



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Prudent and Professional Conduct of Insurance and Takaful Brokers

Exposure Draft

Applicable to:

1. Approved Insurance Brokers
2. Approved Takaful Brokers

This Exposure Draft sets out regulatory requirements and further guidance aimed at ensuring the prudent and professional conduct of approved insurance and/or takaful brokers (approved broker). The requirements in this Exposure Draft will be incorporated into the Policy Document on the Prudent and Professional Conduct of Insurance and Takaful Brokers. Upon finalisation, the revised requirements proposed in this Exposure Draft will apply to approved insurance and/or takaful brokers.

Bank Negara Malaysia (BNM) invites written feedback on the regulatory requirements and expectations proposed in this Exposure Draft, including suggestions for further clarification on any particular issues or areas, or alternative proposals which BNM should consider. The written feedback should be supported with clear rationale, evidence or illustrations, as may be appropriate, to facilitate BNM's assessment.

Feedback must be submitted electronically to BNM by 5 February 2025 through <https://forms.office.com/r/WCE9qB0AHQ>. When preparing the feedback, specific queries can be directed to conductpolicy@bnm.gov.my and addressed to the following officers:

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- (c) Farah Adibah Zaihan.

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PART A OVERVIEW

1 Introduction

- 1.1 In carrying out its insurance broking or takaful broking business, an approved insurance and/or takaful broker under Financial Services Act 2013 (FSA) and/or Islamic Financial Services Act 2013 (IFSA) is expected to thoroughly assess prospective and existing customers' need of insurance/takaful coverage and provide independent advice that would ensure the customers' risks are adequately protected. It is important that an approved insurance and/or takaful broker conducts its business in a fair, prudent and professional manner that instils trust and confidence in the industry.
- 1.2 This Policy Document sets out the requirements that must be met by an approved insurance and/or takaful broker on an on-going basis and are also applicable to reinsurance and/or retakaful arrangements, where relevant.

2 Applicability

- 2.1 This Policy Document is applicable to an approved broker as defined in paragraph 5.2.

3 Legal provisions

- 3.1 The requirements in this Policy Document are specified pursuant to the following:

No.	Provisions	Section	
		FSA	IFSA
(a)	Minimum amount of professional indemnity insurance or takaful	11(3)	
(b)	Requirements on minimum capital funds or surplus of assets over liabilities	12(1), 12(4)	
(c)	Other permitted business activities	14(1)	15(1)
(d)	Form of establishment	24(2)(b)	21(2)(b)
(e)	Notification of establishment or relocation of office	25(2)	22(2)
(g)	Power of Bank Negara Malaysia (BNM) to specify standards on prudential matters	47(1)	57(1)
(h)	Notification of appointment/reappointment of chairman, director or chief executive officer	54(4)	63(4)
(i)	Notification on cessation from office	62	70

(j)	Notification on the appointment of auditor	67(3)	76(3)
(k)	Notification on cessation of auditor	70	79
(l)	Power of BNM to specify standards on business conduct	123(1)	135(1)
(m)	Submission of document or information to BNM	143(2)	155(2)

- 3.2 The table above reflects the specific provisions under which the relevant requirements are made. For the avoidance of doubt, certain requirements in this Policy Document are made pursuant to more than one provision of the FSA or IFSA.
- 3.3 The guidance in this Policy Document is issued pursuant to section 266 of the FSA and section 277 of the IFSA.

4 Effective date

- S 4.1 This Policy Document comes into effect on [the date of issuance in 2025].

Question 1

BNM is considering for the Policy Document to come into effect immediately on the date of issuance. BNM would like to obtain feedback on whether there are any specific requirements in this Exposure Draft that may require additional time for approved brokers to implement.

Please support your feedback with relevant data, illustration and justification.

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;

“**approved broker**” collectively refers to an approved insurance broker under the FSA and an approved takaful broker under the IFSA, unless otherwise specified;

“**business introducer**” refers to an individual person or a body corporate in the insurance broking industry that assists an approved broker in securing new customers or maintaining existing customers. This may include an approved broker’s overseas associate or any other foreign broker providing technical expertise;

“**independent director**” refers to a director who is described as being independent in accordance with paragraph 11.3;

“**senior management**” refers to the Chief Executive Officer (CEO) and senior officers as defined in FSA and IFSA, of an approved broker.

6 Related legal instruments and Policy Documents

- 6.1 This Policy Document must be read together with other relevant policy documents and legal instruments that have been issued by BNM, including any amendments or modifications made after the issuance date, as well as reissuances, in particular –
- (a) Policy Document on Fair Treatment of Financial Consumers issued on 27 March 2024 (BNM/RH/PD 028-103);
 - (b) Policy Document on Shareholder Suitability - Notification and Application Procedures issued on 3 June 2019 (BNM/RH/PD 029-39);
 - (c) Policy Document on Fit and Proper Criteria for Approved Person issued on 24 December 2018 (BNM/RH/PD 029-32);
 - (d) Policy Document on Prohibited Business Conduct issued on 15 July 2016 (BNM/RH/PD 028-21);
 - (e) Policy Document on Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Financial Institutions issued on 5 February 2024 (BNM/RH/PD 030-14);
 - (f) Guidelines for Proper Advice Practices for Life Insurance/Family Takaful Business issued on 17 August 2012 (BNM/RH/GL 010-16);
 - (g) Policy Document on Operating Cost Controls for Life Insurance and Family Takaful Business issued on 24 December 2019 (BNM/RH/PD 029-19); and
 - (h) Policy Document on Product Transparency and Disclosure issued on 2 December 2024 (BNM/RH/PD 028-136).

7 Policy Documents superseded

- 7.1 Upon the effective date of this Policy Document, the following documents which have been issued by BNM will be superseded –
- (a) Circular on Premium Warranty (JPI 23/1990) issued on 16 October 1990;

- (b) Circular on Subseksyen 185(2) Akta Insurans 1996 – Sekatan ke atas Broker Insurans, also known as Compliance with Guidelines on Insurance Brokers' Brokerage/Fee Sharing (JPI 18/1997) issued on 26 March 1997;
- (c) Circular on Pengeluaran Lesen Broker Insurans (JPI 5/1999) issued on 7 April 1999;
- (d) Circular on Reconciliation of Outstanding Balances (JPI 13/2001) issued on 29 November 2001;
- (e) Circular on (A) Board Establishment: Minimum Number of Directors, (B) Poor Collection of Long Outstanding Premiums (JPI 6/2003) issued on 14 March 2003;
- (f) Circular on Kriteria bagi Pelantikan Juruaudit di bawah Seksyen 74 Akta Insurans 1996 (Akta) (JPI 1/2000) issued on 15 February 2000;
- (g) Circular on Branching Policy for Insurance Brokers and Adjusters (JPI B 6/2004) issued on 2 July 2004;
- (h) Circular on Perlindungan Polisi Insurans "Professional Indemnity" (JPI 3/2004) issued on 3 March 2004;
- (i) Circular on Insurance (Exemption) Order 2009: Insurance Brokers issued 27 April 2009;
- (j) Circular on Permission to Source Specific Insurance Policies from Labuan Insurers (JKAP7500/POL/5/3) issued on 27 August 2020; and
- (k) Specification letter on Handling Clients' Money and Compliance with Bank Negara Malaysia's Requirements (JKAP7500/POL/5/3) issued on 28 December 2023.

PART B POLICY REQUIREMENTS

8 Form of establishment

- S** 8.1 An approved broker must be a company incorporated under the Companies Act 2016.

9 Capital funds

- S** 9.1 For purposes of sections 12(1) and 12(2) of both the FSA and IFSA, the minimum capital funds of an applicant and an approved broker, as the case may be, is RM1,000,000¹ which shall comprise the sum total of –
- (a) paid up ordinary shares;
 - (b) preference shares
 - (c) reserves
 - (d) retained profits/earnings or accumulated losses; and
 - (e) audited profits for the period, or audited and unaudited losses for the period,
- minus loans, advances and investments given to shareholders, directors or other related parties.
- S** 9.2 In relation to paragraph 9.1, the Board of Directors (the Board) of an approved broker must ensure that –
- (a) the amount of capital funds is commensurate with the volume (e.g. based on revenue or premiums or contributions transacted), nature and risk of business of the approved broker at all times; and
 - (b) the adequacy of the amount of capital funds is reviewed regularly based on the approved broker's assessment of risks as above.

10 Professional indemnity (PI)

- S** 10.1 An approved broker must maintain a PI insurance or takaful cover with a minimum limit of indemnity of at least RM1,000,000 net of deductibles for any one claim at all times.
- S** 10.2 In relation to paragraph 10.1, the Board of an approved broker must ensure that –
- (a) the amount and scope of PI insurance or takaful cover is commensurate with the volume (e.g. based on revenue or premiums or contributions transacted), nature and risk of business of the approved broker at all times; and
 - (b) the adequacy of the amount and scope of PI insurance or takaful cover is reviewed regularly based on the approved broker's risk assessment.

¹ Based on the following *Gazette* Orders:

- (a) the Financial Services (Minimum Amount of Capital Funds) (Approved Person) Order 2013 [P.U.(A) 204/2013]; and
- (b) the Islamic Financial Services (Minimum Amount of Capital Funds) (Approved Person) Order 2013 [P.U.(A) 210/2013].

11 Appointment and responsibilities of the Board of Directors and Senior Management

- S** 11.1 The Board must be of a size that is commensurate with the size and risk of an approved broker's business, with a minimum of three (3) directors.
- S** 11.2 In relation to paragraph 11.2, the Board must have at least one (1) independent director at all times.

Question 2

BNM would like to obtain feedback on whether there are any challenges anticipated in implementing the requirement above, including with regard to securing appropriately qualified individuals.

Please provide relevant data, information and justification to support your views.

- S** 11.3 The Board must determine whether an individual to be appointed as an independent director is independent in character and judgement, and free from associations or circumstances that may impair the exercise of his independent judgement. An individual must not be considered to be an independent director if he or any person² linked to him —
- (a) has held an executive in the approved broker within the last two years;
 - (b) is a substantial shareholder of the broker or any of its affiliates; or
 - (c) has had a significant business or other contractual relationship with the broker or any of its affiliates within the last two years.
- S** 11.4 The Board must assess that a director complies with the Policy Document on Fit and Proper Criteria for Approved Person and does not meet any circumstances for disqualification as prescribed under section 59(1) of the FSA or section 68(1) of the IFSA.
- S** 11.5 The Board must establish and document the criteria and skill sets required of its members, both individually and collectively. These criteria and skill sets must reflect the fit and proper requirements and specific market or business knowledge necessary for the Board to function effectively and efficiently.
- S** 11.6 For avoidance of doubt, understanding of Shariah concepts and principles are required for the Board of approved brokers carrying out takaful broking business.
- G** 11.7 In relation to paragraph 11.5, an example of specific market or business knowledge with respect to approved brokers carrying on takaful broking business includes understanding of Shariah concepts³ and contracts such as

² Including spouse, children, parents or siblings.

³ Reference may be made to existing policy documents available on BNM's website such as Policy Document on Takaful Operation Framework, Policy Document on *Wakalah* and Policy Document on *Hajah* and *Darurah*.

wakalah, tabarru' and *hajah*. For instance, *hajah* is applied to address situations of hardship where exceptions from Shariah principles is permitted that may be applicable in the course of approved brokers sourcing/arranging takaful or retakaful coverage/cessions and providing advice on prioritisation of takaful.

- S** 11.8 In relation to paragraph 11.5, the Board shall periodically review the adequacy and relevance of these criteria and skill sets.

Board of Directors

- S** 11.9 The Board must establish a board charter that sets out the mandate, responsibilities and procedures of the Board that commensurate with the size and risk of an approved broker's business, including the matters reserved for the Board's decision.
- S** 11.10 The Board has the overall responsibility for promoting the sustainable growth and financial soundness of an approved broker, and for ensuring reasonable standards of fair dealing, without undue influence from any party. In fulfilling this role, the Board must –
- (a) oversee the implementation of the approved broker's governance and internal control frameworks to ensure compliance with this policy document and other applicable requirements specified by BNM;
 - (b) periodically review whether the implementation of the frameworks remains appropriate, taking into account, among other things, material changes in the approved broker's customers' profiles, product options and external environment that may affect the quality of advice provided to customers;
 - (c) monitor the compliance with any other law applicable to the approved broker;
 - (d) consider supervisory concerns highlighted by BNM that necessitate specific expertise from Board members;
 - (e) where applicable, approve and oversee the implementation of the internal control framework to prevent Shariah non-compliance and any rectification measures to resolve incidences or circumstances that may result or have resulted in Shariah non-compliance; and
 - (f) promote, together with senior management, a sound corporate culture within the approved broker which reinforces ethical, prudent, professional behaviour and give due consideration to customers' interest.
- S** 11.11 The Board's responsibilities outlined in this Policy Document must be read together with section 56 of the FSA and section 65 of the IFSA, any other applicable requirements in the FSA and IFSA and other relevant policy documents.
- S** 11.12 The Board members are required to periodically enhance their knowledge and skills to keep abreast of the latest developments related to the insurance and takaful broking industry, including Environmental, Social, Governance and Shariah aspects.

Senior Management

- S** 11.13 An approved broker must ensure its senior management is responsible for ensuring the following –
- (a) effective policies and procedures are established and implemented for, among others, the following areas –
 - (i) risk management and appropriate controls to manage and monitor risks, e.g. having effective controls in place to manage issues of conflict of interest, conduct of all staff, handling customers' monies, brokerage arrangements and reconciliation of outstanding balances with licensed insurers, licensed takaful operators and approved broker's customers; and
 - (ii) sufficient and timely reporting or escalation of issues to the Board;
 - (b) decision making processes give adequate consideration to customers' interests; and
 - (c) a robust assessment is conducted to approve any deviation from policies and procedures. Material deviations must be reported to the Board.
- S** 11.14 An approved broker must ensure its senior management comprises individuals with the appropriate skill set and experience to support and manage the insurance broking business or takaful broking business in a fair, prudent and professional manner, and in the best of interest of customers.

Question 3

With regard to takaful broking, BNM would like to seek feedback on whether an approved broker currently appoints a dedicated staff to provide advice in ensuring an approved broker's business, affairs and activities is in compliance with Shariah. If this is currently not a practice by the approved broker, what are the challenges anticipated if an approved broker is required to appoint a Shariah advisor?

Please provide relevant data, information and justification to support your views.

- S** 11.15 The senior management of an approved broker is required to periodically enhance their knowledge and keep abreast of the latest developments in skills related to the insurance and takaful broking industry, including Environmental, Social, Governance and Shariah aspects.

12 Appointment of auditor

- S** 12.1 An approved broker must ensure its appointed auditor fulfils the following criteria:
- (a) registered by the Audit Oversight Board under the Securities Commission Malaysia;
 - (b) not served as an engagement partner for a continuous period of more than five years with the same approved broker; and

- (c) an auditor who has been rotated off the audit of the approved broker may resume the role as engagement partner only after a lapse of five years from the last audit engagement with that approved broker.

13 Business conduct

Product option

- S** 13.1 An approved broker shall provide suitable product options to meet customers' needs from at least three (3) different licensed insurers or licensed takaful operators for each class of insurance or takaful business and recommend the most suitable option.
- S** 13.2 In the event that there is less than three (3) or no suitable product options that meet customers' needs, an approved broker must inform and provide explanation the limitations to the customers accordingly. Before proceeding with any comparisons and recommendations based on the limited product options, the approved broker must obtain the customer's consent. The approved broker is prohibited from recommending any other insurance or takaful products that is not in the best interest of the customer solely to secure a sale.
- S** 13.3 For the avoidance of doubt, paragraphs 13.1 and 13.2 are not applicable to products involving large and specialised risks⁴ or a scenario whereby multiple licensed insurers and/or licensed takaful operators participate in providing coverage on the same risks.

Question 4

BNM would like to obtain feedback on whether there are any challenges anticipated in implementing paragraphs 13.1, 13.2 and 13.3. Is there any other example of product or risks that should be excluded from the requirement above?

Please provide relevant data, information and justification to support your views.

- G** 13.4 An approved broker is encouraged to leverage on technology and adopt innovative solutions to ensure customers have various access points to access broking services expeditiously, efficiently and effectively. These should complement physical site visits and access points that may need to be maintained at the approved broker's offices to serve customers, especially in circumstances where digital infrastructures are limited or unavailable, in meeting the needs of customers. This may include facilitation of documentation submission, post-sales customer services and handling of face-to-face customers' enquiries and complaints.

⁴ As specified in the Guidelines on the Scheme for Insurance of Large and Specialised Risk (JPI/GPI 11) issued on 8 December 1993.

- S** 13.5 An approved broker is permitted to solicit, negotiate or procure foreign currency denominated ordinary life or investment-linked insurance policies from Labuan insurers for high-net-worth individuals (HNWI)⁵.
- S** 13.6 In relation para 13.5, an approved broker shall comply with the following requirements –
- (a) Commission received shall not exceed relevant commission limits payable by licensed life insurers for sale of similar policies under the Policy Document on Operating Cost Controls for Life and Family Takaful Business;
 - (b) The approved broker shall not be tied to any particular Labuan insurer;
 - (c) The approved broker shall send a reminder to HNWIs on the obligation to comply with prevailing foreign exchange administration rules;
 - (d) The approved broker shall facilitate HNWIs in making well-informed decisions by educating them on risks of purchasing from non-licensed insurers or takaful operators under the FSA; and
 - (e) The approved broker shall obtain written confirmation from HNWIs on awareness of such risks.

Handling of customers' monies

- S** 13.7 An approved broker shall make it a default option for customers with single policies or takaful certificates to make direct payment of premiums or contributions to the licensed insurer or licensed takaful operator.
- S** 13.8 An approved broker must ensure that premiums or contributions are collected and remitted to licensed insurers/takaful operator/reinsurers/retakaful operators in a timely manner to ensure the interest of customers are protected.
- S** 13.9 In relation to paragraph 13.8, an approved broker shall remit any premiums or contributions due and payable to licensed insurers or licensed takaful operators no later than 15 calendar days from the receipt of premiums or expiry of the 60-day Premium Warranty period, whichever is earlier.
- S** 13.10 In establishing a customer account under section 125 of FSA or section 137 of IFSA, an approved broker must open a dedicated savings account or current account with a licensed bank or licensed Islamic bank. The approved broker shall segregate and safeguard the customers' monies from the approved broker's own funds.
- S** 13.11 In relation to paragraph 13.10, an approved broker must obtain a customer's explicit consent to keep any interest or profit earned on the customer's monies. The consent must be obtained before or at the point of payment of premiums or contributions by the customer.

⁵ A resident as defined in section 2 of the Labuan Financial Services and Securities Act 2010 and spends for a single premium life policy an equivalent of not less than RM20,000 in any foreign currency or for an annual premium life policy equivalent of not less than RM15,000 per person in any foreign currency.

- S** 13.12 An approved broker must disclose the actual interest or return earned if required by the customers unless the amount earned is non-material. The interest or return earned is non-material if it is not more than RM10 per customer account per calendar year.

Question 5

BNM would like to seek feedback on whether there are any challenges anticipated in implementing paragraph 13.10, 13.11, and 13.12.

Please provide relevant data, information and justification to support your views.

- S** 13.13 An approved broker carrying on takaful broking business shall ensure payments of takaful contributions by customers are made into the takaful broker's customer account with an Islamic bank and adequate measures are established to advise customers to remit contributions into the takaful broker's customer account with an Islamic bank.
- S** 13.14 In relation to paragraph 13.13, if a customer pays contributions into an approved broker's customer account with a conventional bank, the approved broker shall, within three (3) working days from the date of payment received by the approved broker, remit the contributions received into the approved broker's customer account with an Islamic bank.
- S** 13.15 An approved broker must ensure accuracy of its records and reconcile the balance on each customer account with its own records on a monthly basis.

Question 6

BNM would like to seek feedback on whether there are any challenges anticipated in implementing paragraph 13.15.

Please provide relevant data, information and justification to support your views.

- S** 13.16 In ensuring effective resolution of unreconciled balances, an approved broker shall -
- (a) establish or review procedures to ensure that all source documents necessary to support transactions with licensed insurers/takaful operators/reinsurers/retakaful operators are complete and accurately transmitted to the finance/accounts functions for recording purposes;
 - (b) ensure that all payments made to licensed insurers/takaful operators/reinsurers/retakaful operators are supported with details of the individual policies/takaful certificates/reinsurance/retakaful arrangements to which the payments relate;
 - (c) ensure that statements received from licensed insurers/takaful operators/reinsurers/retakaful operators are verified upon receipt and any material differences arising with the approved broker's own records are

- communicated in writing to the licensed insurers/takaful operators/reinsurers/retakaful operators concerned within 14 days from the date of receipt of the statements; and
- (d) extend full cooperation to insurers/takaful operators/reinsurers/retakaful operators in resolving any unreconciled differences on outstanding balances.

Brokerage arrangements

- S** 13.17 An approved broker shall ensure proper governance and documentation for any arrangements involving the sharing of brokerage/fees⁶, including:
- (a) establishment of effective internal policies, procedures and controls, with clear delineation of roles and responsibilities to ensure prudent, professional and fair dealings for all parties involved in such arrangements. This is intended to ensure the best interest of the approved broker is preserved while promoting the delivery of fair outcomes to financial consumers;
 - (b) conducting periodic reviews on the adequacy and effectiveness of established internal policies, procedures and controls to meet the intended outcomes as specified above; and
 - (c) ensure any fees paid are commensurate to the services provided.
- S** 13.18 An arrangement for sharing of brokerage/fee must be in a written form of agreement, and duly approved by the approved broker's senior management and subsequently tabled and approved by the Board.
- S** 13.19 The agreement on brokerage/fee sharing must specify:
- (a) the customer in respect of which the brokerage/fee is being shared;
 - (b) the basis of sharing and its duration or tenure;
 - (c) the form and manner of payment of brokerage/fee;
 - (d) the roles and responsibilities as well as approving authorities or key contact points of each party;
 - (e) policies and procedures for raising and resolution of disputes arising from the agreement;
 - (f) conditions of termination of agreement during its tenure; and
 - (g) that business introducers are not permitted to collect premiums from the customer. The collection of premiums must be made directly to the approved broker.

⁶ Sharing of brokerage fees may take the form of co-brokers/brokers consortium, business introducer or technical assistance, as per the following—

- (a) For co-brokers/brokers consortium, the brokerage fee may be shared between two or more approved brokers where a customer account is managed on co-broking or brokers consortium basis.
- (b) For technical assistance, an approved broker may pay a percentage of the brokerage fees for the services of a foreign broker in the procurement or servicing or a specialised class of insurance namely aviation/space, oil and gas/energy, marine hull/liability, or such other class of risks as determined to be specialized in accordance with The Large and Specialised Insurance Scheme.

- S** 13.20 The agreement must ensure that the approved broker primarily responsible for dealing with the customer receives adequate brokerage to meet the costs of servicing the customers while maintaining the required professional standards, subject to a minimum brokerage as specified in paragraphs 13.22, 13.23, 13.25 and 13.26.
- S** 13.21 All payments in respect of brokerage/fee must only be out of the brokerage received on such specific customer introduced and must not be from the total brokerage income of the approved broker.
- S** 13.22 Where a foreign⁷ broker secures a customer residing overseas through an introduction made by an approved broker, the approved broker shall endeavour to secure a brokerage of not less than 30% of the direct brokerage, subject however to prevailing laws in the country which the foreign broker operates in, as the case may be.
- S** 13.23 Where a customer is secured with the assistance of a foreign broker who provides technical assistance or related services in securing and servicing the customer, the approved broker shall endeavour to retain a minimum brokerage of 70% but may retain any other percentage no lesser than 50% of the brokerage on specialised risks, provided such percentage is approved by the approved broker's Board.

Business Introducer

- S** 13.24 The following persons⁸ shall not qualify as an approved broker's business introducer:
- (a) an approved broker's own employees or directors, unless the agreement on brokerage/fee sharing forms part and parcel of the remuneration package of such employee or director and was duly approved by the Board;
 - (b) immediate family members, domestic workers and agents of an approved broker's own employees and directors. These shall include employee's or director's spouses, children, parents.
 - (c) in respect of an approved broker's customer, the customer's own employees or directors including their immediate family members as specified in (b) above; and
 - (d) any company where any person as specified above has controlling interest, unless expressly approved by the Board of customer.
- S** 13.25 Where a Malaysian customer is secured through the introduction or assistance of an approved broker's associate broker located overseas, or any other foreign broker, the approved broker shall retain a minimum of 70% of all direct brokerage/fee on the customer introduced.

⁷ A broker incorporated and operating outside of Malaysia.

⁸ Individual or body corporate.

- S** 13.26 With regard to business introducers, the minimum brokerage/fee that an approved broker retains for itself shall not be less than 70% of the total direct brokerage/fee on the specific customer introduced.
- S** 13.27 A business introducer is only allowed to work with one (1) approved broker for one specific customer at any one time.

Question 7

Requirements on brokerage arrangements and business introducers were initially introduced to:

- (a) promote healthy growth of the broking industry; and
- (b) ensure the sharing of brokerage/fee in any form does not result in any deterioration of the standard of professional service to customers, lack of transparency or possible conflict of interest.

BNM would like to seek feedback on any possible business or operational challenges in the event the requirements and limits on sharing of brokerage/fee, particularly paragraphs 13.18 to 13.27, are removed.

Please provide relevant data, information and justification to support your views.

14 Other permitted business activities

- S** 14.1 An approved broker is permitted to carry on the following activities:
- (a) risk consulting and management services not relating to broking services;
 - (b) claims advisory and management services on behalf of policyholders/takaful participants;
 - (c) employee benefits consulting and management; and
 - (d) distribution of private retirement schemes (PRS).
- S** 14.2 In carrying on any of the businesses or activities stated in paragraph 14.1, the approved broker must ensure that the following requirements are met:
- (a) the approved broker has adequate capacity and sufficient resources with relevant capabilities to carry on such business or activity;
 - (b) the business or activity is not detrimental to the interest of policyholders/takaful participants or the wider public;
 - (c) such business or activity is carried on in a manner that is consistent with the standards of good governance and integrity;
 - (d) such business or activity does not give rise to any conflict of interest;
 - (e) the approved broker has adequate professional indemnity coverage;
 - (f) the approved broker has the ability and capacity to maintain effective internal controls, and to meet current as well as future changes to regulatory requirements;
 - (g) the approved broker has undertaken adequate measures to preserve the customers' data integrity and confidentiality; and

- (h) the approved broker complies with relevant policy documents specified by BNM, including Shariah requirements where takaful products are involved (e.g. avoiding co-mingling of conventional and Islamic funds); and
 - (i) the approved broker complies with any requirements imposed by any other relevant authority that regulates such business or activity.
- S** 14.3 An approved broker which intends to carry on any of the business or activity specified in paragraph 14.1 shall –
- (a) submit a notification to BNM in writing at least two weeks prior to commencement of such business or activity; and
 - (b) comply with any condition which BNM may impose in respect of such business or activity.
- S** 14.4 An approved broker must submit an application to BNM if the approved broker wishes to carry on any other activity which is not listed in paragraph in 14.1.
- S** 14.5 To ensure that an approved broker remains focused on the approved insurance or takaful broking business, the annual revenue earned from any additional permitted activities is subject to a maximum cap of 20% of the total revenue in the previous financial year.

15 Maintaining professionalism of broking staff

- S** 15.1 An approved broker must only employ broking staff that meet the following criteria –
- (a) has the qualifications specified in paragraphs 15.2 or 15.3, as the case may be; and
 - (b) a person who has been assessed to have met all the fit and proper criteria as specified in the Policy Document on Fit and Proper Criteria for Approved Person.

Qualifications

- S** 15.2 An approved broker must ensure that its general insurance broking business or general takaful broking business, as the case may be, is only carried on by broking staff that have obtained at least one of the following qualifications –

Advisory Area	Minimum Qualification
(a) General insurance	<ul style="list-style-type: none"> (i) Fellow/Associate of the Chartered Insurance Institute; (ii) Fellow/Associate/Diploma of the Australian Insurance Institute; (iii) Fellow/Associate/Diploma of the Asian Institute of Insurance (All) (previously known as Malaysian Insurance Institute); (iv) Fellow/Associate of The Institutes (previously known as the 'Insurance Institute of America');

	<ul style="list-style-type: none"> (v) Fellow/Associate of the Insurance Institute of Canada; (vi) Fellow/Associate of the Life Management Institute; (vii) Chartered Property & Casualty Underwriter (USA); (viii) Diploma in Insurance Broking from Australian and New Zealand Institute of Insurance and Finance (ANZIIF); (ix) Diploma/Degree in Insurance/Actuarial Science qualifications from higher learning Institutions (accredited by the Malaysian Qualifications Agency - MQA); (x) Diploma/Degree in Business Studies or Risk Management – Major in Insurance from higher learning institutions (accredited by MQA); (xi) Basic/Intermediate Certificate Course in Insurance Broking from All; (xii) Basic Certificate Course in Insurance and Takaful Broking from All; or (xiii) Have relevant experience in the insurance or takaful broking industry for at least five consecutive years prior to 2006.
(b) General takaful	<ul style="list-style-type: none"> (i) Basic Certificate Course in Insurance and Takaful Broking from All; (ii) Basic Certificate in Takaful Broking from Islamic Banking and Finance Institute Malaysia; or (iii) Have relevant experience in the insurance or takaful broking industry for at least five consecutive years prior to 2006.

- S** 15.3 An approved broker must ensure that its life insurance broking business or family takaful broking business, as the case may be, is only carried on by broking staff that have obtained at least one of the following qualifications –

Qualification	Mandatory Areas of Knowledge
<p>(a) <u>For broking staff who carry on advisory on life insurance –</u></p> <ul style="list-style-type: none"> (i) Registered Financial Planner offered by the Malaysian Financial Planning Council (MPFC); or (ii) Certified Financial Planner offered by the Financial 	<ol style="list-style-type: none"> 1. Foundation of Financial Planning 2. Risk Management 3. Insurance Planning 4. Investment Planning

Planning Association of Malaysia (FPAM)	
(c) <u>For broking staff who carry on advisory on family takaful –</u> (i) Shariah Registered Financial Planner offered by MFPC; or (ii) Islamic Financial Planner offered by the Islamic Banking & Finance Institute of Malaysia and FPAM	1. Foundation of Islamic Financial Planning 2. Risk Management 3. Takaful Planning 4. Shariah Investment Planning

Continuous Professional Development (CPD)

- S** 15.4 An approved broker must ensure that its broking staff attend courses or training to achieve a minimum of 20 CPD hours in the calendar year.
- S** 15.5 An approved broker shall adhere to the following conditions related to CPD hours:
- (a) Credit points for CPD can be earned only once for the same programme for each year; and
 - (b) Any CPD hours including extra points earned is not allowed to be carried forward to the following year.
- S** 15.6 An approved broker must determine the composition of technical and non-technical training programmes required to be attended by its broking staff based on the broking staff's development needs and business needs of the approved broker on a yearly basis.
- S** 15.7 In relation to paragraphs 15.5 and 15.6, an approved broker shall refer to the Malaysian Insurance and Takaful Brokers Association (MITBA) on the type of courses which qualify for CPD hours.
- S** 15.8 An approved broker shall ensure its broking staff comply with the CPD requirements by conducting the following:
- (a) reviewing and following up on each of its broking staff's CPD training needs on an annual basis; and
 - (b) monitoring, obtaining and retaining relevant supporting evidence that each of its broking staff has completed minimum CPD hours required within the stipulated period in paragraph 15.5. This includes the records of the CPD hours and types of training or courses attended by each of its broking staff.
- G** 15.9 An approved broker may exercise flexibility in terms of extending the periods of paragraph 15.4 for its broking staff compliance with remaining CPD hours on a case-to-case basis subject to valid reasons.

- S** 15.10 An approved broker is required to exercise its discretion under paragraph 15.9 objectively and maintain proper records on the decisions reached together with any supporting documents. Such records shall be made available upon request by BNM.

Balanced Scorecard (BSC Framework)

- S** 15.11 The BSC Framework shall only be applicable to the sale of regular premium or contribution products that are subject to the Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business.
- S** 15.12 In enhancing the professionalism of broking staff, the Board and senior management of an approved broker shall undertake the following –
- (a) develop and approve the remuneration policy, which includes parameters for the implementation of the BSC Framework;
 - (b) ensure adequate training and support are provided to the broking staff⁹ to understand the key outcomes and implementation of the BSC Framework;
 - (c) ensure that the performance of broking staff is reviewed against the Key Performance Indicators (KPIs) of the BSC Framework at least annually;
 - (d) ensure that the maintenance of contracts or promotion of the broking staff are assessed against the performance under the BSC Framework; and
 - (e) monitor the effective implementation of the BSC Framework and take timely corrective measures as required to promote the objectives of the BSC Framework.
- G** 15.13 In relation to paragraph 15.11, the BSC Framework is not applicable to the sale of products that generally have low inherent conduct risks due to the products' simplicity, are short term in nature or when dealing with more capable master policy owners who have the capability of making informed decisions, such as–
- (a) group products;
 - (b) business products such as key man insurance/takaful;
 - (c) simple term products sold as ancillary products to loans/financing, including the mortgage reducing term assurance/takaful products;
 - (d) stand-alone/individual medical and health insurance/takaful;
 - (e) pre-packaged simple employees' benefit products that are marketed at the workplace; and
 - (f) additions (top-ups), exclusions (deletions) and changes to existing in-force products.
- S** 15.14 The percentage of BSC commission payable by an approved broker to its broking staff must be set at 25% of total commissions payable.
- G** 15.15 In relation to paragraph 15.14, the Bank may gradually increase the proportion of the BSC commission.

⁹ An approved broker may exempt new broking staff from the BSC in the first 2 years of appointment. For broking staff or former financial adviser representatives (FARs), insurance agents or takaful agents who are reappointed by another approved broker, BSC shall apply the next calendar year.

- S** 15.16 For the purpose of calculating the BSC commission for its broking staff, the approved broker must assign the minimum score and weightage of each KPI according to the table as attached in **Appendix I**.
- S** 15.17 In the event its broking staff are unable to meet the KPIs specified in **Appendix I**, an approved broker shall utilise the portion of BSC commission for further training and development of its under-performing broking staff.
- S** 15.18 In relation to paragraph 15.18, an approved broker shall –
- (a) not utilise savings in commission from under-performing broking staff to subsidise allocated annual training expense intended for all broking staff;
 - (b) not utilise savings in commission to pay for any incentives and rewards to under-performing broking staff;
 - (c) design specific training programmes for under-performing broking staff to raise their current competency and skills to the level of a performing broking staff including the following:
 - (i) ensure the course content is sufficiently differentiated from the regular training courses conducted for all broking staff to address specific areas for improvement; and
 - (ii) review periodically the effectiveness of these specific training programmes based on feedback from under-performing broking staff and make necessary changes to cater for changing needs and competency gaps;
 - (d) seek the Bank's prior approval in the event the approved broker wishes to utilise any savings in commission for purposes other than to design and deliver specific training programmes for under-performing broking staff; and
 - (e) fully utilise any unused savings in commission by the end of the first quarter of the next financial year, unless otherwise permitted in writing by the Bank.
- S** 15.19 An approved broker shall submit to the Bank an annual report on the performance of its broking staff against the KPIs of the BSC Framework which has been reviewed by the Board and senior management, and the information on the amount of BSC commissions payable to its broking staff **by the end of March of the following year** using the template in **Appendix II** to:

Director,
Consumer and Market Conduct Department,
Bank Negara Malaysia.

16 Publication of financial statements

- S** 16.1 For purposes of section 66 of the FSA and section 75 of the IFSA, an approved broker's latest audited financial statements must be made available for access and inspection by members of the public, at no cost whatsoever –
- (a) at every branch of the approved broker in Malaysia; or
 - (b) on the approved broker's website in an electronic form that is publicly accessible.

17 Notifications

- S** 17.1 An approved broker must notify BNM in writing within seven (7) days after the date of the following changes –
- (a) for purposes of section 25(2) of the FSA and section 22(2) of the IFSA, the establishment or relocation of an office;
 - (b) for purposes of section 54(4) of the FSA and section 63(4) of the IFSA, the appointment, re-appointment, election or re-election of its chairman, director or chief executive officer;
 - (c) for purposes of section 62 of the FSA and section 71 of the IFSA, the cessation from office of its chairman, director, chief executive officer or senior officer, as the case may be, including the reason for such cessation;
 - (d) for purpose of section 67(3) of the FSA and section 76(3) of the IFSA, the appointment or reappointment of an auditor; and
 - (e) for purposes of section 70 of the FSA and section 79 of the IFSA, cessation of auditor, including the reason of such cessation.

APPENDIX I**MINIMUM SCORE AND WEIGHTAGE OF EACH KPI**

	KPIs	Minimum Score	Weightage
a	Number of suitable product options provided to meet customer needs	Suitable products from at least three different product providers ¹⁰	20%
b	Completion rate of customer fact finding (CFF) option 1 and 2	80% and above	20%
c	1 st year persistency ratio	90% and above	20%
d	2 nd year persistency ratio	80% and above	20%
e	Number of substantiated complaints	0	10%
f	Meeting Continuous Professional Development (CPD) hours	20 hours	10%

¹⁰ Excluding genuine circumstances (i.e. product limitations vis-à-vis customers' specific needs, customers preferring a particular licensed insurer or takaful operator) that prevent an approved broker from comparing products from at least three different product providers. An approved broker shall notify and explain the limitations to the customers accordingly as well as obtain consent from customers before proceeding with the comparison and recommendation based on the limited product options as per paragraph 13.2.

APPENDIX II

TEMPLATE FOR SUBMISSION OF BSC REPORT

Balanced Score Card (BSC) Implementation [Jan - Dec 20xx]

Broking staff

Broking staff:

Total number of broking staff:

Data period:

Jan - Dec 20xx

Please fill in the boxes in yellow with the respective number of broking staff that were able to meet or not meet with the BSC KPI threshold.

BSC KPIs	Weightage	Score	Actual Score			
			Not Met	Met	Total	
KPI I	Number of Suitable Product Options Provided to Meet Customer's Needs	20%	Suitable products from at least three different product providers			
	No. of broking staff					
	% by score					
KPI II	Completion Rate of Customer Fact Finding (CFF) Option 1 and 2	20%	80% and above			
	No. of broking staff					
	% by score					
KPI III	1st Year Persistency Ratio	20%	90% and above			
	No. of broking staff					
	% by score					
KPI IV	2nd Year Persistency Ratio	20%	80% and above			
	No. of broking staff					
	% by score					
KPI V	Number of Substantiated Complaints	10%	0			
	No. of broking staff					
	% by score					
KPI VI	Meeting CPD Hours	10%	20 hours			
	No. of broking staff					
	% by score					

Amount (in RM) of BSC Commissions Payable

PERIOD	Total No. of Broking Staff	UNDER-PERFORMERS (Not Met)			NORMAL PERFORMERS (Met)	
		No. of Broking Staff	Total Amount of Commission Paid (RM)	Total Amount of Commission Saved (RM)	No. of Broking Staff	Total Amount of Commission Paid (RM)
1 Jan 20xx - 31 Dec 20xx						

REMARKS

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