

Response to feedback received

Investment-linked Business

Introduction

This document contains the Bank Negara Malaysia (the Bank)'s responses to the industry's feedback received during the consultative period on the review of the Guidelines on Investment-linked Insurance/Takaful Business.

The Bank received written responses from 17 respondents during the consultation period.

Bank Negara Malaysia

11 January 2019

Effective date and transitional arrangements

1. Can a licensed person adopt any of the new requirements earlier than its respective effective dates?

[Paragraph 4.1]

Yes, a licensed person is permitted to early adopt the new requirements ahead of the respective effective dates. However, the licensed person is required to adopt certain requirements in entirety as they are intended to come into effect together, such as the following:

- (a) the disapplication of limits on commissions in paragraph 23.3 and Agency Related Expenses in paragraph 24.6 must be done in tandem with the implementation of the minimum allocation rates requirements; and
- (b) early adoption of the new product illustration format must be done in tandem with all new requirements in appendices IV, IV(a) and IV(b), including the prescribed hypothetical illustration rates (specified in paragraph 4 of Appendix IV), as well as requirement on the management of sustainability of cover in paragraph 16. Consequent to the early adoption of the new product illustration format, all requirements on existing sales and marketing illustration in appendices IV(c) and IV(d) must be disappplied at the time of early adoption.

2. What is expected on and after 1 January 2020 for sustainability testing?

[Paragraphs 4.1(b), 4.1(c) and 4.2]

A licensed person is required to fully implement the requirements on the management of the sustainability of cover, as well as apply the new product illustration requirements under appendices IV, IV(a) and IV(b) with effect from 1 January 2020.

In addition, a licensed person must issue the first statement to policy owners/takaful participants to communicate the outcome of the sustainability test carried out pursuant to and in compliance with paragraph 16 no later than 1 January 2020. The subsequent annual statement must be issued no later than 1 year after the issuance of the first communication statement.

For example, if a licensed person issues the first communication statement on the outcome of the sustainability test on 1 January 2020 and plans to issue subsequent annual statements on 1 July every year, the communication to policy owners/takaful participants on the outcome of the sustainability test will be on 1 January 2020, 1 July 2020, 1 July 2021 and so on.

- 3. For all communication of the outcome of sustainability test to policy owners and takaful participants (including the first statement issued by 1 January 2020, subsequent annual statements and communication by a licensed person prior to an event¹), what is the cut-off point of the information used for it to be considered as sufficiently up-to-date?**

[Paragraphs 16.5(a)]

A licensed person must use the latest available data points that capture all actual past actions taken by a policy owner/takaful participant (e.g. partial withdrawals, premium/contribution holidays, and adjustments to cover). These data points should be the later of the following:

- (a) data points that are no earlier than three months before the issuance of the communication to a policy owner/takaful participant; or
- (b) data points based on the latest financial year end information.

Management of sustainability of cover

- 4. What are the principles of setting the assumptions in determining the notional premium or contribution at point-of-sale, as well as calculation of premium/contribution increases/top-ups required to restore sustainability to the end of the contractual term?**

[Paragraphs 16.1, 16.6 & 16.7]

A licensed person must not apply assumptions which are more optimistic than its best estimate assumptions in determining the point-of-sale premium/contribution or premium/contribution increases/top-ups. For example, if the best estimate assumption for the investment return is 5% p.a., a licensed person must not use assumptions of investment returns higher than 5% in the projection for the sustainability test.

For premium/contribution increases/top-ups relating to the increase of insurance charges/tabarru', a licensed person must ensure that the increase to the premium or contribution level only reflects the full increase of the insurance charges/tabarru set by the licensed insurer/licensed takaful operator, respectively.

In addition, licensed persons should not seek to unduly profit from premium/contribution increases/top ups.

¹ Event refers to the point after which a policy or certificate owner expressed an intention to take the following actions but before the action materialises, which includes the following:

- (a) when the policy owner/takaful participant makes one or more alterations to the policy/certificate; and
- (b) when the policy owner/takaful participant exercises one or more options available (as part of the investment-linked insurance or takaful product feature) to the policy/certificate.

Death Benefit

- 5. Can a licensed person allow premium top up for a single premium policy (or contribution top up for a single contribution certificate) at point-of-sale?**

[Paragraphs 17.1]

A licensed person is not allowed to classify any premium/contribution as top-ups at the point-of-sale.

Disclosure

- 6. What are the changes to the prescribed product illustration rates?**

[Appendix IV]

The new product illustration rates are prescribed in Appendix IV.

- 7. Can a licensed person illustrate total insurance charges or tabarru for all unit-deducting riders (UDR) in Table 1 of the prescribed product illustration format?**

[Table 1 of appendices IV(a) and IV(b)]

The individual UDR charges must be disclosed to the policy owner/takaful participant to facilitate his/her understanding of the charges. This can be disclosed in the form of Table 1 of the prescribed product illustration format or in a separate table on UDR charges.

- 8. If the value of the non-guaranteed portion in the product illustration becomes negative, is a licensed person allowed to illustrate negative values in the product illustration?**

[Table 1 of appendices IV(a) and IV(b)]

Yes, negative values are allowed to be illustrated. This may happen in the event where the best estimate assumptions used in pricing and the sustainability tests differ from the prescribed hypothetical product illustration rates in the product illustration (e.g. 2% and 5%). The product illustration table is intended to show the interaction of cash flows, and not the indicative value ascribed to the investment-linked policy or certificate at the end of the contract.

The Bank expects the licensed person to adequately train its intermediaries to communicate the key elements of the product illustration table, including the variability of the policy's or certificate's sustainability due to various risk factors, clearly and accurately to the policy owner/takaful participant, without creating misleading or undue expectations.

9. When must a licensed person illustrate the non-guaranteed portion up to the expiry of the contractual term?

[Table 1 of appendices IV(a) and IV(b), and appendix IV(c)]

Effective 1 January 2020, a licensed person must ensure that the non-guaranteed portion is illustrated in the product illustration, up to the maturity of the contractual term. The existing requirements in paragraph 3(h) of appendix IV(c) (i.e. projection for both single premium or contribution and regular premium or contribution plans must not exceed 30 years) must also be disapplied effective 1 January 2020. Notwithstanding this, a licensed person can early adopt the requirements as per response to Question 1.

10. Can a licensed person provide product disclosure materials via electronic means?

[Part E]

Yes, a licensed person may use electronic means to provide product disclosure information. However, a licensed person must provide hard copies of the information upon request by a policy owner/takaful participant.

Minimum allocation rates

11. After the MAR requirements take effect, can a licensed person set allocation rates that are lower than the prescribed MAR for any of its products?

[Paragraph 15.3]

A licensed person must obtain the prior approval of the Bank and the application for approval must be submitted to the Director of Insurance and Takaful Supervision in the Bank, together with the licensed person's submission of the relevant product documentation of the product. In doing so, the licensed person must ensure that the proposal fulfils the conditions specified in paragraph 15.3

The application for approval must be accompanied by justification on how the deviation will result in a better overall outcome for policy owners/takaful participants, including a comparison of the projected unit account values under the proposed allocation rates and under the prescribed MAR.