OECD-ADBI-IRDAI Roundtable on Insurance and Retirement Savings in Asia 2023

Session 5(b): Technology and innovation – The role of regulatory sandboxes and innovation hubs in fostering innovation in insurance

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BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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Presentation outline

1. BNM's principles and approaches to facilitate innovation

2. Overview of Fintech Regulatory Sandbox

3. Criteria and Sandbox lifecycle

4. Case study: Digital Insurance & Takaful Operator Exposure Draft

5. Sandbox enhancements
   - Innovation Green lane
   - Simplified eligibility assessment

Q&A

BNM's regulatory approach to facilitate innovation is premised around robust principles...

3 key principles

Parity
Level playing field for new entrants and incumbents

Proportionality
Regulation and supervision proportionate to the level of risk

Neutrality
Agnostic to different technologies, systems and approaches.

5 main approaches

1 Advocacy & collaboration
Drive digitalisation and inclusive insurance in close collaboration with other key agencies

2 Policy & operational flexibility
Operate a regulatory Sandbox to enable live-testing of emerging businesses in a safe and contained environment

3 Outreach, education and guidance
Conduct educational and public outreach programmes to provide regulatory clarity

4 Regulatory adaptations
Recalibrate existing regulations and publish new policies to facilitate innovation

5 Enabling shared infrastructure
Implement and advocate for open and digital infrastructure in collaboration with industry players

Strategic initiatives

- ✓ Perlindungan Tenang
- ✓ Digital identity
- ✓ Regulatory Sandbox
- ✓ Innovation Lab
- ✓ Innovation Green Lane for FIs
- ✓ Financial Education Network (FEN)
- ✓ MyFintech Week
- ✓ Accelerator & Booster programmes
- ✓ Digital Insurance & Takaful Operator framework
- ✓ Insurance/Takaful Aggregator Framework
- ✓ RMiT
- ✓ eGuarantee Letter
- ✓ Open Data
- ✓ Cross-border payment linkages

The Regulatory Sandbox allows BNM to support the development of the fintech ecosystem, with insights benefiting other areas of the work

Figure 1: Applications breakdown by type of activity

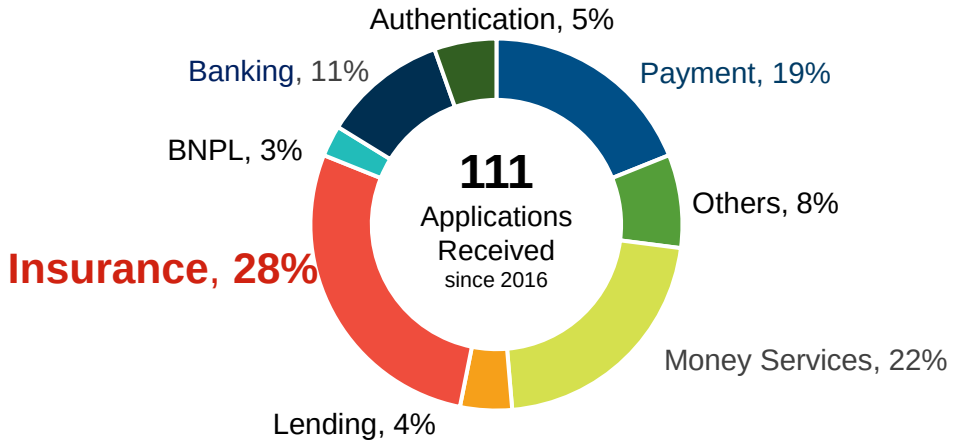


Figure 2: Participants who are currently testing and have exited the Sandbox

Stage 3 Go-live *(as at 16 May 2023)*

6 Currently Testing

Digital Life Insurer

DearTime

Fi Life

Digital Micro Insurer

SURE

Insurance Product Aggregator

Qoala

Jirnexu

10 Exited[1]

Insurance Product Aggregator

gobear

getcover

P2P Takaful Model

PRUDENTIAL BSN TAKAFUL

e-KYC

CIMB

OCBC Bank

ctos

Secured Chat Banking

OCBC Bank

BNPL

CIMB fave

Digital Remittance Platform

MONEYMATCH

Exchange & Remittance Platform

worldremit

[1] Refers to Stage 3 applicants that withdrew or graduated from the Sandbox after live-testing

Source: Bank Negara Malaysia (https://www.bnm.gov.my/sandbox)

Key insights from the Sandbox

Sandbox testing informed calibration of developmental policies

- Digital Insurance & Takaful Operator
- Insurance & takaful product aggregators

Sandbox allows the Bank to advocate and support market activity

- Collaboration with government agencies (e.g. MDEC Fintech Booster, National Technology and Innovation Sandbox)
- Engagement with multiple industry driven initiatives for start-up community, such as accelerator programs (UNCDF, KMPG, I337 Ventures), industry associations and bootcamp events.

Sandbox is vital for the development of fintech players

- Strengthen trust of consumers and investors of a new entrant
- Guide start-ups in regulatory compliance and risk management
- Allows first-hand contact on latest developments for regulators
- Builds regulatory acumen and understanding

The Regulatory Sandbox Framework outlines the appropriate eligibility criteria and safeguards needed for testing in Sandbox environment

Eligibility – para. 5 of Framework

1 Value proposition
- Greater affordability, accessibility & transparency
- Enhances user experience & understanding
- Enhances operational & cost efficiencies

2 Usefulness & functionality
- Working prototype(s) of solution (e.g. application, website)
- Operationally ready at front & back-end
- Conducted market sizing/gap analysis

3 Necessary resources
- Availability of funding to support live-testing
- Experienced management team
- Partners/vendors have been engaged/contracted

4 Realistic business plan
- Robust go-to-market approach
- Reasonable business projection
- Ability to comply with requirements post-testing

5 Regulatory impediment
- Capital requirements
- Inadvertently subjected to stringent requirements
- Absence of suitable regulatory framework

6 Fit and proper
- Background check
- Qualified leaders with relevant experience

Safeguards – para. 6 of Framework

1 Disclosure of risk
- Adequate disclosure of the potential risks to participating customers and confirmation of their understanding of the attendant risks

2 Limit testing parameters
- Limiting individual and/or aggregate value or frequency of transactions

3 Restrict participation and duration
- Restricting participation to targeted customers and duration of the testing period

4 Consumer redress mechanism
- Availability of consumer redress mechanism and adequate resources to undertake the testing and contain the consequences of failure

The Regulatory Sandbox entails 3-phase evaluation that aims to signal openness to innovation notwithstanding robust assessment on risks mitigation and safeguards

Pre-Application Stage

1 Stage 1: Eligibility

2 Stage 2: Preparation

3 Stage 3: Live testing

Graduate with options:
- Orderly winding-down if applicant cannot continue the testing
- Graduate and comply with existing regulations

Pre-application expectations

- Understand the scope and objective of Fintech Regulatory Sandbox Framework
- Substantiate a genuinely innovative value proposition
- Identify regulatory impediments/incompatibility on proposed product/solution
- Demonstrate reasonable state of readiness with sufficient resources to support testing

Application

- Applicants will be assessed against the eligibility criteria specified under section 5 of the Regulatory Sandbox Framework (value proposition, readiness, resources, post-Sandbox exit strategy, regulatory impediment). This would typically involve several discussions to better understand the proposed solution/ product/ business model
- Decision will be provided within 15 working days from the date where complete information is submitted

Preparation

- Eligible participant will work with the Bank on detailed discussion on matters including:
  - i. Determining the appropriate testing parameters (e.g. no. of customers, length of testing etc)
  - ii. Ensuring adequate safeguards and robust risk management are put in place
  - iii. Setting KPIs to measure performance during testing
- Conditional approval may be granted for eligible participants to facilitate last-mile preparations before live-testing

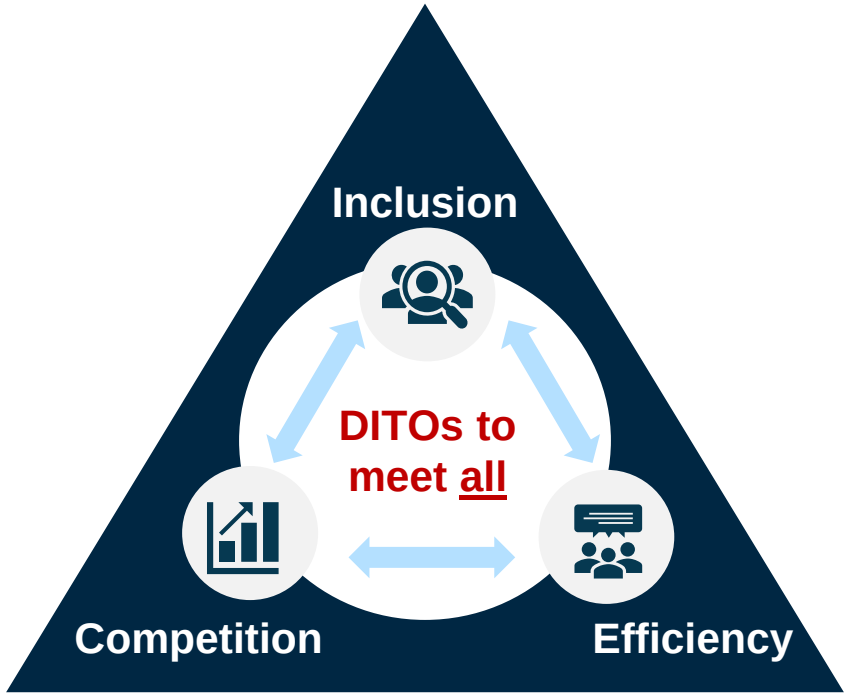
Live-testing

- Applicants who have successfully completed preparations will be given approval to test the solution in the live market within a period not exceeding 12 months. Where necessary, exemptions from relevant regulations will be granted throughout the testing period
- During the live test period, applicants are expected to provide regular reports on the progress of the test. Applicants should also prepare for their next steps after the end of the test
- If the test is unsuccessful, applicants will need to ensure an orderly exit and minimise impact on customers it has acquired

DITOs are envisioned to drive tangible outcomes *through Inclusion, Competition and Efficiency value propositions*

Enhance financial resilience of consumers whose protection needs are currently not served or adequately served

Meaningful innovation that can transform how we experience insurance/takaful for better consumer outcomes



The financial protection gap is widespread across income groups, occupation, geographical location, risk profile and activities

Introduce more innovative solutions to cater to the diverse protection needs of consumers

Provide frictionless consumer experience with greater cost savings

The Framework aims to provide greater clarity on these areas…

1. Value propositions

DITOs expected to meet 'ICE' to better serve consumers –

- Inclusion
- Competition
- Efficiency

2. Business model

DITOs enabled to adopt risk-sharing models, in addition to the traditional risk-transfer model

3. Minimum paid-up capital

Lower minimum paid-up capital of RM40 million[1] for DITOs considering lower initial operating costs

4. Foundational phase

Period where DITOs are subject to simplified requirements, before transitioning to comply with prevailing requirements

5. Physical access points

Primarily through digital means (i.e. 'digital first') – physical presence allowed only under specific circumstances

DITOs are expected **to meet the existing regulatory framework** eventually, by the **end of the foundational period**

Standard Sandbox – A snapshot

Applicability: FIs, fintech companies

1. Stage 1: **Application Submission & Eligibility review** (15 working days)
2. Stage 2: **Preparation** for testing approval/ conditional approval
3. Stage 3: **Live-testing** *(≤ 12 months)*

Eligibility Criteria:

1. **Identification of Regulatory Impediment***
2. Business Plan and State of Readiness
3. Value Proposition
4. Risk Management
5. **Fit-and-proper***

**main review criteria*

Assessment Criteria:

1. Prototype, front-to-back-end & documentation readiness
2. Evidence of sufficient resources to support Sandbox testing
3. Risk & appropriate safeguards
4. Testing parameters (scope, duration, regulatory flexibilities, & reporting)
5. KPI of success/failure
6. Exit strategy & commercial transition plan post Sandbox

Reporting Requirement:

- Frequency & details of interim reports will be agreed between the Bank and the participant
- Interim and final reports must be attested by the CEO
- In a joint testing by a FI & fintech company, the reports must be attested by both

Innovation Green Lane – A snapshot

Applicability: Qualified FIs

1. Stage 1: **Green Lane Application** *(30 working days)*
2. Stage 2: **Project Registration** *(15 working days)*
3. Stage 3: **Live-testing** *(≤12 months)*

Qualification Criteria:

A one-off assessment of a FI's risk management, compliance and governance capabilities based on existing track record

1. Management of credit risk, operational risk and underwriting risk,
2. Fair treatment of financial consumers and data privacy;
3. Cybersecurity and information technology infrastructure;
4. AML/CFT;
5. Shariah compliance and governance

Registration Criteria:

1. limit the offering to **10,000 unique customers** (individual/business)
2. Testing period shall not exceed **12 months**.
3. **CEO/CRO attestation** of:
   - product-specific risks are comprehensively identified & mitigated
   - adherence to principles of PD on Fair Treatment of Financial Consumers;
   - compliance with the PD on RMiT;
   - compliance with PD on AML/CFT and TFS for FIs;
   - commit to fully indemnifying customers against direct financial losses
   - Board of Directors oversight
   - For Islamic product/solution, FI's Shariah Committee attestation that the registered project/solution is consistent with prevailing rulings of the Bank's SAC
4. **Regulatory Impediments**
   - The laws, regulations or standards administered by the Bank cause a material impediment to applicant's ability to provide the proposed value proposition.

Thank You