



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Direct Distribution Channels for Pure Protection Products

Applicable to:

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

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PART A OVERVIEW

1 Introduction

- 1.1 On 23 November 2015, the Bank issued the Life Insurance and Family Takaful Framework (the Framework) which aims to support the long-term development of the life insurance and family takaful industry. Pillar Two of the 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 contribute towards greater financial inclusion.
- 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) specific requirements for pure protection products offered through 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 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 section 123 of the Financial Services Act 2013 (FSA) and section 135 of the Islamic Financial Services Act 2013 (IFSA).

4 Effective date

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

“**direct distribution channel**” refers to the distribution of life insurance or family takaful products through any or both of the following:

- (a) the head office and branch premises of the licensed person; or
 - (b) an online platform, whether developed as the licensed person’s proprietary system or outsourced to third party vendors,
- whereby consumers deal directly with the licensed person without any involvement of insurance or takaful intermediaries, such as agents, financial advisers, or bancassurance/bancatakaful partners;

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

“**pure protection product**” refers to all or any of the following 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 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); or
- (c) a medical and health product (referred to as a pure protection medical and health product in this policy document).

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';
 - (i) 'Policy document on Schedules 8 and 10 of the Financial Services Act 2013'; and
 - (j) '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 Pure protection products must be offered by a licensed person through a direct distribution channel as defined in paragraph 5.2.
- S** 7.2 A licensed person must, at a minimum, make available those pure protection products which meet the specific requirements specified in Appendices 1-3 (as applicable) to consumers through a selected direct distribution channel by -
- (a) 1 July 2017 for pure protection term products; and
 - (b) 1 July 2018 for pure protection critical illness and pure protection medical and health products.
- G** 7.3 In selecting a direct distribution channel, the licensed person should 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 shall obtain the Bank's prior approval for any new online platforms under the relevant policy document issued by the Bank on internet insurance/takaful.
- 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.
- S** 7.6 A licensed person shall not include commissions in the pricing of any product (whether or not a pure protection product) which is offered through a direct distribution channel.
- G** 7.7 Pure protection products offered through the direct distribution channels should be priced affordably by licensed persons.

8 Business conduct requirements

Product suitability requirements

- S** 8.1 A licensed person shall make suitability assessment tools available for consumers to conduct self-assessments of product suitability against their individual profiles, which include the following -
- (a) a needs analysis calculator to estimate the amount of coverage needed; and
 - (b) a financial budget calculator to gauge the affordability of premiums/contributions payable based on current income, expenditure and financial obligations.
- S** 8.2 A licensed person shall ensure that the suitability assessment tools are made prominent prior to or during the purchase process.
- S** 8.3 A licensed person shall take reasonable steps to conduct regular validation and reviews of the effectiveness of the suitability assessment tools and make amendments where necessary.
- S** 8.4 A licensed person shall provide a Frequently Asked Questions (FAQ) section to guide consumers through factors to consider in choosing a product that is suitable for their needs and circumstances.
- S** 8.5 A licensed person shall provide a free-look period of 15 days from the date the policy/certificate is delivered to a consumer to provide an opportunity for the consumer to review the suitability of a newly-purchased policy/certificate.
- S** 8.6 A licensed person shall inform the consumer of the right to return the policy/certificate within 15 days of the delivery of the policy/certificate after the consumer has reviewed 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.

Disclosure requirements

- S** 8.7 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** 8.8 A licensed person shall ensure that information on a pure protection product is presented in plain language to facilitate consumers' understanding of the product.

- S** 8.9 For the distribution of pure protection products through an online platform, a licensed person must ensure that the platform is designed to make clear to consumers that they are dealing directly with the licensed person. A notice to consumers for this purpose shall include:
- (a) the full registered name of the licensed person;
 - (b) a statement that the licensed person is licensed under the FSA/IFSA and regulated by Bank Negara Malaysia; and
 - (c) a statement that no intermediaries are involved in the sales/marketing of products through the online platform.
- S** 8.10 For the distribution of pure protection products at a licensed person's head office and branch premises, sales/marketing literature for the pure protection products shall be made available and prominently displayed by the licensed person for the reference of consumers at such premises.

9 Other operational requirements

Customer support and electronic payment facilities

- S** 9.1 A licensed person distributing pure protection products through an online platform shall have in place front-end customer support services such as live chat features, a customer service hotline or email query facilities.
- S** 9.2 Head office and branch employees involved in the sales/marketing of pure protection products and/or customer support services shall be given proper training by the licensed person on the products and are expected to be well-versed with the key features of the products.
- S** 9.3 A licensed person shall provide customer support services for consumers to make enquiries, obtain information, file complaints or make claims.
- S** 9.4 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** 9.5 A licensed person shall make available electronic payment options for the use of credit cards, debit cards or bank transfers for greater efficiency in premium/contribution collection.
- S** 9.6 A licensed person shall ensure that the procedures for making nominations and claims are clearly disclosed to consumers. The licensed person shall provide reminders to consumers to nominate and inform beneficiaries of the purchased policies/certificates.
- G** 9.7 A licensed person should endeavour to simplify claims procedures to minimise the claims administrative burden for consumers.

10 Specifications for other products

- S** 10.1 A licensed person distributing other types of life insurance or family takaful products (including pure protection products other than those specified in the Appendices) shall assess the suitability of such products offered through the direct distribution channels. The licensed person shall give due consideration to the following:
- (a) whether the product's features, design and structure are well understood by the market;
 - (b) the product's exclusions, terms and conditions are easily explained via disclosure; and
 - (c) the costs of mispurchase by consumers are limited.
- S** 10.2 A licensed person must inform consumers on the difference between pure protection products and other types of products.
- S** 10.3 A licensed person shall comply with specific requirements and principles for other types of products offered through direct distribution channels, as the Bank may specify.

APPENDICES

Appendix 1 Specific requirements for pure protection term products offered through direct distribution channels

- 1.1 For the purposes of this policy document, the licensed person shall, at a minimum, make available a pure protection term product without surrender benefits.
- 1.2 Where a pure protection term takaful product is designed such that a portion of the contribution is allocated to the Participants' Investment Fund, the licensed 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 contribution charged is sufficient to cover the tabarru' throughout the term of the product.
- 1.3 A licensed person shall ensure that pure protection term products offered through the direct distribution channels provide a reasonable level of coverage. In this regard, the licensed person is required to offer pure protection term products to consumers between 21 and 45 years of age, subject to underwriting considerations, with maximum sum assured/covered no less than the following:
 - (a) RM200,000 by 1 July 2017; and
 - (b) RM500,000 by 1 January 2018.
- 1.4 A 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 product comparability.

Appendix 2 Specific requirements for pure protection critical illness products offered through direct distribution channels

- 2.1 The specific requirements for pure protection critical illness products will be specified at a later stage in time for implementation on 1 July 2018.

Appendix 3 Specific requirements for pure protection medical and health products offered through direct distribution channels

- 3.1 The specific requirements for pure protection medical and health products will be specified at a later stage in time for implementation on 1 July 2018.