



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Phased Liberalisation of Motor and Fire Tariffs

Applicable to:

1. Licensed insurers carrying on general business
2. Licensed takaful operators carrying on general takaful business

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PART A OVERVIEW

1 Introduction

- 1.1 This policy document implements the Bank's initiative to deregulate the pricing of motor and fire products through the gradual disapplication of requirements under the Motor Tariff and Revised Fire Tariff (Fire Tariff). The Tariffs, which have been in place for more than three decades, will no longer be applicable to certain types of motor and fire products as specified in this policy document.
- 1.2 With improvements in financial and risk management practices reinforced by strengthened prudential regulation and supervision, the insurance and takaful industry is on a stronger footing to compete in a more liberalised environment. The flexibility being accorded to the industry is further expected to support greater product innovation for the benefit of consumers.
- 1.3 This policy document sets out requirements for the gradual disapplication of the Tariffs with the aim of promoting orderly conditions under a market-based pricing approach. The requirements in this policy document are intended to ensure that-
- (a) the transition to market-based pricing is gradual, and is supported by prudent risk management and practices;
 - (b) access to basic protection or compulsory lines remain affordable, and any adjustment to the prices of such products, is implemented gradually;
 - (c) consumers' interests remain protected through enhanced transparency and improved sales and marketing practices; and
 - (d) overall stability in the general insurance and takaful market is preserved.

2 Applicability

- 2.1 This policy document is applicable to licensed insurers carrying on general business and takaful operators carrying on general takaful business, referred to collectively as licensed persons in this policy document.
- 2.2 Any reference to "motor products" in this policy document includes—
- (a) products that provide coverage of any loss or damage to a motor vehicle or any liability arising from the use of the vehicle;
 - (b) coverage of any other perils or extensions relating to the same vehicle, including but not limited to those stated in the Motor Tariff; and
 - (c) any other coverage that is either packaged or marketed together with a motor policy or takaful certificate that falls within the descriptions in subparagraphs (a) or (b).
- 2.3 Any reference to "fire products" in this policy document includes—
- (a) products that provide coverage of any loss or damage to property or goods caused by fire, with or without other perils;
 - (b) coverage of any of the perils or extensions stated in the Fire Tariff; and
 - (c) any other coverage that is either packaged or marketed together with a fire policy or takaful certificate that falls within the descriptions in subparagraphs (a) or (b).

- 2.4 This policy document does not apply to professional reinsurers or professional retakaful operators.

3 Legal provisions

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

4 Effective date

- 4.1 This policy document comes into effect on 1 July 2016.

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;

“**industry**” refers to the general insurance and general takaful industry;

“**industry associations**” refers collectively to Persatuan Insurans Am Malaysia (PIAM) and Malaysian Takaful Association (MTA);

“**intermediary**” refers to an individual or firm appointed by a licensed person to solicit, arrange or distribute insurance policies or takaful certificates on its behalf, but does not include sales or marketing personnel employed by the licensed person, an insurance or takaful broker, a financial adviser or an Islamic financial adviser;

“new product” refers to-

- (a) a new type of motor or fire cover (inclusive of any add-on cover), as the case may be, that is not defined under the Tariffs; or
- (b) any motor or fire product, as the case may be, which incorporates new or additional features or components not defined under the Tariffs; or
- (c) any variation to, or extension of any cover (inclusive of any add-on cover) defined under the Tariffs;

“phased liberalisation period” refers to the period from 1 July 2016 until 31 December 2018;

“policy or takaful certificate wording” refers to the contract of insurance or takaful, including any ancillary information relating to such contract which is provided to policy owners or takaful participants;

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

“Tariffs” refers collectively to the Motor Tariff and Revised Fire Tariff (Fire Tariff) issued by PIAM.

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) Policy document on ‘Introduction of New Products by Insurers and Takaful Operators’;
 - (b) ‘Guidelines on Product Transparency and Disclosure’;
 - (c) ‘Risk-Based Capital Framework for Insurers (Version 3.0)’;
 - (d) ‘Risk-Based Capital Framework for Takaful Operators’;
 - (e) ‘Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) for Insurers’;
 - (f) Policy document on ‘Internal Capital Adequacy Assessment Process for Takaful Operators’;
 - (g) ‘Guidelines to Control Operating Costs of General Insurance Business’;
 - (h) ‘Guidelines on the Scheme for Insurance of Large and Specialised Risk’;
 - (i) ‘Guidelines on Motor Premium Loading and Excess’;
 - (j) ‘Guidelines on Unfair Practices in Insurance Business’;
 - (k) ‘Guidelines on Prohibitions Against Unfair Practices in Takaful Business’;
 - (l) Policy document on ‘Prohibited Business Conduct’;
 - (m) Circular on ‘Immediate Measures to Ensure Wider Access to Motor Cover and Prohibition on Forced Selling’;
 - (n) Circular on ‘Forced Purchase of Non-Motor Cover to Obtain Motor Insurance Cover’; and
 - (o) Circular on ‘Market Value of Motor Vehicles’.

PART B ROADMAP FOR PHASED LIBERALISATION OF TARIFFS

7 Implementation timeline

- S 7.1 The effective dates for the phased liberalisation of the Tariffs shall be as follows:

Timeline	Motor Business	Fire Business
Prior to 1 July 2016	<ul style="list-style-type: none"> All available products are defined in the Tariffs and are subject to tariff rates Gradual adjustments to tariff rates for identified risk groups 	
Effective from 1 July 2016 onwards	<p style="text-align: center;">Flexibility in product offering</p> <ul style="list-style-type: none"> A licensed person shall continue to offer the same products at the same prices that were being offered as at 30 June 2016. Such products shall be offered in accordance with the Tariffs A licensed person may introduce new products at premium or takaful contribution rates as determined by the licensed person (market rates) 	
Effective from 1 July 2017 onwards	<p style="text-align: center;">Gradual Tariffs adjustments</p> <ul style="list-style-type: none"> The pricing for Third Party products¹ shall be in accordance with the Motor Tariff and any pricing adjustments which the Bank may specify for identified classes of vehicles 	<ul style="list-style-type: none"> The pricing of fire products¹ shall be in accordance with the Fire Tariff and any pricing adjustments which the Bank may specify for identified categories of risks
	<p style="text-align: center;">Flexibility in product pricing</p> <ul style="list-style-type: none"> The pricing for Comprehensive and Third Party Fire and Theft products¹ will be liberalised. Licensed persons will be able to determine the premium or takaful contribution rates for such products 	
From 2019 onwards	<ul style="list-style-type: none"> The progress and impact of the phased liberalisation will be evaluated to determine the readiness of consumers and the industry for further liberalisation 	

¹ Inclusive of optional add-on covers for the product as defined under the Tariffs.

PART C POLICY REQUIREMENTS

8 General requirements

- S** 8.1 A licensed person may introduce new products with effect from 1 July 2016, subject to the requirements set out in this policy document.
- S** 8.2 Notwithstanding paragraph 8.1, a licensed person shall continue to offer the motor and fire products as defined under the Tariffs, at the premium or takaful contribution rates that are applicable on 30 June 2016 and prevailing terms and conditions at that date. For motor products, this shall include any applicable loadings and excess which must comply with the Guidelines on Motor Premium Loading and Excess. The rates, including applicable loadings and excess, shall be maintained for Comprehensive and Third Party Fire and Theft products until 30 June 2017.
- S** 8.3 Unless otherwise stated in this policy document, all requirements under the Tariffs shall continue to apply to the products referred to in paragraph 8.2, in particular requirements on-
- (a) type of cover²;
 - (b) type of add-on cover³;
 - (c) terms and conditions of the product;
 - (d) clauses, endorsements or warranties effected to the product; and
 - (e) allowable discounts (including No-Claim-Discount (NCD)).
- S** 8.4 During the phased liberalisation period, new products must provide meaningful additional value to consumers or address specific risk protection needs which are unmet by existing products under the Tariffs. A licensed person shall not introduce any new product that is designed to circumvent the relevant Tariff.
- 8.5 Actions by a licensed person to circumvent the Tariffs or impede the policy objectives set out in paragraph 1.3 shall be grounds for the Bank to withdraw the flexibilities provided to the licensed person under this policy document, in addition to enforcement actions that may be taken by the Bank.

Specific requirements for motor business

- S** 8.6 A licensed person carrying on general business or general takaful business shall continue to offer motor products to ensure adequate access and availability of motor insurance and takaful coverage for consumers.
- S** 8.7 All new motor products (excluding add-on covers) offered by a licensed person shall include Third Party cover (unlimited Third Party Bodily Injury and Death and Third Party Property Damage up to RM3 million). A licensed person shall not limit or reduce the coverage for any of the components of the Third Party cover.

² In the case of motor products e.g. 'Third Party', 'Comprehensive', etc., and in the case of fire products e.g. 'House owner', 'Householder', etc.

³ In the case of motor products e.g. 'Passenger Liability Cover', 'Windscreen Cover', etc., and in the case of fire products e.g. additional perils covered or extensions of cover such as 'Flood', 'Subsidence and Landslip', 'Extended Theft Cover', etc.

- S** 8.8 A licensed person shall not apply any excess in respect of Third Party claims for motor products.
- S** 8.9 The structure and rates for NCD shall remain standardised among all licensed persons to ensure continued portability of motor policies. Any revisions to the NCD structure or NCD rates must be proposed by the industry associations for adoption by all licensed persons and subject to the approval of the Bank.

9 Product pricing regime

- S** 9.1 During the phased liberalisation period, premium and takaful contribution rates shall be determined as follows:

Motor premium or takaful contribution rates

- (a) With effect from 1 July 2016, premium or takaful contribution rates for **new products** will not be subject to the Motor Tariff and shall be determined by a licensed person according to its individual risk pricing model, subject to any limits or conditions specified by the Bank.
- (b) With effect from 1 July 2017, premium or takaful contribution rates for **Comprehensive and Third Party Fire and Theft products** may be determined by a licensed person according to its individual risk pricing model, subject to any limits or conditions specified by the Bank. However, if the premium or takaful contribution rates vary from the rates that are applicable on 30 June 2016 by more than 10%, or any other limit subsequently specified by the Bank, the licensed person shall submit the relevant parts of the documentation described in paragraph 11.9, for the approval of the Bank, prior to implementing the new rates.
- (c) Premium or takaful contribution rates for **Third Party products** shall continue to be determined in accordance with the Motor Tariff and Guidelines on Motor Premium Loading and Excess, with any variations as may be specified by the Bank.

Fire premium or takaful contribution rates

- (d) With effect from 1 July 2016, premium or takaful contribution rates for **new products** will not be subject to the Fire Tariff and shall be determined by a licensed person according to its individual risk pricing model, subject to any limits or conditions specified by the Bank.
- (e) Premium or takaful contribution rates for fire products which are defined under the Fire Tariff shall continue to be determined in accordance with the Fire Tariff with any variations as may be specified by the Bank.

10 Governance requirements

Responsibilities of board and senior management

- S** 10.1 The board and senior management of a licensed person are responsible for ensuring that the conduct of the licensed person is consistent with the policy objectives and requirements set out in this policy document. This includes ensuring that-
- (a) the new products and features introduced by the licensed person:
 - i. must not have the effect of circumventing the Tariffs where they continue to apply; and
 - ii. are appropriately priced using suitable techniques and reliable data;
 - (b) reasonable steps are taken by the licensed person to avoid confusion to consumers arising from differing product descriptions (including terms and conditions) for products that are substantially similar in coverage, or from the failure to highlight important exclusions and obligations to the consumer;
 - (c) the risks associated with the development, pricing and distribution of new products are well understood and properly mitigated. This shall include robust assessments of the potential impact of product and pricing decisions on profitability and capital adequacy;
 - (d) adequate systems and processes are in place to support risk analysis, pricing and reserving at a sufficiently granular level. At a minimum, the licensed person must be able to separate the policy and claims data relating to new products or insured perils; and
 - (e) effective measures are in place to monitor compliance with the requirements in this policy document and the policy document on Introduction of New Products by Insurers and Takaful Operators.
- S** 10.2 In fulfilling their obligations under sections 10 and 11 of this policy document, the board and senior management are expected to leverage on the advice of a professionally qualified actuary. For this purpose, the Appointed Actuary may be involved in providing advice on product pricing and design issues while internal capabilities are being developed to assume this role in line with paragraph 9.9 of the policy document on Appointed Actuary: Appointment and Duties. This temporary flexibility is granted until 1 January 2019.

Product governance

- S** 10.3 A licensed person shall have in place the following:
- (a) a clearly defined pricing policy that is consistent with the licensed person's risk appetite. The pricing policy shall be approved by the board;
 - (b) proper documentation of the process, methodology and data used for setting the premium or takaful contribution rates;
 - (c) a process for ensuring that the introduction of new products and pricing of existing products based on individual risk pricing models is consistent with the approved risk appetite and risk management strategy of the licensed person. This includes effective internal controls

over deviations or exceptions to the approved pricing policy and thresholds set;

- (d) systems and processes for measuring and monitoring experience at the portfolio level, risk group level and product level;
- (e) systems and processes for assessing and reporting the impact of any underestimation of risk in premium or takaful contribution rates on the licensed person's profitability, reserves and capital under both normal and stressed conditions; and
- (f) an effective independent review process to ensure that the pricing policy and practices are based on a risk-informed approach and consistent with the licensed person's financial strength and risk management capacity. This includes regular reviews of the criteria, methodologies, assumptions and inputs used in estimating the premium or takaful contribution rates, investigation into significant deviations or exceptions from the pricing policy and the reasons or bases for such deviations or exceptions. Significant findings together with remedial measures must be reported to the board by the senior management.

S 10.4 The independent review must be conducted by the Appointed Actuary. Where the licensed person avails itself of the flexibility under paragraph 10.2, the review shall be conducted by a suitably competent person who is not involved in the pricing process and whose compensation is not affected by pricing strategies and business growth.

S 10.5 A licensed person shall ensure that the pricing policy-

- (a) describes the objectives of the licensed person's pricing policy and how these objectives relate to the licensed person's risk appetite, risk management strategies and available capital;
- (b) defines the roles and responsibilities of the board, senior management, business units and other relevant functions with respect to pricing and re-pricing;
- (c) sets appropriate approval authority and limits to govern the pricing and re-pricing of a product;
- (d) specifies the methodology, components and assumptions used in estimating the pure risk rate⁴ and setting the premium or takaful contribution rates quoted to consumers⁵;
- (e) addresses measures to manage the potential impact of changes in premium or takaful contribution rates on consumers, with due regard given to the reasonable expectations and fair treatment of consumers. This must include relevant risk mitigation actions and targeted communications to consumers and intermediaries;

⁴ Pure risk rate is defined as the pure risk premium or takaful contribution to cover expected claims costs arising from the risk written by a licensed person and is generally derived using statistical modelling or actuarial pricing techniques. As an example, the expected claims costs can be estimated objectively by conducting a frequency-severity analysis of the licensed person's historical exposure and claims data.

⁵ The premium or takaful contribution rate quoted to customers may differ from the pure risk rate computed after taking into account other pricing elements such as competition and the individual licensed person's specific considerations such as expenses, commission, profit criterion and cost of capital.

- (f) specifies the profit expectations and range of discounts allowable on the premium or takaful contribution rates;
 - (g) specifies the scope and frequency of the independent reviews referred to in paragraph 10.3(f) including the party responsible to conduct such reviews and report the findings to the board;
 - (h) specifies how any deviations from the pricing policy will be handled. This includes defining circumstances under which deviations from the pricing policy may be permitted, the approval authority and corresponding limits for deviations, requirements for reporting and monitoring of deviations and actions that may be taken to address any risk of under-pricing; and
 - (i) addresses the scope, frequency and granularity of senior management reporting to the board, particularly on the impact on profitability and capital adequacy.
- S** 10.6 The requirements in paragraphs 10.3 to 10.5 should serve to avoid frequent adjustments to the premium or takaful contribution rates for new products, in order to provide greater stability in prices quoted to customers. In any event, a licensed person shall not revise the premium or takaful contribution rates within 15 days from the previous revision made.

Performance monitoring

- S** 10.7 A licensed person shall regularly assess the adequacy and sustainability of its premium or takaful contribution rates in relation to its overall profitability and capital adequacy. As part of this process, a licensed person is expected to-
- (a) identify performance indicators and monitor the performance of individual segments of the motor and fire businesses and total business portfolio;
 - (b) specify the metric(s) used for experience monitoring and establish explicit thresholds and triggers for remedial actions; and
 - (c) report to the board when triggers are likely to be breached or have been breached together with the remedial actions to be taken.

11 Introduction of new products

- S** 11.1 In introducing new products, a licensed person shall collaborate with the industry associations to promote clarity and consistency in the definitions and terminology used in the policy or takaful certificate wording. For this purpose, a licensed person must comply with any requirements set by the associations, including the submission of policy or takaful certificate wording for review by the association and adoption of consistent wording for similar terms and conditions.
- S** 11.2 A licensed person shall only introduce a new product to the market after the policy or takaful certificate wording for the product has been approved by the relevant industry association.

- S** 11.3 A licensed person shall not use the same description (i.e. name and type⁶) of any product defined under the Tariffs for its new products.
- G** 11.4 The review of the policy or takaful certificate wording by the industry associations should aim to ensure that definitions of common terms are appropriate, consistent and will not lead to ambiguity or confusion for policy owners or takaful participants. Where new products offered by the general insurance industry and the general takaful industry are comparable, the industry associations should standardise common descriptions and terminologies wherever possible. This should apply to terms such as loading, excess and betterment.
- S** 11.5 A licensed person shall submit any new motor products with the following features to the Bank for approval, prior to offering the products in the market:
- (a) new exclusions, limits, or other terms resulting in reduced coverage compared to products defined under the Tariffs;
 - (b) term or duration of cover that is shorter or longer than a continuous period of 12 months;
 - (c) advanced innovations including usage-based insurance and complex experience rating structures beyond existing Tariffs, NCD or loading structures⁷;
 - (d) any benefits relating to the policy owner's NCD status or amount; and
 - (e) products where premium or takaful contribution rates deviate from the current tariff rates for the Comprehensive, Third Party Fire and Theft, or Third Party products, as the case may be, by more than 10%, or any other limit subsequently specified by the Bank.
- S** 11.6 A licensed person shall submit all new fire products to the Bank for prior approval, except for the following:
- (a) Large and Specialised Risks; and
 - (b) products where the premium or takaful contribution rates for the fire component deviate from the current tariff rates by less than 30%, or any other limit subsequently specified by the Bank.
- S** 11.7 A licensed person shall comply with paragraphs 11.5 and 11.6 regardless of whether a product has been previously introduced in the market by other licensed persons.
- S** 11.8 A licensed person that may be already offering any motor or fire product which is not defined in the Tariffs must submit the policy or takaful certificate wording for such products to the respective industry association for review before 1 October 2016. The licensed person shall comply with any requirement by its industry association to adopt consistent policy or takaful certificate wording for similar terms and conditions within 3 months from the date the licensed person is notified of that requirement. However, where the approval of the Bank under paragraphs 11.5 or 11.6 is also required, the

⁶ In the case of motor insurance, e.g. 'Third Party', 'Comprehensive' etc., and in the case of fire insurance, e.g. 'House owner', 'Householder', etc.

⁷ This includes policies which require payment of additional premiums based on experience, exposure or utilisation, or which allow for adjustments to the premium payable after policy inception.

licensed person shall immediately cease offering such products until the Bank's approval is obtained.

- S** 11.9 A licensed person shall maintain complete product documentation at all times for all its new products as outlined in **Appendix 1**. Such documentation shall be submitted to the Bank with any application for prior approval under paragraphs 11.5 and 11.6.

12 Fair business practices and adequate disclosure

- S** 12.1 A licensed person and its intermediaries shall advise consumers on the characteristics of the motor or fire products it offers, including the availability of products offered under paragraph 8.2.
- S** 12.2 In the event that a licensed person declines to offer a motor product to a consumer, or to renew an existing motor policy, the licensed person shall explain the reasons for its decision.
- S** 12.3 A licensed person shall not refuse cover solely on the basis of a refusal by another licensed person or the class of vehicle.
- S** 12.4 As required under Schedule 9 of the FSA and IFSA, a licensed person, including its intermediaries, shall inform consumers of their duty to take reasonable care not to make a misrepresentation in answering any questions asked by the licensed person.
- S** 12.5 With effect from 1 July 2017, a licensed person must disclose the minimum information specified in **Appendix 2** when quoting the premium or takaful contribution for a motor product. A licensed person shall also inform the prospective customer of the period that the quote will remain valid.
- S** 12.6 A licensed person shall ensure that its sales or marketing persons and intermediaries are able to explain the following to consumers:
- (a) key risk factors on which the premium or takaful contribution is based;
 - (b) essential clauses, endorsements or warranties; and
 - (c) the level of excess and other limitations of cover.
- G** 12.7 In addition to paragraph 12.6, a licensed person should take reasonable steps to educate its existing policy owners or takaful participants on key risk drivers that affect the premium and takaful contribution rates charged to a consumer and steps that they can take to benefit from lower premiums or takaful contributions. This includes supporting efforts by the industry associations to enhance awareness of the phased liberalisation of the Tariffs, and to provide important information that will help consumers make informed purchasing decisions.

- S** 12.8 A licensed person shall provide sufficient notice to policy owners or takaful participants on the expiry of their existing policy or takaful certificate, which must be at least 30 calendar days before the expiry date of the policy or takaful certificate. Paragraphs 12.1 to 12.6 shall also apply to the renewal of policies or takaful certificates.

13 Additional expectations

- 13.1 The following arrangements have an important role in supporting the effective implementation of the phased liberalisation of the Tariffs. The Bank expects the strong commitment of licensed persons to these arrangements in order to provide the necessary conditions for further liberalisation after 2018.

(a) Fraud Intelligence System (FIS)	Commitment to implement in 2017.
(b) Data submission to ISM Insurance Services Malaysia Berhad (ISM)	Implementation of measures to improve quality of submissions to ISM.
(c) Accident Assist Call Centre (AACC)	Commitment to support and enhance AACC's effectiveness on an on-going basis.
(d) Referrals to the Malaysian Motor Insurance Pool (MMIP)	Marked reduction in vehicles referred to MMIP. MMIP to revert to its original role as a high risk pool.
(e) Distribution channels	Motor and fire products to be made available for purchase via aggregators by 2018.

APPENDICES

APPENDIX 1 Template and content of product documentation

Note:

Add-on covers attached exclusively to a product can be filed under the same product documentation. If the add-on covers are to be sold with other products, separate product documentations would be required.

A. General information

1. Product description

Provide a brief description of the product in terms of –

- (a) type of cover e.g. standalone GAP Cover, NCD protector attachable to another product etc.; and
- (b) salient features and benefit structure etc.

2. Comparable product

Identify and provide a brief comparison with the most comparable product⁸, including:

- (a) covers defined under the Tariffs as at 30 June 2016; and
- (b) new products currently in the market.

3. Marketing name(s)

4. Product approval

- (a) State if all or part of the policy or takaful certificate wording for this product requires approval from industry association and provide the corresponding reference number(s) of the approval(s).
- (b) State if the product requires approval from the Bank.

5. Target product launch date

6. Distribution channel(s) and target market(s)

- (a) Provide details of the distribution channel(s) which will be used to market the product, including any specific sales strategy and partner names such as bancassurance partners.
- (b) Describe the intended target market(s) of the product–
 - i. profile of the consumers; and
 - ii. consumers' needs to be met by this product.

7. Projected business volume

- (a) Specify the target or projected business volume for a minimum projection period of one year, in terms of monetary value (Ringgit Malaysia) and number of policies or takaful certificates, including-

⁸ The licensed person is expected to exercise professional judgement to determine the most comparable product in terms of product structure, features and target market. The comparison should cover key elements such as price, coverage, product features and policy wording.

- 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 at more granular levels by distribution channels, age bands or consumers' segments, if there is such a differentiation.

B. Detailed product description

8. Nature of contract and product benefits

- (a) Duration of contract
- (b) Specific underwriting considerations for this product such as minimum or maximum driver's age, minimum or maximum building age etc.
- (c) Benefits available under this product
 - i. Describe the benefits provided in relation to the contingencies covered by the product.
 - ii. State the minimum or maximum sum insured or covered.
 - iii. Indicate the cessation of any particular benefits at a predetermined date, or at policy or takaful certificate anniversary.
- (d) Benefit schedule if applicable, giving full details on each benefit payable including any limits.
- (e) Rebate, surplus sharing or other non-claim pay-outs or benefits
- (f) Available options and guarantees
 - i. Describe any options and guarantees available under the product.
- (g) Key exclusions or limitations
 - i. Describe all major exclusions or limitations in terms of coverage for this product.
- (h) Applicable excesses

9. Premium or takaful contribution and charges

- (a) Describe the premium or takaful contribution term, frequency and any contingent or reinstatement premiums or takaful contribution that is applicable.
- (b) Provide details on fees or charges such as for 24/7 concierge service including the basis, conditions and purpose of the imposed fees or charges.

10. Smoothing of premium or takaful contribution rates

- (a) If premium or takaful contribution rates are smoothed, provide a comparison of the premium or takaful contribution rates with and without smoothing.
- (b) Explain the financial impact of the smoothing on the total expected portfolio.

11. Add-on covers available for this product

Specify the add-on covers currently available for this product.

C. Pricing basis

12. Technical basis

- (a) Describe in detail the methodology used to price the product. Where combinations of pricing approaches are used, provide the methodology and rationale for each pricing approach.
- (b) State the underlying assumptions of this product.
- (c) Provide the rating differentials and parameters used.
 - i. If Generalised Linear Models (GLM) are used, provide the relativity factors and the base price of the GLM; and
 - ii. If a formula method is used for pricing, provide and explain the formula.
- (d) Provide the expense assumption used to price this product.
- (e) Describe the commission structure for this product and its rationale.
- (f) Describe the basis for profit loading, if any.
- (g) Describe the basis for any additional contingency buffer, such as to compensate for the lack of data for new features or insured/covered perils.
- (h) State the basis and methodology used for the valuation of reserves for the product.
- (i) State the basis and methodology used to determine the capital required for the product.

13. Reinsurance or retakaful arrangement

Describe the reinsurance or retakaful arrangement for the product, including the form of reinsurance or retakaful, the retention level and name of the reinsurer(s) or retakaful operator(s) as well as their financial rating(s).

14. Departure from technical basis

Justify any departure of pricing from the premium or takaful contribution rates obtained if the technical basis under paragraph 12 is adopted in its entirety.

15. Pure risk rates and premium or takaful contribution rates charged

Provide pure risk rates and premium or takaful contribution rates charged for 40 model points. There shall be 2 sets of 20 model points, each selected to illustrate-

- (a) the spread of premium or takaful contribution rates charged for this product, including the highest and lowest possible premium or takaful contribution rates⁹ charged for this product; and

Model point	Rating factor 1	Rating factor 2	...	Rating factor n	Pure risk rate	Minimum premium / takaful contribution charged	Maximum premium / takaful contribution charged	Tariff rate for comparable product
MP1								
MP2								
...
...
...
MP19								
MP20								

⁹ The highest and lowest possible premium or takaful contribution rates are the prices for this product where no combination of rating factors would result in quotation for this product outside the stated range, in Ringgit Malaysia terms. It should have taken into account all possible factors, including NCD.

- (b) the range of variance (in absolute Ringgit Malaysia and percentage terms) between the premium or takaful contribution rates charged for this product and the tariff rate for the closest comparable product under tariff¹⁰. The model points must include the largest and smallest variance.

Model point	Rating factor 1	Rating factor 2	...	Rating factor n	Pure risk rate	Minimum premium / takaful contribution charged	Maximum premium / takaful contribution charged	Tariff rate for comparable product
MP1								
MP2								
...
...
...
MP19								
MP20								

D. Additional supporting information

16. Financial impact analysis

- (a) Provide the results of financial projection for a minimum projection period of one year, including-
- business volume in terms of monetary value and number of policies;
 - projected profitability using relevant profitability measures such as profit margin, return on equity etc.; and
 - projected capital requirement and impact to capital position, including capital required, capital available and capital adequacy ratio (CAR).

The results shall be provided with and without the quantitative impact of the departures described under paragraph 14.

- (b) Provide quantification results of (b) sensitivity test and break-even analysis for key risk factors, including-
- results and comments on the sensitivity tests on the profit margins for the overall portfolio and the key model points by varying the assumptions of key rating factors. The comments must take into account the validity of the sensitivity tests, plausibility of occurrence, non-linearity of risks, correlations, etc.
 - explanation on the appropriateness of stress levels applied.
 - results and comment on the stress level of the key risk factors which lead to the break-even point of the projected profit margin.

17. Product risk management

- (a) Provide details of the risk management for the product including-
- description of the product's key inherent risks from the perspectives of both the licensed person and consumers;
 - systems and/or processes in place to manage the risks identified and the effectiveness of the measures; and

¹⁰ This corresponds to the product identified under paragraph 2(a) under General Information.

- 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 when 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 electronic channels, provide a brief description on the IT infrastructure and risks management for IT-related risks. This includes-
 - i. assessment of the IT-related risks and measures put in place to mitigate the risks;
 - ii. description on application security and application architecture diagram;
 - iii. IT and network security infrastructure arrangements; and
 - iv. network diagram (where applicable) depicting external linkages and control checkpoint.

APPENDIX 2 Minimum motor premium or takaful contribution disclosure

1. Owner's name, vehicle model, vehicle registration number, period of coverage.
2. Premium or takaful contribution schedule, as follows:

Third Party

Tariff Premium/Takaful contribution
Loading
No-Claim-Discount

RM A
RM B
(RM C)
RM D
RM E
RM F
RM G
RM H
RM J
RM K
RM L
RM N
RM P

Optional add-on covers under tariff:

Passenger Liability

New optional add-on covers:

Guaranteed Asset Protection (GAP)
Flood

Total Premium/Takaful contribution

Discount for direct purchase¹¹

GST

Stamp Duty

Total Amount Payable

OR

Name of product:

Basic Premium/Takaful contribution¹²
No-Claim-Discount

All optional add-on covers:

Passenger Liability
NCD Protection
Flood

Total Premium/Takaful contribution

Discount for direct purchase

GST

Stamp Duty

Total Amount Payable

RM a
(RM b)
RM c
RM d
RM e
RM f
RM h
RM j
RM k
RM n
RM p

3. Excesses¹³ (the actual amount that you must pay in the event of claims).
 - Compulsory RMxx
 - Voluntary RMxx
4. Other important clauses, limitations, endorsements or warranties.
5. Validity period of this quotation.

¹¹ The rebate on commission rate should not exceed the maximum commission limit allowed for the class of business as provided for under the *Guidelines to Control Operating Costs of General Insurance Business*.

¹² Refers to the basic premium or takaful contribution rate computed by individual licensed persons based on their respective risk profiles.

¹³ The total amount of excesses and the conditions in which the excesses are applied, including any compulsory and voluntary elements of the excess structure. This information must be displayed upfront on the same page as the premium or takaful contribution schedule.