to increase its underwriting capacity and capability.

Minimum criteria for risk-sharing protection models

- 8.7 While risk-sharing protection models may have the potential to offer affordable and suitable insurance/takaful protection coverage for policy owners/takaful participants, variations in the manner that the risk-sharing protection model is administered by an applicant may give rise to business conduct issues and jeopardise the interest of policy owners/takaful participants who do not fully understand the concept of risk-sharing protection models, especially those with lower financial literacy.
- 8.8 In considering the suitability of the risk-sharing protection model to be administered by an applicant, the applicant must demonstrate its ability to:
- (a) effectively implement mechanisms to assess the suitability and affordability of the consumer participating in the risk-sharing protection model; and
 - (b) effectively manage the insurance/takaful risk and other risks inherent in the risk-sharing protection model, including:
 - (i) ensuring the sustainability of the risk sharing arrangement with adequate access to liquidity and financial resources to meet claims at all times;
 - (ii) observing sound underwriting practices based on credible data to determine the amount of premiums/takaful contributions required from policy owners/takaful participants; and
 - (iii) ensuring adequate transparency and disclosures to policy owners/takaful participants that facilitate understanding of the risk-sharing protection model.
- 8.9 The Bank may establish specific requirements for risk-sharing protection models based on an assessment of submissions made by applicants.

PART C APPLICATION PROCEDURES AND SUBMISSION REQUIREMENTS

9. Application process

- 9.1 An applicant shall submit a formal application for a digital insurance business or digital takaful business licence in accordance with the procedures set out in Part C of the Policy Document on *Licensing Procedures*, including the requirement in paragraph 10.2 of the Policy Document on *Licensing Procedures* for any applicant to meet and discuss with the Bank prior to the submission of its application.
- 9.2 An applicant that wishes to apply for a licence to carry on digital insurance business or digital takaful business must submit its formal application to the Bank during the licensing application period between 2 January 2025 till 31 December 2026¹⁰, in accordance with the requirements outlined in this policy document and other relevant policy documents referred to in this policy document.
- 9.3 Existing licensed ITOs that wish to carry out digital insurance or digital takaful business separately from their current insurance/takaful business, may apply to carry on digital insurance or digital takaful business through a separate body corporate, such as a subsidiary. However, existing licensed ITOs are not required to obtain a separate licence under this policy document to digitalise their current licensed insurance/takaful business operations.
- 9.4 In assessing an application under paragraph 9.1, the Bank may also consult other relevant regulatory and supervisory authorities in and outside Malaysia.
- 9.5 The Bank endeavours to process the application received by the Bank within a reasonable time. This is conditional on the ability of the applicant to ensure timeliness and completeness of information submitted to the Bank to facilitate the Bank in processing the application. The submission of a licensing application is only considered as complete when the required documents and information (including any additional documents or information requested) have been received by the Bank during the licensing application period between 2 January 2025 till 31 December 2026.
- 9.6 The Bank will only make a recommendation to the Minister to grant a licence, with or without conditions, if based on its assessment, the Bank is satisfied in accordance with the FSA or IFSA and this policy document, that an applicant may be granted a licence.
- 9.7 The applicant will also be notified by the Bank in writing of the Minister's decision in granting a licence to the applicant.

¹⁰ For the avoidance of doubt, the formal application must be received by the Bank on or before 31 December 2026.

- 9.8 After a licence is granted by the Minister and prior to the commencement of operations, the licensed DITO is required to undergo an operational readiness review as described in paragraphs 10.17 and 10.18 of the Policy Document on *Licensing Procedures*.

Applications for more than one DITO licence within a financial group¹¹

- 9.9 An applicant that wishes to carry on both general and life/family business shall apply for separate licences, one licence for a body corporate to carry on general insurance and/or general takaful business, and one licence for another body corporate to carry on life insurance and/or family takaful business, in accordance with section 16 of the FSA and IFSA.

10. Factors for consideration in assessing shareholders

- G** 10.1 Shareholders are in the position to influence decisions by which the business and affairs of a licensed DITO are carried out. It is important that the shareholders of a licensed DITO are persons of integrity and good reputation and maintain a sound financial position in order to minimise risks that could threaten the safety and soundness of the licensed DITO.
- S** 10.2 The shareholders or prospective shareholders of an applicant are required to submit an application to the Bank pursuant to section 90 or 112 of the FSA or section 102 or 124 of the IFSA¹². Such application must be submitted together with the applicant's application for a licence to carry on digital insurance or digital takaful business, as the case may be.
- G** 10.3 Applicants and shareholders or prospective shareholders of applicants are encouraged to refer to the Policy Document on *Acquisition Procedures* which sets out, among others, considerations in assessing applications to acquire interest in shares or control of a licensed person or a proposed licensed person or to be a financial holding company under the FSA and IFSA.
- G** 10.4 In assessing the suitability of the shareholders or prospective shareholders of an applicant, the Bank may take into consideration matters that the Bank considers relevant, including any of the factors set out in Schedule 6 of the FSA or IFSA, the requirements in the Policy Document on *Shareholder Suitability* and any other information including information from publicly available sources. Consideration will also be given to strategic synergies demonstrated by the shareholders or prospective shareholders that can positively contribute to the growth and business viability of licensed DITOs.

¹¹ To be read together with paragraph 14 under Part D – Regulatory Requirements of this policy document: More than one DITO licence within a financial group.

¹² Please refer to Schedule 3 of the FSA and IFSA.

- S** 10.5 The applicant's shareholder or prospective shareholder individually and where relevant, collectively, must demonstrate the ability to contribute to the applicant in the following areas—
- (a) robust risk management and compliance capabilities, which may be demonstrated by a track record of operating in a regulated market environment;
 - (b) application of transformative technology in the development and delivery of insurance/takaful products, particularly to address critical protection gap areas;
 - (c) access to deep and robust consumer analytics that may be utilised to improve and expand access to and promote responsible usage of insurance/takaful products, particularly among the unserved and underserved segments;
 - (d) ability to continuously serve as a source of financial strength to the applicant; and
 - (e) with respect to an applicant applying for a licence to carry on digital takaful business, the requisite Shariah expertise to effectively carry on such business.
- G** 10.6 The Bank may suggest that a shareholder who holds an aggregate interest in shares of 50% or more in an applicant to organise all its financial and financial-related subsidiaries under a financial group, headed by a single apex entity, which may be either a licensed person or a financial holding company. In this regard, shareholders of applicants are encouraged to refer to the Bank's paper on *Approach to Regulating and Supervising Financial Groups* and the Policy Document on *Acquisition Procedures*.

11. Business plan

- G** 11.1 A clear and comprehensive business plan by an applicant which has been approved by its board enables the Bank to assess the viability of the applicant's business strategies, its ability to deliver the intended value propositions, and determine whether the applicant has adequate financial, managerial and organisational resources in place to support its operations.
- S** 11.2 Pursuant to section 9 of the FSA and IFSA, an applicant shall submit to the Bank the information and documentation required under Part D of the Policy Document on *Licensing Procedures*.
- S** 11.3 With respect to the submission of a business plan, the applicant is required to submit to the Bank a business plan that contains the information as required under paragraph 12 of the Policy Document on *Licensing Procedures*, as well as the additional information outlined in **Appendix II** of this policy document.
- S** 11.4 The applicant must submit a seven-year business plan to the Bank.

12. Exit plan

- G** 12.1 An exit plan serves to ensure the orderly exit of a licensed DITO that is unable to achieve its licensing commitments and demonstrate viable business operations. Having a clear, sound and feasible exit plan at the onset is crucial to minimise adverse effects to consumers, especially in ensuring continuity and sustainability of protection coverage and payment of eligible benefits.
- G** 12.2 An applicant that is granted a DITO licence should be prepared to voluntarily exit the market by surrendering its licence and winding up its business in the event that its business model becomes unsustainable or not viable during the foundational phase.
- S** 12.3 An applicant is required to submit to the Bank an exit plan for the foundational phase, which covers all aspects specified in **Appendix III** and paragraphs 12.4 to 12.5 at the point of application, while further details on the operational aspects such as the exact governance policies, technical details of the management information system and detailed information needs of respective stakeholders may be submitted to the Bank later i.e. prior to the commencement of its operations or such other period as may be specified by the Bank.
- S** 12.4 The exit plan shall be initiated by the licensed DITO under specific circumstances, including but not limited to, the following:
- (a) failure by the licensed DITO to deliver commitments as submitted in its business plan, or to remain on a credible path to profitability;
 - (b) failure by the licensed DITO to comply with the licensing conditions imposed by the Minister or the regulatory requirements imposed by the Bank, including conditions set out in paragraph 13.10 by the end of the foundational phase;
 - (c) failure by the shareholders of the licensed DITO to comply with the shareholding conditions imposed by the Minister or the Bank, as the case may be; or
 - (d) material operational disruptions experienced by the licensed DITO, such as that caused by the loss of its key leadership, or inability to recover from widespread system failures.
- S** 12.5 As part of the exit plan, the applicant is required to demonstrate the following–
- (a) the necessary capabilities required to extract and aggregate real-time data on customers upon request, including up-to-date beneficiaries' contact information to facilitate any claim payouts; and
 - (b) the necessary capabilities and resources required to ensure continuity of services throughout the implementation of the exit plan, with a specific focus on the continuity of services under outsourcing arrangements.
- S** 12.6 An applicant shall ensure that the exit plan is developed by competent persons.

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- G** 12.7 Appropriate licensing conditions, enforceable undertaking(s) or additional regulatory requirements may be imposed or required to improve the efficacy of the exit plan. This may include, but are not limited to, securing the commitment from shareholders to inject capital to address any shortfalls during the winding-up process.
- S** 12.8 Prior to the commencement of operations, the board of the applicant is required to endorse the exit plan including the refined operational details as stated in paragraph 12.3.
- S** 12.9 As part of its oversight after commencement of operations, the board of the licensed DITO shall review the exit plan on an annual basis to ensure it remains feasible and credible, taking into account developments in the operations or structure of the licensed DITO.
- S** 12.10 The licensed DITO shall keep its exit plan updated and must notify the Bank in writing of any material changes to its exit plan, as endorsed by the board, arising from the review in paragraph 12.9 within 14 calendar days from the date any such material changes are made.

PART D REGULATORY REQUIREMENTS

13. Foundational phase

- S** 13.1 A licensed DITO shall operate for a minimum of three years but no more than seven years in a foundational phase. The foundational phase serves as a period for the licensed DITO to demonstrate its viability and operational soundness, and for the Bank to observe associated risks.
- S** 13.2 In order to facilitate the Bank's assessment and ongoing monitoring during the foundational phase, a licensed DITO shall submit the following information (as at 31 December of the immediate preceding calendar year) to the Bank on an annual basis by 31 January of each calendar year:
- (a) implementation progress of its business plan, including achievement of key performance indicators and value proposition commitments as required under paragraph 7; and
 - (b) a report on the status of compliance with any licensing and/or shareholding conditions imposed on the licensed DITO by the Minister or the Bank, as the case may be.

Minimum paid-up capital during foundational phase

- G** 13.3 A temporary lower minimum paid-up capital requirement for a licensed DITO reduces undue barriers to entry, while ensuring that sufficient financial resources are available at the point of entry to facilitate sustainable growth of its business.
- S** 13.4 At the point of entry and during the foundational phase, a licensed DITO shall maintain at all times a minimum paid-up capital of RM30 million, as prescribed by the Minister pursuant to section 12(1) of the FSA and IFSA. In addition, the licensed DITO shall continue to comply with other prevailing capital adequacy requirements under the Policy Documents on *Risk-Based Capital Framework for Insurers* and *Risk-Based Capital Framework for Takaful Operators*¹³ to ensure sufficient capital is held with prudent management of risk exposures, proportionate to the size and risk profile of its business.

Targeted regulatory flexibilities during the foundational phase

- S** 13.5 Except as provided in this policy document, a licensed DITO shall comply with existing regulatory requirements (including prudential and business conduct standards) that are applicable to licensed ITOs.

¹³ The Bank is undertaking a holistic review to the capital adequacy requirements for licensed ITOs and is publicly consulting the industry via the Exposure Draft on *Risk-Based Capital Framework for Insurers and Takaful Operators*. Upon the finalisation of the revised capital adequacy requirements, it will be made applicable to licensed DITOs as well. Nevertheless, pending the finalisation of the review, licensed DITOs should comply with the existing requirements.

- S** 13.6 A licensed digital takaful operator carrying on digital takaful business shall comply with all the requirements in the Policy Document on *Shariah Governance*, except that regulatory flexibility is allowed to be applied during the foundational phase in relation to the requirement under paragraph 13.2 of the Policy Document on *Shariah Governance* on the composition of the Shariah committee. In this regard, a licensed digital takaful operator must ensure that its Shariah committee comprises at least three members during the foundational phase. This is to allow the licensed digital takaful operator time to build the necessary capabilities that enable the sound deliberation of Shariah matters. For the avoidance of doubt, the licensed digital takaful operator shall fully comply with the requirement in paragraph 13.2 of the Policy Document on *Shariah Governance* by the end of the foundational phase.
- G** 13.7 In view of the potential variations in the structure and specificities of the risk-sharing protection model, the Bank may, at its discretion, allow other targeted regulatory adjustments to a licensed DITO which administers a risk-sharing protection model. This is to facilitate proper operationalisation of such business model, while continuing to ensure that the applicable regulatory requirements remain proportionate and risk-based.

End of the foundational phase

- S** 13.8 Unless otherwise approved by the Bank, a licensed DITO shall operate for no more than seven years in the foundational phase.
- G** 13.9 A licensed DITO may, upon completion of 3 years from the commencement of its operations, submit an application in writing to the Bank to exit the foundational phase.
- S** 13.10 By the end of the foundational phase, a licensed DITO must demonstrate, to the satisfaction of the Bank, that it has–
- (a) complied with all regulatory requirements applicable to existing licensed ITOs and specific regulatory requirements applicable to licensed DITOs as specified by the Bank;
 - (b) sufficiently built its underwriting capacity, capability and retention level of their insurance/takaful risks;
 - (c) put in place all critical systems, processes, and resources to support its business operations and effective risk management;
 - (d) reached and is maintaining a minimum paid-up capital of RM100 million for each licensed entity;
 - (e) met the reasonable thresholds for longer-term viability based on the indicators as described in paragraph 13.11; and
 - (f) achieved satisfactory progress in delivering the committed value propositions as described in its business plan.

- G** 13.11 To ensure that a licensed DITO meets the Bank's expectation of achieving long-term viability of its business, the Bank will assess the licensed DITO's position against the following indicators by the end of the foundational phase:
- (a) whether the licensed DITO has achieved its business plan targets, including adequate levels of business volume and risk pooling capacity. This may be demonstrated through gross earned premiums/takaful contributions, or number of in-force policies/takaful certificates; and
 - (b) whether the licensed DITO has demonstrated its ability to achieve a credible path to profitability consistent with the long-term viability of its operations.
- S** 13.12 A licensed DITO that fails to fulfil the requirements under paragraph 13.10 by the end of the foundational phase shall implement its exit plan, failing which enforcement actions may be taken by the Bank, including the revocation of the licensed DITO's licence.

14. More than one DITO licence within a financial group

- S** 14.1 In relation to paragraphs 9.9 and 13.5, where the Minister has granted one or more licences to body corporates (entities) within a financial group to carry out digital insurance/digital takaful business, the licensed DITO shall comply with the following:
- (a) all existing regulatory requirements (including prudential and business conduct standards) applicable to licensed ITOs, as specified by the Bank; and
 - (b) any specific requirement applicable to a licensed DITO, as specified by the Bank.
- S** 14.2 At the point of entry and during the foundational phase, each licensed DITO within the financial group shall maintain at all times a minimum paid-up capital of RM30 million, as prescribed by the Minister pursuant to section 12(1) of the FSA and IFSA. For the avoidance of doubt, by the end of the foundational phase, each licensed DITO within the financial group must demonstrate, to the satisfaction of the Bank, that it has reached and is maintaining a minimum paid-up capital of RM100 million for each licensed entity.
- G** 14.3 An applicant may submit an application to obtain the Bank's approval for targeted and temporary regulatory flexibilities (as described in **Appendix IV**) to be applied during the foundational phase, together with the application for a licence as specified in paragraph 9.1.
- S** 14.4 An applicant seeking the Bank's approval for targeted and temporary regulatory flexibilities during the foundational phase must submit detailed information on the proposed corporate governance and funding arrangements, supported by compelling justifications on the need for temporary regulatory flexibilities and a feasible plan to comply with the relevant requirements by the end of the foundational phase.

- S** 14.5 Due to the different nature of risks between the general insurance/general takaful business and the life insurance/family takaful business, each licensed DITO operating within the financial group shall appoint a dedicated person as approved by the Bank pursuant to section 74 of the FSA or section 83 of the IFSA to be its appointed actuary and must have separate resources for its business functions, including for underwriting and claims management.

15. Physical access points and distribution channels

- G** 15.1 Advancement in technology has shaped consumer expectations for fast and simple processes at every stage of the insurance/takaful purchasing and claims journey. In meeting rising consumer expectations for ease in procuring and utilising financial protection, insurance/takaful operating and distribution models are evolving to better serve the different target markets and consumer segments. The expectations and requirements in paragraph 15 of this policy document relating to physical access points and distribution channels aim to encourage innovative distribution capabilities in promoting inclusive protection, fostering healthy competition and improving operational efficiencies, taking into account the operating landscape of the Malaysian market. Safeguards are also integrated within these requirements to support informed decision-making by consumers of digital insurance/digital takaful products, recognising that not all consumers would be financially and digitally savvy.

Establishment of physical offices

- S** 15.2 In line with section 46(1) of the Companies Act 2016, a licensed DITO is required to establish a registered office in Malaysia. The establishment of physical offices by a licensed DITO is subject to the requirements of section 25(1) of the FSA and section 22(1) of the IFSA, as the case may be.
- S** 15.3 A licensed DITO shall use its registered office only for the following purposes:
- (a) to facilitate the Bank's communication with the licensed DITO during the supervisory process, including examinations and engagements with the board and senior management of the licensed DITO;
 - (b) for administrative purposes; and
 - (c) to facilitate investigations by the Bank or any other authority pursuant to applicable laws in the event of allegations pertaining to a commission of any offence.

Scope of permitted distribution channels

- S** 15.4 In line with the key differentiation between licensed ITOs and licensed DITOs, a licensed DITO is required to ensure its end-to-end operations, including all critical functions such as onboarding, underwriting, product distribution, policy/takaful certificate servicing, claims processing and payments, are carried on wholly or almost wholly through digital or electronic means.
- S** 15.5 A licensed DITO shall mainly utilise direct digital distribution channels such as web-based or mobile-based applications to distribute its insurance/takaful products.

- G** 15.6 In line with paragraph 15.4, a licensed DITO may utilise third-party platforms as a distribution channel, including platforms operated by a licensed digital bank or a licensed Islamic digital bank.
- S** 15.7 A licensed DITO is not permitted to engage, appoint or use insurance and takaful agents and bancassurance/bancatakaful channels that rely on face-to-face or in-person interactions with consumers for product distribution¹⁴.
- G** 15.8 Notwithstanding paragraphs 15.4 and 15.5, a licensed DITO may:
- (a) utilise limited physical access points, especially in cases where the necessary digital infrastructures are unavailable to facilitate the submission of certified documents for claims, post-sales customer services, and handling of face-to-face customer complaints; and
 - (b) subject to applicable regulatory requirements, make its product offerings available to consumers via approved financial advisers, approved Islamic financial advisers and approved insurance/takaful brokers due to the independent nature of such intermediaries.

Embedded insurance/takaful products

- G** 15.9 In an embedded insurance/takaful model, protection coverage is integrated within the purchase journey of a product, service or platform, making it easier and more convenient for consumers to purchase insurance/takaful products.
- G** 15.10 A licensed DITO may embed and combine its insurance/takaful products with other products or services under the embedded insurance/takaful model.
- S** 15.11 A licensed DITO shall offer embedded insurance/takaful products through its own direct digital distribution channels or third-party digital platforms.
- S** 15.12 In order to ensure that consumers are making active and informed decisions, a licensed DITO must allow consumers to purchase the embedded insurance/takaful product on an 'opt-in' basis¹⁵, and put in place mechanisms to obtain explicit written consent of the customer for each transaction.

¹⁴ These include insurance or takaful agents onboarding customers via face-to-face or in-person interactions using electronic devices.

¹⁵ For avoidance of doubt, pre-tick options which require the consumer to 'opt-out' from purchasing the embedded insurance/takaful product is strictly prohibited.

- S** 15.13 In line with existing business conduct standards, the licensed DITO shall ensure that the following requirements are met when offering embedded insurance/takaful products, consistent with the Bank's requirements for other products¹⁶:
- (a) consumers are provided with an option to purchase the insurance/takaful product separately. In this regard, the licensed DITO must not create barriers for consumers to purchase the insurance/takaful products separately, for instance, by pricing individual insurance/takaful products at a level that is prohibitively expensive in comparison to the embedded insurance/takaful product;
 - (b) the embedded insurance/takaful product's terms and conditions are fair to consumers. A term or condition is regarded as unfair if it has a tendency to create a significant imbalance of shifting the rights and obligations significantly in favour of the licensed DITO to the detriment of consumers;
 - (c) consumers are adequately informed of the terms and conditions of the embedded insurance/takaful product at the pre-contractual stage, at the point of sale, and during the protection coverage period to facilitate informed decision-making by consumers when purchasing insurance/takaful products that meet their needs; and
 - (d) the marketing and promotional materials of the embedded insurance/takaful products are clear and not misleading. In particular, the licensed DITO shall not express or illustrate in any manner that can mislead the consumer or where the consumer may misinterpret that the insurance/takaful product is a mandatory purchase.

¹⁶ As stipulated in the Policy Document *on Fair Treatment of Financial Consumers* and the *Guidelines on Product Transparency and Disclosure*.

APPENDICES

Appendix I - Value proposition problem statements and challenge statements

Table 1: Examples of problem statements and challenge statements

Value Propositions	Problem Statements	Challenge Statements
<p>1. Inclusion <i>Enhanced financial resilience of consumers whose protection needs are currently unserved or underserved</i></p>	<p>(a) Consumers are unable to access certain critical insurance/takaful products or face wide exclusions. This situation may arise due to:</p> <ul style="list-style-type: none"> - Lack of data or experience to support the pricing of risks; or - Lack of incentive to enter into traditionally excluded risks (e.g. challenges in achieving commercial viability to serve particular market segments). <p>These critical protection gaps may include the following examples:</p> <ul style="list-style-type: none"> - Retirement: Inadequate products available to manage longevity risks arising from aging demographics and longer life expectancy; - Unemployment: Limited offerings for income protection against unemployment, especially for the self-employed, gig workers and workers in the informal sector¹⁷; - Long-term care: Inadequate healthcare services relating to long-term disabilities, which 	<p>(i) How might licensed DITOs leverage on emerging digital technology to mine and capture greater data and information to enable practical insurance/takaful product offerings and value-added services for traditionally excluded risks (e.g. consumers with pre-existing health conditions)?</p> <p>(ii) How might licensed DITOs offer more affordable insurance/takaful products tailored to the needs of specific segments (e.g. products targeted at SMEs that allow flexibility to combine covers for different risks and collaboration with reinsurers/retakaful operators to build up underwriting capacities, capabilities and retention levels to manage larger risks during the initial stages of its operations)?</p>

¹⁷ The informal sector refers to economic activities of workers and entities which are in law or practice not covered by formal arrangements (Source: International Labour Organization).

Value Propositions	Problem Statements	Challenge Statements
	<p>are further exacerbated by rising medical costs;</p> <ul style="list-style-type: none"> - Microinsurance/ microtakaful: Protection gaps still exist for vulnerable segments despite social welfare programmes by the Government; - Business interruption: Most SMEs are exposed to business interruption risks, including rising business costs, increased competition and regional trade market turbulence; - Cyber: Many Malaysian SMEs were cyber victims in recent years, where one single event was able to significantly impact their business; - Climate-related: Heightened vulnerabilities to losses arising from climate events in Malaysia, especially due to floods, traditional agriculture or farming methods which produce significant greenhouse gas emissions; and - Third-party liability: Demand for liability products expected to increase (especially in the medical field) due to the recent pandemic. 	

Value Propositions	Problem Statements	Challenge Statements
	<p>(b) Consumers do not actively search for insurance/takaful products due to lack of access and awareness, as well as low financial literacy. Prevalence of complex insurance/takaful products in the market may also disincentivise consumers from purchasing such products.</p>	<p>(i) How might licensed DITOs offer insurance/takaful products that are simpler and bite-sized to meet the needs of consumers and fit seamlessly into their lifestyles?</p>
		<p>(ii) How might licensed DITOs better target and reach consumers through digital touchpoints?</p>
		<p>(iii) How can licensed DITOs serve the “unplugged segment” i.e. consumers with low financial literacy and digital connectivity when licensed DITOs are expected to have end-to-end digital operations?</p>
<p>2. Competition <i>Introduction of more innovative insurance/takaful products to cater to the diverse protection needs of consumers</i></p>	<p>(a) Consumers do not see their risk profile or actual consumption behaviours being factored into insurance/takaful product pricing.</p>	<p>(i) How might licensed DITOs leverage on telematics to offer motor insurance/motor takaful products with premiums/takaful contributions that are reflective of consumers’ driving behaviours?</p>
		<p>(ii) How might licensed DITOs leverage data collected from wearable technology to develop “pay-as-you-live” health insurance/takaful products that offer personalised premiums/takaful contributions based on real-time biometric and lifestyle data?</p>
	<p>(b) Consumers prefer to purchase insurance/takaful products that address their holistic needs or evolving lifestyle, with mode of</p>	<p>(i) How might licensed DITOs offer health insurance/takaful products that connect consumers to a wider digital healthcare ecosystem (e.g.</p>

Value Propositions	Problem Statements	Challenge Statements
	purchase expanding beyond traditional delivery channels.	telemedicine, digital preventive and wellness products)?
		(ii) How might licensed DITOs offer prevention services (e.g. link to fire detectors) that enables live monitoring and alerts to residents of buildings for instant notification and response?
		(iii) How might licensed DITO offer on-demand insurance/takaful products with the ability to switch on or switch off certain features?
		(iv) How might licensed DITOs leverage on innovative partnerships with financial and non-financial service providers to offer embedded insurance/takaful products for more holistic offerings?
	(c) Structural challenges affecting the achievement of an ideal state of consumer experience.	(i) How might licensed DITOs facilitate consumers with a seamless and simple switching, upgrading or cancellation process for insurance/takaful products offered?
		(ii) How might licensed DITOs eliminate the need for third-party verification and enable the secure exchange of information or smart contracts?
3. Efficiency <i>Convenient and seamless consumer experience with</i>	(a) Legacy systems create barriers in adopting more efficient capabilities to assess consumer risk profile/behaviours and price risks appropriately.	(i) How might licensed DITOs leverage on digital technology to enhance/simplify the onboarding/underwriting process and better reflect consumer's risk profile?

Value Propositions	Problem Statements	Challenge Statements
<p><i>greater savings</i> <i>cost</i></p>	<p>(b) Consumer experience can be further simplified in terms of processes and time taken, including during onboarding and claim payouts.</p>	<p>(i) How might licensed DITOs develop an end-to-end digital consumer journey¹⁸ for greater control by consumers (to purchase protection products, manage policies/takaful certificates and claims) and transparent access to information?</p>
		<p>(ii) How might licensed DITOs enable the secure authentication and transmission of documents and contracts, without the need for producing and retaining hardcopies or paper records?</p>
		<p>(iii) How might licensed DITOs automate the claims process, resulting in reduced filing efforts, faster claim payouts and mitigate fraud risks (e.g. through the use of parametric solutions)?</p>
	<p>(c) Consumers prefer a high level of customised and affiliative level of service and engagement.</p>	<p>(i) How might licensed DITOs provide greater availability of its services (e.g. via omni-channel customer service platforms and AI-powered chatbots)?</p>

¹⁸ An example of a key reform or application of digitalisation to improve consumer experience can be seen for motor claims as envisioned by the Bank in the *Financial Sector Blueprint 2022–2026* (Diagram 4, page 73).

Appendix II - Information and documentation submission for business plan

Table 2: Minimum required content of the business plan

Business plan items	Minimum required content
<p>1. Value propositions</p>	<p>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 –</p> <ul style="list-style-type: none"> (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.
<p>2. Financial statements</p>	<p>The business plan must include a projected path to profitability that demonstrates a sustainable business model for the applicant.</p> <ul style="list-style-type: none"> (a) Where the applicant does not expect to break even within the first seven years of its operations, the applicant shall indicate in the pro-forma financial statements the year that the applicant expects to break even.

Business plan items	Minimum required content
	(b) The projected path to profitability shall also include an analysis of the reasonableness of the key assumptions that forms the basis of the pro-forma financial statements.
3. Business risks	The business plan shall identify the risks associated with the applicant's business activities and strategies to manage such risks.
4. Talent	The business plan shall indicate the talent requirement for the applicant (in numbers and type of skills needed) over a seven-year period, and how the required numbers and skills will be met in areas related to technology and risk management, and where applicable, requisite Shariah expertise.
5. Customer complaints	The business plan shall outline the measures by the applicant to address customers' queries or complaints, given that licensed DITOs are required to be operating wholly or almost wholly through digital or electronic means.
6. Compliance with regulatory requirements by end of the foundational phase	The business plan shall outline the measures to be employed by the applicant to reach full compliance with regulatory requirements by the end of the foundational phase. The plan shall also include the timeframe and resources required by the applicant to build the capability to reach full compliance.
7. Partnerships	<p>For applicants who intend to offer insurance/takaful products through a network of partners, the business plan shall include details on the proposed partners, which at minimum shall cover–</p> <ul style="list-style-type: none"> (a) descriptions of the unserved and underserved segments that would be served through the partner(s); (b) descriptions of added benefits which will drive the offering of protection through digital or electronic means offered through its partner(s) to the unserved and underserved target segments; (c) types of products and services offered by the applicant to consumers that would be facilitated through the partner(s); and (d) the share of business to be served through the partner(s) relative to the overall projected operations in the applicant's pro-forma financial statements.
8. Technology architecture and technology risk management	<p>The business plan shall include a description of the plans for deploying relevant technological solutions. At minimum, such plans must be in line with the requirements and expectations set out in the Policy Document on <i>Risk Management in Technology (RMiT)</i>, and must include:</p> <ul style="list-style-type: none"> (a) a description of the technology stack used in the cloud arrangement, including– <ul style="list-style-type: none"> (i) planned cloud risk management framework;

Business plan items	Minimum required content
	<ul style="list-style-type: none"> <li data-bbox="587 293 1418 360">(ii) overview of system architecture diagram and network architecture diagram; and <li data-bbox="587 367 1418 510">(iii) overview of the cloud strategy, deployment and service models (such as Software-as-a-Service, Platform-as-a-Service, Infrastructure-as-a-Service) for critical systems; <li data-bbox="507 517 1418 965">(b) a description of the applicant’s strategy to adopt relevant new technologies and digital innovations such as big data, AI (including generative AI), ML, IoT or distributed ledger technology to meet the value proposition that it intends to offer as well as to gain competitive advantage. The strategy shall clearly outline how the new technologies and digital innovations are used to address the following: <ul style="list-style-type: none"> <li data-bbox="596 786 1418 891">(i) Flexibility: flexibility of solution to integrate with various platforms or emerging technologies with minimal changes or disruptions to core systems; and <li data-bbox="596 898 1418 965">(ii) Scalability: modularity in design to ensure adaptability to changing market trends; <li data-bbox="507 972 1418 1308">(c) a description of the planned IT governance (including its IT governance structure and relevant competencies) to oversee– <ul style="list-style-type: none"> <li data-bbox="596 1093 1129 1126">(i) technology risks and cyber risks; <li data-bbox="596 1133 1254 1167">(ii) IT strategic plan and cyber strategic plan; <li data-bbox="596 1173 1082 1207">(iii) IT operations and IT projects; <li data-bbox="596 1214 970 1247">(iv) technology audit; and <li data-bbox="596 1254 1418 1308">(v) third party service providers, including IT outsourcing and cloud arrangements; <li data-bbox="507 1314 1418 1688">(d) a description of the planned IT operational management to effectively support business operations including– <ul style="list-style-type: none"> <li data-bbox="596 1397 1418 1547">(i) overview of end-to-end IT operational management covering IT operational arrangements to outsource or procure from third party service providers (including cloud service providers); <li data-bbox="596 1554 1166 1588">(ii) proposed IT organisation structure; <li data-bbox="596 1594 1418 1648">(iii) business continuity plan and disaster recovery plan; and <li data-bbox="596 1655 935 1688">(iv) cloud exit strategy; <li data-bbox="507 1695 1418 1800">(e) a description of the planned measures (technology, people and process) to ensure system resiliency and high availability of services to its customers; and <li data-bbox="507 1807 1418 1995">(f) a description of the planned measures (technology, people and process) to effectively manage cybersecurity threats and cyberattacks, including the arrangement to identify, protect, detect, respond and recover from cybersecurity threats and incidents.

Appendix III - Information and documentation submission for exit plan

1. The level of detail and depth of analysis to support the exit plan must be proportionate to–
 - (a) its size, nature and structure of the business;
 - (b) the complexity and substitutability of its activities;
 - (c) the degree of intra-group and external dependencies and systemic interconnectedness with the economy and core components of the financial system¹⁹. The analysis conducted must be supported by robust quantitative metrics, and qualitative evidence supplemented by realistic and evidence-based projections; and
 - (d) in the case of digital takaful business, compliance to Shariah requirements, including matters specific to Islamic financial transactions which may have an impact on the development and implementation of the exit plan.

2. The applicant must, at minimum, elaborate in the exit plan the following details:
 - (a) specific and measurable management triggers to facilitate the implementation of pre-emptive management and remediation actions²⁰ under various scenarios before the licensed DITO reaches a stage where it must exit the business;
 - (b) specific and measurable triggers for exiting the business which clearly define unsustainable business models and the materialisation of risks beyond the applicant's own risk appetite and risk tolerance. These triggers²¹ may comprise of, but are not limited to triggers related to–
 - (i) capital and financial strength, such as the capital adequacy ratio, loss ratio, surplus arising and deviations between actual and expected experience;
 - (ii) earnings, such as return on assets and return on equity;
 - (iii) operations, such as failure to deliver committed value propositions by the end of the foundational phase, failure to obtain investments for talent and infrastructure development, failure to obtain additional capital from shareholders to meet capital needs to sustain the business, low persistency rate affecting fund sustainability and earnings, or recurring delays in disbursing claims affecting customer experience;
 - (iv) compliance, such as significant difficulties to reach full compliance with regulatory requirements by the end of the foundational phase, including the minimum paid-up capital, material non-compliance with prudential, business conduct or anti-money laundering/counter financing of terrorism (AML/CFT) requirements, or recurring IT failures or data breaches; and
 - (v) any other reasonable triggers.
 - (c) likely options and related measures to be taken for exiting its business that minimise disruption to consumers and the financial system;

¹⁹ Including banking institutions, reinsurers/retakaful operators, financial markets, and financial market infrastructures.

²⁰ This may include management actions that are intended to improve the viability of the business or accelerate delivery of commitments within the foundational phase.

²¹ Where applicable, the indicators must be consistent with the indicators outlined in paragraph 12.4(a).

- (d) potential impediments to the execution of identified exit options and preparatory measures to mitigate the impact of such impediments; and
- (e) sources of funding and liquidity for exit (excluding any form of assistance from the Bank) and the estimated timeframe to exit the business.

3. An applicant shall provide a comprehensive description of its exit plan, which includes the following information:

Table 3: Minimum required information coverage of the exit plan

Coverage	Details
Governance	<ul style="list-style-type: none"> • Well-defined roles and responsibilities of the board, senior management and business units. • Robust policies, procedures, and management information systems to facilitate timely decision-making and for smooth coordination of exit plan execution.
Exit triggers	<ul style="list-style-type: none"> • Identification of factors and indicators/thresholds to prompt activation/execution of the exit plan including, but not limited to, material underachievement of business plan targets or non-compliance to regulatory requirements by the end of the foundational phase. • Processes for continuous monitoring of such factors and indicators/thresholds.
Execution of measures that enables an orderly exit from the business	<ul style="list-style-type: none"> • Identification of possible actions that can be undertaken under different scenarios, taking into account stages of development/complexity of the licensed DITO's business. • Identification of possible and credible funding sources to implement the exit plan. • Identification of impediments to execute the exit plan and mitigation measures. • Description of operational dependencies on external parties (i.e. licensed DITO's dependence on external service providers, including reinsurers/retakaful operators) and its associated costs throughout the implementation of the exit plan.
Communication and engagement strategy (including to the Bank) to mitigate unintended consequences	<ul style="list-style-type: none"> • Identification of key internal and external stakeholders, including staff, shareholders, policy owners/takaful participants, relevant regulators and authorities, counterparties, service providers, and the general public. • Clear action plans to manage public and stakeholder sentiments and potential reputational risks faced by the licensed DITO. This should address the medium, level of detail, timing, frequency of communication and key person(s) responsible for ensuring the effective coordination and execution of the communication and engagement strategy.

Appendix IV - Potential areas of flexibilities for licensed DITOs within a financial group during the foundational phase

1. Subject to approval on a case-by-case basis, the Bank may allow–
 - (a) more than one licensed DITOs within the financial group to maintain full common directors on their boards (i.e. “mirror board”), as well as for board committees during the foundational phase, provided that there is a balance of expertise in the boards to oversee the different classes of business; and
 - (b) the CEO of a licensed DITO carrying on general insurance/general takaful business to serve as a CEO of another licensed DITO within the same financial group carrying on life insurance/family takaful business (and vice versa) (i.e. “dual hatting”), during the foundational phase.

This will allow for time to source for directors and CEOs during the foundational phase.

2. For the avoidance of doubt, a licensed DITO shall comply with the requirement for common directors to be in the minority as per paragraph 11.11 of the Policy Document on *Corporate Governance* and have a dedicated CEO, by the end of the foundational phase. This is necessary to ensure dedicated oversight and management of the general insurance/takaful business and the life insurance/family takaful business, given the different nature of risks.
3. For the avoidance of doubt, a licensed DITO within a financial group may continue to observe other regulatory flexibilities accorded to existing licensed ITOs, which include, but are not limited to the following:
 - (a) a licensed DITO may leverage on the independent control functions, such as risk management, compliance and internal audit, within its group affiliate²²; and
 - (b) subject to obtaining the Bank’s prior written approval in accordance with section 30(2) of the IFSA, a licensed digital takaful operator may–
 - (i) establish a single Shariah committee to serve the entire financial group; or
 - (ii) leverage on the existing Shariah committee within its group affiliate where there is an existing licensed person within the same financial group.

²² Under paragraph 12.4 of the Policy Document on *Outsourcing*, a financial institution is not required to obtain the Bank’s prior written approval where the outsourced activity is to be performed by an affiliate which is a financial institution or a financial holding company.