



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Operating Cost Controls for General Insurance and Takaful Business**

**Policy Document**

Applicable to:

1. Licensed insurers carrying on general insurance business
2. Licensed takaful operators carrying on general takaful business

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## **PART A OVERVIEW**

### **1 Introduction**

- 1.1 Changes in customer preferences, and the emergence of new intermediaries and/or disruptors that leverage on technological innovation, are reshaping the way licensed persons are carrying on their general insurance and general takaful businesses. As part of the Bank's efforts to promote a financial sector that continues to deliver value to customers, the operating cost control requirements aim to achieve the following objectives to:
- (a) facilitate a dynamic and responsive marketplace that meets the evolving needs of customers;
  - (b) foster healthy competition in the general insurance or takaful sector to enable customers to receive the best products and services for their needs, including appropriate sales advice; and
  - (c) ensure all intermediaries adopt high standard of professionalism, while being remunerated appropriately for their efforts and performance.
- 1.2 The requirements in this policy document are intended to:
- (a) strengthen licensed persons' financial discipline and accountability on the management of their intermediaries. This is to encourage continuous improvements in the quality of service of intermediaries and preserve good value of products and services offered to customers;
  - (b) accord licensed persons with greater flexibility to manage operating costs that are commensurate with their business strategies. This would pave the way for greater innovation and improved access to insurance and takaful products and services, including for the unserved and underserved customer segments; and
  - (c) ensure consistent application of the cost control requirements, to preserve appropriate incentives for delivering high standards of service quality to customers.
- 1.3 This policy document sets out the following:
- (a) realignment of operating cost control categories and limits, which includes, amongst others, the removal of management expenses limits;
  - (b) requirements and guidance on a licensed person's policies on remuneration, governance and management of intermediaries; and
  - (c) reporting requirements.

### **2 Applicability**

- 2.1 This policy document is applicable to licensed insurers carrying on general insurance business and licensed takaful operators carrying on general takaful business.

### 3 Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to:
- (a) sections 47(1), 123(1) and 143(1) of the Financial Services Act 2013 (FSA); and
  - (b) sections 57(1), 135(1) and 155(1) of the Islamic Financial Services Act 2013 (IFSA).
- 3.2 The guidance in this policy document is issued pursuant to –
- (a) section 266 of the FSA; and
  - (b) section 277 of the IFSA.

### 4 Effective date

- 4.1 This policy document comes into effect on 1 January 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 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, supplemental 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;

“**customer**” refers to a financial consumer as specified in paragraph 8.1 of this policy document;

“**direct distribution channel**” refers to the distribution of insurance or takaful products whereby customers purchase the products directly from a licensed person through either or both of the following channels:

- (a) the head office and branch premises of the licensed person; or
- (b) an online platform, whether it is developed as the licensed person’s proprietary system or is outsourced to third party vendors to administer on behalf of the licensed person;

“**gross commission**” refers to commission or brokerage (other than profit commission) paid on gross direct premium or contribution (net of return premium or contribution) written within Malaysia;

“**gross direct premium or contribution**” refers to the gross premium or contribution receivable on an insurance policy or takaful certificate written by a

licensed person within Malaysia adjusted for additional or return premium or contribution, but before deducting commission, brokerage or other expenses;

**“intermediary”** refers to:

- (a) any person who, for remuneration, takes up or pursues the activity of insurance or takaful distribution, through any means including digital or electronic means and excludes marketing staff under the employment of the licensed person; and
- (b) any related party of such person in item (a) above, who for remuneration, takes up or pursues any activity ancillary to, incidental to, closely related to or that facilitates the provision of insurance coverage or takaful protection for the benefit of licensed persons, and/or policy owners or takaful participants, including but not limited to, marketing and advertising activities, towing or road side services assistance, software interfacing and providing support services such as providing a platform, among others.

This includes any agent, approved financial adviser or approved Islamic financial adviser, approved insurance broker or approved takaful broker, bancassurance or bancatakaful partner, respectively or collectively;

**“intermediary-related expenses”** refer to any payments other than gross commissions, or benefits in kind, including subsidies in any form provided to any intermediaries. Payments under commercial distribution arrangements with licensed financial institutions or e-commerce platforms that are not linked to production in any way, are excluded.

Non-exhaustive examples of intermediary-related expenses are listed in Appendix 1;

**“licensed person”** refers collectively to a licensed insurer under the FSA carrying on general insurance business and a licensed takaful operator under the IFSA carrying on general takaful business;

**“profit commission”** refers to the performance bonus payable to an insurance or takaful agent in addition to normal commission, based on the underwriting profit or distributable surplus in the agent’s portfolio;

a person is a **“related party”** of another person where–

- (a) such person is accustomed to represent, or take instructions from, the other person;
- (b) both persons are relatives;
- (c) such person is an entity and the other person is a partner, shareholder, director or officer of –
  - (i) the entity;
  - (ii) the entity’s associate corporation; or
  - (iii) the entity’s related person;
- (d) both persons have a common partner, shareholder or director; or
- (e) such person is an associate corporation or is related to the other person.

**6 Related legal instruments and policy documents**

- 6.1 This policy document shall 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) Guidelines on Related Party Transactions issued on 28 June 2013 (BNM/RH/GL 018-6);
  - (b) Policy Document on Fair Treatment of Financial Consumers issued on 6 November 2019 (BNM/RH/PD 028-103);
  - (c) Policy Document on Bancassurance/Bancatakaful issued on 30 June 2022 (BNM/RH/PD 028-123);
  - (d) Policy Document on Takaful Operational Framework issued on 26 June 2019 (BNM/RH/PD 033-7);
  - (e) Policy Document on Prohibited Business Conduct issued on 15 July 2016 (BNM/RH/PD 028-21);
  - (f) Guidelines on Product Transparency and Disclosure issued on 31 May 2013 (BNM/RH/GL 000-3);
  - (g) Policy Document on Professionalism of Insurance and Takaful Agents issued on 17 April 2023 (BNM/RH/PD 029-59); and
  - (h) Policy Document on Corporate Governance issued on 3 August 2016 (BNM/RH/PD 029-9).

**7 Policy document superseded**

- 7.1 This policy document supersedes the Guidelines to Control Operating Costs of General Insurance Business issued by the Bank on 3 July 2007 (BNM/RH/GL 003-7).

## PART B POLICY REQUIREMENTS

### 8 Specification of financial consumer

- S** 8.1 Pursuant to sections 121(c)(ii) of the FSA and 133(c)(ii) of the IFSA and for the purposes of this policy document, the Bank specifies that a financial consumer means any person who uses, has used or may be intending to use, any insurance and/or takaful service or product of a licensed person, including any person insured under a group insurance policy or covered under a group takaful certificate where the premiums or contributions are paid by the person insured or the person covered, as the case may be.

### 9 Remuneration policy for intermediaries

- S** 9.1 A licensed person shall develop a comprehensive and clear written remuneration policy approved by the board, which outlines the details of the remuneration<sup>1</sup> that can be paid to its intermediaries and the corresponding principles used to qualify for such remuneration. Such policy shall be monitored by senior management and made readily available to the Bank upon request. At minimum, the remuneration policy shall have embedded into it, the following principles:
- (a) production-based remuneration linked to set targets by the licensed person shall include targets based on intermediaries' conduct, service quality and professionalism;
  - (b) remuneration shall be commensurate with the nature, scope and complexity of work or services performed by the intermediaries; and
  - (c) the remuneration policy shall have regard to and be consistent with the Policy Document on Fair Treatment of Financial Consumers.
- G** 9.2 In relation to paragraph 9.1(b), the remuneration policy should provide a meaningful differentiation reflective of expected effort by intermediaries in providing suitable advice and recommendation based on the critical financial needs of customers. For instance, compensation for efforts in providing advice or awareness on the importance of flood coverage, or ways to optimise personal coverage based on lifestyle factors, and be meaningfully differentiated from sales of standard compulsory motor coverage.

### 10 Gross commission

- S** 10.1 The maximum gross commission for the following classes of business written within Malaysia, are limited to the following percentage of gross direct premium or contribution:

Motor	: 10%
Bonds	: 10%
Foreign Worker's Compensation Scheme	: 10%

<sup>1</sup> This encompasses any benefits, rewards, reimbursement for the expenses incurred and/or payments that are classified as gross commissions, intermediary-related expenses and profit commissions.

Medical and Health	
- group policy/certificate	: 10%
- stand-alone individual policy/certificate	: 15%
Marine Cargo, Aviation and Transit	: 15%
Marine Hull	: 15%
Fire	: 15%
Engineering	: 15%
Other Classes	: 25%

- S** 10.2 The maximum limits in paragraph 10.1 shall apply at a policy or certificate level from the date of commencement of risk. In respect of a packaged insurance policy or takaful certificate, the maximum limit is the limit applicable to the coverage that accounts for the largest proportion of the premium or contribution.
- S** 10.3 A licensed person shall not pay gross commission to intermediaries that operate digital or electronic channels/platforms that serve only to redirect customers to the licensed person's website to complete the purchase of insurance or takaful products and do not provide after-sales services. Such after-sales services must at least include, assisting customers in claim submissions and responding to any queries or complaints.
- S** 10.4 For the avoidance of doubt, in the case where the gross commission has been included in the pricing of the insurance or takaful products, the licensed person shall provide a full rebate of the applicable gross commission to policy owners or takaful participants who purchased insurance policy or takaful certificate through any intermediaries as described in paragraph 10.3.
- S** 10.5 To avoid conflicts of interest, employees of a licensed person (including the Chief Executive Officer) shall not earn commissions.

## **11 Intermediary-related expenses**

- S** 11.1 The aggregate amount of intermediary-related expenses incurred by a licensed person shall not exceed 3% of gross direct premium or contribution. The limit shall be separately applicable for motor and non-motor businesses respectively, and shall not be combined to exceed the limit for either class of business.
- S** 11.2 In calculating the intermediary-related expenses in paragraph 11.1, a licensed person shall exclude the gross premium or contribution generated from direct distribution channels, which are not eligible for commission payments.

## **12 Profit commission**

- G** 12.1 A licensed person may provide profit commission to agents, based on the profitability of the business sourced by such agent.

- S** 12.2 A licensed person shall ensure that the provision of profit commission does not lead to the financial exclusion or unfair treatment of customers.
- S** 12.3 Underwriting profit or surplus of the agent's portfolio shall be calculated by a licensed person after accounting for all reinsurance or retakaful ceded on business procured, impairment losses on receivable premiums or contributions and appropriation of management expenses. The formula for the calculation of profit commission and computation of average underwriting profit or surplus is specified in Appendix 2.
- S** 12.4 The profit commission payable to an agent shall not exceed 10% of the average underwriting profit or surplus for the past three (3) consecutive financial years, i.e. the current year and two preceding years, and such profit commission can only be paid to an agent after his or her third year of service with the licensed person.
- S** 12.5 In respect of a licensed takaful operator, the profit commission shall be borne by the shareholders' fund and not paid from the distributable surplus retained in the takaful participants' risk fund.
- S** 12.6 Only agents<sup>2</sup> are allowed to receive profit commission.

### **13 Additional compensation**

- S** 13.1 A licensed person shall obtain the Bank's prior written approval to provide additional compensation to catalyse efforts by intermediaries in advancing the development priorities for the financial sector, including the financial inclusion agenda.
- G** 13.2 For purposes of an application under paragraph 13.1, consideration for such additional compensation would generally be limited to insurance policies or takaful certificates that meet the following criteria:
- (a) addresses or resolves specific critical protection gaps. Critical protection gaps may include, but not be limited to protection for persons with disabilities; coverage for business interruption risks affecting small-medium enterprises; trade credit and cyber security solutions; and climate-related protection which includes solutions for agriculture, green technology and flood protection;
  - (b) protection for first-time buyers or first renewals in identified underserved or unserved segments; and
  - (c) delivered through untapped or new distribution channels that would effectively reach an unserved or underserved segment.

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<sup>2</sup> For purposes of paragraph 12.6, this excludes agents in Schedule 2 of Persatuan Insurans Am Malaysia's (PIAM) Inter-Company Agreement on General Insurance Business, including any future amendments made to the exclusion list specified in such Schedule or other relevant documents issued by PIAM, Malaysian Takaful Association (MTA) or the Bank.

- S** 13.3 In relation to paragraph 13.1, an application shall be submitted with clear justifications to the Bank (addressed to Pengarah, Jabatan Penyeliaan Insurans dan Takaful).
- S** 13.4 For purposes of an application under paragraph 13.1, the licensed person shall submit information relating to the product, remuneration for intermediaries and performance targets which at minimum, include the following:
- (a) key features or benefits of the product and the targeted unserved and/or underserved segment;
  - (b) supporting market research to justify that the product would meet the target segment's needs;
  - (c) details and justification for the additional compensation, including a list of expenses that are relevant for the provision of the product; and
  - (d) performance targets and indicators applied to qualify for the additional compensation, e.g. targets on quality sales, projected business volume, profit margin and take-up rate to relevant target segments. This includes details on how the achievement of performance targets and indicators imposed on intermediaries will be monitored, and actions that will be taken for non-achievement of the targets and indicators by the intermediaries.
- S** 13.5 The maximum limits of additional compensation approved by the Bank shall apply at a policy or certificate level from the date the policy or certificate coverage commences, unless otherwise specified by the Bank in the approval.

#### **14 Direct distribution channels**

- S** 14.1 At minimum, a licensed person shall make available its motor insurance or takaful products to customers through online direct distribution channels, accompanied by a customer service channel.
- S** 14.2 A licensed person shall ensure that the customer service channel referred to in paragraph 14.1 provides the following services:
- (a) assistance with queries by customers and suitable advice prior to or during sales, for example on product features and benefits;
  - (b) support for after-sales needs of policy owners and takaful participants, for example, assistance with claims submission and insurance policy or takaful certificate renewals; and
  - (c) effective and timely handling and resolution of complaints and claims by customers.
- G** 14.3 A licensed person may make available, appropriate tools for customers to conduct self-assessment on product suitability based on their individual needs. These tools may include a needs analysis calculator to estimate the amount of coverage needed. For example, with respect to motor insurance policies or takaful certificates, the assessment tool can be used to ensure the adequacy of motor coverage based on the vehicle's market value. The assessment tool may also be accompanied with a statement on the importance of insuring at the appropriate value and the effects of over insuring or under insuring a vehicle.

- S** 14.4 A licensed person shall provide a full rebate of the applicable gross commission to policy owners or takaful participants who purchase their insurance policies or takaful certificates (including renewals) through any direct distribution channels. Such rebates shall not exceed the maximum gross commission limit in paragraph 10.1.
- S** 14.5 Consistent with paragraph 9.1, no “introducer’s fees” or “referral fees” shall be paid to agents for renewal of business undertaken through direct distribution channels, notwithstanding that the business was secured via the agents in the previous contract period.

## **15 Governance requirements**

- S** 15.1 In line with paragraph 7.1 of the Guidelines on Related Party Transactions and paragraph 11.4 of the Policy Document on Fair Treatment of Financial Consumers, licensed persons shall ensure that all agreements entered into with intermediaries are–
- (a) fair and not prejudicial to the interests of the licensed person and its policy owners or takaful participants;
  - (b) not adversely affecting the financial condition of the licensed person;
  - (c) on an arm’s length basis; and
  - (d) facilitative for modification in the event of any change in regulatory requirements issued by the Bank, or where the Bank considers the terms and conditions of the agreement to be inconsistent with the requirements in this policy document.
- S** 15.2 A licensed person shall ensure that adequate controls are in place to monitor, audit and review the expenses to be appropriate and reasonable with the services provided.
- S** 15.3 For agreements entered into between a licensed person and intermediaries that also perform additional services (dual-role)<sup>3</sup>, the licensed person shall–
- (a) differentiate the distribution and non-distribution functions with clear roles and mutually exclusive contract terms defined for both; and
  - (b) establish an internal written policy as approved by the board on the appointment of intermediaries with dual-roles. Licensed person is not required to seek its board’s approval for each appointment of intermediaries with a dual-role, if the appointment is in line with its internal policy.

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<sup>3</sup> This includes provision of ancillary services for motor business such as roadside assistance, towing and workshop repairs.

## **PART C MONITORING AND REPORTING REQUIREMENTS**

- S** 16.1 A licensed person shall ensure information technology (IT) systems are in place to monitor and track the payments of gross commission, intermediary-related expenses, profit commission and additional compensation to ensure such payments are made in compliance with limits set by the Bank, at all times.
- S** 16.2 A licensed person shall submit to the Bank (addressed to Pengarah, Jabatan Penyeliaan Insurans dan Takaful) the following:
- (a) information required on gross commission, intermediary-related expenses and additional compensation according to the reporting templates listed in Appendix 3 on a quarterly basis within 21 days after the end of each quarter; and
  - (b) a signed statement from the Chief Executive Officer and Chief Compliance Officer attesting compliance with the operating cost control classifications and limits under this policy document, on an annual basis.
- S** 16.3 The annual attestation on the compliance with the operating cost control classifications and limits for the period between 1 January and 31 December as required in paragraph 16.2(b) shall be submitted to the Bank by 28 February of the following reporting year. The licensed person shall ensure that payments to intermediaries have been independently reviewed and validated<sup>4</sup> to support the attestation.
- S** 16.4 Notwithstanding the above, a licensed person shall also submit information to the Bank, using the reporting templates listed in Appendix 3 as and when requested by the Bank.

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<sup>4</sup> By licensed person's control function as defined in the Policy Document on Corporate Governance.  
Issued on: 30 June 2023

## PART D APPENDICES

### Appendix 1: Expense Classification

No.	Expenses	Classification	Remarks
1	Advertising and Promotional (A&P) activities such as: (a) trademark fees (b) advertising space rentals (c) billboard rentals (d) signboard (e) media advertising	Intermediary related expenses (IRE)	<ul style="list-style-type: none"> <li>- Expenses (a) to (e) shall be classified as IRE if paid to intermediaries and the intermediaries' related party that meet IRE definition.</li> <li>- Expenses that meet the following criteria may be classified as management expenses (ME):               <ul style="list-style-type: none"> <li>(i) expenses paid to service providers that are independent of licensed person's intermediaries and are solely to benefit the A&amp;P objectives of the licensed person; and</li> <li>(ii) decisions on such marketing expenses must be made on an arm's length basis independent of intermediaries' considerations and are focused on the costs and benefits to the licensed person.</li> </ul> </li> </ul>
2	Annual conference, convention, and holiday trips for intermediaries	IRE	<ul style="list-style-type: none"> <li>- The leisure/sight-seeing component of any intermediary conference and convention shall be classified as IRE, given that this is unrelated to the intermediary training and education objectives of the licensed person.</li> <li>- Expenses for conventions or conferences that meet the following criteria may be classified as ME:               <ul style="list-style-type: none"> <li>(i) participation is targeted to include the entire agency force over a reasonable period of time; and</li> <li>(ii) the content is focused on training and education, on areas including corporate messages and business strategies of the licensed person to their agents as well as new rules and regulations, affecting the agents and the</li> </ul> </li> </ul>

No.	Expenses	Classification	Remarks
			<p>industry; and the aim is to improve the competence, professionalism and motivation of agents.</p> <ul style="list-style-type: none"> <li>- The reasonableness of the training cost must be assessed and subsequently validated or reviewed by the licensed person's control functions.</li> </ul>
3	Contribution towards annual dinner or similar events organised by intermediaries	IRE	<ul style="list-style-type: none"> <li>- Expenses where the selection of; or invitation to, intermediaries is based on the level of sales/production and is not open to all, shall be classified as IRE.</li> <li>- Annual dinner or similar events organised by non-intermediaries (i.e. PIAM or MTA) may be classified as ME.</li> </ul>
4	Expenses related to activity of insurance or takaful distribution, through any means including digital or electronic means, such as platform fees, subscription fees, marketing fees and advertising cost	IRE	
5	Expenses related to arrangements such as bancassurance/ bancatakaful, etc. (a) marketing allowance; or (b) incentive payments	IRE	<ul style="list-style-type: none"> <li>- Upfront fees for bancassurance/bancatakaful for an exclusive or non-exclusive arrangements are excluded from IRE classification.</li> <li>- For the avoidance of doubt, increment to upfront fees that are linked to achieved sales/premium/contribution shall be classified as IRE.</li> </ul>
6	Expenses related to events sponsored or organized by an intermediary. Examples include:	IRE	<ul style="list-style-type: none"> <li>- Examples of expenses that must be classified as IRE although they are paid to third parties: <ul style="list-style-type: none"> <li>(i) co-sponsorship of the event;</li> <li>(ii) reimbursement/ subsidy of the expenses incurred by</li> </ul> </li> </ul>

No.	Expenses	Classification	Remarks
	(a) a car launch; or (b) corporate social responsibility (CSR) activities		intermediaries to participate in the event; and  (iii) provision of free insurance/takaful cover, such as hole-in-one insurance for golf tournament sponsored/organised by intermediaries.
7	Expenses related to sales contest, including lucky draws	IRE	<ul style="list-style-type: none"> <li>- Lucky draw for intermediaries with the intention of rewarding certain intermediaries for achieving sales target shall be classified as IRE.</li> <li>- Other lucky draws that indirectly promote the intermediary's product or service shall be classified as IRE. For example, a lucky draw where the prize is a specific car model sold by an intermediary during a sales campaign.</li> </ul>
8	Expenses related to towing/Roadside Service Assistance (RSA), call centre and road-tax sticker provided by intermediaries or related parties	IRE	<ul style="list-style-type: none"> <li>- These expenses shall be classified as IRE if there is any pre-arrangement of service provider dictated by the franchise as a condition of business contribution.</li> <li>- Expenses for services that meet the following criteria may be classified as ME:               <ul style="list-style-type: none"> <li>(i) selection of service provider is contracted directly and not influenced by the intermediary in any way;</li> <li>(ii) terms of agreement should not be prejudicial to the licensed person or policy owners/takaful participants. Example of terms that will be deemed prejudicial includes towing of damaged car that is limited to the intermediary's own workshop for repairs; and</li> <li>(iii) an assessment to ensure that the provider selection is done on an arms-length basis and independently from business arrangements with the intermediary, is conducted by the control function of the licensed person.</li> </ul> </li> </ul>

No.	Expenses	Classification	Remarks
9	Expenses related to purchase of Laptop/Computer /Tablet provided to intermediaries	IRE	<ul style="list-style-type: none"> <li>- Expenses for such devices that meet the following criteria shall be classified as IRE:               <ul style="list-style-type: none"> <li>(i) devices given to selected intermediaries only; or</li> <li>(ii) there is an absence of clear policy, even if the devices are distributed to all intermediaries or on loan basis.</li> </ul> </li> <li>- Expenses may be classified as ME if they are given to the intermediaries on a loan basis with a clear policy in place. For example, the device remains as the company's property, and is only given to the intermediaries during their service period to the company.</li> </ul>
10	Expenses related to printing	IRE	<ul style="list-style-type: none"> <li>- Expenses that meet the following criteria shall be classified as IRE:               <ul style="list-style-type: none"> <li>(i) no actual printing; or</li> <li>(ii) licensed persons do not have controls in place that enable checks on the actual cost incurred for such printing.</li> </ul> </li> <li>- For example, expenses paid to intermediaries for policy servicing activities such as renewal notices and e-cover note issuance without the actual printing of policies must be classified as IRE.</li> <li>- Expenses that meet the following criteria may be classified as ME:               <ul style="list-style-type: none"> <li>(i) reimbursement basis based on actual cost incurred;</li> <li>(ii) licensed persons have controls in place that enable checks on the actual cost incurred;</li> <li>(iii) reasonable and justifiable internal limits on printing cost are set; and</li> <li>(iv) internal limits set must be reviewed regularly.</li> </ul> </li> <li>- Examples of expenses that may be classified as ME include:               <ul style="list-style-type: none"> <li>(i) intermediary prints and delivers the policy in</li> </ul> </li> </ul>

No.	Expenses	Classification	Remarks
			<p>hardcopy to customers before seeking reimbursement from licensed persons. Licensed persons must establish consistent rules for implementing the above-mentioned principle; and</p> <p>(ii) licensed persons may pay a fixed amount to intermediaries if the average amount paid is less than the actual cost incurred.</p>
11	Expenses related to promotional gifts	IRE	<ul style="list-style-type: none"> <li>- Gift items linked to production of insurance/ takaful products to be given to intermediaries shall be classified as IRE.</li> <li>- Examples of promotional gifts given by licensed person shall be classified as IRE in the following (non-exhaustive) scenarios: <ul style="list-style-type: none"> <li>(i) offered only to limited/selected intermediaries' customers;</li> <li>(ii) the gift may only be redeemed with certain intermediaries. Example: Vehicle maintenance voucher that can only be redeemed at certain intermediary-linked workshops; or</li> <li>(iii) petrol vouchers provided to intermediaries, instead of to customers directly, where there is lack of evidence that the vouchers were fully passed on to customers.</li> </ul> </li> <li>- Expenses that meet the following criteria may be classified as ME: <ul style="list-style-type: none"> <li>(i) strictly for customers; and</li> <li>(ii) subject to controls and regular review to ensure it remains reflective of the actual costs incurred.</li> </ul> <p>Example: Promotional gifts (in the form of petrol vouchers, gift vouchers, e-wallet credit, vehicle sand blasting) offered directly to customers only.</p> </li> </ul>

No.	Expenses	Classification	Remarks
12	Expenses related to intermediaries' benefits such as agent club, health/lifestyle membership, free insurance/takaful cover, medical expenses and contributions to retirement/gratuity schemes, etc.	IRE	
13	Expenses related to rental of premise /booths/locations for intermediaries	IRE	
14	Incentive payments to increase business production	IRE	
15	Merchant Discount Rate (MDR) reimbursement	IRE	<ul style="list-style-type: none"> <li>- Expenses that meet the following criteria shall be classified as IRE:               <ul style="list-style-type: none"> <li>(i) there is an element of rebate to intermediaries, indirectly funded by the MDR; or</li> <li>(ii) MDR paid to intermediaries that operate digital or electronic channels/platforms, where it is materially above the average MDR incurred by the licensed persons in other channels.</li> </ul> </li> <li>Illustration to differentiate ME and IRE:               <ul style="list-style-type: none"> <li>- MDR with rebate component: 3.0% MDR and 2.8% rebate (high MDR with rebate element is typically provided in the arrangement). <u>Classification:</u> IRE is 2.8%, and ME is 0.2%.</li> <li>- MDR charged by intermediaries that operate digital or electronic channels/platforms, 4.0% MDR and 1.5% average MDR rate incurred by the licensed person. <u>Classification:</u> IRE is 2.5%, and ME is 1.5%.</li> </ul> </li> </ul>

No.	Expenses	Classification	Remarks
16	Reimbursement to intermediaries linked to production	IRE	
17	Rental including renewal of advertising space for display of intermediaries' signboard or licensed person's signboard at the premise of intermediaries	IRE	<ul style="list-style-type: none"> <li>- These expenses shall be classified as IRE in view that they are benefits-in-kind that subsidise the expenses of intermediaries.</li> <li>- Signboard cost may be classified as ME if the expenses are incurred for a signboard where the licensed person's name and logo are prominent, subject to the following controls on the reimbursement to intermediaries:               <ul style="list-style-type: none"> <li>(i) it must be based on actual cost incurred; and</li> <li>(ii) it must be on a one-off basis instead of being recurrent in nature.</li> </ul> </li> </ul>
18	Risk management service fees (RMF)	IRE	<ul style="list-style-type: none"> <li>- These expenses shall be classified as IRE if the terms of the procurement are not set on an arms-length basis.</li> <li>- For example, the risk management service that is procured from the intermediary without sufficient justification or effort to source the same service at better terms from non-intermediary providers shall be classified as IRE.</li> <li>- Apart from intermediaries, the same requirements are also applicable to the following parties:               <ul style="list-style-type: none"> <li>(i) coinsurance/co-takaful leaders and followers; and</li> <li>(ii) associated company of and insurance/takaful broker</li> </ul> </li> <li>- The RMF imposed by the broker as a condition to support business shall be classified as IRE.</li> </ul>
19	Salary and/or other remuneration paid to intermediaries or on behalf of the intermediaries	IRE	<ul style="list-style-type: none"> <li>- Services provided by third parties such as telemarketing providers shall be classified as IRE.</li> </ul>

No.	Expenses	Classification	Remarks
20	Travelling and accommodation expenses for intermediaries	IRE	- Travelling and accommodation expenses shall be classified consistently with the classification of the overall training cost, as stipulated in item (2).
21	Internet fee/telephone bill/other fees	ME	- Expenses that are charged to the licensed person on a reimbursement basis may be classified as ME, if it is based on the actual cost incurred.
22	One-off payments to intermediaries for necessary systems development or to develop necessary connectivity with the licensed person's systems	ME	<ul style="list-style-type: none"> <li>- Expenses that meet the following criteria may be classified as ME:               <ul style="list-style-type: none"> <li>(i) it is based on the actual cost incurred (i.e. not linked to production); and</li> <li>(ii) it is properly justified to ensure there is no element of profit or subsidy to the intermediary.</li> </ul> </li> <li>- However, expenses that meet the following criteria shall be classified as IRE:               <ul style="list-style-type: none"> <li>(i) regular maintenance expenses of system incurred by intermediaries; or</li> <li>(ii) subsequent payments to intermediaries for system enhancement.</li> </ul> </li> </ul>

Note: The examples listed are non-exhaustive and a licensed person must ensure compliance with the classification in this Appendix, at all times.

**Appendix 2: Computation of Profit Commission****(A) Formula<sup>1</sup> for the Calculation of Profit Commission on a Net After Reinsurance or Retakaful Basis**

	Agent's Overall Portfolio <sup>1</sup>	
	RM	RM
Earned premium or contribution for the year <sup>2</sup>	XX	
Premium or contribution outstanding over 60 days at beginning of year	<u>XX</u>	XX
<u>Less:</u>		
Premium or contribution outstanding over 60 days at end of year	XX	
Net Commission <sup>3</sup>	XX	
Expenses <sup>4</sup>	XX	
Bad debts <sup>5</sup>	XX	
Net claims incurred <sup>6</sup>	<u>XX</u>	<u>XX</u>
Underwriting profit/surplus (loss) for the year		XX
<u>Add:</u>		
Total underwriting profit/surplus (loss) for first preceding year		XX
Total underwriting profit/surplus (loss) for second preceding year		<u>XX</u>
Total underwriting profit/surplus (loss) for last 3 consecutive years		<u>XX</u>
Average underwriting profit/surplus	<u>XX</u>	
Profit commission at agreed percentage of average underwriting profit/surplus	<u>XX</u>	

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<sup>1</sup> Based on financial year.

<sup>2</sup> Net premium or contribution plus changes in provision for unearned premiums reserve during the year.

<sup>3</sup> Gross commissions less commission received on reinsurance or retakaful business.

<sup>4</sup> Estimated expenditure of licensed person on the agent's business portfolio or the overall percentage of management expenses of a licensed person based on gross premium or contribution, whichever is higher.

<sup>5</sup> Bad debts written off (plus reinsurance irrecoverable).

<sup>6</sup> Claims plus changes in provisions for outstanding claims during the year less reinsurance or retakaful recoveries.

**(B) Computation of 'Average Underwriting Profit'**

A 3-year moving average method which staggers the payment of profit commission over three (3) years must be adopted as follows:

Example: Maximum profit commission for financial year ending 31 December 2022

$$= \frac{\text{Underwriting profit/(loss) for financial years ending 31 December 2020, 2021 and 2022} \times 10\%}{3}$$

**Appendix 3: List of reporting templates**

<b>Template</b>	<b>Title</b>	<b>Reporting Frequency</b>
A	Report on Gross Commission and Intermediary-Related Expenses	Quarterly
B	Report on Additional Compensation (if any) per Approved Limit	Quarterly

Please refer to the attachment to this policy document – *OCC Reporting Templates.xlsx*. The reporting templates will also be made available online and can be downloaded from the Integrated Submission Platform (ISP) at [https://statsmart-sub.bnm.gov.my/statsmart/saml/SSO/alias/thebank\\_statsmart](https://statsmart-sub.bnm.gov.my/statsmart/saml/SSO/alias/thebank_statsmart) upon issuance of the final policy document.