



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Management of Insurance Funds

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PART A OVERVIEW

1. Introduction

- 1.1 The objective of this policy is to promote sound management of insurance funds of a licensed insurer. The requirements aim to ensure protection of policy owners' interests through appropriate segregation of insurance funds, proper attribution of assets and liabilities in insurance funds, robust controls over withdrawals from insurance funds, and maintenance of proper records of policies and claims that are in line with the requirements set out by the Bank in this policy document.
- 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 issued pursuant to sections 47, 81, 83 and 143(2) of the FSA.
- 3.2 The guidance in this policy document is issued pursuant to section 266 of the FSA.

4. Effective date

- 4.1 This policy document comes into effect on 1 July 2024.

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, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

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

“**board**” means the board of directors of a licensed insurer, including a committee of the board where the responsibilities of the board set out in this policy document have been delegated to such a committee;

“**foreign policies**” refers to policies issued by a licensed insurer that does not meet the definition of “Malaysian policy” as set out in the FSA;

“**senior management**” refers to the chief executive officer and senior officers of a licensed insurer.

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) Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (BNM/RH/PD 030-3) issued on 31 December 2019;
 - (b) Appointed Actuary: Appointment and Duties (BNM/RH/STD 029-5) issued on 28 April 2014;
 - (c) Appointed Actuary: Appointment and Duties (for reinsurers and takaful operators) (BNM/RH/STD 029-8) issued on 24 December 2014;
 - (d) Financial Reporting (BNM/RH/PD 032-13) issued on 29 April 2022;
 - (e) Investment-linked Business (BNM/RH/PD 029-36) issued on 13 February 2023;
 - (f) Management of Participating Life Business (BNM/RH/PD 032-1) issued on 10 July 2023;
 - (g) Operating Cost Controls for Life Insurance and Family Takaful Business (BNM/RH/PD 029-19) issued on 24 December 2019;
 - (h) Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12) issued on 17 December 2018; and
 - (i) Universal Life Business (BNM/RH/PD 032-22) issued on 13 February 2023.

7. Policy documents superseded

- 7.1 This policy document supersedes the policy document on the Management of Insurance Funds (BNM/RH/PD 032-15) issued on 17 December 2018.

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

- S** 8.1 A licensed insurer must establish and maintain separate insurance funds for its Malaysian policies and foreign policies.
- S** 8.2 In ensuring homogeneous risks are managed in a similar manner, a licensed life insurer must establish and maintain separate insurance funds 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;
 - (e) investment-linked unit fund; and
 - (f) investment-linked operating fund.
- S** 8.3 A foreign professional reinsurer must establish and maintain separate insurance funds in Malaysia for its Malaysian general policies and its Malaysian life policies.
- S** 8.4 For the avoidance of doubt-
- (a) paragraph 8.2 is not applicable to reinsurance business undertaken by a professional reinsurer and inward reinsurance business of direct life insurer; and
 - (b) all inward reinsurance business of a direct life insurer shall be maintained under the ordinary non-participating life policies fund.

9. Exceptions on separation of insurance funds

- S** 9.1 Notwithstanding paragraph 8.1, a licensed insurer must obtain the prior written approval of the Bank to maintain one insurance fund for both its Malaysian policies and foreign policies. This will only be considered 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 an approval under paragraph 9.1 must:
- (a) submit together with its annual audited statistical return reported under the Insurance Companies Statistical System, a certificate by its external auditor stating the premium from 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 according to the categories as set out in paragraphs 8.2(a) to 8.2(f).

- 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.
- S** 9.4 Notwithstanding paragraph 8.2, a licensed life insurer must obtain the prior written approval of the Bank to 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. This will only be considered if any of its insurance funds in respect of paragraphs 8.2(c) and 8.2(d) does not exceed the lower of:
- (a) RM10 million; 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 paragraphs 8 and 9 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 Where under exceptional circumstances, a licensed life insurer that writes both participating and non-participating life policies maintains only one insurance fund for both these policies, 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 by a licensed insurer in accordance with the requirements specified in the policy document on Financial Reporting (BNM/RH/PD 032-13).
- S** 10.3 The following assets must not be included by a licensed insurer in an insurance fund:
- (a) goodwill and other intangible assets (e.g. capitalised expenditure) of the licensed insurer; and
 - (b) any other item of expenditure 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 insurance 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) of the investment properties 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 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 by a licensed insurer in accordance with the requirements specified in the policy document on the Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12).

12. Income and expenses attributed to an insurance fund

- S** 12.1 A licensed insurer shall ensure that income and expenses attributed to the insurance fund are based on actual income and expenses incurred relating to the insurance fund, unless otherwise specified by the Bank¹.
- S** 12.2 A licensed life insurer shall ensure that expenses which cannot be clearly identified as relating to a particular insurance fund must be allocated across the insurance funds on an equitable basis for each type of expense, taking into account interest of the policy owners, and to be determined by its appointed actuary or the officer in charge of the financial management of the licensed life insurer. This basis of allocation has to be applied consistently from year to year.
- S** 12.3 For the avoidance of doubt, a licensed insurer shall ensure that any expense to be borne by shareholders, such as levy payable to Perbadanan Insurans Deposit Malaysia and late payment interest charges, shall not be considered as expenses attributed to the insurance fund.

13. Management of surplus and deficit of an insurance fund

- S** 13.1 For the purpose of paragraph 13, the term 'participating life policies' includes the following:
- (a) an extension of a participating life policy notwithstanding that the extension does not in itself confer a right to the policyholder to participate in allocations from the assets of a life insurance fund, of which the amount or timing is at the discretion of the licensed insurer; or
 - (b) a non-participating policy which has an extension of conferring a right to the policyholder to participate in allocations from the assets of a life insurance fund, of which the amount or timing is at the discretion of the licensed insurer.
- S** 13.2 In making any withdrawals of the surplus from either a general insurance fund or life insurance fund, a licensed insurer must comply with the following requirements:
- (a) that the withdrawal is-
 - (i) made on the recommendation of the appointed actuary, subject to the requirements set out in paragraphs 13.3 to 13.9; and
 - (ii) determined based on the full valuation of liabilities as certified by the appointed actuary and the financial accounts of the licensed insurer that are audited by an external auditor; and
 - (b) where, after taking into account any instruments or contracts binding the licensed insurer or its constituent documents, the amount of withdrawal is determined by a licensed insurer to be lower than the amount

¹ For example, payments by a licensed insurer to intermediaries in excess of the commission limits specified by the Bank under the policy document on Operating Cost Controls for Life Insurance and Family Takaful Business (BNM/RH/PD 029-19), and credit facility granted by a licensed insurer to its insurance agents under the policy document on Granting of Credit Facilities (BNM/RH/PD 029-50).

recommended by the appointed actuary, the withdrawal and distribution of surplus must be based on the lower amount.

- S** 13.3 When an appointed actuary recommends the distribution of the surplus of a life insurance fund, the surplus must only be distributed by way of any or a combination of the following:
- (a) a transfer out of that life insurance fund to the shareholders' fund;
 - (b) a bonus to policyholders for a life insurance fund relating to participating policies; or
 - (c) in the case of any excess estate, such manner as may be specified by the Bank².
- S** 13.4 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** 13.5 For the surplus of a life insurance fund relating to participating policies, the appointed actuary must not recommend that the surplus be transferred to the shareholders' fund if he is of the professional opinion that the surplus must 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** 13.6 Where the appointed actuary has recommended the transfer of a surplus of a life insurance fund relating to participating policies to the shareholders' fund, the licensed life insurer must not allocate an amount that exceeds the maximum proportion as determined in a manner set out in Table 1.
- S** 13.7 The maximum proportion of the aggregate surplus or any excess estate³, where relevant, which can be allocated for a transfer to the shareholders' fund under paragraph 13.6 shall be 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 illustrated in the next page:

² As set out in the proposed requirements under paragraphs 14.24 to 14.35 of the policy document on the Management of Participating Life Business (BNM/RH/PD 032-1).

³ This applies in the event a licensed insurer intends to distribute the excess estate as set out in the proposed requirements under paragraphs 14.26 and 14.27 of the policy document on the Management of Participating Life Business (BNM/RH/PD 032-1).

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 (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

$$= \frac{\left[(Amount\ of\ first\ 300 \times 0.2) + (Amount\ of\ next\ 300 \times 0.15) + (Amount\ exceeding\ 600 \times 0.10) \right]}{Aggregate\ of\ all\ life\ insurance\ funds\ relating\ to\ participating\ policies}$$

- S** 13.8 The surplus, or any excess estate³, where relevant, 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** 13.9 Notwithstanding paragraph 13.8(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
 - 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** 13.10 Where an appointed actuary does not recommend the distribution of the entire or any part of the surplus of the insurance fund relating to participating policies (in the case of a licensed life insurer), or where a licensed insurer does not transfer any part of the surplus, the policyholders or shareholders will not have any subsisting entitlement for a subsequent distribution or transfer in respect of that remaining surplus, unless paragraph 13.2 has been complied in relation to the subsequent distribution or transfer of such surplus.
- S** 13.11 In determining the position of assets and liabilities in the insurance fund, the licensed insurer must:
- (a) measure the assets at the overall insurance fund level instead of policyholder fund level; and
 - (b) include in the liabilities the present or future obligations, either vested or contingent.
- S** 13.12 Where an insurance fund is determined to be in deficit by a licensed insurer as at the end of a calendar quarter, including financial year end, the licensed insurer must:
- (a) make good any deficit by a transfer of assets from the shareholders' fund into the insurance fund in compliance with the requirement in section 82(1)(b) of the FSA; and
 - (b) make good any deficit, by a transfer of surplus from the non-participating fund (if the deficit occurred in the participating fund).
- S** 13.13 For the purposes of paragraph 13.12, the licensed insurer shall determine the surplus or deficit position based on the quarterly actuarial liabilities valuation reported in the Risk-Based Capital Reporting Forms.
- G** 13.14 In making the determination under paragraphs 13.12 and 13.13, the licensed insurer may exercise discretion on whether to conduct such determination based on the audited financial statements.
- G** 13.15 Notwithstanding paragraph 13.12 and under exceptional circumstances⁴, a licensed insurer may submit to the Bank an application for a time-bound exemption from conducting the actual transfer of surplus or assets into the insurance fund during any calendar quarters (other than financial year end). The Bank may provide an exemption (on a case-to-case basis)-
- (a) if the licensed insurer submits, to the satisfaction of the Bank, a documented assessment on the nature of the deficit position; and
 - (b) the interim measures put in place by the licensed insurer, including the implementation of workable mechanisms to ensure that the assets attributed to the insurance fund to back the liabilities are appropriate and sufficient.

⁴ For example, deficits attributed to external factors, such as temporary market volatility.

- S** 13.16 For purposes of paragraph 13.15(a), the assessment shall include the quantum of the deficit and the period in which the deficit will exist, as well as the extent in which the long-term sustainability of the insurance fund will be impaired from such deficit.
- S** 13.17 Notwithstanding paragraph 13.15, a licensed insurer shall make good of the deficit via actual transfer of assets at the end of the financial year as required under paragraph 13.12.
- S** 13.18 Where a licensed life insurer maintains more than one life insurance fund relating to participating policies in accordance with 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 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 the Bank may specify; or
 - (b) the documents are kept in the custody of the licensed insurer, or a licensed 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, the licensed insurer must notify the Bank in writing of that person's identity and the reasons for such person's custody, and of any change thereafter.
- 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 the custodian's auditor verifying the existence of the documents to the Bank upon request.
- S** 14.5 A licensed insurer must be able to produce the documents 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 any or a combination of 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 its current accounts maintained for the purpose of its daily operations; or
 - (c) to secure a mortgage loan where the property is assigned for its own use.

- G** 14.7 The assets pledged or charged 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 principal 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 A licensed insurer must properly maintain a register of policies and register of claims referred to in paragraph 15.1, for the purposes of-
- (a) capturing the information necessary for the separation of its Malaysian policies and foreign policies;
 - (b) identifying the underwritten liabilities;
 - (c) processing and validating liabilities and claims against the insurance policies;
 - (d) ensuring compliance to customer due diligence, targeted financial sanctions and record-keeping requirements in the policy document on Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (BNM/RH/PD 030-3); and
 - (e) complying with requirements set out by Perbadanan Insurans Deposit Malaysia, including all necessary information for the computation and processing of premium refunds and claims.
- 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 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.