


Investor guide to Islamic Finance in Malaysia

International takaful operator

MIFC
MALAYSIA INTERNATIONAL
ISLAMIC FINANCIAL CENTRE

PRICEWATERHOUSECOOPERS 



Introduction

International Takaful Operators (ITO) are financial institutions that are licensed to conduct non-Ringgit Malaysia composite (general and family) takaful business and retakaful (Islamic reinsurance) business in Malaysia with non-residents in international currencies other than Ringgit Malaysia.

The first takaful company in Malaysia, Takaful Malaysia, began operations in 1985. Currently, there are eight takaful operators, three retakaful operators and one ITO, of which five are foreign players from the United Kingdom, Bahrain, Germany and Japan, conducting both domestic and foreign currency businesses. This makes up 60% of the number of insurance and takaful players in Malaysia.

ACKNOWLEDGMENT

We would like to acknowledge Bank Negara Malaysia, Malaysia International Islamic Financial Centre and other organisations for the use of information extracted from their publications and websites.

As at December 2008, total assets of Malaysia's takaful industry amounted to RM10.6 billion (US\$3 billion), with market penetration of 8.1%. Takaful fund assets and net contribution income experienced strong growth with an average annual growth rate of 20.5% and 28.7% respectively from 2004 to 2008.

Scope of business activity

ITOs are free to carry out non-Ringgiti Malaysia composite takaful and retakaful businesses in international currencies so long as they do not involve the following:

- Property which at the time of the making of such contract is situated in Malaysia or is in transit to or from Malaysia;
- A ship or an aircraft registered in Malaysia and all liabilities arising from the operation of such ship or aircraft;
- The life or any contingency related to any person who, at the time of the making of such contract, is a resident; or
- A risk of any nature in respect of any person who, at the time of the making of such contract, is a resident.

While the ITO is freely allowed to deal with non-residents, the ITO is also allowed to carry out non-Ringgiti Malaysia composite takaful and retakaful business with any Malaysian resident who has been permitted under the current foreign exchange administration policies to transact in such non-Ringgiti Malaysia transactions.

Eligibility criteria

An applicant wishing to establish an ITO shall, amongst others, observe the following eligibility criteria:

- It is a well established and reputable licensed financial institution;
- Adopts the international insurance practices set by the International Association of Insurance Supervisors or any other international standard-setting body, or adopts any other international best practices in the financial services -related industry;
- Regulated and supervised by a competent home regulatory authority; and
- Possesses a sound track record.

Modes of entry

All ITOs must be registered under the Takaful Act 1984 either as a locally incorporated entity or a branch.

100% foreign equity ownership allowed.

Application requirements

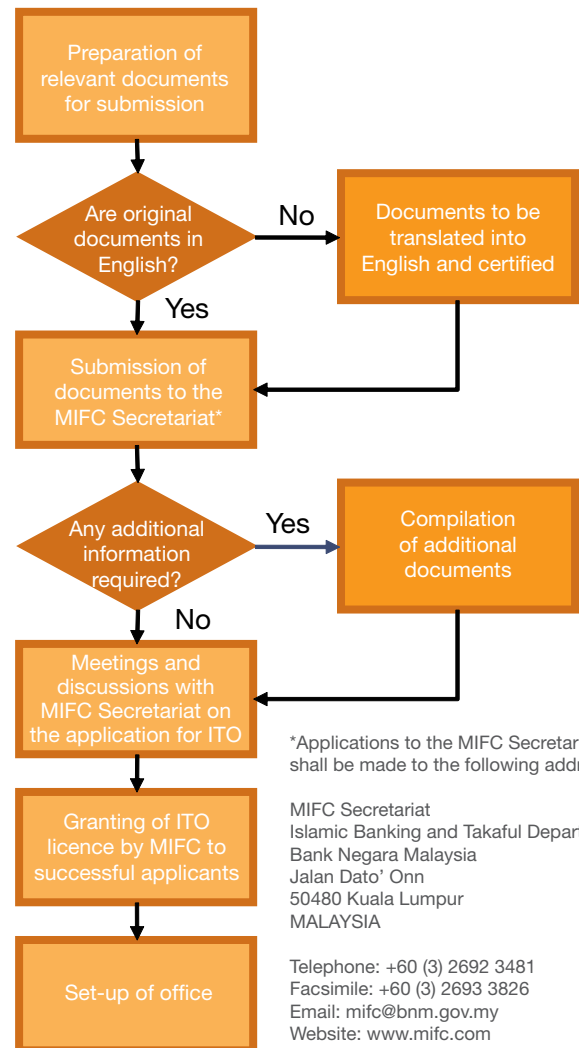
Applications to establish an ITO shall be made in the prescribed Form ITO to Bank Negara Malaysia that include, amongst others, the following:

- Audited financial statements for the last two years;
- A business plan that outlines, among others:
 - a) objectives and types of takaful business;
 - b) target markets and business operations; and
 - c) risk management plan and the reporting control
- A memorandum of association and articles of association or other instrument under which the applicant is incorporated, duly certified by a statutory declaration by a director of the applicant;
- Letter of awareness from the home regulatory authority which supervises the applicant;
- Letter of undertaking from the parent company to be furnished to Bank Negara Malaysia; and
- Any other information which is required by Bank Negara Malaysia.

Upon obtaining approval for an ITO licence, the takaful operator must then be incorporated under the Companies Act 1965 via the Companies Commission of Malaysia.

Application process

An overview of the application process can be illustrated as follows:



Capital requirements & licensing fee

The minimum paid-up capital or net working funds for an ITO set-up as subsidiary or branch is RM10 million (US\$2.9 million).

The annual registration fee for either set-up is RM5,000 (US\$1,450).

Regulatory requirements

Upon issuance of the registration, the ITO is required to comply with such guidelines, circulars or directives on prudential, regulatory, reporting or other requirements as issued by Bank Negara Malaysia from time to time.

The ITO is a resident for the purpose of foreign exchange administration rules and subject to the relevant foreign exchange administration rules for transaction(s) involving foreign currencies.

Government incentives

- 10-year income tax exemption for ITOs up to YA 2016;
- Withholding tax exemption on income received by non-resident experts in Islamic finance;
- 10-year stamp duty exemption up to YA 2016 on instruments executed pertaining to takaful businesses conducted in foreign currencies; and
- Fast and easy immigration approval for expatriates in Islamic finance and their family members.



Contact us

PricewaterhouseCoopers

Level 10, 1 Sentral, Jalan Travers
Kuala Lumpur Sentral
P O Box 10192
50706 Kuala Lumpur
Malaysia

Telephone: + 60 (3) 2173 1188

Facsimile: +60 (3) 21731288

Email: pwcmsia.info@my.pwc.com

Website: www.pwc.com/my

Global Islamic Finance Team Malaysia

Mohammad Faiz Azmi

Global Islamic Finance Leader

mohammad.faiz.azmi@my.pwc.com

Jennifer Chang

Senior Executive Director

jennifer.chang@my.pwc.com

pwc.com