Response to feedback received

Management of Participating Life Business

Introduction

This document contains the Bank's responses to industry feedback received on the concept paper on Management of Participating Life Policy Business issued by the Bank on 7 November 2014.

Bank Negara Malaysia
15 July 2015

Benefit payout and bonus supportability study

1. **Should profits from riders be allocated to the participating life policies which the riders are attached to?**
   [Paragraph 10]
   Insurers are allowed to exercise discretion on the appropriateness of the level in which the profits from riders are to be allocated to, as long as its policy and approach is clearly documented in its MPB policy and practised consistently.

2. **Would there be any prescription on the parameters to be used for the sensitivity test, for the purpose of the bonus supportability study?**
   [Paragraphs 12.4 - 12.6]
   The parameters for the sensitivity test will not be prescribed. Insurers are to exercise judgement on the appropriate parameters to be used, taking into account the requirements in paragraph 12.5.

Treating customer fairly

3. **Where would the responsibility to protect policyholders' interest lie?**
   [Paragraph 9]
   The overall responsibility to ensure fair treatment of policyholders is placed on the Chief Executive Officer and ultimately the Board. The appointed actuary, through the professional opinion and advice provided as part of his duties, plays a significant role in supporting the Chief Executive Officer and the Board to ensure fair treatment of policyholders.

Sales illustration

4. **Is the new sales illustration format applicable to participating life policies only?**
   [Appendix 1]
   The sales illustration format prescribed in Appendix 1 of the policy document is applicable to all participating policies. Insurers are encouraged to consider relevant elements of the sales illustration and other disclosure requirements in the policy document for their non-participating policies.

5. **What if the insurer does not have a term policy that matches the duration of the participating policy?**
[Appendix 1]
The term plan used for comparison should be a term policy with the closest duration to the participating policy. This fact should be clearly disclosed in the sales illustration with appropriate explanations provided on any significant implications that a policy owner should consider arising from maturity mismatches in the policy durations.

6. **What is the purpose of the return rates prescribed under the two hypothetical scenarios of 2% and 5% for the non-guaranteed benefits?**
[Paragraph 21.7]
The two prescribed return rates are intended to show the potential variability of non-guaranteed benefits under the different investment scenarios and should not be used as a projection of potential returns. The note to the sale illustration clearly explains to the prospective policy owners the purpose of the scenarios.

7. **The annualised return for a participating policy may not reflect the "true" returns as it includes the cost of protection, expenses and commission. Can these items be excluded from the calculation of the annualised return?**
[Appendix 1]
No, the annualised return[1] serves its purpose of reflecting the effective rate of return that the policy owner will receive at maturity for the survival/savings benefits.

Effective date and implementation arrangements

8. **What is expected on 1 July 2016?**
[Paragraphs 5.1 and 5.2]
On 1 July 2016, insurers must have in place the MPB policy, as well as any related procedures and processes which meet the requirements of the policy document. As a consequence, insurers may have to review the level of bonus rates maintained for some cohorts of policies. The Bank expects that such adjustments to bonus rates would only take effect together with the determination of surplus distribution at the financial year end. As such, licensed insurers with financial year ending December are expected to effect the adjustments on 31 December 2016.

[1] The annualised return refers to the discount rate that zeroises the net present value of all cash flows (premiums paid and benefits payable) arising from a life insurance policy. For a whole life policy term, the maturity value to be used in the cash value is at the age of 80 years.

Insurers will be required to submit details of any planned changes to the existing bonus rates to the Bank by 1 July 2016. Based on the review of these plans, the Bank may also engage licensed insurers bilaterally to ensure an orderly transition.