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PART A - OVERVIEW

1. INTRODUCTION

1.1 This circular sets out the conditions under which life and composite insurers are allowed to offer foreign currency denominated (FX) education and single premium investment-linked policies.

2. APPLICABILITY

2.1 The circular is applicable to life and composite insurers licensed under the Insurance Act 1996.

3. WITHDRAWAL OF CIRCULARS

3.1 With the issuance of this circular, the following circular is withdrawn:

Circulars	Title	Date Issued
JPI 13/2005	Foreign Currency Denominated Life Insurance Policies	28 September 2005

PART B - REQUIREMENTS

4. DENOMINATION OF CURRENCY AND PREMIUM SIZE

4.1 Life and composite insurers are allowed to offer foreign currency denominated (FX) education and single premium investment-linked policies, subject to the following requirements:

- (i) the products shall be denominated only in currencies of countries with a sovereign rating at least equivalent to that of Malaysia; and
- (ii) the minimum premium size for investment-linked policies shall be RM 20,000.

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5. INVESTMENT OF FUNDS FOR FOREIGN CURRENCY DENOMINATED PRODUCTS

5.1 Investments in foreign assets of funds backing the FX education and the non-unit fund of FX investment-linked policies are not subject to the existing aggregate limit for investments in foreign assets of 10% of an insurer's margin of solvency, for business within Malaysia.

5.2 Investments in foreign assets of unit funds from FX investment-linked policies are subject to the prevailing limit as prescribed by Bank Negara Malaysia (the Bank) under "Foreign Exchange Administration Rules: Investments in Foreign Currency Assets by Residents" issued on 1 April 2007.

6. PRUDENTIAL AND DISCLOSURE REQUIREMENTS

6.1 Insurers shall observe the following prudential and disclosure requirements:

- (i) Separate funds shall be established for FX policies within the ordinary life and investment-linked funds, as applicable;
- (ii) Liabilities and the underlying assets shall be currency-matched for each product line offered. Where products are offered in more than one currency, the assets should be matched to the predominant currency(ies);
- (iii) Investment strategies supporting the FX funds shall be consistent with the general prudential principles of diversification, liquidity and dealings with creditworthy counter-parties; and
- (iv) Adequate disclosure shall be provided to policyholders in the marketing material to draw attention to the foreign investment exposures underlying the policies. This should include information on the nature of foreign investments (including details on the jurisdiction, investment instruments and sectors/industries in which the funds will be invested) and a description of the major investment risks faced by policyholders.¹

¹ E.g. policyholders of a fund that invests in an investment-linked UK FTSE tracker fund will be subject to movements in both the RM-Pound Sterling exchange rate as well as values of the shares composing the FTSE 100 index.

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7. SUBMISSION

7.1 Pursuant to section 142 of the Insurance Act (Act), insurers are required to lodge with the Bank the actuarial certificate and sample marketing material of any FX products, at least 30 days before offering the product to the public. Insurers should not proceed to offer a FX product until **written approval** is received from the Bank.