



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

This exposure draft sets out a revision to the Operating Costs Controls for Life Insurance and Family Takaful Business policy document which was issued on 26 December 2018. The revision provides for the operational details of the balanced scorecard (BSC) framework for bancassurance partners as specified in paragraph 10 and Schedule 2 of Appendix II. The revision also incorporates existing specifications on the commission limits for financial advisers and brokers in paragraph 11.5 and Schedule 5 of Appendix I. These limits were previously stipulated in the Minimum Guidelines on Appointment of Financial Advisers issued by the Life Insurance Association of Malaysia.

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 exposure draft.

Responses must be submitted by 30 September 2019 to:

Pengarah
Jabatan Pembangunan Insurans
Bank Negara Malaysia
Jalan Dato' Onn
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Email: occlife@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.

In the course of preparing your feedback, you may direct any queries to the following officers at 03-26988044 –

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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 the gradual removal of operating cost control limits for life insurance 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 2020.

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;

“**annuity premium/contribution**” refers to the premium/contribution that is attributable to the annuity benefits;

“**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 insurance or 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 purchase the product directly from the licensed person;

“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 –

- (a) a term life insurance or family takaful product that covers 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 that covers only critical illnesses (referred to as a pure protection critical illness product in this policy document); or
- (c) a medical and health product that covers only medical treatment, hospitalisation and surgery (referred to as a pure protection medical and health product in this policy document);

“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) ‘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 policy document on Operating Cost Controls for Life Insurance and Family Takaful Business issued on 26 December 2018 (BNM/RH/PD 029-35).

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 below –

Timeline	
Effective from 1 Jan 2018 onwards	<p>Removal of commission limits for pure protection term products offered through all intermediaries, subject to meeting the specific requirements for pure protection term products offered through direct distribution channels</p> <p>Implementation of the BSC Framework for agents, financial advisers and brokers</p>
Effective from 1 March 2019 onwards	<p>Removal of commission limits for pure protection critical illness and pure protection medical and health products offered through all intermediaries, subject to meeting the specific requirements for pure protection critical illness and pure protection medical and health products offered through direct distribution channels</p>
Effective from 1 July 2019 onwards	<p>Removal of limits on commission and agency-related expenses for investment-linked insurance products</p>
Effective from 1 Jan 2020 onwards	<p>Implementation of BSC Framework for bancassurance partners</p> <p>Adjustment of commission limits for bancassurance partners</p>
Effective from 1 July 2020 onwards	<p>Removal of limits on commission and agency-related expenses for investment-linked takaful products</p>

- 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 in **Appendix I** 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 of the licensed person shall take steps to –
- (a) ensure intermediaries consider the financial needs and circumstances of consumers, and accordingly provide proper advice and recommendations to them;
 - (b) provide for effective and responsive customer support services by intermediaries to a policyholder/participant throughout the policy/certificate term;
 - (c) drive the continuous professional development (CPD) of intermediaries; and
 - (d) instil ethical and professional conduct in intermediaries.

10 Implementation of BSC Framework

- S** 10.1 A licensed person shall incorporate the BSC Framework in its remuneration policy –
- (a) for agents¹, financial advisers and brokers²; and
 - (b) by 1 January 2020 for bancassurance partners.
- S** 10.2 A licensed person shall ensure that the design and operation of the BSC Framework are consistent with the outcomes specified in paragraph 9.1 and comply with the operational requirements specified under **Appendix II**.
- S** 10.3 A licensed person shall reflect the following KPIs in the design of the BSC Framework –
- (a) for agents only, number of policies/certificates sold/marketed or annualised first year premium/contribution;
 - (b) completion rate of Customer Fact Find (CFF) form;
 - (c) persistency rate;
 - (d) number of substantiated complaints; and
 - (e) 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 II**.

¹ Licensed persons may exempt new agents from the BSC Framework in the first 2 years of appointment.

² Licensed persons have already been required to incorporate the BSC Framework in their remuneration policy for intermediaries such as agents, financial advisers and brokers from 1 January 2018 pursuant to the policy document on Operating Cost Controls for Life Insurance and Family Takaful Business issued on 29 December 2017. For the avoidance of doubt, licensed persons must continue to incorporate the BSC Framework into their remuneration policy for agents, financial advisers and brokers pursuant to paragraph 10.1(a) above with the coming into effect of this policy document.

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 –
- the pure protection products offered by the licensed person provide the same benefits and coverage as that for pure protection products available through its direct distribution channels; and
 - 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 in **Appendix I** and in paragraph 12.4 respectively are removed with effect from -
- 1 July 2019 for investment-linked insurance products; and
 - 1 July 2020 for investment-linked takaful products.
- S** 11.3 In relation to paragraph 11.2, prior to 1 July 2019 and 1 July 2020 for investment-linked insurance and investment-linked takaful products respectively, the maximum commission limits for investment-linked insurance/takaful products applicable to agents shall be those specified in Schedule 1 of **Appendix I**.
- S** 11.4 With effect from 1 January 2020, a licensed person shall not exceed the maximum commission limits applicable to bancassurance partners³ as specified in Schedule 4 of **Appendix I**. Prior to 1 January 2020, the maximum commission limits applicable to bancassurance partners⁴ shall be those specified in Schedule 3 of **Appendix I**.

In relation to paragraph 11.2, prior to the removal of commission limits for investment-linked insurance/takaful products, the maximum commission limits for investment-linked insurance/takaful products applicable to bancassurance partners shall be as follows:

Effective period	Investment-linked insurance	Investment-linked takaful
Prior to 1 July 2019	As specified in Schedule 3 of Appendix I	
1 July 2019 - 31 December 2019	Not applicable	As specified in Schedule 3 of Appendix I
1 January 2020 - 30 June 2020		As specified in Schedule 4 of Appendix I

- S** 11.5 A licensed person shall not exceed the maximum commission limits applicable to financial advisers and insurance/takaful brokers as specified in Schedule 5 of **Appendix I**.

³ Commission limits for bancassurance partners will be aligned to that of corporate agents in tandem with the implementation of BSC framework.

⁴ These are the same limits currently specified in the Guidelines on Bancassurance and Guidelines on Bancatakaful.

- S** 11.6 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 -
- (a) submit the relevant information to the Bank as specified in the Guidelines on Introduction of New Products by Insurers and Takaful Operators; and
 - (b) 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 in 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 the following limits, except where operating cost limits are removed as provided in paragraph 11.
- (a) 3% of the total annual premium/contribution for ordinary life/family takaful products and investment-linked products;
 - (b) 0.5% of the annual or single annuity premium/contribution for deferred annuity insurance/takaful products.

Agency organisation structure

- S** 12.5 Where a licensed person adopts a tiered structure for its agency organisation, the tiered structure shall not exceed three tiers⁵.

Agency breakaway benefits

- S** 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.

Career agent

- S** 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

⁵ 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.

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.

Salaried agent

- S** 12.10 Where a licensed person remunerates its agents through a combination of a fixed salary and variable commission, the aggregate amount paid by the licensed person shall not exceed the commission limits specified in **Appendix I**.
- 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.
- S** 12.13 Where a licensed person remunerates its salaried staff who are principally engaged in business development in the form of bonus based on the volume of business production, the aggregate amount of salary and benefits including bonus paid by the licensed person shall not exceed the commission limits specified in **Appendix I**.

13 Governance requirements

Responsibilities of board and senior management

- S** 13.1 The board 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. The senior management of the licensed person shall be responsible for –
- (a) developing the remuneration policies, which include parameters for the implementation of the BSC Framework for the approval of the Board. The remuneration policies must also address any inherent product bias which can increase the mis-selling risks of life insurance/family takaful products;
 - (b) ensuring adequate training and support are 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; and
 - (d) 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 Director of Consumer and Market Conduct Department, Bank Negara Malaysia a report on the performance of intermediaries against the KPIs of the BSC Framework as reviewed by the board under paragraph 13.1 (c) and (d), and the information on the amount of BSC commissions payable to the intermediaries for the different categories ('underperformer', 'normal' and 'outperformer') by the end of the first quarter of the following year for each year beginning from the year 2018.

For bancassurance partners, the licensed person's report referred to above must also include details on the agreed KPI thresholds of the BSC framework between the licenced person and each bancassurance partner, if such thresholds differ from the minimum thresholds set out in paragraph 1.6.7 of Schedule 2 of **Appendix I**.

- 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 III** (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 III** 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 Commission limits for intermediaries****General requirements**

- S** 1.1 A licensed person shall ensure that commissions for a policy/certificate are paid over a minimum period of 6 years or the premium/contribution payment period, whichever is shorter. In cases where the premium/contribution paying term is less than 20 years, the licensed person shall apply the pro-rating formula to the basic and overriding commissions, and BSC commission as specified below. For insurance/takaful agents only, the licensed person may exclude the production and persistency bonus from the pro-rating requirements.

$$\frac{t}{20} \times \text{maximum allowable percentages under Schedules 1, 2, 3 and 4}$$

where t = term of premium/contribution payment for policy/certificate in years

- S** 1.2 In line with the pro-rating requirements, the commission payable for a product with paid-up option shall also be pro-rated by the licensed person based on the premium/contribution payment term upon which the policyholder/participant can exercise the paid-up option and cease payment of premium/contribution⁶. As an example, for a 20-year premium/contribution payment term product with an option to cease payment of premium/contribution in the 10th policy year, the commission payment by the licensed person shall be based on a 10-year pro-rated commission scale instead of a 20-year commission scale.

If the paid-up option is not taken up, the remaining commission (difference between the amount computed above and amount based on the original premium payment term) may be payable thereafter. Any savings in commission must be returned by the licensed person to consumers in the form of higher cash value/non-guaranteed benefits.

- S** 1.3 Corporate agents shall be deemed as ordinary agents and therefore, shall not be entitled to payment of any overriding commissions by the licensed person.
- S** 1.4 A licensed person shall observe the maximum allowable commission limits as specified in the following Schedules.

⁶ The requirement does not apply to the reduced paid-up option offered as part of the non-forfeiture provision.

Commission limits for insurance/takaful agents

Schedule 1: Commission limits pre-BSC implementation (prior to 1 January 2018)

Ordinary life insurance/family takaful products with premium/contribution paying term of 20 years or more:

S 1.4.1

Policy Year	Maximum % of annual premium/contribution					Total Commission
	Ordinary/Corporate Agents			Agency Leaders		
	Basic Commission	Production Bonus	Persistency Bonus	Overriding Commission ⁷	Production Bonus	
1	35%	5% ⁸	-	20%	5% ⁸	65%
2	25%	-	5% ⁹	10%	-	40%
3	15%	-	5% ¹⁰	6%	-	26%
4	15%	-	-	5%	-	20%
5	10%	-	-	-	-	10%
6	10%	-	-	-	-	10%
Total	110%	5%	10%	41%	5%	171%

S 1.4.2 The maximum percentage of commissions (including overriding commission, if any) on single premium/contribution ordinary life insurance/family takaful products, including mortgage term assurance/takaful and yearly renewable term assurance/takaful, shall be 10% of the single premium/contribution.

S 1.4.3 Investment-linked insurance/takaful products with premium/contribution paying term of 20 years or more:

Policy Year	Maximum % of annual premium/contribution
	Basic and Overriding Commission (including production and persistency bonus)
1	40%
2	40%
3	25%
Total	160%

S 1.4.4 The maximum percentage of commissions (including overriding commission, production and persistency bonus) on single premium/contribution investment-linked insurance/takaful products and top-up premium/contribution shall be 3.75% of the single premium/contribution.

S 1.4.5 The maximum percentage of commissions (including overriding commission) on deferred annuity insurance/takaful products shall be 3% of the annual or single annuity premium/contribution.

⁷ The maximum aggregate amount of overriding commissions payable to all levels of agency leaders is computed based on the maximum allowable percentage for the overriding commissions. A licensed person may however decide the manner in which the overriding commissions are apportioned to each level of agency leaders subject to the aggregate limit.

⁸ Conditional upon meeting the qualifying criteria as established under the remuneration policy of the licensed person.

⁹ Conditional upon achieving first-year persistency rate of 90%.

¹⁰ Conditional upon achieving second-year persistency rate of 80%.

Schedule 2: Commission limits post-BSC implementation (1 January 2018 and thereafter)

- S** 1.4.6 Ordinary life insurance/family takaful products with premium/contribution paying term of 20 years or more¹¹:

Policy Year	Maximum % of annual premium/contribution		
	Basic Commissions for Ordinary/Corporate Agents	Overriding Commissions for Agency Leaders	Total Commission
1	40%	25%	65%
2	30%	10%	40%
3	20%	6%	26%
4	15%	5%	20%
5	10%	-	10%
6	10%	-	10%
Total	125%	46%	171%

- S** 1.4.7 Commission limits for single premium/contribution ordinary life insurance/family takaful products shall be applicable as stipulated in Schedule 1.
- S** 1.4.8 Prior to the deregulation of commission limits for investment-linked insurance and investment-linked takaful products effective from 1 July 2019 and 1 July 2020 respectively, the commission limits shall be applicable as stipulated in Schedule 1.
- S** 1.4.9 Commission limits for deferred annuity insurance/takaful products shall be applicable as stipulated in Schedule 1.

¹¹ For products with premium/contribution paying term less than 20 years, the pro-rating of commissions shall be applied to total commissions (including basic commissions, overriding commissions and BSC commission). Licensed persons may exclude the production and persistency bonus from the pro-rating requirements.

Commission limits for bancassurance/bancatakaful partnersSchedule 3: Commission limits pre-BSC implementation (prior to 1 January 2020)**S 1.4.10** Products with premium/contribution paying term of 20 years or more:

Policy Year	Maximum % of annual premium/contribution			
	Protection Products ¹²	Savings Products ¹³	Production Bonus	Persistency Bonus
1	30%	20%	5% ¹⁴	-
2	10%	5%	-	10% ¹⁵
3	10%	5%	-	10% ¹⁶
4	10%	5%	-	-
5	10%	5%	-	-
6	10%	5%	-	-
7	-	5%	-	-
8	-	5%	-	-
9	-	5%	-	-
10	-	5%	-	-
Total	80%	65%	5%	20%

S 1.4.11 Single premium/contribution or yearly renewable products:

	Protection Products	Savings Products
Ordinary life insurance/family takaful products	10%	5%
Investment-linked products (including top-ups)	-	3.75%

Schedule 4: Commission limits post-BSC implementation (1 January 2020 and thereafter)**S 1.4.12** Products with premium/contribution paying term of 20 years or more¹⁷:

Policy Year	Maximum % of annual premium/contribution	
	Protection Products	Savings Products
1	40%	30%
2	30%	20%
3	20%	8%
4	15%	6%
5	10%	6%
6	10%	6%
7	-	6%
8	-	6%
9	-	6%
10	-	6%
Total	125%	100%

¹² Protection products include credit/financing-related products.¹³ Savings products include investment-linked and annuity product.¹⁴ Conditional upon meeting the qualifying criteria as established under the remuneration policy of the licensed person.¹⁵ Conditional upon achieving first-year persistency rate of 90%.¹⁶ Conditional upon achieving second-year persistency rate of 80%.¹⁷ For products with premium/contribution paying term less than 20 years, the pro-rating of commissions shall be applied to total commissions.

- S** 1.4.13 Commission limits stipulated in Schedule 3 shall continue to apply for credit/financing-related products and single premium/contribution or yearly renewable savings-type ordinary life insurance/family takaful products.
- S** 1.4.14 Commission limits applicable for investment-linked insurance and investment-linked takaful products will be removed effective from 1 July 2019 and 1 July 2020, respectively.

Commission limits for financial advisers and insurance/takaful brokers

Schedule 5: Commission limits

Products with premium/contribution paying term of 20 years or more¹⁸:

Policy Year	Maximum % of annual premium/contribution	
	Ordinary life insurance/family takaful products	Investment-linked insurance/takaful products
1	65%	40%
2	35% + 5% ¹⁹	40%
3	21% + 5% ²⁰	25%
4	20%	25%
5	10%	15%
6	10%	15%
Total	161% + 10%	160%

- S** 1.4.16 The maximum percentage of commissions on single premium/contribution investment-linked insurance/takaful products and top-up premium/contribution shall be 3.75% of the single premium/contribution.
- S** 1.4.17 The commission limits applicable for investment-linked insurance and investment-linked takaful products will be removed effective from 1 July 2019 and 1 July 2020, respectively.
- S** 1.4.18 The maximum percentage of commissions on single premium/contribution ordinary life insurance/family takaful products, including mortgage term assurance/takaful and yearly renewable term assurance/takaful, shall be 10% of the single premium/contribution.
- S** 1.4.19 The maximum percentage of commissions on deferred annuity insurance/takaful products shall be 3% of the annual or single annuity premium/contribution.
- S** 1.4.20 A licensed person shall pay renewal commission to its former tied agents and former agency leaders who have become a financial adviser's representatives (FAR) during the transition period of five years provided the former tied agents and former agency leaders achieved a persistency of at least 85% on premium/contribution for their individual sales. The renewal commission to be paid to the former tied agents and former agency leaders is limited to the basic commission as specified in Schedule 2. A licensed person shall also pay overriding commission to the agency leaders on the former tied agents' block of business.
- S** 1.4.21 A licensed person shall not pay any other benefits to a financial adviser, FAR, insurance/takaful broker or insurance/takaful broking staff except for commissions and product knowledge and skills training.

¹⁸ For products with premium/contribution paying term less than 20 years, the pro-rating of commissions shall be applied to total commissions.

¹⁹ Conditional upon achieving first-year persistency rate of 90%.

²⁰ Conditional upon achieving second-year persistency rate of 80%.

Appendix II Operational details of BSC Framework

- S** 1.1 The BSC Framework shall only be applicable to the sale/marketing of regular premium/contribution products that are subject to the Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business.
- S** 1.2 The operational details of BSC Framework for agents and bancassurance partners are stipulated in Schedule 1 and 2, respectively.
- S** 1.3 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** 1.4 Subject to 1.5 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** 1.5 Where the remuneration payable to the intermediaries exceeds the commission limits specified by the Bank, a licensed person shall fund the additional commissions directly from the shareholders' fund.
- S** 1.6 In relation to paragraph 1.5, except for the Participating Fund, any unpaid commission resulting from intermediaries under-performing the BSC shall be utilised, in a reasonable manner, by the licensed person for purposes of training and development of under-performing intermediaries. In the case of the Participating Fund, the licensed person will have the option either to use any unpaid commission for training and development of under-performing intermediaries or to add back to the asset shares of the policyholders in that Participating Fund.

Schedule 1: BSC Framework for Agents

- S** 1.6.1 The percentage of BSC commission payable by a licensed person to an agent shall be set at 25% of the total commission payable.
- S** 1.6.2 For the purpose of calculating the BSC commission for agents, a licensed person shall assign weightages for the respective KPIs according to the table below –

No.	Key Performance Indicators (KPIs)	Weightage (%)
1	Completion rate of CFF form (Option 1 or 2)	15
2a	1st year persistency rate	15
2b	2nd year persistency rate	15
3	Number of substantiated complaints ²¹	10
4	CPD hours	15
5	Number of policies/certificates sold/marketed or annualised first year premium/contribution	30

- S** 1.6.3 A licensed person shall measure the performance of agents, where applicable, against the criteria set out in the tables below –

No	Key Performance Indicators (KPIs)	1 January 2018 - 31 December 2019				
		Under-performer		Normal	Outperformer	
BSC Score		50%	75%	100%	125%	150%
1	Completion rate of CFF form (Option 1 or 2)	10%	15%	20%	25%	30%
2a	1st year persistency rate	-	85%	90%	92.5%	95%
2b	2nd year persistency rate	-	75%	80%	85%	90%
3	Number of substantiated complaints	-	-	0	-	-
4	CPD hours	-	-	30 ²²	-	-
5	Number of policies/certificates sold/marketed or annualised first year premium/contribution	-	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

- S** 1.6.4 From 1 January 2020, the KPIs and the thresholds for measuring the performance of agents to promote the outcomes set out in paragraph 9.1 shall be in accordance to the criteria to be specified by the Bank.

²¹Substantiated complaints refer to unprofessional conduct causing financial impact to customer such as wrong advice, misrepresentation or misleading advertisement, twisting of policies and misconduct in premium handling.

²²Including 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 and Family Takaful Advisors (NAMLIFA), Malaysia Financial Planning Council (MFPC) or Islamic Banking and Finance Institute Malaysia (IBFIM).

Schedule 2: BSC Framework for Bancassurance Partners

- S** 1.6.5 The percentage of BSC commission payable by a licensed person to a bancassurance partner shall be set at 35% of the total commission payable.
- S** 1.6.6 For the purpose of calculating the BSC commission for bancassurance partners, a licensed person shall assign weightages for the respective KPIs according to the table below –

No.	Key Performance Indicators (KPIs)	Weightage (%)
1	Completion rate of CFF form (Option 1 or 2)	25
2a	1st year persistency rate	30
2b	2nd year persistency rate	30
3	Number of substantiated complaints ²¹	10
4	CPD hours	5

- S** 1.6.7 A licensed person shall measure the performance of bancassurance partners, where applicable, against the minimum thresholds set out in the table below –

No	Key Performance Indicators (KPIs)	Under-performer		Normal	Outperformer	
		50%	75%	100%	125%	150%
	BSC Score					
1	Completion rate of CFF form (Option 1 or 2)	20%	25%	30%	35%	40%
2a	1st year persistency rate	-	85%	90%	92.5%	95%
2b	2nd year persistency rate	-	75%	80%	85%	90%
3	Number of substantiated complaints	-	-	0	-	-
4	CPD hours	-	-	30 ²²	-	-

- G** 1.6.8 A licensed person may adopt higher KPI thresholds for measuring the performance of bancassurance partners in ensuring the outcomes set out in paragraph 9.1 are achieved.

Question

In tandem with the alignment of commission limits for bancassurance partners to that of corporate agents, the BSC framework is introduced to bancassurance partners to foster behaviour that is consistent with the fair treatment of consumers. The BSC framework, which will be effective beginning 1 January 2020 factors in higher conduct expectations for banks, as they are financial institutions. The key differences between the BSC framework proposed for bancassurance partners and that which is currently applicable to agents are as follows:

- a) 35% of total commissions is subjected to BSC, comparative to 25% for agents, who are also subjected to a productivity KPI;
- b) Different weightages for the KPIs:

No.	Key Performance Indicators (KPIs)	Weightage (%)	
		Bancassurance Partners	Agents
1	Completion rate of CFF form (Option 1 or 2)	25	15
2a	1st year persistency rate	30	15
2b	2nd year persistency rate	30	15
3	Number of substantiated complaints ²²	10	10
4	CPD hours	5	15
5	Number of policies/certificates sold/marketed or annualised first year premium/contribution	-	30

- c) KPI thresholds for performance levels are set as minimum standard, instead of prescriptive standard to tailor for the diversity in bancassurance partnerships.

In line with the higher conduct expectations, for products with a premium/contribution paying term less than 20 years, the pro-rating of commissions shall be applied to total commissions.

1. How adequate are the proposed KPIs and respective weightages in achieving the intended outcomes set out in paragraph 9.1? Are there any other potential KPIs that should be included in the BSC framework and what would be their applicability to agents?
2. Please identify and detail out specific challenges that your institution may face in meeting the requirements under the BSC framework for bancassurance partners.

Appendix III Template for submission of returns (family takaful operators only)
Name of Company: _____

Agency-Related Expenses (ARE) for Ordinary Family Takaful Business

From January to December 20XX

Currency: RM

Description	Source of Data	Rate (%) (a)	Gross Direct Contributions (b)	Amount (c) = (a) x (b)
A. Agency-Related Expenses (ARE)				
1. Allowable ARE Amount	Sch 1, Form FT1-1	3		
2. Actual ARE / Wakalah Fee for Commission Expenses	Sch 6, Form FT1-1 and Sch 3, Form FT2 / Form FT1-1 ²³			
3. (Over) / Underspending [1 - 2]				
4. % of Total (Over) / Underspending [(3/1) x 100] to allowable ARE Amount				
Explanation for Non-Compliance with BNM/RH/PD 029-35				
[Text for explanation if A(3) is negative]				

Signature : _____

Name : _____
Chief Executive Officer
Date : _____

²³ Wakalah fee for commission expenses (exclude gross commission on direct business).