

Take5

for business

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Licensing and
Regulatory
Framework: Digital
Insurers and *Takaful*
Operators (DITOs)

EY

Building a better
working world

Facilitating the entry of DITOs to close Malaysia's protection gap

In Malaysia, 90% of the population are underinsured and over 85% of small and medium enterprises (SMEs) have inadequate coverage, leaving them vulnerable to business disruptions and financial risks.

To close Malaysia's protection gap, Bank Negara Malaysia (BNM) recently released the policy document on the licensing and regulatory framework for Digital Insurance and *Takaful* operators (DITOs).

DITOs need to develop strong value propositions to serve the unserved and underserved market, provide competitive offerings and enhance consumer experience via the adoption of advanced digital technology and innovative business models.

DITOs are expected to deliver strong and meaningful value propositions of inclusion, competition and efficiency; and close critical protection gaps in digitally-focused segments in the insurance and *takaful* value chain.

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BNM's DITOs policy will facilitate the entry of licensed DITOs with strong value propositions and innovative businesses.

To compete in digitally-focused market segments, DITOs must look beyond the traditional notions of the underserved and unserved, and use transformative technologies and data.



Shankar Kanabiran
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BNM's transformative licensing framework for digital insurance and *takaful* operators

DITOs: Six areas of focus

- 1 Business model**
Create innovative, sustainable business models and business plans with demonstrable profitability pathways and orderly exit plans
- 2 Value proposition**
The issuance of DITO licenses are to improve inclusion, competition and efficiency. Licensees are expected to continuously demonstrate this
- 3 Technology-enabled**
Licensees are expected to leverage transformative digital technologies, modern architectures and state-of-the-art security, and demonstrate resiliency
- 4 Capital strength**
Minimum paid up capital of RM30m indicated, along with prevailing capital requirements set out by the Risk Based Capital Framework
- 5 Regulatory compliance**
Comply with existing regulatory and supervisory requirements post the foundational phase, including additional requirements to address technology risks
- 6 Shareholder suitability**
Shareholders must meet BNM's overall requirements for shareholder suitability

Source: Licensing and Regulatory Framework for Digital Insurers and *Takaful* Operators Policy Document, 9 July 2024, BNM

DITO licenses: New regulatory updates 2024

BNM's 2024 DITOs policy document highlights increased equity and competition between potential applicants, with changes such as a longer application period and lower minimum capital requirements, that are set to decrease the barrier of entry.

Major regulatory updates include:

- 1 A two-year licensing application period between 2 January 2025 and 31 December 2026.
- 2 Progressive awarding of licenses over the two-year application period, with no publicly-mentioned limit to the number of licenses awarded.
- 3 Agency and bancassurance distribution channels are not allowed; however, distribution via **digital platforms** as well as approved financial advisers and Islamic financial advisers are permitted.
- 4 Distribution and servicing should primarily be **digital**, with the ability to incorporate **online-to-offline (O2O) capabilities** when the necessary digital infrastructures are unavailable.
- 5 Minimum paid up capital of **RM30m** for each license at the beginning of the foundational phase.
- 6 A foundational period of three to seven years, with the submission of a **seven-year business plan**.

Source: Licensing and Regulatory Framework for Digital Insurers and *Takaful* Operators Policy Document, 9 July 2024, BNM

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DITO applicants must demonstrate their capability to close critical protection gaps in Malaysia with BNM's value propositions of inclusion, competitiveness and efficiency (ICE).

Customers can expect to see more personalized and affordable insurance products, as well as efficiency in areas such as claims management and underwriting.



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DITOs: Value proposition to Malaysia

For innovation to reach the underserved, BNM mandates three key value propositions an applicant must meet to win a DITO license. These value propositions center around inclusion, competition and efficiency, as outlined below:

DITO: Value proposition to Malaysia

Inclusion

How may DITOs address problems related to retirement, unemployment, liability, long-term care for the elderly, business interruption, cyber risks and climate risks?

- ▶ Small businesses are vulnerable to business interruption risks, e.g., trending customer experiences and intense competition.
- ▶ Insurance or *takaful* products and value-added services are needed for previously excluded risks such as pre-existing health conditions.
- ▶ Customers with limited financial literacy and digital connectivity in the rural regions must be reached.
- ▶ Limited income protection options, particularly for independent contractors and informal sector employees need to be addressed.

Competition

How may DITOs deliver innovation that promotes healthy competition across the value chain while delivering improved options and enhanced customer experience?

- ▶ Utilize the Internet of Things (IoT) to provide motor insurance and *takaful* products featuring premiums and *takaful* contributions that are indicative of customer habits.
- ▶ Create “pay-as-you-live” health insurance and *takaful* solutions that offer customized premiums and *takaful* contributions based on real-time biometrics and lifestyle data.
- ▶ Foster creative relationships and partnerships with financial and non-financial service providers to offer embedded insurance and *takaful* products for more comprehensive offerings.

Efficiency

How may DITOs ensure fast and seamless processes to achieve greater cost savings and deliver customized solutions based on customer risk profiles?

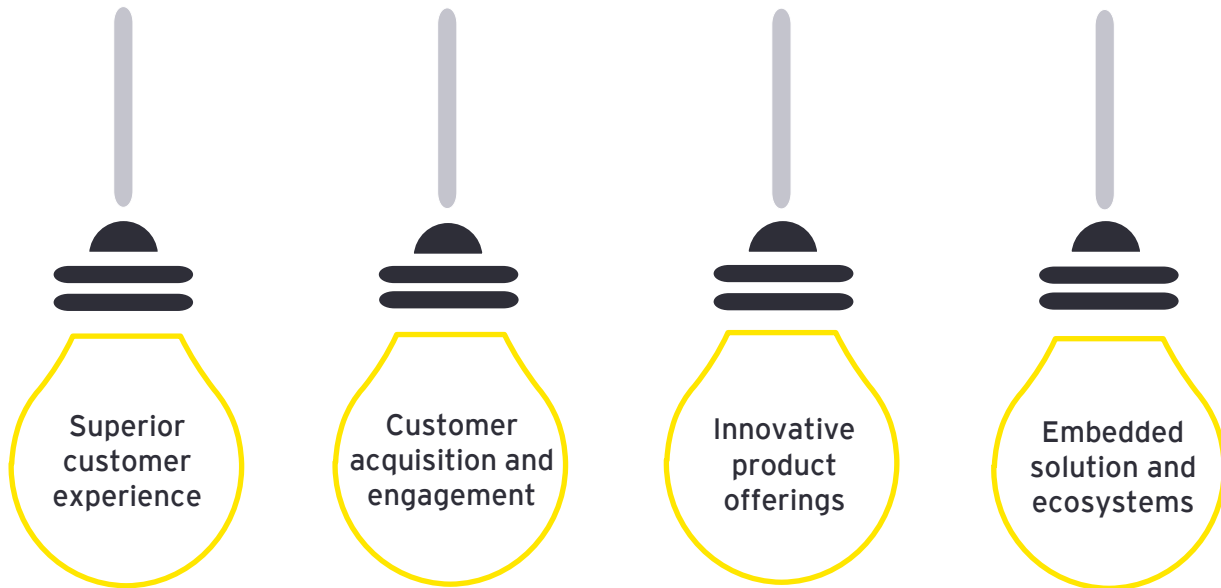
- ▶ Use the latest technology to simplify onboarding and underwriting processes that more accurately represent the risk profile of customers.
- ▶ Improve the claims process to decrease paperwork, speed up payouts and reduce fraud concerns (e.g., by using parametric solutions).
- ▶ Make services more easily available (e.g., using omnichannel customer care platforms and chatbots with artificial intelligence (AI)).

Source: EY analysis

Successful DITO value propositions across the region

EY teams analyzed 53 leading digital life insurance companies in the region and identified potential areas for improvements across four common categories.

Global digital insurer product strategies



Superior customer experience

- ▶ **AI-powered experiences:** Product recommendations, quotations and policy queries
- ▶ **Frictionless application or coverage:** Streamlined application processes and accelerated algorithmic underwriting
- ▶ **Enhanced claim capabilities:** Rapid settlement with automated assessment, transparent status updates and instant disbursement
- ▶ **Guided claim process:** Providing hands-on assistance / guide on the filing of claims

Customer acquisition and engagement

- ▶ **Loyalty programs:** Encourage customer engagement through the platform; provide additional value to customers through personalized rewards, discounts and relevant experiences
- ▶ **Gamification:** Engage customers and incentivise intended behaviors

Innovative product offerings

- ▶ **Varied customization options:** Customizable coverage levels, flexible policy terms and customizable payment plans
- ▶ **Segment-based products:** Gig-worker specific coverage, freelancer insurance or income protection
- ▶ **Improved access:** Coverage issuance with no medical examination
- ▶ **Microinsurance:** Easily accessible products

Embedded solution and ecosystems

- ▶ **Partnerships with relevant channels or products:** Expand the reach to attract young and mid-aged customer segments; leverage partnerships to expand product reach
- ▶ **Leverage partner ecosystem:** Facilitate services (e.g., purchases, renewals, claims) through partner platforms
- ▶ **Embedded premium payments:** Tie insurance purchases with daily activities, enabling the commitment of small amounts by lowering psychological hurdles

DITO: Key requirements

To develop a successful DITO application, financial institutions need to consider the following:

1 Shareholder suitability

Shareholders must demonstrate integrity, financial soundness and ability to contribute to robust risk management, compliance, innovative technology to close critical insurance gaps, consumer analytics, and *Shariah* compliance expertise for a digital *takaful* business.

2 Seven-year business plan

A comprehensive, board-approved business plan is required to enable BNM to assess the viability of the applicant's path to profitability and business strategies.

3 Foundational phase

During this phase DITOs must comply with the relevant minimum capital requirements, demonstrate the viability and operational soundness of the business plan, and facilitate observation by BNM for associated risks.

4 Exit plan

An orderly exit strategy must be in place for a licensed DITO that cannot meet licensing commitments or demonstrate viable operations, ensuring minimal impact on consumers and continuity of protection coverage and benefit payments.

5 Distribution channels

DITOs must operate digitally, primarily using online channels for distribution, with limited physical interactions and have the option to partner with independent financial intermediaries.

6 Technology

DITO applicants must have detailed technological deployment strategies, adhering to the Risk Management in Technology (RMiT) Policy Document. This includes outlining the cloud risk management framework, system and network architecture, cloud strategy and service models, and leveraging new technologies like big data, AI, machine learning (ML), IoT, and distributed ledger technology for flexibility and scalability.

Spotlight
See next page



Source: Licensing and Regulatory Framework for Digital Insurers and *Takaful* Operators Policy Document, 9 July 2024, BNM

DITO: Key requirements, spotlight on technology

As part of the technology requirements for a successful applicant, BNM emphasizes that DITOs will need to deploy **disruptive technologies** and build robust infrastructures for differentiated **customer experiences**.



Technology architecture

Adopting a **microservices** architecture in the cloud with **Open Application Program Interfaces (APIs)** to enable flexibility, scalability, and integration with various platforms and emerging technologies, coupled with a **decentralized data** architecture for streamlined access and collaboration.



Advanced AI and data analytics

Employing **generative AI** and **machine learning algorithms** to gain deeper customer insights, **enhance personalization**, and improve **risk assessments** and underwriting practices.



IT operating model

Implementing **agile methodologies** and **DevOps practices** to foster rapid product development and continuous integration, **ensuring adaptability** to changing market demands.



Cybersecurity

Developing and maintaining **comprehensive cybersecurity measures**, including encryption, access control, and regular security audits to **safeguard customer information** and ensure secure data transmission.



IT operational resilience and governance

Ensuring the **high availability** of services and **system resilience** through well-defined governance structures, continuous monitoring, a secure cloud strategy and risk management framework.



Partnerships

Fostering **strategic alliances** with financial and non-financial service providers to **leverage technology capabilities**, enhancing innovation and operational efficiencies across the value chain.

Source: EY analysis

Eight building blocks to navigate the DITO license application process

EY teams are ready to help DITO applicants develop their value proposition and harness the right technology strategy to catalyze transformative change.



Source: EY analysis

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