OECD-OJK Roundtable on Leveraging Technology for Risk Assessment and Risk Reduction in Insurance

Creating An Enabling Environment for Technology Adoption 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. Sandbox enhancements
   - Simplified eligibility assessment
   - Innovation Green lane

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 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

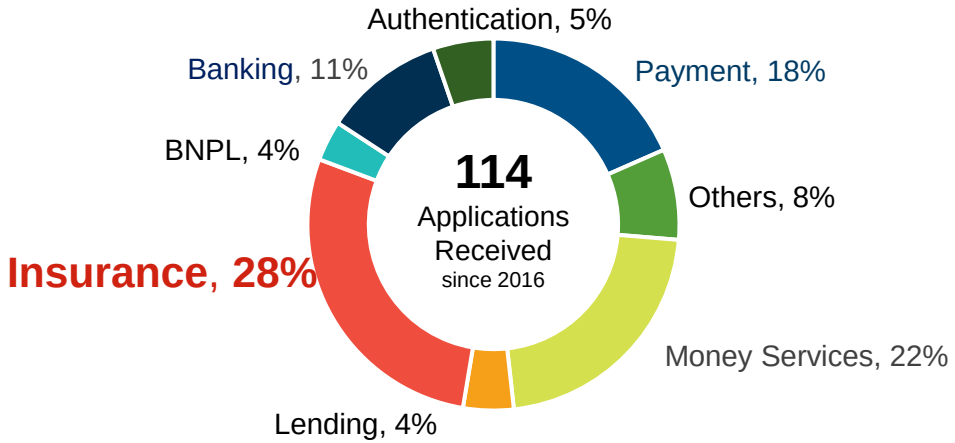

Figure 2: Participants who are currently testing and have exited the Sandbox

Stage 3 Go-live *(as at Dec 2023)*

6 Currently Testing

Digital Life Insurer

DearTime

Fi Life

Digital Life Insurer

OUCH!

Insurance Product Aggregator

Qoala

Jirnexu

11 Exited[1]

Insurance Product Aggregator

gobear

getcover

Digital micro insurer

SURE

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

Two key enhancements introduced to enable the sandbox to achieve its objective more effectively (1/2)

A Simplification of Stage 1 Eligibility Assessment

	Existing approach	*Criteria*	*Enhanced approach*
01	Applicants required to substantiate value proposition with evidence (e.g. market research) on how it can address market gaps	**Value Proposition**	At the point of application, value proposition can be assessed **at conceptual level** and validated through actual observations during sandbox testing
02	Applicants should achieve a stage of maturity beyond ideation (i.e. at least completed a proof-of-concept)	**State of Readiness**	Criterion is satisfied if an applicant is **reasonably resourced to build a proof-of-concept** within the near term (3 months from the time of application)
03	Applicants must provide a comprehensive risk assessment to demonstrate ability to manage risks	**Risk Management**	Stage 1 criterion is satisfied if an applicant is **reasonably resourced to manage risk.** Risk assessment and implementation of safeguards can be done under Stage 2 before go-live.

No change to Fit-and-Proper and Identification of Regulatory Impediment

A. 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

Two key enhancements introduced to enable the sandbox to achieve its objective more effectively (2/2)

B Establish an Innovation Green Lane

An accelerated track to allow for faster iterations of innovation for institutions with robust risk management capabilities

Implementation based on 3 key principles

1

Primary accountability on financial institutions

as effective risk managers with proven track record

2

Focus on customer-centric risk

to minimise potential harm and preserve consumer confidence

3

Risk-proportionate process

with sufficient safeguards in place for effective and timely responses to risk

Safeguards across multiple levels to mitigate abuse

Must be approved to utilise Green Lane

Must be within scope of eligible projects and regulatory flexibilities

1 Qualifying an institution

- ✓ Assessment of risk management quality
- ✓ Revoke privilege in the event of adverse findings

2 Qualifying a project

- ✓ Parameters to define small-scale test
- ✓ Negative list approach on out-of-scope activities

3 Project-level commitments

- ✓ Attestation and indemnity
- ✓ Registration prior to go-live
- ✓ Cessation of testing in event of adverse findings

Who likely to benefit?

- ✓ Regulated entities with commercial capability for POC/MVP
- ✓ Regulated entities with strong governance and risk management
- ✓ Regulated entities with wider scope of authorised business and placed under stricter regulatory regime

B. 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