



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Liquidity Facility to Licensed Insurers and Takaful Operators

Applicable to:

1. Licensed insurers including professional reinsurers
2. Licensed takaful operators including professional retakaful operators

Issued on: 10 February 2023

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PART A OVERVIEW

1. Introduction

- 1.1 Liquidity management is a critical element for financial institutions' safety and soundness and the overall stability of the financial system. While both liquidity and capital management are essential for a financial institution which is a going concern, liquidity management has an additional dimension which relates to time and is key in informing the potential matches or mismatches between liquidity sources and needs during a particular time. Insufficient liquidity can cause undue stress to a financial institution that is otherwise well-capitalised. Licensed insurers and takaful operators must maintain adequate liquidity to meet their payment obligations when they fall due, regardless of the state of the operating environment.
- 1.2 Given the importance of liquidity and recognising the role of the Bank as a lender of last resort, the Bank is extending a liquidity facility, to all licensed insurers including professional reinsurers under the Financial Services Act 2013 (FSA) and all licensed takaful operators including professional retakaful operators under the Islamic Financial Services Act 2013 (IFSA).
- 1.3 The extension of this liquidity facility provides an additional liquidity management tool to the insurance and takaful industry that will further enhance their resilience and efficiency, with adherence to the conditions of accessing the liquidity facility.

2. Applicability

- 2.1 This policy document is applicable to all licensed persons as defined in paragraph 5.2.

3. Legal provisions

- 3.1 The requirements and guidance in this policy document are issued pursuant to:
(a) section 47, section 140, section 143, section 188(a) and section 266 of the FSA; and
(b) section 57, section 152, section 155, section 200(a) and section 277 of the IFSA.

4. Effective date

- 4.1 This policy document comes into effect on 10 February 2023.

5. Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the Central Bank of Malaysia Act 2009 (CBA), 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;

“**Collateralised Murabahah Arrangement**” refers to a sale and purchase of commodity on a deferred payment basis pursuant to a collateralised *murabahah* arrangement entered into between the Bank/Principal Dealer and a licensed person;

“**GMRA**” refers to the Global Master Repurchase Agreement, an international standard repurchase agreement prepared by the International Capital Market Association (ICMA) as entered into between the Bank/Principal Dealer and a licensed person;

“**licensed person**” collectively refers to –

- (a) a licensed insurer including a professional reinsurer; and
- (b) a licensed takaful operator including a professional retakaful operator;

“**Principal Dealer**” refers to a licensed bank or licensed Islamic bank appointed by the Bank and listed on the Bank’s website that have certain obligations in respect of the dealing in specified instruments, by virtue of which are accorded certain incentives; and

“**SBBA**” refers to the sell and buy back agreement as entered between the Bank/Principal Dealer and a licensed person.

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 as amended from time to time, in particular –
- (a) Policy Document on Standing Facilities;
 - (b) Policy Document on Repurchase Agreement Transactions;
 - (c) Policy Document on Management of Insurance Funds;
 - (d) Policy Document on Risk-Based Capital Framework for Insurers;
 - (e) Policy Document on Risk-Based Capital Framework for Takaful Operators;
 - (f) Policy Document on Takaful Operational Framework;
 - (g) Guidance Notes on Sell and Buy Back Agreement;
 - (h) Operational Procedures for Malaysian Ringgit Settlement in RENTAS; and
 - (i) Other applicable rules, guidelines, codes and directives relevant to this policy document.

7. Policy document superseded

- 7.1 This policy document supersedes the *Guideline on Liquidity Facility to Insurance Companies and Takaful Operators* issued by the Bank on 14 November 2008.

PART B LIQUIDITY FACILITY**8. Access to liquidity facility and enhancement in liquidity management tool**

- S** 8.1 A licensed person may access the liquidity facility via a Principal Dealer or the Bank. In this regard, the liquidity facility shall be in the form of a repurchase (repo) agreement, SBBA, or Collateralised Murabahah Arrangement or any such arrangement that the Bank may approve of from time to time.
- G** 8.2 A licensed person should refer to the policy document on Repurchase Agreement Transactions issued on 12 November 2019 and the Guidance Notes on Sell and Buy Back Agreement issued on 28 June 2013, as amended from time to time in entering into the repo and SBBA transactions with a Principal Dealer or the Bank.
- G** 8.3 For the purpose of honouring a licensed person's obligations during a liquidity crisis, a licensed person should first make reasonable attempt to obtain a liquidity facility from several Principal Dealers before requesting such liquidity facility directly from the Bank.
- S** 8.4 A licensed person shall also inform the Bank's Jabatan Penyeliaan Insurans dan Takaful upon requesting for the liquidity facility from a Principal Dealer, the Bank or under any such arrangement that the Bank may approve from time to time. The notification will be deemed as approved by the Bank under the policy documents on Management of Insurance Funds¹ issued on 17 December 2018 and policy document on Takaful Operational Framework² issued on 26 June 2019, as amended from time to time.
- S** 8.5 A licensed person shall provide to the Principal Dealer or the Bank details of persons who are authorised to act on its behalf for the liquidity facility. A licensed person shall communicate to the Principal Dealer or the Bank on any changes to the list of authorised persons in a timely manner. The notification must be signed by the Chief Executive Officer of the licensed person.
- S** 8.6 As a pre-requisite to obtaining a liquidity facility from Principal Dealer or the Bank, a licensed person must first sign a GMRA, SBBA or an agreement governing the Collateralised Murabahah Arrangement with the relevant Principal Dealer or the Bank. This is to ensure smooth and timely processes of securing a liquidity facility with the Principal Dealer or the Bank when the need arises.
- S** 8.7 A licensed person shall notify the Bank upon signing of a GMRA, SBBA or an agreement governing the Collateralised Murabahah Arrangement with at least two Principal Dealers.
- G** 8.8 A licensed person with a relatively large presence in the industry such that a liquidity constraint could cause significant erosion of consumer confidence or capital market

¹ The policy document on *Management of Insurance Funds* requires a licensed person to obtain prior written approval of the Bank to pledge or charge any of its assets or securities, except for 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 current accounts maintained for the purpose of daily operations; and
(c) to secure a mortgage loan where the property is assigned for its own use.

The assets pledged for purpose (c) above shall be sourced from the shareholders' fund.

² The policy document on *Takaful Operational Framework* requires a licensed person to obtain prior written approval from the Bank to pledge, mortgage or charge any of the assets or securities of takaful funds or shareholders fund.

disruption, due to fire sale of assets, should consider signing the relevant agreements sooner.

9. Parameters for Obtaining Liquidity Facility from the Bank

- S** 9.1 Where a licensed person intends to request for a liquidity facility directly from the Bank, the licensed person shall comply with the timeline and procedures as stipulated in Appendix 1.
- S** 9.2 A licensed person shall use Ringgit-denominated securities as collaterals for the liquidity facility. The detailed list of the Ringgit-denominated securities and overnight margin requirements are as stipulated in the policy document on Standing Facilities.³
- G** 9.3 A licensed person may negotiate with the Bank on the rates, tenure, collateral and other terms and conditions relating to the liquidity facility. The rates, tenure, collateral and other terms and conditions will be subject to the outcome of negotiations between the licensed person and the Bank.
- G** 9.4 A licensed person intending to utilise the liquidity facility should undertake the appropriate preparatory measures such as a plan to buy back the collateral at the future agreed date to ensure that the repo, SBBA or Collateralised Murabahah Arrangement is soundly managed and is subject to due diligence, prior to entering into the transaction.

³ For the avoidance of doubt, references to “Interbank institutions” and “Lending/Funding Facility” in the policy document on Standing Facilities shall be deemed as references to “licensed persons” and “liquidity facility” for purposes of that policy document.

APPENDIX 1 TIMELINE AND PROCEDURES TO REQUEST LIQUIDITY FACILITY FROM THE BANK

1. A licensed person must submit the request to the Bank's dealers at Jabatan Operasi Pelaburan dan Pasaran Kewangan no later than 3:30 pm on the day the liquidity facility is required. Specifically, the following cut-off time shall be adhered to:

Operating Hours for the Liquidity Facility

Utilisation of the Liquidity Facility	Cut-off time
Request to the Bank to obtain the liquidity facility	3.30 pm
Transfer of the Ringgit-denominated securities to the Bank	6.00 pm
The Bank lends to the licensed person upon receipt of the Eligible Securities (delivery versus payment)	6.00 pm

2. A licensed person shall first request for the liquidity facility via telephone and such request shall be followed by confirmation through:
- Reuters Dealing; or
 - email or facsimile transmission; or
 - any other applicable dealing platform;
- which contains information set out in the Liquidity Facility Form below.

(Please use institution's letter head)

Liquidity Facility Form

To: Director
Jabatan Operasi Pelaburan
dan Pasaran Kewangan
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur

Date: _____

1. Transaction details:

Organisation ID : _____ Tenor : _____
Value Date : _____ Maturity Date : _____
Total Nominal Amount : _____ Rate (%) : _____

Stock Code	Clean Price	1 st Leg Proceeds	2 nd Leg Proceeds
Total			

2. Formula for settlement failure:
 $0.50\% \times \text{MYR funding amount} \times (\text{No. of days}/365 \text{ days})$

(Authorised Dealer)

(Authorised Signatories)
Affix Company Seal or Stamp