

## **Response to feedback received**

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

### **Introduction**

This document contains the Bank's clarification of the requirements in the policy document on Introduction of New Products by Insurers and Takaful Operators following the issuance of the concept paper on 18 December 2014 for consultation over a period of one and a half months.

**Bank Negara Malaysia**

**15 May 2015**

**1. For general insurance or general takaful business, is this policy document only applicable to medical and health insurance or medical and health takaful products?**

**[Paragraphs 2.1 and 2.2]**

The requirements in the policy document are applicable to all licensed insurers and licensed takaful operators, including those carrying on general insurance or general takaful business. However, for licensed insurers or licensed takaful operators carrying on general insurance or general takaful business, the submission requirements under Section 13 are only applicable to the medical and health insurance or medical and health takaful products.

**2. How is a “material change” to existing products determined?**

**[Paragraphs 7.2(b) and 8.2(a)]**

Every licensed person is expected to develop its own internal policies in defining what constitutes a material change to the structure, features or risk profile of an existing product as the nature of product, business, target consumer segment and the licensed person’s risk profile differ between licensed persons. Assessments may, for example, consider if any change to a product would alter the way in which the licensed person would need to manage the risks associated with the product, whether the change would expose the licensed person to new or increased risk dimensions, whether the change would render the product potentially unsuitable for the consumer segments originally targeted, or whether it would introduce additional complexities that could implicate the consumer’s understanding of the key features of the product, hence exposing the licensed person to material reputational risks.

The approving authority within the licensed person is expected to apply judgement and experience in determining whether or not a variation will constitute a material change. This assessment should also be guided by the parameters established and approved by the Board and will be reviewed by the Bank as part of its supervisory assessments of individual licensed persons.

**3. What are the Bank’s expectations given the challenges to ascertain whether a product has been prohibited in other countries?**

**[Paragraph 8.5(d)]**

The Bank expects licensed persons to comply with this requirement to the extent that it is aware of the prohibition, i.e. licensed persons must not knowingly offer a product that has been prohibited elsewhere. In the event that a licensed person intends to offer a new product which has been prohibited in some countries but allowed in other countries, the licensed

person should provide to the Bank the rationale for such prohibition and why it should be allowed to be sold in Malaysia.

The primary purpose of this requirement is to ensure that a rigorous review is conducted on products that may expose consumers and the broader financial system to significant risks. This is to ensure that the risks of the product to the financial system and consumers at large are identified and appropriately addressed within the prudential and consumer protection framework that is in place.

On the avenue for licensed persons to check on products that have been prohibited in other countries, licensed persons may make use of their market research which supports the product development processes, or liaise with their counterparts such as group or affiliated companies in other jurisdictions and reinsurers.

**4. Are the consumer suitability assessments only applicable to products with investments and savings components?**

**[Paragraphs 11.5 to 11.9]**

No, the requirements for consumer suitability assessments are applicable to all life insurance or family takaful products, as well as general insurance or general takaful products such as medical and health insurance or takaful products and other products where advice may be required.

**5. For re-pricing or changes to the range of discounts or loadings on the premium or takaful contribution rates of a group product, is a new product documentation (PD) required to be submitted instead of an addendum?**

**[Paragraphs 13.13 and 13.14]**

For re-pricing, a new PD, instead of an addendum, must be submitted since there is a change in the pricing basis, as required by paragraph 13.13(a). In such a case, the licensed person must notify the Bank of the original PD and relevant addendums that are being replaced. The exceptions to this requirement are provided in paragraph 13.14.

For any change to the range of discounts or loadings on the premium or takaful contribution rates of a group product, a new PD must be submitted, as required by paragraph 13.13(d). In the case where different ranges of discounts or loadings on the premium or takaful contribution rates are applied to group products sold to different target markets, a separate PD must be submitted for each group product.

**6. Is the annual attestation by the Board of Directors no longer required?**

**[Paragraph 14.1]**

Yes, the annual attestation by the Board of Directors is no longer required upon the implementation of this policy document. Nevertheless, the Board remains responsible for ensuring the effective oversight of the licensed person's product management programme in line with paragraph 8.1.

**7. With respect to the table of all expected bonus scales for participating products, can licensed persons submit it in a format similar to the table of surrender values and paid-up values in paragraph 27 of Appendix 3?**

**[Appendix 2, Paragraph 1(b)]**

Yes, licensed persons may submit the table of all expected bonus scales for participating products in a format that they deem suitable, such as the format prescribed in paragraph 27 of Appendix 3. Nonetheless, licensed persons should also be able to provide additional information to the Bank upon request.

**8. What is the Bank's expectation on the period for the projected business volume of a new product?**

**[Appendix 3, Paragraphs 6(a) and 30(a)(i)]**

Licensed persons are expected to provide the results of projected business volume for a minimum period of one year, in line with the licensed persons' business plans. Nonetheless, licensed persons may project business volume for more than one year if they deem it suitable to the nature and risks of a product vis-à-vis the overall risk profile of the licensed person when determining the projection methodology as per paragraph 10.14(b).

**9. What are the transitional arrangements prior to the effective implementation date of this policy document?**

**[Paragraph 4.1 and Appendix 1]**

This policy document takes effect from 1 July 2015. From 1 January 2015 to 30 June 2015, all licensed persons are required to adopt the new format for the sign-off on product submissions (refer to "Declaration by Chief Executive Officer" in Appendix 1). This is in line with the policy document on Appointed Actuary: Appointment and Duties (BNM/RH/STD 029-5) which prohibits the Appointed Actuary from assuming accountability for product pricing.