

Client Alert

December 2018

For further information, please contact:

Brian Chia
Partner
+603 2298 7999
brian.chia@wongpartners.com

Sue Wan Wong
Partner
+603 2298 7884
suewan.wong@wongpartners.com

Serene Kan
Senior Associate
+603 2299 6437
serene.kan@wongpartners.com

Caryna Koh
Associate
+603 2298 7987
caryna.koh@wongpartners.com

Contributions From Insurers to the B40 Fund

The Malaysian Minister of Finance tabled the 2019 budget ("**Budget 2019**") in Parliament on 2 November 2018. Budget 2019 places a significant emphasis on the bottom 40% of households with a monthly income of RM3,900 and below ("**B40**"). This includes the proposal to establish a "B40 National Health Protection Fund" ("**B40 Fund**") to provide the B40 with insurance cover at no charge.

More importantly, the establishment of the B40 Fund provides shareholders of wholly foreign-owned insurance companies with an alternative to the divestment requirements imposed by the Malaysian Central Bank ("**BNM**"). The divestment requires them to find a local shareholder for a minimum 30% stake in the entity.

The B40 Fund

The Budget 2019 indicates that the B40 Fund will:

- (a) provide free protection to the B40 against the top four critical illnesses for up to RM8,000 and up to 14 days of hospitalisation cover at RM50 per day, starting from 1 January 2019;
- (b) be a public-private partnership between the Pakatan Harapan Government and the insurance industry. Particularly, the B40 Fund will be managed by BNM and funded by insurance companies; and
- (c) receive initial seed funding from Great Eastern Life Assurance (Malaysia) Berhad in the amount of RM2 billion ("**Seed Funding**"). Great Eastern Holdings Limited has indicated that the Seed Funding was a means to satisfy a sell-down requirement imposed on wholly foreign-owned insurance companies and is also consistent with its corporate social responsibility efforts. Specific details with respect to the Seed Funding are still being finalised.

To this end, the Government is receptive to having other participants contribute to the B40 Fund (including wholly foreign-owned insurers in Malaysia as a trade-off to the divestment obligation).

Conclusion

The B40 Fund will benefit the Malaysian general public and will widen the social security net for the B40. It is also in line with Pakatan Harapan's overall policy that businesses should play its part as co-contributors to the welfare and economy of Malaysia.

At the same time, this initiative also offers an additional option for wholly foreign-owned insurance companies to meet the divestment obligation imposed by BNM. These foreign insurers should engage with BNM to seek further clarification on the:

- (a) quantum of the contribution. We understand that the quantum of the contribution is generally determined by taking the present value of the medium term earnings of the insurer and contributed to a fund that will distribute the products of the insurer. Any profit arising from the distribution will be re-invested into the fund and hence sustain the fund beyond the initial (one-time) contribution by the foreign shareholder;





- (b) timing of the contribution;
- (c) products that will be made available by the insurer to the B40; and
- (d) manner in which the fund will sustain itself beyond the initial contribution.

www.wongpartners.com

Wong & Partners
Level 21
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur