



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Introduction of New Products by Insurers and Takaful Operators**

Concept Paper

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### **Background**

The policy document sets out the applicable regulatory procedures on the offering of new insurance and takaful products by insurers and takaful operators (licensed persons) respectively, and Bank Negara Malaysia (the Bank)'s expectations regarding the management and control of risk associated with the development, offering and marketing of those products by the licensed persons. It also addresses the responsibilities of the licensed persons towards consumers in ensuring that products sold or recommended are suitable, and that consumers are clearly and fully informed of the nature and risks associated with these products. In addition, the policy document further clarifies the Bank's expectations of Shariah compliance processes that need to be observed by takaful operators.

### **Highlights**

This concept paper (CP) reflects some revisions of the requirements in the policy document. Key revisions include-

1. responsibilities of the approving authority in paragraph 8.2;
2. declaration by CEO for the Product Documentation in paragraph 8.7 and Appendix 1;
3. product risk management, profitability assessment and quantification of financial impact in paragraphs 10.8, 10.11, 10.12 and 10.13;
4. compliance with Shariah principles in Section 12;
5. submission requirements for Product Documentation in Section 13 and Appendices 1 to 5; and
6. summary of product development consideration, financial impact analysis and product risk management in paragraphs 28, 29 and 30 of Appendix 3.

The Bank invites written feedback on this CP. To facilitate the Bank's assessment, please support each feedback with a clear rationale and accompanying assessments, where appropriate.

Responses must be submitted to the Bank by 30 January 2015-

Pengarah  
 Jabatan Dasar Kewangan Pruden  
 Bank Negara Malaysia  
 Jalan Dato' Onn  
 50480 Kuala Lumpur  
 Email: [pfpcconsult@bnm.gov.my](mailto:pfpcconsult@bnm.gov.my)

### **Issuing Departments**

Prudential Financial Policy  
 Islamic Banking and Takaful

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## **PART A OVERVIEW**

### **1. Introduction**

#### **Policy objective**

- 1.1. The policy document for the introduction of new products aims to-
- (a) improve the time-to-market for licensed insurers and takaful operators to introduce new products or to effect changes to existing products;
  - (b) promote sound risk management practices in managing and controlling product risks by ensuring the appropriate assessment and mitigation of risks during the product development and marketing stages;
  - (c) further strengthen the duty of care owed to consumers in ensuring that products developed and marketed are appropriate to the needs, resources and financial capability of target consumer segments; and
  - (d) ensure adequate and accurate documentation of information on new products in the submission of the Product Documentation (PD) to Bank Negara Malaysia (the Bank).

#### **Scope of policy**

- 1.2. This policy document sets out the applicable regulatory procedures and the Bank's expectations regarding the management and control of risks associated with the development, offering and marketing of new insurance or takaful products by licensed insurers and takaful operators. It also addresses the responsibilities of such licensed insurers and takaful operators towards consumers in ensuring that products sold or recommended are suitable, and that consumers are clearly and fully informed of the nature and risks associated with these products.

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## 2. Applicability

- 2.1. This policy document is applicable to all-
- (a) licensed insurers carrying on life business;
  - (b) licensed insurers, whether carrying on life or general business, in respect of medical and health insurance;
  - (c) licensed takaful operators carrying on family takaful business; and
  - (d) licensed takaful operators, whether carrying on family takaful or general takaful business, in respect of medical and health takaful,
- all of which are collectively referred to as “licensed persons” in this policy document.
- 2.2. This policy document does not apply to licensed professional reinsurers or licensed professional retakaful operators.
- 2.3. This policy document does not apply in respect of-
- (a) new delivery channels such as the internet, telephone or mobile delivery platforms; and
  - (b) new or improved systems or processes which generally enhance the operations of licensed persons, but which are not directly related to the introduction of new products.

## 3. Legal Provisions

- 3.1. The requirements in this policy document are specified pursuant to-
- (a) sections 47, 123 and 143 of the Financial Services Act 2013 (FSA); and
  - (b) sections 29, 57, 135 and 155 of the Islamic Financial Services Act 2013 (IFSA).

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#### 4. Effective Date

- 4.1. This policy document comes into effect on the date which will be specified in the final policy document.

#### 5. Related Legal and Policy Documents

- 5.1. This policy document must be read together with the following policy documents as may be amended by the Bank from time to time-
- (a) For all products specified in sub-paragraphs 5.1(b), (c), (d) and (e)
    - (i) Guidelines on Product Transparency and Disclosure issued on 31 May 2013;
  - (b) For life insurance products
    - (i) Code of Good Practice for Life Insurance Business issued on 11 August 2007;
    - (ii) Policy Document on Management of Participating Life Policy Business issued on 7 November 2014;
  - (c) For takaful products
    - (i) Shariah Governance Framework for Islamic Financial Institutions issued on 22 October 2010;
    - (ii) Guidelines on Takaful Operational Framework issued on 26 June 2013;
    - (iii) Guidelines on Family Takaful Products issued on 12 July 2007;
    - (iv) Guidelines on International Currency Business Unit (Takaful Operator) issued on 25 September 2008;
  - (d) For investment-linked products
    - (i) Guidelines on Investment-Linked Insurance/Takaful Business issued on 20 July 2011;
  - (e) For medical and health insurance or takaful products

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- (i) Guidelines on Medical and Health Insurance Business issued on 11 August 2007; and
- (ii) Guidelines on Medical and Health Takaful Business issued on 17 September 2007.

## 6. Policy Documents Superseded

6.1. The policy documents or provisions as listed below are superseded with the coming into effect of this policy document.

### Policy document superseded

No.	Ref.	Policy document	Issuance date	Status
1	BNM/RH/GL003-16	Guidelines on Submission of Actuarial Certificate under Section 142 of the Insurance Act 1996 (Revised 2006)	1 February 2007	Withdrawn

### Provisions superseded

No.	Ref.	Policy document	Issuance date	Provisions superseded
1	BNM/RH/GL004-9	Guidelines on Family Takaful Products	12 July 2007	<ul style="list-style-type: none"> <li>• Part III except paragraphs 3.2(g) and 3.3;</li> <li>• Part V;</li> <li>• Part VI;</li> <li>• Attachment I; and</li> <li>• Attachment II.</li> </ul>

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No.	Ref.	Policy document	Issuance date	Provisions superseded
2	BNM/RH/GL003-14	Code of Good Practice for Life Insurance Business	11 August 2007	Part VII Section 21, except paragraphs 21.1(g) and 21.4.
3	BNM/RH/GL/003-20	Guidelines on Medical and Health Insurance Business (Revised)	11 August 2007	Section H, except paragraph 34.
4	BNM/RH/GL/004-11	Guidelines on Medical and Health Takaful Business	17 September 2007	Part VIII, except paragraph 34.

## 7. Interpretation

7.1. The terms and expressions used in this policy document have the same meanings assigned to them in the FSA and IFSA, as the case may be, unless otherwise defined in this document.

7.2. For the purpose of this policy document-

“**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply shall result in one or more enforcement actions;

“**G**” denotes guidance which shall consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

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“**board**” means the board of directors of a licensed person, or a committee of the licensed person where the responsibilities of the board set out in this policy document have been delegated to such committee;

“**senior management**” refers to the Chief Executive Officer and senior officers of a licensed person;

“**product**” refers to products and services developed, offered or marketed by a licensed person, including products and services developed, offered or marketed by a licensed person on behalf of another financial institution under distributorship or outsourcing arrangements<sup>1</sup>; and

“**new product**” refers to-

- (a) an insurance or takaful product that is being offered by a licensed person in Malaysia for the first time, and includes a product which has never been offered by the licensed person before in Malaysia notwithstanding the fact that the product may have already been offered by other entities within the licensed person’s corporate group outside Malaysia; or
- (b) a combination of two or more existing insurance products or two or more existing takaful products, or variation to an existing insurance or takaful product being offered by a licensed person in Malaysia, that results in a material change to the structure, features or risk profile of the existing product.

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<sup>1</sup> This shall not include outsourcing agreements under which the licensed person is procuring (rather than providing) a service. This is dealt separately through direct applications to the Bank.

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## **PART B POLICY REQUIREMENTS**

### **8. General Requirements**

- S** 8.1. The board and senior management of a licensed person are responsible for ensuring that product risks are well managed and that the needs and rights of consumers are appropriately addressed.
- S** 8.2. Responsibilities must be clearly assigned to senior management<sup>2</sup> (hereafter referred to as the “approving authority”) for-
- (a) determining whether a combination of any existing products or variation to any existing product, results in a material change for the purpose of paragraph 7.2(b) of the definition of “new product”; and
  - (b) approving all new products for the purpose of product approval in accordance with paragraphs 10.9 to 10.13.
- S** 8.3. The appointment of an approving authority must be clearly documented and must set out the scope of authority given, to whom the authority is given and whether the authority may be further delegated. The levels of the approving authority established must appropriately reflect the nature and complexity of the licensed person’s range of product offerings, the market segments in which the licensed person competes and the capacity of the licensed person to manage related risks.

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<sup>2</sup> A Product Approval Committee may consist of members of senior management.

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- S 8.4.** In relation to paragraph 8.2(a), the licensed person must ensure that its approving authority observes the following requirements-
- (a) in determining any material change, the risk implications of the change both from the licensed person's perspective (as provider) and the consumers' perspective (as purchasers) must be considered. The basis for any determination must be documented and made readily available for review by the licensed person's oversight and internal control functions, and the Bank; and
  - (b) for product combinations or variations that do not result in a material change to the structure, features or risk profile of the existing product as described in paragraph 7.2(b) of the definition of "new product", the expectations set out in Sections 10 to 12 must be considered and applied in proportion to the nature and extent of the variation.
- S 8.5.** A licensed person shall ensure that the following requirements are met prior to offering a new product-
- (a) the new product falls within the ambit of insurance business or takaful business or other permitted business or activities as specified by the Bank under section 14 of the FSA and section 15 of the IFSA, respectively;
  - (b) the licensed person has the capacity to adequately manage and control the risks associated with the new product, including the financial capacity to support existing and new product lines;
  - (c) adherence to principles relating to the fair treatment of consumers;
  - (d) except as provided under (e), the licensed person must not knowingly offer a new product (including its variations) that has been prohibited in other countries in circumstances which could potentially give rise to similar public concerns in Malaysia; and
  - (e) takaful operators may offer a new product which is not accepted in other

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countries provided such product has been approved by the Shariah Advisory Council (SAC) of the Bank.

- S** 8.6. In offering a new product, the licensed person must comply with all necessary approvals and/or any other applicable regulatory requirements, including other related policy documents issued by the Bank as well as regulatory requirements issued by the Securities Commission.

***“Launch-and-file” system***

- S** 8.7. A licensed person that meets the requirements stipulated in paragraphs 8.5 and 12.2 where applicable, may proceed to offer the new product to consumers upon complete submission of information to the Bank as required in paragraphs 13.1 and 13.2, and, where applicable, paragraph 13.3. This process shall hereafter be referred to as the “launch-and-file” system. The submission of the PD to the Bank must be signed off by the Chief Executive Officer of the licensed person who is responsible for ensuring that the information submitted to the Bank is complete and accurate.

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## 9. General Exceptions

- S 9.1.** The “launch-and-file” system is not applicable to the following new products-
- (a) insurance and takaful products that are being offered in the Malaysian market for the first time. This includes new insurance or takaful products within an existing product line that contain innovative features being offered in the market for the first time;
  - (b) annuity certain and life or family annuity products;
  - (c) takaful products that require a resolution by the SAC on-
    - (i) the application of a new Shariah contract<sup>3</sup> in the Malaysian market; or
    - (ii) Shariah issues involved in the combination of two or more products that were previously approved by the Bank on a stand-alone basis or a variation to an existing takaful product which have not been deliberated by the SAC;
  - (d) takaful products that involve the creation of one or more new takaful sub-funds; and
  - (e) investment-linked products invested in financial derivatives for purposes other than hedging of existing exposures.
- S 9.2.** With respect to any of the products referred to in paragraph 9.1, a licensed person must submit the information stipulated in paragraph 13.4 to the Bank at least 30 days prior to the offering of such new product.

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<sup>3</sup> Refers to a Shariah contract that has never been applied in the Malaysian financial market and where there is no current SAC’s resolution on such contract.

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## 10. Product Risk Management

- S** 10.1. A licensed person must have in place appropriate policies and procedures to prudently manage risks associated with the products it offers and to manage its responsibilities to consumers.
- S** 10.2. A licensed person must ensure that the policies and procedures referred to in paragraph 10.1 are appropriate to the complexity of risks associated with the products offered by the licensed person and are designed to identify and control product risks across the value chain, including the stages of product development, approval, pricing, marketing, sale, distribution, portfolio management, accounting, and ongoing service and maintenance.
- S** 10.3. The policies and procedures for managing product risks for new products as well as re-pricing or effecting changes to the terms and conditions of existing products must be formally approved by the board and properly documented. The policies and procedures must be communicated by the licensed person in a timely manner to all relevant parts and levels within the licensed person's organisation and must be periodically reviewed by the licensed person in the light of changing circumstances.
- S** 10.4. A licensed person must ensure that the management of product risks is well-integrated within the licensed person's overall governance framework and risk management system. This is to ensure that product innovation is carried out in a manner that is aligned with the licensed person's business objectives, risk appetite, and its capability and capacity to manage associated risks.

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- S** 10.5. A licensed person must ensure the adequacy and security of the information technology (IT) systems and infrastructure to support their product suites by performing proper and regular assessments on the IT-related risks, which include strategic, compliance, system support, operational, security, business resumption and reputational risks.

***Product management programme***

- S** 10.6. A licensed person must have a product management programme that provides a sound basis for the development of appropriate policies and procedures for managing product risks.
- S** 10.7. A good product management programme must-
- (a) clearly set out policies for the licensed person's product design and pricing philosophy. These policies must address the licensed person's profit expectations for new products offered and insurance or takaful product lines which the licensed person may offer, or is restricted from offering. The policies must reflect the licensed person's corporate strategy, competitive positioning, risk and reward philosophy, and financial capacity to absorb losses. These policies must also specify the measure(s) used for experience monitoring and the explicit triggers for remedial actions (including re-pricing) to be carried out;
  - (b) relate the product strategy (e.g. considerations that influence the nature and timing of new product innovations) to the licensed person's consumer relationship philosophy;
  - (c) define parameters for the approval of new products, including the circumstances under which authority may be delegated;
  - (d) establish restrictions and/or prudent concentration limits for exposures, including but not limited to, geographic regions, product lines,

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distribution channels, economic sectors, consumer groups or any other relevant risk dimensions;

- (e) establish procedures to identify, assess and mitigate risks associated with new products offered by the licensed person, including procedures related to reinsurance or retakaful, underwriting and diversification;
- (f) establish lines of responsibility for managing related risks, including responsibilities in monitoring adherence to approved policies and procedures; and
- (g) establish internal communication flows to ensure that new product offerings and the management of associated risks are fully integrated throughout the licensed person's business line and control functions.

**S** 10.8. The procedures referred to in paragraph 10.7(e) must include the following aspects-

- (a) identification and assessment of the key product risks with reference to the risk appetite, risk capacity and risk limits of the licensed person. The assessment of risks must take into account-
  - (i) risks arising from the product design. These include risks arising from arrangements with other parties or strategic alliances (including distribution arrangements) in offering a new product, IT-related risks, risks of money laundering due to product design and failure to meet policy owners' or takaful participants' reasonable expectations;
  - (ii) risks arising from any implicit or explicit assumptions made in the pricing of products. These include changes to assumed portfolio distribution, deteriorating loss ratios and failure to achieve target premium or takaful contribution volume;
  - (iii) risks arising from a pricing range used in group products. These include inadequate premium or charges levied vis-à-vis the risks

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underwritten arising from reliance on cross subsidies or excessive discounts applied; and

- (iv) legal, regulatory and reputational risks associated with products having features that may give rise to the potential for mis-selling;
- (b) development of the corresponding risk mitigation measures for the risks specific to the new product, including measures that will reduce the probability of occurrence and/or mitigate the financial impact, should the risk factors identified occur. These risk mitigation measures must be aligned with the overall risk management at the enterprise level; and
- (c) specification of any explicit risk limits for a new product. The risk limits must be commensurate with the aggregate risk limit at the enterprise level and the procedures must stipulate possible actions to be taken by management in response to any breach of the risk limits.

### ***Product approval***

- S** 10.9. All new products must be approved by the approving authority(ies) of a licensed person.
- S** 10.10. The approving authority must observe an objective and consistently applied process for approvals. This must be supported by documentation requirements and internal reviews that are necessary for the approving authority to ensure that-
  - (a) a new product proposal is consistent with the licensed person's product management programme;
  - (b) systems and procedures are in place to manage related risks and consumer expectations;
  - (c) front-line and back-end officers as well as distribution channels of the licensed person are adequately trained to manage the new product;

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and

- (d) sales or product illustrations and marketing strategies are appropriate and not misleading.

**S** 10.11. A licensed person must ensure that, at a minimum, the following information are made available to the approving authority(ies) to support a request for the approval of a new product-

- (a) the objective of offering the new product, target consumers and a description of strategic alliance arrangements (if any);
- (b) the key features of the new product, method(s) of distribution, and samples of the term sheet and promotional material;
- (c) a profitability assessment for the new product;
- (d) a quantification of the new product's financial impact to the licensed person;
- (e) an assessment of the key product risks identified for the new product and how these risks will be measured, monitored and controlled, as required in paragraph 10.8;
- (f) an assessment of the suitability of the new product for the target consumers;
- (g) an assessment of the skills, expertise and resources required by the licensed person to sell and manage the new product before, during and after the contractual stages. The assessment must address whether these elements are already fully present within the licensed person, and if not, the actions that will be taken to ensure that the necessary elements are met prior to the launch of the new product;
- (h) a description of related accounting and tax implications attached to the new product, highlighting in particular accounting or tax treatments on which the success of the new product will hinge on, or which will materially alter the new product's risk-return profile; and

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- (i) an assessment as to whether the new product fully complies with applicable legal and regulatory requirements or restrictions, including a description of any unresolved legal or regulatory issues.

**S 10.12.** In performing the profitability assessment as required by paragraph 10.11(c), a licensed person must ensure that-

- (a) the profit test allows for all expected cash flows that arise over the term of the contract, including-
  - (i) premiums or takaful contributions and charges;
  - (ii) *tabarru'* (for takaful products);
  - (iii) investment income;
  - (iv) guaranteed benefits;
  - (v) expenses and commission;
  - (vi) surrender values;
  - (vii) discretionary benefits;
  - (viii) valuation reserves;
  - (ix) capital costs;
  - (x) options;
  - (xi) guarantees;
  - (xii) reinsurance or retakaful; and
  - (xiii) tax.
- (b) the basis for the profit test cash flows is in line with the purpose of the profit test, that is-
  - (i) in-force basis to allow for decrements by mortality or surrender; and
  - (ii) per policy or takaful certificate basis for the unit fund of an investment-linked policy or certificate;
- (c) the profit test clearly shows the interaction between the different funds of the new product. For takaful products, the profit test must clearly

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show the relationship between the takaful funds (participant's investment fund and participant's risk fund) and shareholders' fund (SHF);

- (d) all formulae and calculations used for profit testing are clearly documented;
- (e) cash flows are projected on a suitable basis, at minimum-
  - (i) on a monthly basis for products that are short term (i.e. less than 5 years) and/or has a significant strain during the initial periods; and
  - (ii) on an annual basis for all other products;
- (f) cash flows are discounted using an appropriate risk discount rate to derive the present value of surplus and profit margin. The justification for the selected risk discount rate must be clearly documented;
- (g) any issues affecting the viability of the new product on a standalone basis are considered. This applies in particular where-
  - (i) the relevant insurance or takaful fund has low level of surplus;
  - (ii) the product has significant periods of deficit arising; or
  - (iii) the product crystallises surplus in early years, with deficits projected to emerge at later stages;
- (h) appropriate profit measures are computed and compared with the minimum profitability requirement set out in the internal policy of the licensed person. Where the profit margin fails to meet the minimum internal criteria but the licensed person intends to maintain the pricing of the new product, the impact of such a decision on the financial performance of the licensed person, and the prospects of future re-pricing and its likely effects on consumers must be considered and clearly documented.

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- S** 10.13. In quantifying the new product's financial impact to the licensed person as required by paragraph 10.11(d), the licensed person must ensure the following-
- (a) the licensed person must project the product's business volume, profitability, capital requirement and impact on the licensed person's capital position;
  - (b) the projection assumptions must be consistent with the assumptions used in the profit test and supported by credible data. The methodology and assumptions of the projection must be justified and clearly documented;
  - (c) sensitivity analysis on the projection must be performed to identify the key risk factors of the new product. The licensed person must decide on an appropriate degree of adverse deviation from the expected experience, taking into account the past experience and reasonable expectation of the future experience; and
  - (d) key risk factors for the sensitivity analysis must be considered. These include-
    - (i) mortality or morbidity;
    - (ii) lapse;
    - (iii) investment return (including unit funds of an investment-linked product);
    - (iv) expenses;
    - (v) risk discount rate;
    - (vi) new business volume or take-up rate; and
    - (vii) product portfolio distribution (including age distribution).

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***On-going monitoring and control of product risk***

- S** 10.14. A licensed person must ensure that adequate procedures are in place and operating effectively to monitor and control product risks on an ongoing basis. The procedures must provide for the ongoing identification, measurement and mitigation of existing and potential risks inherent in the licensed person's product offering. These include-
- (a) clearly defined responsibilities within business lines for managing product risks within approved parameters or limits. Business lines must also be responsible for ensuring continuous adherence to approved policies and procedures. The accountability of business lines must be clearly established, notwithstanding the presence of other control functions dedicated to compliance and risk management;
  - (b) clearly delineated lines of responsibility for monitoring and controlling risks by control functions that are independent of business lines;
  - (c) adequate systems for measuring risks on a continuing basis;
  - (d) regular reviews of identified risk exposures in the light of changing market conditions not previously factored in to ensure that all material risks are identified and monitored in a timely manner, including risks arising from the external environment, market fluctuations, anti-selection, misrepresentations, catastrophes, litigation, and changes in the regulatory and legal environment;
  - (e) adequate coverage of the internal audit function to ensure the timely identification of internal control weaknesses, adherence to regulatory requirements and internal policies and procedures, and proper accounting and capital treatment. The internal audit function must be independent of the product management and control functions that it reviews; and
  - (f) comprehensive and regular reports to the board and senior

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management on-

- (i) the overall effectiveness of policies and procedures for managing product risks;
- (ii) current assessment of product risks and any change in the direction of risks (please refer to paragraphs 10.8 and 10.11(e));
- (iii) material changes in market conditions that may impact the product risk profile going forward; and
- (iv) weaknesses in and breaches of internal controls.

## 11. Business Conduct Requirements

- S** 11.1. A licensed person must give due regard to the interests of consumers in the development, marketing and sale of new products, as well as ongoing management of the product, including in circumstances which involve re-pricing or effecting changes to the terms and conditions of existing products. The board must approve policies and procedures that describe the appropriate parameters and guidance for the fair treatment of consumers which must serve to avoid the potential for mis-selling, terms and conditions that are inherently unfair to consumers, and business practices that restrict the freedom of choice to consumers.
- S** 11.2. Policies and procedures regarding product offering and sales activities must be aimed at mitigating reputational risk and safeguarding the licensed person from liability under applicable anti-fraud and fair practice laws and regulations. More specifically, the licensed person must ensure that the policies and procedures provide for-
- (a) an explicit consideration of consumer-related issues and implications which is incorporated within the product development and approval stages;

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- (b) appropriate disclosures (e.g. through benefit illustrations and marketing materials) to inform consumers of the key features, terms and conditions of, and risks associated with, the new product;
- (c) the conduct of suitability assessments to establish that a new product is appropriate for the target group of consumers, taking into consideration their broad needs and risk appetite;
- (d) fees and charges imposed on consumers that are equitable;
- (e) the suitable training to sale officers and distribution channels of the licensed person for the products offered, in particular investment and savings products, to enable them to properly advise consumers;
- (f) compensation arrangements for sales officers and distribution channels of the licensed person which do not induce an excessive bias towards high revenue-generating products that are likely to result in unsuitable product recommendations or sales to consumers; and
- (g) adequate and effective controls to prevent the contravention of relevant provisions of laws relating to the protection of consumer information.

**S** 11.3. A licensed person must put in place an adequate and effective system for resolving and monitoring consumers' complaints, and ensuring that consumers are provided with information on where and how to lodge a complaint. Regular reports must be provided to the senior management and the board on trends in the volume and nature of complaints against the licensed person, as well as actions and the time taken to deal with complaints.

**S** 11.4. A licensed person must ensure that the policies and procedures referred to in paragraph 11.2 comply with the relevant policy documents on standards on business conduct issued by the Bank.

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### ***Consumer suitability assessments***

- S** 11.5. A licensed person must develop and implement internal procedures for consumer suitability assessments which are aimed at ensuring that products offered, in particular products with investments and savings components, are only marketed to suitable consumers. Consumer suitability assessment procedures must be designed to seek sufficient knowledge about the consumer to establish that-
- (a) the consumer has a practical understanding of the features of the product and the risks assumed;
  - (b) the product meets the consumer's investment objectives and time horizon; and
  - (c) the product is consistent with the consumer's appetite for risk.
- S** 11.6. In conducting the consumer suitability assessment, a licensed person must ensure that consumers are adequately informed of the risks posed by the product and have considered the consumer's capacity to absorb such risks without falling into financial hardship.
- G** 11.7. The risks faced by consumers may arise from products with a significant discretionary component, embedded options or whose underlying investment risk-return profile is not in line with the consumer's risk appetite.
- S** 11.8. Components of effective consumer suitability assessment procedures must include-
- (a) processes that clearly describe the types of consumers that a product would generally be suitable for;
  - (b) clear lines of authority for approving transactions with consumers that do not meet generic consumer suitability categorisations;

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- (c) sales officers and distribution channels that are suitably trained to properly analyse consumers' needs and risk appetites;
- (d) effective supervision of officers and distribution channels involved in sales; and
- (e) appropriate documentation and record keeping to facilitate reviews of compliance with approved procedures.

**S** 11.9. A licensed person must not recommend products to consumers unless it is reasonably satisfied that the product is suitable for the particular consumer on the basis of information sought and obtained from the consumer. A licensed person must perform greater due diligence for new consumers.

## 12. Compliance with Shariah Principles

**S** 12.1. A takaful operator shall ensure that a comprehensive end-to-end Shariah-compliant product development and implementation process of Shariah governance framework is in place and complies fully with the requirements under the policy document on "Shariah Governance Framework for Islamic Financial Institutions" (SGF).

**S** 12.2. In addition to paragraph 8.5, licensed takaful operators must ensure that the following requirements are met prior to offering a new product-

- (a) the product (including its accompanying documentation) must be approved by the licensed takaful operator's Shariah Committee;
- (b) the product's underlying Shariah contract, Shariah structure and Shariah features must not be inconsistent with those underlying products that have been approved by the SAC; and
- (c) the product must be consistent with the SAC resolutions.

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- S 12.3.** For new takaful products which fall under paragraph 7.2(b) of the definition of “new product”, the approving authority must consult the Shariah Committee of the licensed takaful operator in assessing whether the proposed variation, which would result in a material change, would give rise to any Shariah issue that has yet to be deliberated by the SAC.
- S 12.4.** Licensed takaful operators must ensure that the product development process<sup>4</sup> is comprehensive and robust to minimise the risk of non-compliance with Shariah principles. In particular, licensed takaful operators must ensure that-
- (a) appropriate processes have been established to ensure proper Shariah governance and compliance with all Shariah requirements as prescribed under the SGF. Specifically, all new product proposals must be assessed, endorsed and validated by the Shariah Committee of the licensed takaful operator. The terms and conditions contained in proposal forms, nomination forms, certificate documents and other legal documents used in the product transaction including all product manuals, advertisements or marketing materials, product illustrations and brochures used to describe the new product must be endorsed by the Shariah Committee;
  - (b) all Shariah issues are thoroughly researched prior to the deliberation by the Shariah Committee and the certification by the Shariah Committee must be backed by the relevant *fiqh* literature, evidence and reasoning; and
  - (c) there is an effective process in place to monitor Shariah compliance of all Shariah-compliant products on an on-going basis. This includes ensuring that all operational decisions concerning the product are

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<sup>4</sup> This must cover pre-approval processes (i.e. processes of product structuring and development prior to offering of the new product to the market) and post-approval processes (i.e. processes after the new product has been offered to consumers and transactions have been carried out).

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conducted in a Shariah-compliant manner, for instance, ensuring that invested assets or risks to be covered under takaful products are Shariah-compliant.

- S** 12.5. In addition to paragraph 11.2, a licensed takaful operator must ensure that its policies and procedures regarding product offering and sales activities contain-
- (a) requirements for officers and distribution channels of the takaful operator to make appropriate disclosures to ensure that consumers are fully informed of the relevant Shariah principles associated with the new product; and
  - (b) the basis for determining the fees and charges imposed on consumers complies with Shariah rulings.

### **13. Requirements on Product Documentation (PD) Submission**

- S** 13.1. A licensed person must submit information on new products to the Bank as specified in the PD format set out in Appendix 1. The requirements on the supporting information and documents required for the PD are set out in Appendix 2. The requirements on the content of the PD and supporting information are set out in Appendix 3. The requirements on the supporting information for takaful products are set out in Appendix 4. A sample checklist for submission is set out in Appendix 5.

#### **Products under “launch-and-file” system**

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- S 13.2.** For all new products which fall under the “launch-and-file” system as specified in paragraph 8.7, a licensed person must submit the following information to the Bank prior to the offering of such new product-
- (a) information in accordance to the format as required in Appendix 1, read together with paragraphs 1 to 27 of Appendix 3;
  - (b) information as required in paragraphs 1 and 2 of Appendix 2; and
  - (c) for takaful products, information as required in paragraph 1 of Appendix 4.
- S 13.3.** For all new products which fall under the “launch-and-file” system, a licensed person must maintain proper documentation of the summary information as specified in paragraph 3 of Appendix 2 and provide this information to the Bank, upon request.

**Products not under “launch-and-file” system**

- S 13.4.** With respect to any of the products referred to in paragraph 9.1, a licensed person must submit the following information to the Bank prior to the offering of such new products-
- (a) information in accordance with the format as required in Appendix 1, read together with paragraphs 1 to 30 of Appendix 3;
  - (b) information as required in paragraphs 1 to 3 of Appendix 2;
  - (c) for takaful products referred to in paragraph 9.1 which do not require SAC’s deliberation or approval, information as required in paragraph 1 of Appendix 4;
  - (d) for takaful products referred to in paragraph 9.1(c) which require SAC’s deliberation or approval, information as required in paragraph 2 in Appendix 4; and

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(e) proposed capital and accounting treatment for the new product.

## General requirements

- S** 13.5. A licensed person must submit a checklist which lists all documents that are submitted together with the PD. A sample checklist is included in Appendix 5.
- S** 13.6. If a licensed person has submitted a standard document via a previous submission, the licensed person is not required to resubmit the aforementioned document with the PD unless the document has been revised. The reasons and the date of previous submission must be stated in the checklist as required in paragraph 13.5.
- S** 13.7. For new takaful products which have similar Shariah features with products that have been previously submitted to the Bank, only the verification statement by the Shariah Committee as required in paragraph 1(e) of Appendix 4 must be submitted. The remaining information requirements for takaful products as specified in paragraph 1 of Appendix 4 are exempted. The date and the name of the product with similar Shariah features previously submitted to the Bank must be stated in the checklist as required in paragraph 13.5.
- S** 13.8. Pursuant to paragraph 13.1, a licensed person must lodge a separate PD for each product type and distribution channel, including individual and group product; basic plan and riders; agency and bancassurance or bancatakaful; as well as telemarketing and direct marketing.
- S** 13.9. A licensed person must submit an addendum to the PD and any supporting documents to the Bank for any revision to the PD. The submission of the

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addendum must include the following documentation as an appendix-

- (a) a table comparing the original and revised wordings with reasons for each revision and a description of the impact on the risk profile of the product; and
- (b) a history of all previous related revisions.

**S** 13.10. A licensed person must number all addendums to the PD appropriately in a logical sequence (e.g. Addendum No. 2 to Plan XYZ).

**S** 13.11. For addendums to the PD of takaful products specified below, only the verification statement by the Shariah Committee of the licensed takaful operator as required in paragraph 1(e) of Appendix 4 must be submitted. The remaining information requirements for takaful products as specified in paragraph 1 of Appendix 4 are exempted. The date and the name of the product with similar Shariah features previously submitted to the Bank must be stated in the checklist as required in paragraph 13.5.

- (a) Addendum which does not involve Shariah implications; and
- (b) Addendum to takaful products which have similar Shariah features with products that have been previously submitted to the Bank.

**S** 13.12. A licensed person must submit a new PD instead of an addendum if the features of the product have changed significantly since the original submission. Significant changes include-

- (a) changes to the pricing basis;
- (b) changes to the operational model (for a takaful product);
- (c) significant changes in the insurance or takaful benefit, or premium or contribution structures; and
- (d) discounts or loadings on the premium or takaful contribution rates of a group product exceed the range allowable based on the technical

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basis as specified in paragraph 9(a)(iv) of Appendix 3.

In such cases, the licensed person must notify the Bank of the PD and related addendums that are being replaced.

- S** 13.13. If a product is permanently or temporarily withdrawn from the market for any reason, the licensed person must notify the Bank in writing prior to the effective date of the withdrawal. The notification must elaborate on the reasons for the withdrawal of the product.
- S** 13.14. In relation to a temporarily withdrawn product, if the withdrawal results in the assumptions under the original PD submitted to be no longer valid, the licensed person must submit a new PD to the Bank, prior to offering the product again.
- S** 13.15 For closure of a participating life policy fund to new business, whether permanently or temporarily, the licensed person must observe the requirements in the policy document on “Management of Participating Life Policy Business”.

## 14. Reporting Requirements

- S** 14.1. The senior management of a licensed person must ensure that the requirements set out in this policy document are adhered to at all times, with effective oversight by the board. Upon request by the Bank, a licensed person must submit to the Bank information on policies and procedures for managing product risks (including specific information on its IT systems) and ensuring the fair treatment of consumers.

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- S** 14.2. A licensed person must maintain proper documentation of all relevant internal analyses conducted and information used in the product development and approval processes, as required under Section 10. These documents must be made available to the Bank for inspection upon request.

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## **APPENDICES**

### **Appendix 1            Format of Product Documentation Submission**

#### ***General information***

1.        Product description
2.        Marketing name
3.        Product classification
4.        Target product launch date
5.        Distribution channel(s) and target market
6.        Projected business volume

#### ***Description of plan***

7.        Type and purpose of each fund available under the takaful product
8.        Nature of contract and product benefits
  - (a)      Duration of contract
  - (b)      Minimum and maximum age at entry
  - (c)      Benefits available under product
  - (d)      Nature of participation (for insurance products) or, surplus or profit sharing arrangements (for takaful products)
  - (e)      Design of investment-linked product
  - (f)      Benefit schedule for medical and health insurance or medical and health takaful products
  - (g)      Sum assured or participated schedule for non-level plan
  - (h)      Available options and guarantees
  - (i)      Lien for juvenile policy or takaful certificate
9.        Premium or takaful contribution and charges

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- (a) Premium or takaful contribution payment term and nature
  - (b) Mode of premium or takaful contribution
  - (c) Allocation of premiums or takaful contributions to respective funds (for investment-linked and/or takaful products)
  - (d) Minimum premium or takaful contribution and/or top-up premium or takaful contribution
  - (e) Size or group adjustments
  - (f) Upfront fees and other fees or charges
  - (g) Charges under investment-linked product
  - (h) Waiver of premium or takaful contribution
  - (i) Smoothing of premium or takaful contribution rates
10. Underwriting requirements
11. Riders available for product

***Technical basis***

- 12. Mortality basis
- 13. Morbidity basis
- 14. Basis for other benefits
- 15. Lapse basis
- 16. Investment return or investment profit rate assumption
- 17. Expense assumption
- 18. Provision for commission
- 19. Profit loadings
- 20. Portfolio distribution assumption
- 21. Methodology and basis for pricing
- 22. Methodology and basis for provision for liabilities
- 23. Options and guarantees
- 24. Capital requirement

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25. Rating differentials
26. Discontinuance term
27. Reinsurance or retakaful arrangements

***Declaration by Chief Executive Officer***

I declare that-

- (a) this product has been properly authorised for sale in accordance with the company's product management programme, including relevant internal policies, procedures and risk limits, and reflects the company's corporate strategy, risk and reward philosophy, and financial capacity to absorb losses;
- (b) the features of the product and all relevant documents submitted are in accordance with the provisions in all relevant policy documents as issued by the Bank; and
- (c) adequate resources, systems and processes are in place to ensure proper risk management and implementation of the product, including-
  - (i) adequate systems and procedures to manage related risks and consumers' expectations;
  - (ii) front-line and back-end officers as well as distribution channels that are adequately trained to manage the new product; and
  - (iii) effective supervision and control over sales or product illustrations and marketing strategies to ensure that they are appropriate and not misleading.

Signature :

Name :

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## Appendix 2 Supporting Information and Documents

1. Supporting information on pricing
  - (a) table of premium or takaful contribution rates, containing illustration of-
    - (i) premium or takaful contribution rates for each age at entry for each policy or takaful certificate term for a basic sum assured of RM1,000;
    - (ii) for takaful products, the takaful contribution rates for each age at entry and each certificate term, and/or *tabarru'* rates for each age;
    - (iii) for products that do not have a sum assured or participated (e.g. hospital and surgical products), the premium or takaful contribution rates for each age at entry at each level of benefits; and
    - (iv) for group products, the range of premium or takaful contribution rates, discounts and loadings allowable based on the technical basis, and any specific premium or takaful contribution rates for individual component of benefits which can be packaged into different combinations;
  - (b) table of all expected bonus scales for participating products, including-
    - (i) reversionary bonus scale;
    - (ii) cash bonus scale; and/or
    - (iii) terminal bonus scale;
  - (c) table of sum assured or participated schedules  
For products with non-level sum assured or participated, the schedule must show the progression of sum assured or participated levels;
  - (d) table of surrender values and paid-up values; and
  - (e) table of profit margins for all model points used in pricing.

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2. Supporting documents for marketing and contractual uses

- (a) sample proposal form;
- (b) sample nomination form;
- (c) sample policy or takaful certificate documents
  - (i) policy or takaful certificate contract;
  - (ii) policy or takaful certificate schedule;
- (d) sample sales materials
  - (i) sample marketing brochure;
  - (ii) sample telemarketing script;
  - (iii) sample flyers;
  - (iv) sample fund fact sheet (for investment-linked products);
  - (v) others (to specify);
- (e) sample sales or product illustration;
- (f) policy or takaful certificate information statement; and
- (g) product disclosure sheet;

3. Summary information

- (a) summary of product development consideration;
- (b) summary of financial impact analysis; and
- (c) summary of product risk management.

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## **Appendix 3            Requirements on the Content of Product Documentation**

### ***General information***

1.        Product description

Provide a brief description of the product in terms of-

- (a)    nature of product, such as participating, non-participating, investment-linked, universal life, etc;
- (b)    type of product, such as endowment, whole life, term, critical illness, hospital and surgical, etc; and
- (c)    special features, such as capital guaranteed, unlevel premium or benefit structure, etc.

2.        Marketing name

Specify the name which will be used for the marketing of the product.

3.        Product classification

State the classification of the product. For licensed insurers, the classification must be according to the Guidelines for Submission of Monthly/ Quarterly/ Annual Financial Statements: Part II. For takaful operators, the classification must be according to the Guidance Notes for Completion of Annual/ Monthly Returns: Part II.

4.        Target product launch date

Specify the target launch date of the product.

5.        Distribution channel(s) and target market

- (a)    Provide details of the distribution channel(s) which will be used to market the product, such as bancassurance or bancatakaful, direct or

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telemarketing, agency, brokers, etc. For bancassurance or bancatakaful, state the names of the financial institutions involved.

- (b) Describe the intended target market of the product-
  - (i) profile of the consumers, including age range, gender, life stages, socio-economic characteristics, geographical location and any other defining characteristics;
  - (ii) consumers' needs to be met by this product; and
  - (iii) consumers' investment horizon and risk appetite for products with savings or investment elements.

6. Projected business volume

- (a) Specify the target or projected business volume in terms of monetary value (RM) and number of policies or takaful certificates, including-
  - (i) target annual premium or takaful contribution volume; and
  - (ii) target total premium or takaful contribution volume (for products with limited marketing periods).
- (b) The target or projected business volume can be presented in more granular levels of target business volume by distribution channels, age bands or consumers' segments, if there is such a differentiation.

**Description of plan**

7. Type and purpose of each fund available under the takaful product

- (a) Describe the type and purpose of each fund available under family takaful or medical and health takaful product.
- (b) Describe the cash flow movements among the funds<sup>5</sup>, if any.

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<sup>5</sup> For example, in Participants' Investment Fund (PIF), monthly *tabarru'* will be deducted and allocated to Participants' Risk Fund (PRF).

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8. Nature of contract and product benefits

(a) Duration of contract

State the duration of the contract, whether the product is renewable annually and if the renewal is guaranteed under the policy contract or takaful certificate.

(b) Minimum and maximum age at entry

State the minimum and maximum ages at entry for the policy owner or takaful participant and/or the life assured or covered. Also, specify the age basis, i.e. whether age is based on the next birthday, last birthday or nearest birthday.

(c) Benefits available under product

(i) Describe the benefits provided in relation to the contingencies covered by the product.

(ii) State the minimum or maximum sum assured or participated, or benefit payment per life insured or takaful participant, including under a group product.

(iii) Indicate the cessation of any particular benefits at a predetermined age or, policy or takaful certificate anniversary.

(iv) For a rider, state the limitation on premium or takaful contribution and/or sum assured or participated in relation to the basic policy or takaful certificate (e.g. sum assured of term insurance rider limited to five times the sum assured of its basic policy).

(v) For a group product, describe the components of benefits which can be packaged into different combinations and provide a list of all the combinations.

(d) Nature of participation (for insurance products), or surplus or profit

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sharing arrangements (for takaful products)

- (i) For a participating life product, describe the nature of the participation, including compound reversionary bonuses, cash dividends and terminal bonuses or dividends. If the plan provides for the accumulation of declared cash dividends, explain how the cash dividend accumulation rate is determined.
  - (ii) For a takaful product, describe the surplus or profit sharing arrangements of the respective funds under the product. Describe details of the arrangements, including whether the surplus is expressed as a percentage of investment profit or a percentage of the total surplus arising and how the investment profit or surplus is determined.
- (e) Design of investment-linked product
- For an investment-linked product, provide details on-
- (i) contract design, including allocation of units, capital or accumulation units, as well as minimum and maximum sum assured multiple (SAM);
  - (ii) types, names and description of the funds available for investment<sup>6</sup>; and
  - (iii) categorisation of the non-premium paying or non-takaful contribution paying riders into Category 1 or 2, together with description of the methodology for computation of SAM, in line with requirements in Appendix II of the “BNM/RH/GL 010-15: Guidelines on Investment Linked Insurance/Takaful Business”.
- (f) Benefit schedule for medical and health insurance or medical and health takaful products

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<sup>6</sup> For example, equity fund in blue chips listed on the Bursa Malaysia Main Board.

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Provide details on-

- (i) a benefit schedule, including the surgical schedule if applicable, giving full details of each benefit payable;
  - (ii) any benefit limits, whether per period of time, per lifetime or per disability must be stated; and
  - (iii) the components of benefits which can be packaged into different combinations for a group product.
- (g) Sum assured or participated schedule for non-level plan  
For products with non-level sum assured or participated, provide a sum assured or participated schedule showing the progression of the level of sum assured or participated.
- (h) Available options and guarantees  
Describe any options and guarantees available under the product (e.g. the option to convert a term policy or takaful certificate to a whole life policy or takaful certificate at certain predetermined dates in the future).
- (i) Lien for juvenile policy or takaful certificate  
Describe the liens applicable to juvenile policies or takaful certificate at each age.
9. Premium or takaful contribution and charges
- (a) Premium or takaful contribution payment term and nature
    - (i) Specify the premium or takaful contribution payment term of the policy or takaful certificate, i.e. whether premiums or takaful contributions are payable for the full term of the policy or takaful certificate, or only for a specific term.

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- (ii) Specify whether the premiums or takaful contributions are level throughout the term of the policy or takaful certificate or otherwise.
  - (iii) State clearly the guaranteed or non-guaranteed nature of the premiums or takaful contributions and *tabarru'* rates and whether the product is a basic plan or a rider.
  - (iv) Specify the range of premium or takaful contribution rates, discounts and loadings allowable within a group product based on the technical basis.
- (b) Mode of premium or takaful contribution  
Specify the mode of premium or takaful contribution payment available to policy owner or takaful participants (e.g. half-yearly, quarterly or monthly) and the modal factors which will be applied.
  - (c) Allocation of premiums or takaful contributions to respective funds (for investment-linked and/or takaful products)  
Specify the percentage or method of allocation of premiums or takaful contributions to the respective funds available under the plan.
  - (d) Minimum premium or takaful contribution and/or top-up premium or takaful contribution  
For investment-linked products, indicate the minimum premium or takaful contribution and/or the minimum top-up premiums or takaful contribution applicable.
  - (e) Size or group adjustments
    - (i) Provide details on any reduction in premium or takaful contribution allowed for policies with high sum assured or

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participated.

- (ii) Provide the basis and justification for giving size discounts for larger policies.
- (iii) Provide the details on any discounts and loadings allowed for group policies and how the discounts are applied<sup>7</sup>.

(f) Upfront fees and other fees or charges

For upfront fees, provide details on the components of the upfront fees. For other fees or charges, state the structure (e.g. percentage), sources, conditions and purpose of the imposed fees or charges.

(g) Charges under investment-linked product

For an investment-linked product, elaborate on the following charges-

- (i) the initial charge (if applicable);
- (ii) the premium or takaful contribution allocation rates for the purchase of investment units and/or administrative charges by policy or takaful certificate duration. The unallocated premium or takaful contribution must reflect the actual commission structure;
- (iii) the investment management charges and whether such charges are variable;
- (iv) the risk charges and whether such charges are variable;
- (v) the switching charges;
- (vi) the top-up charges;
- (vii) the partial withdrawal charges; and
- (viii) any other charges.

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<sup>7</sup> For example, whether discounts are applied in a form of lower profit margin or lower contingency loading.

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(h) Waiver of premium or takaful contribution

Provide details on the waiver of future premium or takaful contribution on the occurrence of any illness or other contingencies, if applicable.

(i) Smoothing of premium or takaful contribution rates

Where premium or takaful contribution rates are smoothed, provide a comparison of the actual premium or takaful contribution rates against the smoothed rates. Explain the financial impact of the smoothing of the premium or takaful contribution rates.

10. Underwriting requirements

Specify the criteria used for medical examination or other underwriting requirements.

11. Riders available for product

Specify the riders currently available for this product.

**Technical basis**

12. Mortality basis

(a) State the mortality assumption used in the pricing of the product. Provide details where there is explicit margin built in the assumption.

(b) If a non-standard mortality table is used, state the source from which the rates are derived (including the name of the source) and provide the table of mortality rates.

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13. Morbidity basis<sup>8</sup>

- (a) State the morbidity assumption or describe the morbidity model used in the pricing of the product. Provide details where there is an explicit margin built in the assumption or on other adjustments made.
- (b) If a specific morbidity table is used, state the source from which the rates are derived (including the name of the source) and provide the table of morbidity rates.

14. Basis for other benefits

Where applicable, state the assumptions used for any other contingency benefits provided under the plan.

15. Lapse basis

- (a) State the lapse assumption used in the pricing of the product. Provide details where there is an explicit margin built in the assumption.
- (b) State whether the product is lapse supported.

16. Investment return or investment profit rate assumption

- (a) State the gross investment return used in the pricing of the product. For takaful products, state the gross investment profit rate applied to the PIF and PRF separately used in the pricing of the takaful product.
- (b) Provide the historical gross rate of investment return or investment profit rate for the relevant funds, including realised capital gains or losses earned for the latest five years on market value basis.
- (c) Provide details on assets ear-marked to back the liabilities of the product, including any options or guarantees provided, if different from the strategic asset allocation. Describe any special investment strategy to be adopted (e.g. immunisation, cash flow matching and hedging using

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<sup>8</sup> Morbidity rates include experience rates for total or partial disability, critical illness and long-term illness.

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derivatives).

- (d) For investment-linked unit funds, state the gross rate of investment return or investment profit rate for all investment-linked funds available to policy owners or takaful participants of this product.
- (e) Provide the historical gross rate of investment return or investment profit rate for all investment-linked funds.

#### 17. Expense assumption

Provide details on expense loadings including-

- (a) initial expense loadings-
  - (i) as a flat Ringgit amount per policy or takaful certificate;
  - (ii) as a percentage of the office premium or takaful contribution; and
  - (iii) per RM1,000 sum assured or participated;
- (b) renewal expense loadings-
  - (i) as a flat Ringgit amount per policy or takaful certificate;
  - (ii) as a percentage of the office premium or takaful contribution; and
  - (iii) per RM1,000 sum assured or participated;
- (c) loadings for other expenses, including policy or takaful certificate fees and allowance for expenses after the premium or takaful contribution paying period;
- (d) allowance for future inflation, if any; and
- (e) for takaful products, expenses which are borne by the takaful fund and shareholders fund, respectively.

#### 18. Provision for commission

- (a) State the commission rates payable according to policy or takaful certificate years separately for the basic agent and the agency leaders in a table for all premium or takaful contribution payment terms.

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- (b) State the other form of agency remuneration, such as persistency bonus and production bonus.
- (c) State the commission rates payable for top-ups in the case of investment-linked products.
- (d) For products which are not distributed via the agency arrangement, provide details of acquisition expenses and how they are provided for in the premium basis or *wakalah* fee.
- (e) Where there are commission structures or payments which are not covered above, state the details in a clear manner.

19. Profit loadings

- (a) Describe the basis for profit loading, if any.
- (b) Provide profit margins for the overall portfolio and all the model points used in pricing of the product (including age of entry at 1, 5, 25 and 35 years old at minimum).

20. Portfolio distribution assumption

Specify the assumptions made on the distribution of policy owners or takaful participants for the overall portfolio of the product, in line with the intended target market.

21. Methodology and basis for pricing

- (a) If formula basis is used for pricing-
  - (i) provide the actuarial formula;
  - (ii) define the notations used in the formula; and
  - (iii) specify the average policy or takaful certificate size(s) assumed.
- (b) If cash flow basis is used for pricing-
  - (i) provide any other assumptions used (e.g. profit criteria and risk discount rates);

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- (ii) specify the average policy or takaful certificate size(s) assumed; and
  - (iii) sample cash flow projections used in the pricing must be made available to the Bank upon request.
  - (c) Where combinations of pricing approaches are used, provide the methodology and rationale for each pricing approach, including the assumptions used.
  - (d) For group products with components of benefits which can be packaged into different combinations, the pricing methodology, assumptions and risk rates for each component of benefit must be explicitly specified.
  - (e) Any other methodology used apart from the above.
22. Methodology and basis for provision for liabilities
- (a) State the basis and methodology used for the valuation of the reserves for the product.
  - (b) Where there is an explicit provision for contingencies, state the basis and methodology used.
23. Options and guarantees
- Where there is an option or guarantee provided, describe the methodology and basis used to price and reserve for them.
24. Capital requirement
- State the basis (to include details on the underlying projection assumptions) and methodology used to determine the capital required for the product.
25. Rating differentials
- Describe the rating differentials between-
- (a) males and females;

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- (b) smokers and non-smokers; and
- (c) other rating classifications, including occupational ratings for group products.

26. Discontinuance term

- (a) For surrender values-
  - (i) specify the methodology and basis of computing both the minimum guaranteed and total surrender values;
  - (ii) for takaful products, specify the basis of benefit payment from the PIF and/or other funds;
  - (iii) explain how the choice of methodology and basis has taken into account the need to ensure fair treatment to policy owners or takaful participants;
  - (iv) indicate the surrender charge imposed;
  - (v) elaborate the conditions imposed on surrenders (e.g. the minimum remaining unit fund value after partial surrenders in the case of investment-linked policies); and
  - (vi) provide sample minimum guaranteed surrender values per RM1,000 sum assured or participated for the first five policy or takaful certificate years, and thereafter, at least every five years of policy or takaful certificate duration in force. This must be done for ages of entry of every five years. A sample disclosure format is provided below.

Duration	Ages at entry				
	20	25	30	35	...
1					
2					
3					

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4					
5					
10					
15					
...					

(b) For paid-up values-

- (i) specify the methodology and basis of computing paid-up values;
- (ii) explain how the choice of methodology and basis has taken into account the need to ensure fair treatment to policy owners or takaful participants;
- (iii) indicate the conditions imposed on paid-ups (if any); and
- (iv) provide sample minimum guaranteed paid-up values per RM1,000 sum assured or participated for the first five policy or takaful certificate years, and thereafter, at least every five years of policy or takaful certificate duration in force. This must be done for ages of entry of every five years. A similar format as above must be used.

27. Reinsurance or retakaful arrangements

- (a) State the name of the reinsurer(s) or retakaful operator(s), and their respective financial rating(s).
- (b) Describe reinsurance or retakaful arrangement for the new product, including the form of reinsurance or retakaful and retention level.

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***Summary of product development consideration, financial impact analysis and product risk management***

28. Summary of product development consideration
- (a) Justify any departure of pricing basis from the internal best estimate assumptions, taking into account past experience, including business or competitive consideration.
  - (b) Describe major changes in product design or features in comparison with existing products with similar features and the reasons for the changes.
  - (c) Describe major changes in product design or features during the internal product development and approval process, and the reasons for the changes.
29. Summary of financial impact analysis
- (a) Provide the results of financial projection, including-
    - (i) projected business volume in terms of monetary value (denominated in RM) and number of policies;
    - (ii) projected profitability using relevant profitability measures, including profit margins, return of capital, return of equity, value of new business, value in force, embedded value free surplus, etc; and
    - (iii) projected capital requirement and impact to capital position, including capital required, capital available and capital adequacy ratio (CAR).
  - (b) Provide quantification results of sensitivity test and break-even analysis for key risk factors.
    - (i) Provide results and comment on the sensitivity tests on the profit

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margin by varying the assumptions of key risk factors. These include mortality, morbidity, lapse, investment return or investment profit rate (including unit funds of investment-linked product), expenses, new business volumes and portfolio distribution. The comments must take into account the validity of the sensitivity tests, plausibility of occurrence, non-linearity of risks, correlations, etc.

- (ii) Justify an appropriate degree of adverse deviation from the expected experience.
- (iii) Provide results and comment on the stress level of the key risk factors which lead to the break-even point of the projected profit margin.

### 30. Summary of product risk management

- (a) Provide details of the risk management for the product including-
  - (i) description of the product's key inherent risks from the perspectives of both the licensed person and consumers;
  - (ii) systems and/or processes in place to manage the risks identified and the effectiveness of the measures; and
  - (iii) consistency of the product with enterprise risk and capital management, including-
    - (A) consistency of the product with internal risk appetite, risk limits and capital limits;
    - (B) any capital support provided for the product and the measures of which the capital will be recouped; and
    - (C) any product specific risk limits, thresholds or triggers for re-pricing or ceasing new business.
- (b) For new products distributed through internet, wireless or other

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electronic channels, the details on the IT infrastructure and risks management for IT-related risks<sup>9</sup>. This includes-

- (i) assessment of the IT-related risks and measures put in place to mitigate the risks;
- (ii) detailed description on application security and application architecture diagram;
- (iii) detailed IT and network security infrastructure arrangements; and
- (iv) detailed network diagram (where applicable) depicting external linkages and control checkpoint.

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<sup>9</sup> Examples of IT-related risks include strategic, compliance, system support, operational, security business resumption and reputational risks.

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## Appendix 4 Information Requirements for Takaful Products

1. For takaful products which do not fall under paragraph 9.1(c), the following supporting information and documents on Shariah information requirements must be appended together with the submission of the PD for takaful products-
  - (a) product structure, including diagrams or transaction flows;
  - (b) type(s) of Shariah contract used;
  - (c) relevant SAC's resolution that approved the product structure;
  - (d) deliberation by the Shariah Committee, including-
    - (i) Shariah issues arising from the product (if any);
    - (ii) issues on *takyif fiqhi* (*fiqh* adaption)<sup>10</sup>;
    - (iii) the appropriate current Shariah ruling and/or recognised Shariah standard (if any);
    - (iv) relevant documents presented for deliberation of the Committee, which include *fiqh* literature, evidence and reasoning supporting the Shariah compliance of the product; and
    - (v) minutes of the Committee's meeting;
  - (e) verification statement by the Shariah Committee that the product structure does not attract any Shariah issue that has not been deliberated by the SAC. The statement must be signed off by the Chairman of the Shariah Committee. In addition, the statement must include any dissenting views from any member of the Shariah Committee and the Committee's deliberation and conclusions reached on such views.

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<sup>10</sup> The source of Shariah reference must be stated.

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2. For takaful products that require SAC's approval or deliberation as per paragraph 9.1(c), the following supporting information and document must be submitted-

Institusi:

Nama Produk/ Isu:

- (a) Tujuan Produk Diperkenalkan/ Isu Dibangkitkan
- (b) Latar Belakang Produk/ Isu
- (c) Huraian Struktur Produk/ Isu (sertakan gambarajah jika ada)
- (d) Prinsip/ Konsep/ Jenis Akad Syariah yang diguna pakai
  - (i) Nama prinsip/ konsep/ akad
  - (ii) Definisi\*
  - (iii) Pandangan ulama berhubung prinsip yang dicadangkan\*
- (e) Aplikasi Prinsip/ Konsep/ Jenis Akad Syariah\*
  - (i) Nyatakan isu-isu Syariah yang timbul daripada struktur yang dicadangkan.
  - (ii) Bahaskan isu-isu tersebut berdasarkan *takyif fiqhi* (penyesuaian fikah) yang jelas\*.
  - (iii) Nyatakan fatwa semasa mengenainya atau/ dan mana-mana piawaian (standard) Syariah yang muktabar (jika ada).
- (f) Lampiran
  - (i) Surat pengesahan yang ditandatangani oleh pengerusi jawatankuasa penasihat Syariah (termasuk pandangan yang berbeza oleh mana-mana penasihat Syariah bersama hujah-hujah dan rasional yang menyokong pendapat tersebut).
  - (ii) Dokumen-dokumen yang relevan bagi membantu penghuraian konsep dan struktur produk atau isu yang dibangkitkan.

\* Sila nyatakan sumber rujukan Syariah

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## Appendix 5 Checklist for Submission of Product Documentation

This checklist serves as a brief reminder on key information to be submitted. Please refer to Section 13 for full information on the submission requirements.

<b>Documents</b>	<b>Tick ✓ for applicable documents that are submitted:</b>	<b>If not submitted, indicate reason(s) and date of previous submission, if relevant:</b>
<p><b>For all products</b></p> <ol style="list-style-type: none"> <li>1. Product Documentation / Addendum</li> <li>2. Supporting information on pricing               <ol style="list-style-type: none"> <li>(a) premium or contribution rates</li> <li>(b) expected bonus scales for participating products</li> <li>(c) sum assured or participated schedules</li> <li>(d) surrender values and paid-up values</li> <li>(e) profit margins for all model points used in pricing</li> </ol> </li> <li>3. Supporting documents for marketing and contractual uses               <ol style="list-style-type: none"> <li>(a) proposal form</li> <li>(b) nomination form</li> <li>(c) policy or certificate documents                   <ol style="list-style-type: none"> <li>(i) policy or certificate contract</li> <li>(ii) policy or certificate schedules</li> </ol> </li> </ol> </li> </ol>		

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<p>(d) sales materials</p> <ul style="list-style-type: none"> <li>(i) sample marketing brochure</li> <li>(ii) sample telemarketing script</li> <li>(iii) sample flyers</li> <li>(iv) sample fund fact sheet (for investment-linked products)</li> <li>(v) others (to specify)</li> </ul> <p>(e) sample sales or product illustration</p> <p>(f) policy or certificate information statement</p> <p>(g) product disclosure sheet</p> <p>4. Other supporting information and documents (to specify)</p> <p><b>For products not under “launch-and-file”</b></p> <p>5. Summary information</p> <ul style="list-style-type: none"> <li>(a) summary of product development consideration</li> <li>(b) summary of financial impact analysis</li> <li>(c) summary of product risk management</li> </ul> <p><b>For takaful products which do not require SAC’s deliberation or approval</b></p> <p>6. Supporting Shariah information</p> <ul style="list-style-type: none"> <li>(a) product structure, including diagrams or transaction flows</li> <li>(b) type of Shariah contract used</li> <li>(c) SAC’s resolution that approved the product structure</li> <li>(d) deliberation by the Shariah Committee</li> </ul>		
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<p>(e) verification statement by the Shariah Committee that the product structure does not attract any Shariah issue</p> <p><b>For takaful products which require SAC's deliberation or approval</b></p> <p>7. Supporting information for SAC's resolution</p> <p>(a) Tujuan Produk Diperkenalkan/ Isu Dibangkitkan</p> <p>(b) Latar Belakang Produk/ Isu</p> <p>(c) Huraian Struktur Produk/ Isu</p> <p>(d) Prinsip/ Konsep/ Jenis Akad Syariah yang diguna pakai</p> <p>(e) Aplikasi Prinsip/ Konsep/ Jenis Akad Syariah</p> <p>(f) Surat pengesahan yang ditandatangani oleh pengerusi jawatankuasa penasihat Syariah</p> <p>(g) Dokumen-dokumen yang relevan bagi membantu penghuraian konsep dan struktur produk atau isu yang dibangkitkan</p>		
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## Appendix 6            Glossary

<b>Terms</b>	<b>Explanation</b>
<i>Fiqh</i>	The science related to the deduction of practical legal rules derived from exhaustive evidences.
<i>Tabarru'</i>	A voluntary act involving the grant of an asset or usufruct, either immediately or at a later time, without compensation.
<i>Takyif fiqhi</i>	Fiqh adaptation.
<i>Wakalah</i>	Contract in which a party, as principal (muwakkil) authorises another party as his agent (wakil) to perform a particular task in matters that may be delegated, with or without imposition of a fee.