



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Management of Participating Life Business**

Issued on: 15 July 2015

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## **PART A            OVERVIEW**

### **1. Policy objective**

- 1.1 This policy document sets out requirements for the effective management of participating life business to promote the sustainability of the business and the protection of policy owners' interests.

### **2. Scope of policy**

- 2.1 This policy document addresses:
- (a) the roles and responsibilities of the board, senior management and appointed actuary in respect of the licensed insurer's management of its participating life business;
  - (b) requirements in relation to the determination of benefit payouts, allocation of expenses to participating life funds, the management of estate and the closure of the participating life fund to new business, as well as conditions for acquiring new business;
  - (c) considerations of the board in approving the senior management's proposals on bonus revisions and matters to be communicated to the policy owners on such revisions; and
  - (d) requirements to promote transparency and adequate disclosures to participating life policy owners, both prior to entering and over the duration of a participating life contract.

### **3. Applicability**

- 3.1 This policy document is applicable to all licensed insurers which carry on participating life business.

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#### 4. Legal provisions

- 4.1 The requirements in this policy document are specified pursuant to section 47(1) and section 143(2) of the Financial Services Act 2013 (FSA).

#### 5. Effective date

- 5.1 This policy document comes into effect from 1 July 2016, except for paragraph 21 (including **Appendix 1**) below.
- 5.2 A licensed insurer is only required to comply with the requirements in paragraph 21 (including **Appendix 1**) from 1 January 2017.

#### 6. Interpretation

- 6.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA unless otherwise defined in this document.
- 6.2 For the purposes of this policy document-
- “**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions.
- “**G**” denotes guidance, which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted.
- “**board**” means the board of directors of the licensed insurer, or a committee of the board to whom the responsibilities of the board set out in this policy document have been delegated; and

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“**senior management**” means the chief executive officer and senior officers of the licensed insurer.

## 7. Related policy documents

7.1 This policy document must be read together with the following policy documents:

- (a) Appointed Actuary: Appointment and Duties;
- (b) Risk-Based Capital Framework for Insurers (Version 3.0);
- (c) Risk Governance;
- (d) Management of Insurance Funds;
- (e) Product Transparency and Disclosure; and
- (f) Introduction of New Products for Insurers and Takaful Operators.

## 8. Policy documents superseded

8.1 This policy document supersedes the following:

- (a) Appointed Actuary’s Report to the Board on Recommendation for a Reduction in Bonus Rates for Participating Life Products (JPI: 29/2004) issued on 13 October 2004;
- (b) Guidance notes on the implementation of the asset share methodology issued on 8 March 2005 (in relation to the Appointed Actuary’s Report to the Board on Recommendation for a Reduction in Bonus Rates for Participating Life Products (JPI:29/2004)); and
- (c) Code of Good Practice for Life Insurance Business (only in relation to the format of the Sales Illustrations) (BNM/RH/GL/003-14) issued on 11 August 2007.

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## **PART B GOVERNANCE AND OVERSIGHT**

### **9. Duties of board, senior management and appointed actuary**

- S** 9.1 The board must ensure that the licensed insurer's participating life business is properly managed. In doing so, the board must:
- (a) review and approve a policy for the licensed insurer's management of its participating life business (MPB policy), which addresses the requirements and is consistent with this policy document. The board must also approve any changes to the MPB policy, as well as the circumstances which may result in such changes;
  - (b) as part of its oversight, the board shall require an independent review to be carried out at least once every three years by persons<sup>1</sup> with sufficient expertise and relevant experience, to provide the board with an assessment of how actual practices are aligned with the MPB policy, the effectiveness of the MPB policy in practice, as well as recommendation for improvements to the policy and on existing practices;
  - (c) ensure that the fair treatment of policy owners is taken into account in any actions taken or decisions made by the licensed insurer;
  - (d) review and approve bonus rates annually, including any revision of bonus rates and specific actions to be taken to implement the revisions; and
  - (e) provide adequate oversight on the implementation of the MPB policy by the senior management to ensure that the licensed insurer's practices are aligned with the policy.
- S** 9.2 The primary duty of senior management is to ensure effective implementation of the MPB policy approved by the board. In doing so, senior management must:
- (a) establish clear procedures for the day-to-day management of the participating business to give effect to the MPB policy;

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<sup>1</sup> Such person must not have a role in the day-to-day management of participating life business.

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- (b) ensure that the MPB policy and related procedures are communicated effectively to all parties involved in the day-to-day management of the licensed insurer's participating business;
- (c) put in place processes for monitoring and reporting compliance with the MPB policy and related procedures at all times. This must include well-defined processes for escalating and remediating incidents of non-compliance in a timely manner; and
- (d) advise the board on developments that have an impact on the management of the licensed insurer's participating life business and recommend any changes to its MPB policy that may be required in response to such developments.

**S** 9.3 The board and senior management must ensure that any actions taken on decisions made by the licensed insurer are consistent with the fair treatment of policy owners. This includes ensuring that:

- (a) the determination of benefit payouts is objective, equitable and consistent between groups of policy owners;
- (b) actions or any decisions not to take action on bonus rates are consistent with Policy Owners' Reasonable Expectations (PRE);
- (c) overall strategies and/or actions, on new business or closure to the participating life business, consider policy owners' interests; and
- (d) communications to policy owners are appropriate, clear and timely.

**G** 9.4 In relation to paragraph 9.2(d), examples of developments include:

- (a) regulatory changes;
- (b) changes in social and economic factors, including the financial landscape; and
- (c) circumstances which may lead to the closing or merging of funds.

**S** 9.5 The appointed actuary provides critical support for the effective oversight and implementation of the MPB policy by the board and senior management. In carrying out his responsibilities, the appointed actuary must:

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- (a) conduct a bonus supportability study annually to justify his recommendations for surplus distribution to policy owners and transfers to the shareholders' fund in accordance with the Policy Document on Management of Insurance Funds;
- (b) take into account PRE and the principles of fair treatment of policy owners in his recommendations; and
- (c) assess the use of the estate by the licensed insurer and include his opinion on the matters set out in paragraph 15.3 of this policy document, in his Financial Condition Report (FCR).



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## PART C REQUIREMENTS ON THE MANAGEMENT OF THE BUSINESS

### 10. Benefit payout

- S** 10.1 In determining the benefit payout under a participating life policy, the licensed insurer must consider PRE as set out under paragraph 11 of this policy document.
- S** 10.2 The licensed insurer's MPB policy shall set out its principles and practices for the benefit payout, including:
- (a) the categorisation of cohorts of policies (cohorts), and management of cohorts in the event of changes in the nature and size of the cohorts over time;
  - (b) the determination of the asset share, including:
    - (i) the methods to establish the parameters in the asset share calculation, including parameters used for investment performance, expenses and claims experience;
    - (ii) where actual experience is not available, the methods to establish the main assumptions and the limitations of the assumptions;
    - (iii) the degree of approximations allowed for assumptions across different cohorts;
    - (iv) the circumstances under which parameters and assumptions may be changed, together with the internal process and required documentation for such changes;
    - (v) any non-standard additions and deductions in the asset share formula and any limits for these additions and deductions;
    - (vi) the methodology for the adjustment of the asset share to take into account profits from riders and surrenders, as well as to reflect the market value of the participating life fund<sup>2</sup>; and
    - (vii) the treatment of tax in the calculation of the asset share;

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<sup>2</sup> Excluding the estate

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- (c) bonus declarations<sup>3</sup> and adjustments<sup>4</sup>, including:
  - (i) the approach used to determine the level of the bonus declaration, including any interim bonus declarations;
  - (ii) thresholds which trigger bonus adjustments at the cohort level; and
  - (iii) the process to determine the level and order of bonus adjustments for different types of bonuses and different cohorts<sup>5</sup>;
- (d) the smoothing of benefits<sup>6</sup>, including:
  - (i) the methodology and parameters used for smoothing, and the rationale for the application of smoothing;
  - (ii) any differences in smoothing approaches for different cohorts; and
  - (iii) the methodology<sup>7</sup> to track the difference between the asset shares with and without smoothing; and
- (e) transfers to and from the shareholders' fund, including:
  - (i) the basis used for the transfer to shareholders;
  - (ii) the circumstances under which the transfer to shareholders will be reduced or withheld; and
  - (iii) the circumstances under which shareholders will transfer money into the participating life fund to support the bonuses and/or any short-term tactical deviations.

**S** 10.3 In relation to paragraph 10.2(a):

- (a) the categorisation of cohorts by the licensed insurer must be determined:
  - (i) in a manner which balances the objectives of preserving equity among the different groups of participating life policy owners and the benefits of risk pooling. The MPB policy must explain how this balance is approached to support its consistent implementation of

<sup>3</sup> This includes cash, regular (including reversionary), terminal and special (one-off) bonuses and dividends.

<sup>4</sup> Upwards and downwards, as the case may be

<sup>5</sup> Applicable to policies sold prior to 1 July 2005, for which bonus rates must be set such that the ratio of the asset share to the gross premium valuation reserves is between 90% and 110%, inclusive, as per paragraph 10.8

<sup>6</sup> Where target benefit payout differs from the asset share computed

<sup>7</sup> For example, the use of the smoothing reserve

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cohorting; and

(ii) at minimum, based on inception period and product features;

- (b) the cohorts determined by the licensed insurers must be consistently applied for the purposes of the bonus supportability study and the determination of the benefit payout, including revision of bonus; and
- (c) there must not be any cross-subsidy between different cohorts for participating life policies sold and designed on or after 1 July 2005.

**G** 10.4 Balancing the objectives to achieve equity and risk pooling in paragraph 10.3(a)(i) may result in the grouping of policies of a few successive inception years for which experience is expected to be similar, into a single cohort, if the licensed insurer is of the view that this would enhance risk pooling. Similarly, the degree of granularity of factors applied by the licensed insurer for grouping of policies with similar product features would need to consider the effects of equitability between groups of policies and the size of resulting groups of policies, particularly where more granular factors are applied simultaneously.

**S** 10.5 In relation to paragraph 10.3(a)(ii), when categorising the cohorts based on product features, the licensed insurer must take into consideration the type and structure of bonuses, and policy duration. The Bank may require specific factors to be taken into account, having regard to the fair treatment of policy owners.

**S** 10.6 In determining the benefits payable under participating life policies designed and sold on or after 1 July 2005, the licensed insurer must ensure that:

- (a) for the benefit payout on death and maturity, the higher of 100% of the asset share or guaranteed benefits must be paid out;
- (b) the payment of cash surrender values must be at least 100% of the asset share from the 15<sup>th</sup> policy year onwards, for participating whole life policies and after the mid-term of the policy for all other participating life plans. However, cash surrender values for early years must be at least 90% of the asset share on aggregate for each cohort in the expected

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main age range, with an allowance for deviation of 3% for other ages within each cohort; and

- (c) the amount of cash and reversionary bonuses paid can be sustained by the participating life fund in the long term.

**S** 10.7 In determining the cash surrender value, the licensed insurer must ensure that any balance of unpaid asset share created by paying less than 100% asset share for each cohort in any year must be rolled over to the following year's asset share and should be taken into account in the determination of the cash surrender value for that particular year, in accordance with the methodology in paragraph 10.6(b) above. In any event, any balance of unpaid asset share for each cohort must be completely distributed by maturity.

**S** 10.8 In determining the benefits payable under participating life policies designed and sold prior to 1 July 2005<sup>8</sup>, the licensed insurer must ensure that:

- (a) for the benefit payout on death and maturity, the payout is between 90% and 110% inclusive, of asset share at the cohort level; and
- (b) for the annual bonus supportability study, the ratio of the asset share to the gross premium valuation (GPV) reserves is:
  - (i) between 90% and 110% inclusive, at the cohort level. However, despite the allowable range, the effects of cross-subsidisation should be neutral over time to ensure no one cohort is consistently being subsidised by or is subsidising other cohorts over its policy duration; and
  - (ii) close to 100% at the fund level.

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<sup>8</sup> The asset share requirement is applicable to all new products from 1 April 2005 onwards. For products introduced prior to 1 April 2005, companies had to ensure that at least 50% of new business from these existing participating products was in compliance with the requirement by 1 May 2005, with full compliance by 1 July 2005

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## 11. Policy Owners' Reasonable Expectations (PRE)

- G** 11.1 PRE concerns the policy owners' expectations on how the non-guaranteed benefits of their participating life policies are managed and paid. Such expectations can be influenced by factors including communications and past practice of the licensed insurer.
- S** 11.2 In managing PRE, the licensed insurer must:
- (a) actively manage bonus rates in line with the level of participating life fund returns to avoid the creation of undue PRE with regard to the level of bonus rates; and
  - (b) ensure that policy owners are aware of the non-guaranteed nature of bonuses as well as its impact on policy benefits, including conditions which could lead to possible future bonus revisions. The licensed insurer must exercise reasonable care to ensure that the content and effect of its communication with policy owners, sales practices and past bonus decisions do not mislead policy owners to form expectations that bonuses are guaranteed.
- G** 11.3 In relation to paragraph 11.2(a), examples of situations which may give rise to undue PRE include:
- (a) maintaining bonus rates when a bonus revision is appropriate and justified, based on the performance of the fund over a sustained period; and
  - (b) declaring a special bonus without clear communication that it is a one-off declaration.
- G** 11.4 In relation to paragraph 11.2(b), licensed insurers should consider undertaking periodic assessments of PRE through focus groups and surveys, and evaluate the need to enhance the content, timing and form of communications with policy owners on bonus payments.

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## 12. Bonus supportability study

- S** 12.1 The annual bonus supportability study to be conducted by the appointed actuary, as required in paragraph 9.5(a), must include a comparison between the asset share and the GPV reserves for the particular cohort. The study must be carried out separately by the appointed actuary for various types of bonuses, including comparisons with GPV reserves with and without terminal bonuses.
- S** 12.2 For the computation of the GPV reserves, the appointed actuary must:
- (a) take into account both guaranteed and non-guaranteed benefits;
  - (b) take into account the transfer of the shareholders' portion of the declared bonus out of the participating life fund;
  - (c) ensure consistency of the best estimate assumptions used for the annual bonus supportability study with those in the valuation requirements in the Risk-Based Capital Framework for Insurers (Version 3.0); and
  - (d) in the event that the GPV reserves are negative, which would invalidate the bonus supportability study for the cohort:
    - (i) assess the reasons for this;
    - (ii) assess the expected length of time that the reserves will be negative; and
    - (iii) consider alternative methods to assess the sustainability of the existing bonus rates<sup>9</sup>.
- S** 12.3 In making the bonus recommendation, the appointed actuary must take into account the licensed insurer's practices in managing PRE, as described in paragraph 11. In the case where the appointed actuary infers that undue PRE has been formed, the licensed insurer must observe the requirement in paragraph 13.3. The benefit payout linked to undue PRE must be treated as

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<sup>9</sup> Such as taking into account projections of future expected asset shares and GPV reserves

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guaranteed and must be reserved for appropriately.

- S** 12.4 As part of the annual bonus supportability study, the appointed actuary must conduct sensitivity testing on the participating life fund in order to assess potential events that could lead to future bonus adjustments. The assessment must take into account the key risk factors affecting the sustainability of the participating fund and clearly show the impact of the stress on individual cohorts.
- S** 12.5 In conducting the sensitivity test, the appointed actuary must consider the licensed insurer's own business and risk profiles, the risk factors from external environment for both economic and non-economic risk factors, including changes in interest rates, the value of equity and property, as well as the corresponding changes in the fund-based yield assumption used to discount liabilities.
- S** 12.6 The results of the sensitivity test must be escalated by the appointed actuary to the board and senior management, particularly on any areas of vulnerability that may affect the decisions that need to be taken, including in relation to the quantum of the bonus revisions, cohorting or appropriate communications to manage PRE.
- S** 12.7 A report on the bonus recommendation must be appended by the appointed actuary to his FCR, and must address the following, with sufficiently detailed descriptions to enable a review of the appointed actuary's recommendations, including their bases, by an independent actuary:
- (a) the definition and formula for the asset share, including details of the calculation of each component in the asset share, as well as any smoothing and specific charges applied;
  - (b) the grouping of participating life policies supported by the data used, including a list of plans included and excluded in the study;

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- (c) assumptions<sup>10</sup> used in the calculation of the asset share and GPV reserves, with supporting justification for the choice of assumptions;
- (d) results of the annual bonus supportability study, showing for each group of participating life policies, the asset shares over GPV reserves, both with and without the terminal bonus;
- (e) results of the sensitivity test showing the key factors affecting the variability of the results of the annual bonus supportability study;
- (f) documentation of the reasonableness checks conducted to ensure the consistency, accuracy and completeness of data used, and any qualifications relating to limitations on the data;
- (g) an elaboration of how PRE has been taken into account in the bonus recommendation and the impact of any recommendations to meet undue PRE on the financial condition of the licensed insurer.

### 13. Allocation of expenses

- S** 13.1 The licensed insurer must include the following in its overall policy on the allocation of expenses:
  - (a) the types of expenses, including expenses incurred for any outsourcing arrangements, which are directly attributed or which can be allocated to the participating life fund;
  - (b) the method used to allocate the common expenses between the participating life fund, other insurance funds and the shareholders' fund;
  - (c) the method used to apportion expenses charged to the participating life fund to the different cohorts and individual participating life policies within the fund; and
  - (d) the internal process and controls to monitor, report and approve any deviation from the overall policy.
  
- S** 13.2 The licensed insurer must only charge costs to a participating life fund which have been, or will be, incurred in the ongoing management of that participating

<sup>10</sup> For example, assumptions made in allocating death benefits/costs to each policy due to timing considerations



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life fund.

- S** 13.3 The licensed insurer must ensure that all costs of compensation provided to policy owners as a result of deficiencies in the management of the participating life fund is borne by the shareholders' fund and not charged to the participating life fund. The costs of compensation include, but are not limited to costs associated with:
- (a) actions to provide restitution or redress to policy owners arising from errors<sup>11</sup>; and
  - (b) actions to meet any undue PRE determined to have been formed, including due to inappropriate management of the participating life fund.
- G** 13.4 With reference to paragraph 13.3, examples of the inappropriate management of the participating life fund includes:
- (a) taking investment risk that is not commensurate with the risk profile of the business to increase competitiveness; and
  - (b) mis-selling.
- S** 13.5 The licensed insurer must ensure that all costs of promotional gifts must be borne by the shareholders' fund and must not be charged to the participating life fund.

## 14. Investment and risk management

- S** 14.1 The licensed insurer's investment and risk management practices for participating life business must be in accordance with the requirements in the Risk-Based Capital Framework for Insurers (Version 3.0) and the Policy Document on Risk Governance. The investment strategy must also be in line with any communication made to policy owners.

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<sup>11</sup> Such as system errors in the computation of any benefit payouts

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## 15. Estate

15.1 The licensed insurer may have built up an estate from:

- (a) benefit payout under participating life policies issued before the implementation of the asset share rule on 1 April 2005 being less than the corresponding asset shares;
- (b) retention of the shareholders' share of bonuses declared in the past;
- (c) past injections of capital from shareholders;
- (d) miscellaneous profits not allocated to the asset share, including surrender and rider profits; and
- (e) investment returns on the estate.

**S** 15.2 The value of the estate must be calculated by the licensed insurer as the difference between:

- (a) the market value of the total assets allocated to the participating life fund net of "other liabilities"; and
- (b) the higher of the aggregate asset share of the participating life policies and the participating life reserve for guaranteed benefits.

For this purpose, the present value of the guaranteed benefits must be calculated based on the GPV reserves discounted at Malaysian Government Security (MGS) rates, as prescribed in the Risk-Based Capital Framework for Insurers (Version 3.0).

**S** 15.3 The licensed insurer must not use the estate in a manner that creates an unfair competitive advantage and/or leads to adverse effects on the interests of the existing participating life policy owners, including:

- (a) to support aggressive pricing of policies that are inconsistent with technical pricing levels and declarations of special bonuses to enhance marketability;
- (b) to support a greater level of risk than would be the case had there been no estate, including relying on the estate to support excessive levels of asset liability mismatch to increase returns;
- (c) to pay compensation costs arising from mis-selling and consumer

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redress, negligence or mismanagement of the licensed insurer; and

(d) for any other purposes determined by the Bank, based on the Bank's examination of the practices of individual licensed insurers.

- S** 15.4 In relation to paragraph 9.5(c), the appointed actuary's opinion on the estate must include an assessment on the purposes of the use of the estate, taking into consideration the restrictions set out in paragraph 15.3.
- S** 15.5 In relation to paragraph 15.3(d), the Bank may require the licensed insurer to take specific actions in connection with any additional restrictions imposed by the Bank on the use of the estate.
- S** 15.6 Where the Bank has required the licensed insurer to take specific actions under paragraph 15.5, the licensed insurer must comply with the Bank's direction.

## **16. Acquisition of and closure to new business**

- S** 16.1 The licensed insurer's MPB policy shall contain principles and practices relating to new business, which address:
- (a) the circumstances, including specific trigger points and thresholds, that will result in the participating life fund being closed to new business for a particular product type and for the overall participating life business;
  - (b) the actions that the licensed insurer would take if the participating life fund ceases to take on new business; and
  - (c) the conditions, including pricing assumptions, for effecting new contracts in an existing participating life fund so as to avoid or minimise any material adverse effect on the interests of existing policy owners.
- S** 16.2 In relation to paragraph 16.1(c), if the new contracts are priced assuming transfers to shareholders' fund being less than that allowed under the limit as specified in the Policy Document on the Management of Insurance

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Funds, future actual transfers to shareholders' fund must not exceed the limit assumed in the pricing of the new contracts. A board resolution must be sought to evidence the shareholders' commitment to undertake less profit than allowed under the specified limit.

- S** 16.3 If the licensed insurer intends to close the participating life fund to new business, whether temporarily or permanently, the licensed insurer must submit a detailed report to the Bank, including but not limited to the following:
- (a) the reasons and period of the closure;
  - (b) changes in the investment strategy and bonus distribution;
  - (c) the impact of the closure on the allocation of expenses to the participating life fund; and
  - (d) implications for the management of PRE, supported by specific actions (including communication to policy owners) that will be taken by the insurer to manage PRE.

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## **PART D            SPECIFIC REQUIREMENTS ON BONUS REVISIONS**

### **17. Proposal to board on bonus revision**

- S** 17.1 Any bonus revision must be proposed formally by senior management to the board for its approval.
- S** 17.2 The senior management's proposal for a bonus revision must include at least the following, for the board's consideration:
- (a) a recommendation on the type and magnitude of the bonus revision by the appointed actuary;
  - (b) details on previous bonus revisions, including the dates of the bonus revisions, type of bonus and products affected, the quantum and rationale of the bonus revisions, as well as the number of affected policy owners;
  - (c) the annual bonus supportability study as at the last financial year end to demonstrate the appropriateness of the current bonus rates for the various policies;
  - (d) a legal opinion<sup>12</sup> on whether there are any legal constraints which can impact the licensed insurer's ability to undertake the bonus revision, as set out in paragraph 17.3;
  - (e) results from a comprehensive risk assessment of the impact of the bonus revisions to different stakeholders and plans to manage the risks;
  - (f) communication to the affected stakeholders, including policy owners, on the bonus revision as required under paragraph 19; and
  - (g) considerations relating to PRE which the board should be aware of or which may require further deliberation at the board level.
- S** 17.3 The senior management must ensure that the legal opinion referred to in paragraph 17.2(d) takes into account the following:
- (a) all relevant sales and marketing material;

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<sup>12</sup> The legal opinion can be provided by internal or external legal counsel

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- (b) documents related to participating life policies;
- (c) agency training material used for the promotion of the products; and
- (d) any other communication, expressed or implied, to the policy owners that may have formed PRE. This includes any communication made during the actual sales process.

- S** 17.4 The board must take into consideration the matters in paragraph 17.2 before making the decision to undertake a bonus revision. The board must be satisfied from the legal opinion referred to in paragraph 17.2(d) that there are no legal constraints on the licensed insurer's ability to undertake a bonus revision.

## 18. Notification to the Bank on bonus revision

- S** 18.1 The licensed insurer must lodge the board's decision to approve any bonus revision with the Bank one month before the implementation of the bonus revision. This lodgment must be accompanied by the relevant documentation of the matters covered in paragraph 17.2 and the board's deliberation of the same, as well as samples of communications to affected stakeholders.

## 19. Communication to stakeholders

- S** 19.1 The licensed insurer must ensure that its communication strategies are developed and appropriately tailored to manage specific expectations of different groups of stakeholders<sup>13</sup>. The licensed insurer must ensure that all communication to stakeholders is in line with the Bank's disclosure principles in the Policy Document on Product Transparency and Disclosure, and the requirements contained in Part E of this policy document.
- S** 19.2 Where a bonus revision is to be implemented, the licensed insurer must duly

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<sup>13</sup> Such as policy owners, the distribution force, press and media, as well as the general public

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inform affected policy owners of the bonus revision, including the types of bonuses affected, the extent of the revision and the impact to the benefit amounts under their participating life policies.

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## PART E           TRANSPARENCY AND DISCLOSURE REQUIREMENTS

### 20. Marketing material

- S** 20.1 The licensed insurer must ensure that its marketing material for participating life policies complies with the general requirements set out in the Code of Good Practice for Life Insurance Business and the Policy Document on Product Transparency and Disclosure.
- S** 20.2 The licensed insurer must ensure that its printed marketing material for a participating life policy includes at least the following information:
- (a) a brief description of the nature of bonuses (i.e. whether cash, reversionary or terminal);
  - (b) events upon which each type of bonus is payable;
  - (c) a statement to explain that the face value of the reversionary bonus is not payable on early termination or conversion of the policy; and
  - (d) a statement to direct policy owners to refer to the sales illustration for further information on the product.

### 21. Sales illustration

- S** 21.1 The licensed insurer must provide to all prospective policy owners an illustration of premiums and benefits (sales illustration) applicable to a specific proposal for a participating life policy at the point of sale.
- S** 21.2 The licensed insurer must ensure that the sales illustration for a participating life policy complies with the Policy Document on Product Transparency and Disclosure.
- S** 21.3 The licensed insurer must ensure that its sales illustration conforms to the format prescribed in **Appendix 1**, unless the licensed insurer determines that the prescribed format is inappropriate for a specific participating life policy. In



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such an event, the licensed insurer must ensure that changes made to the prescribed format do not reduce the extent of the disclosure required under this section. The licensed insurer shall clearly identify the changes made with its submission of product documentation to the Bank as required under the Policy Document on Introduction of New Products by Insurers and Takaful Operators.

- S** 21.4 The licensed insurer must include in the sales illustration the following:
- (a) a description of the general features of the particular participating life policy;
  - (b) an explanation of the different types of bonuses payable under such a policy; and
  - (c) a general explanation of how the bonuses are determined.
- S** 21.5 The licensed insurer must illustrate in the sales illustration the following values as at the end of each policy year for policy years 1 to 20 and every 5 years thereafter until maturity or the age of 80 years, whichever is earlier:
- (a) premiums paid;
  - (b) guaranteed survival benefits;
  - (c) guaranteed death benefits;
  - (d) guaranteed surrender value; and
  - (e) non-guaranteed benefits.
- S** 21.6 The licensed insurer's illustration for premiums payable must not suggest that premium payment is not or may not be required after any point of time during the duration of the participating life policy, notwithstanding situations where premiums payable may be financed through the guaranteed and non-guaranteed cash values of the policy.
- S** 21.7 The illustration for benefit payout must:
- (a) clearly separate non-guaranteed and guaranteed benefits;
  - (b) clearly state that the non-guaranteed values illustrated are not guaranteed with potential of higher or lower quantum declared in future;

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- (c) show non-guaranteed benefits under two hypothetical scenarios based on the two prescribed return rates, 2% and 5%. This is solely intended to demonstrate the variability of non-guaranteed benefits under the different investment scenarios;
- (d) highlight that the returns in paragraph 21.7(c) are hypothetical and do not reflect the past or expected future returns of the participating life fund. It must also highlight that policy owners should refer to the annual bonus statement for information on actual past returns for the participating life fund and future outlook of the participating life fund; and
- (e) in the case of a collateral policy where the benefit payout (inclusive of non-guaranteed benefits) at maturity is designated for settlement of a credit facility, indicate that the actual maturity payout may not be sufficient to cover the outstanding loan amount after taking into account the variability of non-guaranteed benefits.

- S** 21.8 A clear distinction must be made between the costs and benefits attributable to the participating life policy and any extensions respectively, unless the participating life policy is marketed as a packaged product<sup>14</sup>.
- S** 21.9 The sales illustration must disclose the participating life fund's returns over the past five years. In doing so, a statement must be included to inform policy owners of the limitations on the information of the past performance, including a prominent statement to indicate that past performance is not an indicator of future performance.

## 22. Annual bonus statement

- S** 22.1 The licensed insurer must provide information on an annual basis to each participating life policy owner on his participating life policy, in the form of the annual bonus statement. The statement must contain the information set out

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<sup>14</sup> Subject to Schedule 7 of the Financial Services Act 2013

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in paragraphs 22.2 and 22.3.

- S** 22.2 The annual bonus statement must contain the following qualitative information:
- (a) the status of the participating life policy;
  - (b) whether the policy has been assigned or has a nominee and if so, the name and address of the assignee or nominee; and
  - (c) caveats on the non-guaranteed nature of bonuses.
- S** 22.3 The annual bonus statement must contain the following quantitative information:
- (a) any bonus declared for the current and preceding 5 years;
  - (b) the sum assured, the vested bonus including the total accumulated reversionary bonus, and other vested non-guaranteed benefits as at the date of the statement;
  - (c) any bonus or other non-guaranteed benefit which has vested since the date of the last statement;
  - (d) the guaranteed cash value;
  - (e) the total cash surrender value; and
  - (f) the balance of the loan amount, accrued interest and the policy loan rate at the date of the statement, in the case of a loan taken from the licensed insurer on the security of the policy.
- S** 22.4 The licensed insurer must also provide an updated description of the investment performance of the relevant participating life fund and take reasonable steps to ensure the accuracy of the description. The description must include:
- (a) quantitative information on the fund's performance over the past 5 years and a qualitative description of the performance of the fund over the previous accounting period;
  - (b) key factors affecting bonuses to be allocated in the current accounting period such as investment performance or operating experience;
  - (c) the future outlook of the participating life fund, in particular the changes

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in the outlook in respect of the key factors affecting non-guaranteed bonuses. This description must provide a balanced view of both upside and downside risk to avoid undue PRE; and

- (d) an explanation of how past experience and future outlook of the participating life fund will impact the future bonus allocation and reserves for future bonuses.

**S** 22.5 As part of the requirements in paragraph 9.1(b), the annual bonus statements must be reviewed to include both the adequacy and the quality of information provided to policy owners.

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## APPENDICES


### Appendix 1 Sales Illustration Format

#### A. SUMMARY


This is a summary of what this policy offers and how much it costs you to buy this policy. It also displays the option that you should consider before purchasing this policy.

Name of Insurer:	<b>[ABC Insurance Berhad]</b>	Client's Name:	<b>[Mr. Customer]</b>
Product Name:	<b>[XYZ policy]</b>	Sex:	<b>[Male/ female]</b>
Type of policy:	<b>[Endowment Participating]</b>	Smoker:	<b>[Yes/ No]</b>
		Age:	<b>[Age of proposer]</b>

 What you should know?  What you should consider?  What you should be aware of?

 **What does this policy offer?**

- Protection against death and Total and Permanent Disability (TPD)
- Payment of cash periodically

 **Have you considered term life?**

- Term life offers protection against death and TPD with lower premiums
- You can invest the balance in other savings/ investment alternatives

XYZ Policy		Term Life Policy
RM ___ X ___ years = RM ___	<b>Premium payment</b> How much will you need to pay	RM ___ X ___ years = RM ___
___ years	<b>Coverage period</b> How long will you be covered	___ years
RM ___	<b>Total direct commission</b> Amount paid to intermediaries from your premium	RM ___
XYZ Policy	Guaranteed Benefits Amount company promises to pay	Term Life Policy
Year __-__: RM ___ Year __-__: RM ___	<ul style="list-style-type: none"> <li>• If you die or suffer TPD</li> </ul>	RM ___
Year __-__: RM ___ Year __-__: RM ___	<ul style="list-style-type: none"> <li>• Cash every year</li> </ul>	-
RM ___	<ul style="list-style-type: none"> <li>• At maturity</li> </ul>	-
XYZ Policy	Non-Guaranteed Benefits The company may or may not pay the following amount	
Scenario X: RM ___ Scenario Y: RM ___	<ul style="list-style-type: none"> <li>• Total cash received</li> </ul>	-
Scenario X: RM ___ Scenario Y: RM ___	<ul style="list-style-type: none"> <li>• At maturity</li> </ul>	-

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XYZ Policy	Your Annualised Return* [Net gain/ loss] if held to maturity	Term Life Policy
____% p.a.	<ul style="list-style-type: none"> <li>Guaranteed benefits only</li> </ul>	-
Scenario X: ____% p.a. Scenario Y: ____% p.a.	<ul style="list-style-type: none"> <li>Total benefits (inclusive of non-guaranteed payments)</li> </ul>	-

\* Annualised return (net gain/loss) is the estimated average investment return on the survival/ savings benefits that you will receive over the period of the policy until its maturity **with respect to the premium that you paid**. However, the actual annualised return of your policy can only be determined when your policy matures.



If you are looking for insurance policy with savings element, you may wish to compare the return of this policy with the effective returns of other investment alternatives.



You may only receive the guaranteed amount upon survival/ surrender/ death/ maturity.

## B. SALES ILLUSTRATION TABLE

This table shows the amount of premium you will be paying each year and the yearly cash flow on your policy until the end of the policy period.

How much are you paying?

What can you cash out periodically?

End of Policy Year /Age	Premium Paid Each Year	Survival Benefits		
		Guaranteed Cash Payments Each Year	Non-Guaranteed Cash Dividend Each Year	
			Scenario X	Scenario Y
1/31				
2/32				
3/33				
4/34				
5/35				
6/36				
7/37				
8/38				
9/39				
10/40				
11/41				
12/42				
13/43				
14/44				
15/45				
16/46				
17/47				
18/48				
19/49				
20/50				
25/55				
30/60				
35/65				
40/70				
45/75				
50/80				
Cash payment at the end of the policy period (At maturity)				



You may only receive the guaranteed amount periodically.



Please refer to the notes in the next page for the assumptions used in the illustration table.

### How do the benefits compare against the total premiums paid to date?

How much premium you would have paid?	How much is paid to the intermediaries?	How much will you receive if you cancel the policy early?	What is payable upon death?
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End of Policy Year/ Age	Total Premium Paid To Date <small>[refers to cumulative premium to be paid from policy inception]</small>	Total Direct Commission To Date <small>[refers to cumulative commission to be paid from policy inception]</small>	Surrender Value			Death Benefits		
			Guaranteed	Non-Guaranteed <small>[excluding guaranteed benefits amount and any survival benefits kept with insurer]</small>		Guaranteed	Non-Guaranteed	
				Scenario X	Scenario Y		Scenario X	Scenario Y
1/31								
2/32								
3/33								
4/34								
5/35								
6/36								
7/37								
8/38								
9/39								
10/40								
11/41								
12/42								
13/43								
14/44								
15/45								
16/46								
17/47								
18/48								
19/49								
20/50								
25/55								
30/60								
35/65								
40/70								
45/75								
50/80								



You may only receive the guaranteed amount upon surrender/ death.

\*If you cancel the policy **before the maturity period**, the amount that you will receive will be **much less** than the total amount of premium that you have paid.

The illustrations of Non-Guaranteed benefits have been prepared on two hypothetical investment scenarios.  
a. Scenario X = Assumes the participating fund earns 2% every year  
b. Scenario Y = Assumes the participating fund earns 5% every year  
The two rates are used purely for illustrative purposes to show the variability of non-guaranteed benefits under the different investment scenarios and are NOT GUARANTEED. They do not represent upper and lower limits on the investment performance of the participating fund, and are not the returns earned on the actual premiums paid for the life insurance product.

The investment return rates earned i.e. performance of the life insurance fund in the previous five years are as follows:-

Yr 2010:	Yr 2011:	Yr 2012:	Yr 2013:	Yr 2014:
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The past investment performance of the fund is not an indication of its future performance. This is strictly the investment performance of the insurance participating fund, and not the returns earned on the premiums. The actual returns earned on premiums at maturity/surrender will be lower due to cost of insurance and expenses.

Total direct commission is the amount received by the intermediary for the sale of this policy and services that the intermediary will provide to you for the duration of your policy.



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## IMPORTANT INFORMATION REGARDING YOUR PARTICIPATING POLICY

### What is a Participating Policy?

A participating policy enables you to share in the profits of the participating life fund. Profits are shared by adding bonuses to the policy. The actual payment of these bonuses is not guaranteed and can reduce (or increase) to reflect the operating performance of the participating life fund.

### What are the different types of bonuses payable on my policy?

#### ***Cash Bonus / Dividends***

This is a non-guaranteed bonus which is determined annually by the Company and will be payable to you each year in cash.

#### ***Reversionary Bonus***

This is a non-guaranteed bonus which is allocated and added to the sum assured of a participating policy, usually on an annual basis. Once allocated, their values are guaranteed provided you continue to pay the premiums as stated in your policy contract.

However, if you choose to surrender your policy, you may not receive the full amount of the allocated bonuses. The amount of the bonuses payable may be significantly lower compared to those payable if you keep your policy until maturity, or on earlier death.

#### ***Terminal Bonus***

This is a non-guaranteed bonus which may be payable when your policy ends - upon death, maturity or if you choose to surrender your policy. The terminal bonus is usually designed to give policy owners a fair share of the profits earned by the participating life fund.

### How are the bonuses determined?

These bonuses which are not guaranteed, are determined by the Company based on the participating life fund's actual operating and investment performance. For example, if the investments have performed well over the past year, the Company may be able to pay a higher bonus. If the investments have performed poorly, the Company may pay a lower bonus, or it may not be able to pay a bonus at all.

Please also note that the investment performance is not the only factor that will affect the bonuses that you will receive. Other factors such as expenses incurred to meet the direct distribution cost, agency related expenses and Company's expenses, as well as the actual level of death and disability claims on the fund, will also affect the bonuses that you will receive.

In addition to actual operating performance, bonuses may also be adjusted if there is expected persistent deterioration in future investment environment or operating conditions to maintain the long term sustainability of the fund.

The bonuses paid are 'smoothed'. This means that, in years where the Company has experienced good operating and investment results, they may hold back some of the profits and use them to top up bonuses in poorer years. This is a feature unique to participating policies. This means that a Company will try to even out the payout to policy owners when results have not been so favourable. However, smoothing does not give you complete protection against poor results. If poor results continue over several years, the Company may have to reduce bonuses to reflect the poor results.

**You are advised to discuss with your life insurance agent or contact the Company directly for more information on your participating policy.**

#### **Disclaimer**

This document is intended for your general information only. It does not contain exhaustive information relating to the subject matter.