



Banking On Insurance: The Hidden Price Of Related-Party Bancassurance

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The Central Bank of Malaysia (BNM) describes bancassurance and bancatakaful as distribution arrangements between a licensed insurer or takaful operator and a bank, under which insurance or takaful products are marketed through the bank's branch network, call centres, online platforms and customer base. A common feature is an upfront access fee paid by the insurer or takaful operator to the bank for access to its distribution network.

These arrangements have become significant distribution channels for life insurance and family takaful products in Malaysia and are now governed by BNM's Policy Document on Bancassurance/Bancatakaful (Policy), read alongside other BNM policy documents on governance, related-party transactions, disclosure and complaints handling.

This alert summarises that framework and the key distinction between arrangements entered into by related parties (i.e., a bank and its own insurance or takaful affiliate) and those entered into by independent, non-related counterparties, including a transfer pricing dimension.

Regulatory Framework

The regulatory architecture of bancassurance and bancatakaful is channel-agnostic as to the corporate relationship between the parties: where the parties are related, additional requirements under BNM's related-party transaction framework apply, on top of the core requirements under the Policy.

1. ***Bancassurance/Bancatakaful Between Non-Related Parties***

Where a bank enters into a bancassurance or bancatakaful arrangement with a licensed insurer or takaful operator that is not a related party, the typical case being a competitively tendered, arm's-length distribution agreement, the governing requirements are essentially those of the Policy read with the general conduct-of-business framework, which includes:

- (a) **Prior notification to BNM:** The licensed insurer or takaful operator must notify BNM at least 14 calendar days before the arrangement commences.¹
- (b) **Board oversight and internal controls:** The board must put in place governance, policies and controls, with clear accountabilities between the insurer (product design) and the bank (sales quality),² which policies must be reviewed at least once in every two years.³
- (c) **Upfront fees:** The upfront fee paid to the bank must be borne entirely by the insurer's or takaful operator's shareholders' fund as opposed to policyholders' funds.⁴
- (d) **Consumer protection:** The parties must comply with the applicable fair treatment, product transparency and disclosure requirements.
- (e) **Staff training:** Staff marketing or advising on products must pass the PCEIA/TBE and CEILLI qualifying examinations and comply with annual continuing professional development requirements.⁵
- (f) **Reporting:** The licensed insurer or takaful operator must submit statistical reports to BNM by 31 January each year.⁶

Other commercial terms, such as exclusivity, access fees, commission structures and clawback mechanics, are freely negotiated between the parties, subject to BNM's regulatory floor.

¹ Policy, Part B, para 8.2.

² Policy, Part B, paras 9.1-9.3, 9.18-9.19, 9.23-9.24.

³ Policy, Part B, para 9.21.

⁴ Policy, Part B, paras 9.12-9.17.

⁵ Policy, Part D, paras 11.1-11.4.

⁶ Policy, Part E, para 12.2.

2. ***Bancassurance/Bancatakaful Between Related Parties***

The analysis changes where the parties are related, for example, where both entities belong to the same financial group, operate under the same financial holding company.

In such cases, the arrangement attracts an additional layer of regulatory requirements under BNM's Guideline on Related Party Transactions (RPT Guideline), which requires the licensed insurer or takaful operator, inter alia, to comply with the following.

- (a) **Arm's-length dealing:** Any related-party transaction must not be prejudicial to the licensed insurer's or takaful operator's interests, its policy owners or participants, or its financial condition, and must be conducted at arm's length.⁷
- (b) **Board approval of material transactions:** A "material related-party transaction" (exceeding RM250,000 or 1% of the fund surplus, whichever is lower) requires the insurer's or takaful operator's own board prior approval. The bank bears no equivalent obligation under this RPT Guideline.⁸
- (c) **Shared resources:** Fees for resources shared between the related-party bank and insurer must be charged on a fair, actual-incurred basis, precluding cross-subsidisation.⁹
- (d) **Disclosure:** Related-party transactions must be disclosed by the insurer or takaful operator in its financial statements.¹⁰
- (e) **Group-level and Shariah dimension for bancatakaful:** An exclusive group-level bancassurance tie-up must not foreclose an Islamic banking or takaful subsidiary within the same group from offering takaful products to its own customers, or otherwise limit its ability to meet local legal, regulatory or Shariah obligations.¹¹

A pending reform worth monitoring: BNM's Exposure Draft on Related Party Transactions (issued 16 December 2025, and not yet final) would bind both the bank and the insurer or takaful operator directly, require that related-party terms be no more favourable than terms offered to non-related parties, and generally require each institution's own board approval.¹²

⁷ RPT Guideline, Part B, para 7.1.

⁸ RPT Guideline, para 5.2 (definition of "material related-party transaction") and Part B, paras 7.2-7.4.

⁹ RPT Guideline, Part C, para 10.1.

¹⁰ RPT Guideline, Part D, para 11.1.

¹¹ Policy, Part B, paras 9.7-9.8.

¹² Exposure Draft on Related Party Transactions, Part B, paras 8.2(b), 8.2(d), 9.3 and 9.6.

3. *The Transfer Pricing Dimension*

Related party bancassurance or bancatakaful pricing is not only a BNM concern.

Under section 140A of the Income Tax Act 1967, particularly subsections (3A) and (3B) which were inserted with effect from 1 January 2021, the Director General of Inland Revenue has power to disregard and adjust the structure of a transaction between related parties and to substitute an arm's-length price where the actual terms are not those that independent parties dealing at arm's length would have made, taking into account economic and commercial reality.¹³

An upfront fee, commission structure, or shared-resource fee between a related bank and insurer that is not priced at arm's length therefore remains independently exposed to a transfer pricing adjustment, with the attendant risk of additional tax, penalties and surcharge. The arm's-length benchmarking already required under the RPT Guideline should, as a matter of good practice, be documented so that it can also support the arrangement's transfer pricing position.

Conclusion

Evidently, related-party arrangements is grounded in the same regime as non-related party arrangements, but they carry an additional layer of scrutiny over how the arrangement is structured, priced and approved, as well as an independent transfer pricing exposure.

For non-related parties, access fees, commission rates and exclusivity terms are generally settled through commercial negotiation or competitive tender. Where the parties are related, those same terms must withstand arm's-length scrutiny under the RPT Guideline, and must also be defensible as arm's length for section 140A purposes. The commercial convenience of dealing within a financial group does not displace this discipline.

¹³ Income Tax Act 1967 (Act 53), s 140A.

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