



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Direct Distribution Channels for Pure Protection Products

Concept Paper

Applicable to:

1. Licensed insurers carrying on life business
2. Licensed takaful operators carrying on family takaful business

In relation to the initiative to build presence of direct channels under Pillar Two of the Life Insurance and Family Takaful Framework (LIFE Framework), this concept paper sets out the requirements for the offering of pure protection products through direct distribution channels by licensed insurers and takaful operators carrying on life business and family takaful business, respectively.

The Bank invites written comments on this concept paper, including suggestions for particular issues/areas to be clarified or elaborated further and any alternative proposals that the Bank should consider. To facilitate the Bank's assessment, please support each comment with a clear rationale and accompanying evidence, as appropriate.

In addition to providing general feedback, financial institutions are requested to respond to the specific questions set out in this concept paper.

Responses must be submitted by 28 November 2016 to:

Pengarah
Jabatan Pembangunan Insurans
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
Email: directchannels@bnm.gov.my

Electronic submission is encouraged. Submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

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PART A OVERVIEW

1 Introduction

- 1.1 On 23 November 2015, the Bank issued the Life Insurance and Family Takaful (LIFE) Framework which aims to support the long-term development of the life insurance and family takaful industry. Pillar Two of the LIFE Framework sets out initiatives for the diversification of distribution channels to promote greater accessibility and wider outreach of life insurance and family takaful products. One of these initiatives is for a licensed person to offer commission-free standalone pure protection products through at least one direct distribution channel.
- 1.2 With improvements in financial literacy and technological advancements, the growth of direct distribution channels is expected to complement agency channels in reducing the protection gap and promoting more inclusive financial services in Malaysia.
- 1.3 The requirements in this policy document for licensed persons to offer pure protection products via direct distribution channels aim to –
- (a) develop sustainable and reliable direct distribution channels that are widely accessible for consumers to purchase/participate in pure protection products directly from the licensed persons;
 - (b) ensure the availability of simple pure protection products;
 - (c) promote sound market conduct practices that safeguard consumers' interest through proper disclosure and enhanced transparency; and
 - (d) promote market competitiveness and innovation.
- 1.4 This policy document sets out the following –
- (a) minimum product specifications for pure protection term products offered via direct distribution channels; and
 - (b) business conduct, infrastructure and operational requirements for direct distribution channels.

2 Applicability

- 2.1 This policy document is applicable to licensed insurers carrying on life insurance business and licensed takaful operators carrying on family takaful business.

3 Legal provisions

- 3.1 The requirements in this policy document are issued pursuant to sections 123 and 143 of the Financial Services Act 2013 (FSA) and sections 135 and 155 of the Islamic Financial Services Act 2013 (IFSA).

4 Effective date

- 4.1 This policy document comes into effect on 1 January 2017.

5 Interpretation

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

5.2 For the purpose of this policy document –

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

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

“**direct distribution channels**” refers to the distribution of life insurance or family takaful products at the head office and branch premises of the licensed person, and through an online platform, whether developed as the licensed person’s proprietary system or outsourced to third party vendors, whereby customers deal directly with the licensed person without any involvement of any insurance or takaful intermediaries, such as agents, financial advisers, or any bancassurance/ bancatakaful partners;

“**industry**” refers to the life insurance and family takaful industry;

“**licensed person**” refers collectively to a licensed insurer carrying on life business and a licensed takaful operator carrying on family takaful business;

“**pure protection products**” refers collectively to the following commission-free standalone life insurance or family takaful products –

- (a) a term product that is structured to cover only the risk of death with or without total permanent disablement, and does not have surrender or maturity benefits (referred to as a pure protection term product in this policy document);
- (b) a critical illness product (referred to as a pure protection critical illness product in this policy document); and
- (c) a medical and health product (referred to as a pure protection medical and health product in this policy document);

“**senior management**” refers to the chief executive officer and senior officers of a licensed person.

6 Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular –
- (a) 'Notification paper on Life Insurance and Family Takaful Framework';
 - (b) 'Guidelines on Outsourcing for Insurers';
 - (c) 'Guidelines on Outsourcing for Takaful Operators';
 - (d) 'Guidelines on Internet Insurance';
 - (e) 'Guidelines on Internet Takaful';
 - (f) 'Guidelines on Product Transparency and Disclosure';
 - (g) 'Guidelines on Introduction of New Products by Insurers and Takaful Operators';
 - (h) 'GPIS: Management of business in IT environment'; and
 - (i) Policy document on 'Anti-Money Laundering & Counter-Financing of Terrorism for Insurance and Takaful (Sector 2)'.

PART B POLICY REQUIREMENTS

7 Direct distribution channels

- S** 7.1 A licensed person shall offer pure protection products through the following direct distribution channels –
- (a) the head office and branch premises of the licensed person; and/ or
 - (b) an online platform, which can be developed as the licensed person's proprietary system or outsourced to third party vendors.
- S** 7.2 A licensed person must make available pure protection products to consumers through a selected direct distribution channel by –
- (a) 1 January 2017 for pure protection term products; and
 - (b) 1 January 2018 for pure protection critical illness and pure protection medical & health products.
- G** 7.3 In selecting a direct distribution channel, the licensed person must give due regard to the following parameters –
- (a) the scalability, including geographical reach, of the direct distribution channel to facilitate accessibility of consumers to the pure protection products; and
 - (b) the capability of the direct distribution channel to contribute towards increasing the share of regular premium/contribution products offered through non-agency channels to 30% by the year 2020.
- S** 7.4 A licensed person is required to obtain the Bank's prior approval¹ for any new online platforms.
- S** 7.5 A licensed person that develops an online platform by outsourcing to third party vendors shall comply with the relevant policy documents issued by the Bank with regard to Internet insurance/takaful and outsourcing by insurers/takaful operators. The online platform must be designed to make clear to customers that they are dealing directly with the licensed person in the purchase of pure protection products online.
- S** 7.6 A licensed person that offers other types of life insurance/family takaful products through the direct distribution channels, in addition to the pure protection products, must take steps to ensure that consumers are able to differentiate between the pure protection products and the other types of products. For example, the licensed person may use specific product naming conventions that indicate clearly the protection or savings nature of the benefits.

¹ As required under the 'Guidelines on Internet Insurance' and 'Guidelines on Internet Takaful'.

8 Pure protection product specifications

- S** 8.1 A licensed person shall comply with the specific requirements for pure protection term products set out in Appendix 1.
- G** 8.2 Pure protection products should be priced affordably and reflect savings in commissions that would otherwise be paid to intermediaries. In addition, the Bank expects affordability to increase, as greater economies of scale are achieved.

Feedback from the industry

- 1) *Licensed persons are expected to ensure direct distribution channels are cost-effective, which would provide better value to consumers. In addition to paragraph 8.1, the Bank seeks views on a Key Performance Indicator (KPI) to ensure the affordability outcome is achieved (e.g. lower average premiums of direct distribution channel products compared with other channels by a reasonable margin), and the possible initiatives the individual companies or industry association can undertake to achieve the affordability KPI.*

9 Business conduct requirements

Product suitability and disclosure requirements

- S** 9.1 A licensed person shall comply with the disclosure requirements specified under the Guidelines on Product Transparency and Disclosure for pure protection products offered via direct distribution channels.
- S** 9.2 A licensed person shall provide information and tools for consumers to conduct self-assessments of product suitability against their individual profiles for all pure protection products. The licensed person shall make such tools available for all its direct distribution channels².
- S** 9.3 Tools for the consumers' self-assessment referred to in paragraph 9.2 shall include, but are not limited to the following –
- (a) an insurance estimator for consumers to calculate the amount of coverage needed;
 - (b) a financial budget calculator for consumers to gauge the affordability of premiums/contributions payable based on current income, expenditure and financial obligations; and
 - (c) Frequently Asked Questions (FAQ) to guide consumers through factors to consider in choosing a product that is suitable for their needs and circumstances.

² Consequential amendments will be made to the 'Guidelines on Proper Advice Practices for Life Insurance/ Family Takaful Business' to clarify its application to products sold through intermediated channels only, except as provided in paragraph 1.5 of Appendix I of this policy document.

- S** 9.4 Given the non-advisory nature of a direct distribution channel, the licensed person shall ensure that information on a pure protection product is presented in plain language to facilitate consumers' understanding of the product.
- S** 9.5 A licensed person shall provide a free look period of 15 calendar days from the date the policy/certificate for a pure protection product is delivered to a consumer to provide an opportunity for the consumer to review the suitability of a newly-purchased policy/certificate. The licensed person shall inform the consumer of the right to return the policy/certificate within 15 calendar days of the delivery of the policy/certificate, after reviewing the terms and conditions of the policy/certificate, and that any premium/contribution which has been paid in respect of the policy/certificate shall be immediately refunded to the consumer.
- S** 9.6 For a licensed person distributing products at its head office and branch premises, sales literature for the pure protection products shall be made available and prominently displayed to consumers at such premises.
- S** 9.7 Head office and branch employees of a licensed person are allowed to introduce pure protection products to consumers and provide information on the key features of the products at the head office and branch premises. Employees providing such assistance to consumers at the licensed person's premises shall be given proper training on the product and shall not be remunerated on a commission basis.

10 Other operational requirements

Customer support facilities

- S** 10.1 A licensed person using an online platform as a direct distribution channel shall have in place front-end customer support services such as live chat features, a customer service hotline and email query facilities. Such facilities must allow consumers to make enquiries and obtain the necessary information and responses on their queries.
- S** 10.2 A licensed person shall publish its client charter which provides among others, the turnaround time for responding to enquiries and complaints in respect of its pure protection products. The licensed person shall put in place adequate monitoring mechanisms to ensure adherence to the client charter.
- S** 10.3 A licensed person shall ensure that the procedures for making a claim are clearly communicated to consumers.
- G** 10.4 Other facilities, such as search tools and specific tabs on the website to guide consumers navigating through the website, are examples of support facilities that a licensed person may consider in the design of its online direct distribution channel. More advanced tools to support the whole product life cycle should be developed with the growth of the online channel. This could include, for example, online claims submissions.

Electronic payments

- S** 10.5 A licensed person shall make available electronic payment options for the use of credit cards, debit cards or bank transfers for premium/contribution payments. This would improve payment efficiency, enhance customer experience on the use of the online direct distribution channel and complement the initiative on online account facilities under the LIFE Framework.

- S** 10.6 The adoption of electronic payments shall incorporate adequate safeguards and controls over the payment platform as provided under the Guidelines on Internet Insurance and Guidelines on Internet Takaful and is subject to the Bank's approval.

APPENDICES

Appendix 1 Specific requirements for pure protection term products

- 1.1 A licensed insurer shall structure a pure protection term product to cover only the risk of death with or without total permanent disablement (TPD) and without surrender or maturity benefits. Where the pure protection term takaful product is based on the dripping model³, the takaful operator shall take steps to minimise the savings/investment element in line with the intention for the product not to have any surrender or maturity benefits, while ensuring that the Participants' Investment Fund can be sustainable throughout the term of the product.
- 1.2 A licensed person shall ensure that products offered through the direct distribution channels provide a reasonable level of coverage. In this regard, the licensed person is required to offer products with sums assured/covered that extend up to at least RM500,000.
- 1.3 The licensed person shall quote the premium/contribution rate for a pure protection term product in denominations of RM1,000 of the sum assured/covered in order to facilitate comparability across a range of pure protection term products. An illustration is provided below.

Product type	Rates per RM1000 sum assured/ covered (RM)	Sum assured/ covered (RM)	Total premium/ contribution per annum (RM)
Term A	1.50	100,000	150
Term B	1.33	150,000	200
Term C	1.20	500,000	600
Term D	1.10	800,000	880

- 1.4 A licensed person may offer variations such as surrender benefits to the pure protection term product referred in paragraph 1.1 above. However, such variations shall be provided by the licensed person as an option to customers on an opt-in basis (i.e. not a default option) and all additional benefits and premium/contribution shall be separately illustrated to ensure consumers can distinguish and compare the pure protection product with and without its other variations.
- 1.5 Where a consumer elects to purchase a pure protection term product with variations, the licensed person shall take reasonable steps to assess the suitability of the product for the consumer (e.g. through follow-up welcome calls) in line with expectations set out in the Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business.

³ Takaful contributions are allocated and accumulated in the Participants' Investment Fund, from which tabarru' contributions are dripped periodically to the Participants' Risk Fund.

Appendix 2 Specific requirements for pure protection critical illness and medical & health products

- 1.6 The specific requirements for pure protection critical illness and medical and health insurance/takaful products will be provided in 2017 for implementation on 1 January 2018.