



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Operating Cost Controls for Life Insurance and Family Takaful Business Exposure Draft**

Applicable to:

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

Issued on: 27 October 2017

BNM/RH/ED 029-4

The exposure draft sets out a revision to the existing Guidelines to Control Operating Costs of Life Insurance Business and the Guidelines to Control Operating Costs of Family Takaful Business. The revision is to reflect the greater operational flexibility provided under the Life Insurance and Family Takaful Framework that was issued on 23 November 2015.

The Bank invites written comments on this exposure draft, 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 27 November 2017 to:

Pengarah  
Jabatan Pembangunan Insurans  
Bank Negara Malaysia  
Jalan Dato' Onn  
50480 Kuala Lumpur  
Email: [occ@bnm.gov.my](mailto:occ@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 As set out in the Life Insurance and Family Takaful Framework issued on 23 November 2015, the Bank continues to implement reforms for gradual removal of operating cost control limits for life and family takaful business.
- 1.2 The deregulation of operating cost control limits will accord licensed persons greater flexibility to manage operating expenses commensurate with their business strategies and encourage greater innovation and competition. This will be accompanied by standards to strengthen the professionalism of insurance and takaful intermediaries.
- 1.3 This policy document sets out the following –
- (a) the roadmap for the deregulation of operating cost control limits;
  - (b) expectations on remuneration policies implemented by a licensed person for intermediaries;
  - (c) requirements relating to the implementation of the balanced scorecard framework (BSC Framework);
  - (d) the disapplication of, and adjustments to, operating cost controls for specific products and intermediaries;
  - (e) enhancements to and rationalisation of requirements relating to agency structures and related expenses; and
  - (f) governance and reporting requirements.

### **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 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 January 2018.

### **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.

“**agency-related expenses**” refer to expenses incurred for the provision of benefits in cash or kind to insurance/takaful agents, which include medical expenses, insurance/takaful schemes, contributions to retirement/gratuity schemes and sponsorship of agents’ participation in seminars/conferences, but excludes commissions;

“**agent**” refers to any ordinary agent, agency leader (agency supervisor or agency manager) or corporate agent, or all of these, as the case may be;

“**annual premium/contribution**” is the premium/contribution receivable on a policy/certificate for any policy/certificate year;

“**bancassurance partner**” includes a bancatakaful partner, and refers to a banking institution or development financial institution that has a distribution or marketing arrangement with a licensed person, as described in the Guidelines on Bancassurance and Guidelines on Bancatakaful;

“**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;

“**breakaway benefit**” refers to the relief provided by a licensed person to the agency manager in respect of the immediate loss of overriding commissions due to the promotion of an agency supervisor reporting to the agency manager;

“**BSC commission**” refers to the proportion of commission payable to the intermediary which is measured against the key performance indicators (KPIs) under the BSC Framework;

“**BSC Framework**” refers to the operational framework that links remuneration of intermediaries to quality of service;

“**commission**” refers to any remuneration payable to intermediaries, and includes basic commission, overriding commission, production and persistency bonus, allowance and salary.

“**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 a licensed person, or
  - (b) an online platform, whether developed as a licensed person’s proprietary system or provided by third party vendors,
- whereby consumers deal directly with the licensed person without any involvement of insurance or takaful intermediaries;

“**first year persistency**” refers to the premium/contribution for a new product sold/ marketed (other than single premium/contribution product) which

remains in force at the end of the first policy/certificate year;

**“first year premium/contribution”** refers to the premium/contribution receivable for the first policy/certificate year, where the premium/contribution payment term is two or more years;

**“intermediary”** refers to any agent, financial adviser (including Islamic financial adviser), broker or bancassurance partner, or all of these, as the case may be;

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

**“ordinary life insurance/family takaful product”** refers to any or a combination of an individual/group product, supplementary contract or rider attached to a basic policy/certificate, but excludes any –

- (a) investment-linked product or annuity; and
- (b) medical and health insurance/takaful product.

**“product with paid-up option”** refers to a life insurance/family takaful product that is designed and marketed with an option that enables the policyholder/participant to cease payment of premium/contribution prior to the full contractual premium/contribution payment term, but excludes any product which offers a paid-up option as part of the non-forfeiture provision;

**“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).

**“renewal premium/contribution”** refers to the premium/contribution receivable for any policy/certificate year subsequent to the first policy/certificate year, where the premium/contribution payment period is two or more years;

**“savings product”** refers to a product which is designed to provide benefits on survival to maturity or during the policy/certificate term (excluding surrender benefits), and includes an investment-linked policy/certificate and annuity;

**“second year persistency”** refers to the premium/contribution for a new product sold/marketed (other than a single premium/contribution product) which remains in force at the end of the second policy/certificate year;

**“single premium/contribution”** refers to the premium/contribution receivable on a policy/certificate where the entire premium/contribution for the

policy/certificate is payable at inception.

## **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) 'Life Insurance and Family Takaful Framework';
  - (b) 'Policy Document on Direct Distribution Channels for Pure Protection Products';
  - (c) 'Guidelines on Medical and Health Insurance Business';
  - (d) 'Guidelines on Medical and Health Takaful Business';
  - (e) 'Guidelines on Bancassurance';
  - (f) 'Guidelines on Bancatakaful';
  - (g) 'Guidelines on Investment-Linked Insurance/Takaful Business'; and
  - (h) 'Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business'.

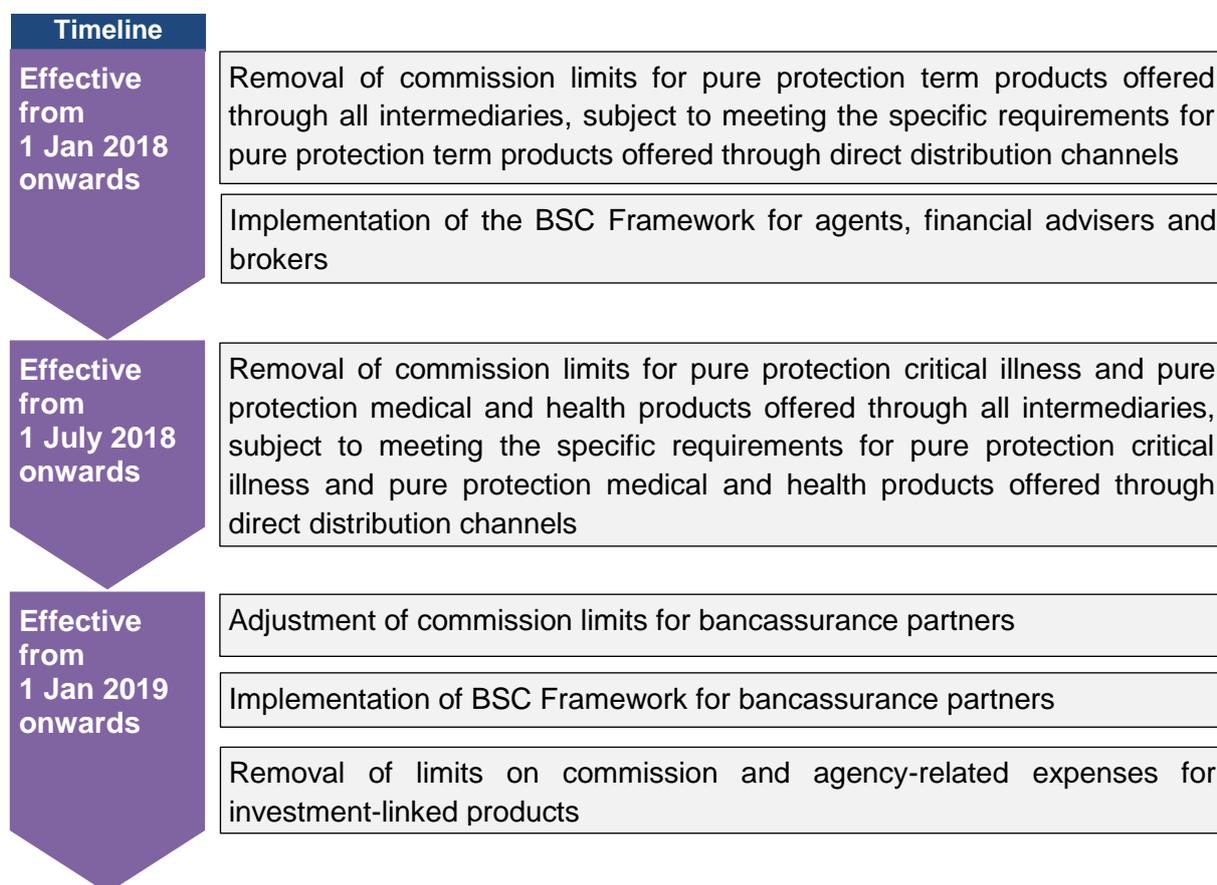
## **7 Policy documents superseded**

- 7.1 This policy document supersedes the guidelines and circulars listed in Appendix III.

## PART B ROADMAP FOR DEREGULATION OF OPERATING COST CONTROL LIMITS AND IMPLEMENTATION OF BSC FRAMEWORK

### 8 Implementation timeline

- S** 8.1 The effective dates for the deregulation of operating cost control limits and implementation of the BSC Framework are set out hereunder–



- S** 8.2 Prior to the effective dates for removal of operating cost control limits as set out in paragraph 8.1, a licensed person shall observe the commission limits as specified by the Bank in remunerating intermediaries and the limits on agency-related expenses specified in paragraph 12.4, unless otherwise provided in this policy document.

## **PART C POLICY REQUIREMENTS**

### **9 Remuneration policy for intermediaries**

- S** 9.1 In setting the remuneration policy and criteria for the maintenance of contracts or promotion of an intermediary, the board and senior management shall exercise due care to promote the following outcomes –
- (a) encourage intermediaries to consider a consumer's financial needs and circumstances, and provide proper advice and recommendations;
  - (b) raise and maintain effective and responsive customer support services provided by intermediaries to a policyholder/participant throughout the policy/certificate term;
  - (c) drive the continuous professional development (CPD) of intermediaries; and
  - (d) assure the ethical and professional conduct of intermediaries.

### **10 Implementation of BSC Framework**

- S** 10.1 A licensed person shall incorporate the BSC Framework in its remuneration policy for intermediaries by –
- (a) 1 January 2018 for insurance agents<sup>1</sup>, financial advisers and brokers; and
  - (b) 1 January 2019 for bancassurance partners<sup>2</sup>.
- S** 10.2 The design and operation of the BSC Framework shall be consistent with the outcomes as specified in paragraph 9.1 and comply with operational requirements specified under Appendix I.
- S** 10.3 A licensed person shall reflect the following KPIs in the design of the BSC Framework –
- (a) completion rate of Customer Fact Find (CFF) form;
  - (b) persistency rate;
  - (c) number of substantiated complaints; and
  - (d) CPD hours.
- S** 10.4 A licensed person shall measure the specific percentage of commission payable to an intermediary against the KPIs of the BSC Framework. The relevant percentage for BSC commission is set out in Appendix I.

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<sup>1</sup> Except for new insurance agents within the first three years of recruitment. New insurance agents refer to newly appointed agents who have not been appointed by any Life Insurers or Family Takaful Operators.

<sup>2</sup> Separate BSC Framework will be issued for bancassurance products in 2018.

**11 Specifications of operating cost limits for specific products and intermediaries**

- S** 11.1 The maximum commission limits for specific pure protection products sold/marketed through intermediaries are hereby removed, subject to a licensed person complying with the following conditions that –
- (i) the pure protection products offered by the licensed person provide the same benefits and coverage as for the pure protection products available through its direct distribution channels; and
  - (ii) the licensed person meets all the requirements specified in the Policy Document on Direct Distribution Channels for Pure Protection Products.
- S** 11.2 The maximum limits on commission and agency-related expenses for investment-linked insurance/takaful products specified by the Bank and in paragraph 12.4 respectively are removed with effect from 1 January 2019. Prior to 1 January 2019, the maximum commission limits for investment-linked insurance/takaful products<sup>3</sup> applicable to agents shall be those specified by the Bank.
- S** 11.3 With effect from 1 January 2019, a licensed person shall not exceed the maximum commission limits applicable to bancassurance partners as specified by the Bank. Prior to 1 January 2019, the maximum commission limits applicable to bancassurance partners<sup>4</sup> shall be those specified by the Bank.
- S** 11.4 Where the commission limits for specific life insurance/family takaful products are removed under paragraphs 11.1 and 11.2, a licensed person adjusting its respective commission rates for such products shall –
- (i) submit the relevant information to the Bank as specified in the Guidelines on Introduction of New Products by Insurers and Takaful Operators; and
  - (ii) disclose the commissions in the sales/marketing illustrations. For products with no sales/marketing illustrations, the commissions must be disclosed in the product disclosure sheet.

**12 Agency-related requirements****Agency-related Expenses**

- G** 12.1 A licensed person may provide additional benefits in cash or kind to agents.
- S** 12.2 Any expenses incurred by a licensed person for the provision of such benefits shall be deemed to be agency-related expenses.
- S** 12.3 The provision of benefits to agents and the corresponding qualifying criteria for receiving such benefits shall be clearly provided for and documented in the licensed person's remuneration policy, with due regard to the outcomes set out in paragraph 9.1.
- S** 12.4 The aggregate amount of agency-related expenses incurred by a licensed person shall not exceed 3% of the total annual premium/contribution for

<sup>3</sup> These are the same limits currently specified in the Guidelines on Investment-linked Insurance/Takaful Business.

<sup>4</sup> These are the same limits currently specified in the Guidelines on Bancassurance and Guidelines on Bancatakaful.

ordinary life/family takaful products and investment-linked products, except where operating cost limits are removed as provided in section 11.

**S Agency Organisation Structure**

12.5 Where a licensed person adopts a tiered structure for its agency organisation, such structure shall not exceed three tiers<sup>5</sup>.

**S Agency Breakaway Benefits**

12.6 The breakaway benefits accorded by a licensed person to an agency manager shall not exceed 50% of the average annual overriding commissions earned from an agency supervisor's unit over the two years immediately preceding the date of promotion of the agency supervisor.

**S** 12.7 No breakaway benefits shall be accorded by a licensed person to an agency supervisor in respect of the promotion of an ordinary agent under him.

**S Career Agent**

12.8 When an ordinary agent who is eligible for promotion as an agency supervisor chooses not to accept such promotion, the licensed person shall provide an option for him to be promoted as a career agent under the supervision of an agency manager or directly under the supervision of an officer of the licensed person.

**S** 12.9 In such an event, additional commissions payable by the licensed person to the career agent (not inclusive of the basic agency commissions) shall not exceed 50% of the total overriding commissions which would have been payable to agency leaders.

**Feedback from the industry**

1) The Bank seeks comments from the industry whether the limits set out in paragraphs 12.6 and 12.9 applicable to agency breakaway benefits and additional commissions payable to career agents are still relevant and necessary in the market today.

**Salaried Agent**

**S** 12.10 Where a licensed person remunerates its insurance agents through a combination of a fixed salary and variable commission, the aggregate amount paid shall not exceed the commission limits specified by the Bank.

**S** 12.11 A licensed person shall measure the aggregate amount of the salary and commission remunerated to the salaried agent against the KPIs of the BSC Framework, as specified under paragraph 10.

**S** 12.12 A licensed person shall not remunerate salaried employees or officers with the exception of full-time marketing staff, by way of commissions or any other incentive payments by whatever name called that are linked to the quantum of premium/contribution production.

<sup>5</sup> Generally comprising an agency manager, agency supervisor and ordinary agent. The terminology used for these designations is not binding and a licensed person may adopt other terminology that corresponds to these designations.

- S** 12.13 Where a licensed person remunerates its salaried staff who are principally engaged in the business development in the form of bonus based on the volume of business production, the aggregate amount of salary and benefits including bonus shall not exceed the commission limits specified by the Bank.

### **13 Governance requirements**

#### **Responsibilities of board and senior management**

- S** 13.1 The board and senior management shall be responsible for ensuring that the conduct of the licensed person is consistent with the objectives and requirements set out in this policy document. This includes –
- (a) developing and approving the remuneration policies, which include parameters for the implementation of the BSC Framework;
  - (b) ensuring adequate training and support is provided to intermediaries to understand the key outcomes and implementation of the BSC Framework;
  - (c) ensuring that the performance of intermediaries is reviewed against the KPIs of the BSC Framework at least once annually;
  - (d) ensuring that the maintenance of contracts or promotion of intermediaries be assessed against the performance under the BSC Framework; and
  - (e) monitoring the effective implementation of the remuneration policies and the BSC Framework and taking timely corrective measures as required to promote the objectives of the BSC Framework.

## **PART D REPORTING REQUIREMENTS**

### **14 Reporting requirements**

- S** 14.1 A licensed person shall submit to the Bank a report on the performance of intermediaries against the KPIs of the BSC Framework and the information on the amount of BSC commissions payable to the intermediaries for the different categories ('under-performer', 'normal' and 'outperformer') by the end of the first quarter of the following year for each year beginning from the year 2018.
- S** 14.2 A licensed person shall submit to the Bank information relating to its compliance with the operating cost control limits, in the relevant statutory returns specified for life and family takaful business, as set out in the Statement of Operating Cost Control for Life Business (AS4) under the Guidance Notes for Insurance Companies Statistical System (for life business) and Appendix II (for family takaful business).
- S** 14.3 The statutory returns required from licensed persons under paragraph 14.2 shall report for each annual period ending in December and shall be submitted to the Bank by 21 January of the following year. Life insurers shall submit the returns via the Bank's Insurance Online Submission System website, and family takaful operators shall submit the returns in Appendix II to the Director of Insurance and Takaful Supervision Department, Bank Negara Malaysia.
- S** 14.4 A licensed person shall maintain proper records of its agency-related expenses, which shall be made readily available to the Bank upon request.

## APPENDICES

### Appendix I Operational details of BSC Framework

- S 1.1** The BSC Framework shall only be applicable to the sale/marketing of products that are subject to the Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business.
- S 1.2** The percentage of BSC commission payable to an intermediary shall be set at 25% of the total commission payable.
- S 1.3** For purpose of calculating the BSC commission for the agents, a licensed person shall assign weightages for the respective KPIs according to the table below –

No.	Key Performance Indicators (KPIs)	Weightage (%)	
		Regular Premium/ Contribution Products	Single Premium/ Contribution Products <sup>6</sup>
1	Completion rate of CFF form (Option 1 or 2)	15	37.5
2a	1st year persistency rate	15	-
2b	2nd year persistency rate	15	-
3	Number of substantiated complaints	10	25
4	CPD hours	15	37.5
5	Number of policies/certificates sold/ marketed or annualised first year premium/contribution	30	-

- S 1.4** A licensed person shall measure the performance of the agents, where applicable, against the criteria set out in the tables below –

No.	Key Performance Indicators (KPIs)	1 January 2018 - 31 December 2018					
		Under-performer			Normal	Outperformer	
BSC Score		0%	50%	75%	100%	125%	150%
1	Completion rate of CFF form (Option 1 or 2)	<10%	10%	15%	20%	25%	30%
2a	1st year persistency rate	<85%	-	85%	90%	92.5%	95%
2b	2nd year persistency rate	<75%	-	75%	80%	85%	90%
3	Number of substantiated complaints	>0	-	-	0	-	-
4	CPD hours	<30 <sup>7</sup>	-	-	30 <sup>7</sup>	-	-
5	Number of policies/certificates sold/ marketed or annualised first year premium/contribution	<3 per quarter and <12 per year and <RM37,500	-	RM37,500	3 per quarter or 12 per year or RM50,000	6 per quarter or 24 per year or RM70,000	9 per quarter or 36 per year or RM90,000

<sup>6</sup> Including yearly renewable insurance/takaful products and premium/contribution top-ups.

<sup>7</sup> Including 5 CPD hours focused on training programmes relating to proper sales process, code of ethics and regulatory updates conducted by Malaysian Insurance Institute (MII), National Association of Malaysian Life Insurance Fieldforce and Advisers (NAMLIFA), Malaysia Financial Planning Council (MFPC) or Islamic Banking and Finance Institute Malaysia (IBFIM).

No.	Key Performance Indicators (KPIs)	1 January 2019 - 31 December 2019					
		Under-performer			Normal	Outperformer	
BSC Score		0%	50%	75%	100%	125%	150%
1	Completion rate of CFF form (Option 1 or 2)	<20%	20%	25%	30%	35%	40%
2a	1st year persistency rate	<85%	-	85%	90%	92.5%	95%
2b	2nd year persistency rate	<75%	-	75%	80%	85%	90%
3	Number of substantiated complaints	>0	-	-	0	-	-
4	CPD hours	<30 <sup>8</sup>	-	-	30 <sup>8</sup>	-	-
5	Number of policies/certificates sold/marketed or annualised first year premium/contribution	<3 per quarter and <12 per year and <RM50,000	-	3 per quarter or 12 per year or RM50,000	6 per quarter or 24 per year or RM80,000	9 per quarter or 36 per year or RM100,000	12 per quarter or 48 per year or RM120,000

- S 1.5** With effect from 1 January 2020, a licensed person has the flexibility to set additional KPIs and adopt higher standards and thresholds for measuring the performance of agents to promote the outcomes set out in paragraph 9.1.
- S 1.6** Subject to the effective timelines as specified in paragraph 10.1, a licensed person shall also measure the performance of the other intermediaries based on the weightages and criteria of the KPIs, as may be specified by the Bank.
- S 1.7** Subject to 1.8 below, a licensed person shall pay the BSC commission to the intermediaries based on their individual level of performance measured under the BSC Framework, which may exceed the commission limits specified by the Bank, as the case may be.
- S 1.8** Where the remuneration payable to the intermediaries exceed the commission limits specified by the Bank, a licensed person shall fund the additional commissions directly from the shareholders' fund.

#### **Feedback from the industry**

2) The Bank proposes for unpaid commissions from intermediaries who underperform the BSC to be ring-fenced and used for the purposes of training and service improvement initiatives. The Bank seeks comments from the industry on this.

<sup>8</sup> Including 5 CPD hours focused on training programmes relating to proper sales process, code of ethics and regulatory updates conducted by Malaysian Insurance Institute (MII), National Association of Malaysian Life Insurance Fieldforce and Advisers (NAMLIFA), Malaysia Financial Planning Council (MFPC) or Islamic Banking and Finance Institute Malaysia (IBFIM).

## Appendix II    Template for submission of returns (family takaful operators only)

Name of Company: \_\_\_\_\_

From January to December 20XX

Currency: RM

Description	Source of Data	Rate (%) (a)	Gross Direct Contributions (b)	Amount (c) = (a) x (b)
<b>A. Agency-Related Expenses (ARE)</b>				
1. Allowable ARE Amount	Sch 1, Form FT1-1			
2. Actual ARE / Wakalah Fee for Commission Expenses	Sch 6, Form FT1-1/ Form FT1-1 <sup>9</sup>			
3. (Over) / Underspending [1 - 2]				
4. % of Total (Over) / Underspending [(3/1) x 100] to allowable ARE Amount				
<b>Explanation for Non-Compliance with BNM/RH/GL/003-XX</b>				
[Text for explanation if A(3) is negative]				

**Signature** : \_\_\_\_\_

**Name** : \_\_\_\_\_  
**Principal Officer**

**Date** : \_\_\_\_\_

<sup>9</sup> Wakalah fee for commission expenses (exclude gross commission on direct business)

**Appendix III Policy documents superseded**

<b>Guidelines/ Circulars</b>	<b>Title</b>	<b>Date of Issuance</b>
BNM/RH/GL/ 003-12	Guidelines to Control Operating Costs of Life Insurance Business	18 April 2006
BNM/RH/GL 004-5	Guidelines on Operating Costs of Family Takaful Business	12 July 2007
BNM/RH/CIR /003-32	Payment of Commission for Products with Paid-Up Option	13 May 2011
-	Letter on Removal of Limits on Management Expenses of Licensed Life Insurers – Specification pursuant to Section 47 of the Financial Services Act 2013	1 December 2015
-	Letter on Removal of Limits on Management Expenses of Licensed Family Takaful Operators – Specification pursuant to Section 57 of the Islamic Financial Services Act 2013	1 December 2015