



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Investment-linked Business

Applicable to:

1. Licensed insurers
2. Licensed takaful operators

Issued on: 11 January 2019

BNM/RH/PD 029-36

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PART A OVERVIEW

1. Introduction

- 1.1 An investment-linked policy/takaful certificate has unique features, whereby premiums/takaful contributions paid by a consumer are invested in investment-linked fund(s) offered by the licensed person, and this investment is used to fund the coverage of the consumer's insurance/takaful protection and other fees and charges related to such policy/takaful certificate. Flexibilities are also provided to consumers to —
- (a) switch between investment funds based on their risk appetite and financial needs;
 - (b) top-up investments, make partial withdrawals and/or take premium holidays; and
 - (c) vary their insurance/takaful coverage as their protection needs or financial circumstances change, by adding or removing extensions of cover.
- 1.2 Due to these unique features, consumers bear both the upside and downside of the investment risks, and the long term persistency of their investment-linked policies/takaful certificates can be affected by investment risks and the flexibilities accorded to such policies/takaful certificates. Therefore, it is critical for a licensed person to maintain high standards of governance in the management of its investment-linked business and to uphold proper conduct in the sales, marketing and disclosure of information relating to investment-linked policies/takaful certificates to aid informed decision-making by consumers at all times.
- 1.3 The principle objective of this policy document is to ensure that licensed persons provide fair treatment to consumers in preserving the value of the consumers' investment-linked policies/takaful certificates. Therefore, this policy document stipulates requirements on licensed person that are aimed to achieve the following:
- (a) promote and maintain high corporate governance and professionalism

in the administration of investment-linked business;

- (b) ensure professional and proper conduct in the sales and marketing of investment-linked policies/takaful certificates; and
- (c) enhance product transparency and disclosure to protect the interests of policy owners/takaful participants.

1.4 To achieve the above objectives, this policy document sets out requirements on the following:

- (a) approval to carry on investment-linked business;
- (b) management of investment-linked funds;
- (c) product design;
- (d) fees, charges and expenses;
- (e) disclosure;
- (f) investment; and
- (g) valuation of asset and liabilities of investment-linked funds.

1.5 The Bank has carefully considered the feedback obtained during the consultation period of the Life Insurance and Family Takaful Framework (LIFE Framework), and followed up with additional industry consultation¹ to understand renewed concerns by the industry. This has led to —

- (a) the issuance of specification letters² by the Bank to licensed persons to communicate critical enhancements preceding the full implementation of this policy document; and
- (b) a phased implementation of the requirements in this policy document for investment-linked business to allow sufficient time for licensed persons to realign their business strategies and operational practices, including system enhancements, to comply with the requirements.

1.6 This policy document stipulates key changes in the following areas:

- (a) implementation of Minimum Allocation Rates (MAR) as per the LIFE

¹ In March 2018.

² On 15 November 2018.

Framework to protect the account value of policy owners/takaful participants;

- (b) introduction of standards for sustainability tests to ensure proper management of long term persistency of investment-linked policies/takaful certificates; and
- (c) enhancements to product illustration format.

2. Applicability

- 2.1 This policy document is applicable to licensed insurers and licensed takaful operators carrying on investment-linked business.

3. Legal provisions

- 3.1 This policy document is issued pursuant to:
- (a) sections 47, 123, 143 and 266 of the Financial Services Act 2013 (FSA); and
 - (b) sections 57, 135, 155 and 277 of the Islamic Financial Services Act 2013 (IFSA).

4. Effective date and transitional arrangements

- 4.1 This policy document comes into effect on 11 January 2019 except for the following requirements which come into effect on the corresponding dates shown below:

Requirement	Reference	Effective date
(a) Minimum Allocation Rate (MAR)	Paragraph 15	(i) 1 July 2019 for a licensed insurer (ii) 1 July 2020 for a licensed takaful operator
(b) Management of sustainability of cover	Paragraph 16	1 January 2020 for a licensed person
(c) Product Illustration (new)	Appendices IV, IV(a) and IV(b) of this policy document	1 January 2020 for a licensed person

- 4.2 A licensed person must issue —
- (a) the first statement as required under paragraph 16.2(a) to all policy owners/takaful participants no later than 1 January 2020; and
 - (b) the subsequent annual statement to the first annual statement referred to in paragraph 4.2(a) to all policy owners/takaful participants no later than one year after the issuance of the first annual statement referred to in paragraph 4.2(a), and thereafter.
- 4.3 For the avoidance of doubt, for the purposes complying with the effective date under paragraph 4.1(b) above, the interim requirements on sustainability tests set out in paragraph 5 of the following documents are applicable until 1 January 2020:
- (a) Specification pursuant to Sections 47 and 123 of the Financial Services Act 2013 (FSA) on Interim Sustainability Tests for

Investment-linked Insurance/Takaful Business (IL business) (PO/8808/18/01)³; and

- (b) Specification pursuant to Sections 57 and 135 of the Islamic Financial Services Act 2013 (IFSA) on Interim Measures for Investment-linked Insurance/Takaful Business (IL business) (JPIT/PT/1/17)³.

4.4 The following requirements in this policy document will cease to be applicable on the dates set out correspondingly as follows:

- (a) the requirements on commissions referred to in paragraph 23.3 and Agency Related Expenses referred to in paragraph 24.6, respectively, will cease to apply from 1 July 2019 for licensed insurers and 1 July 2020 for licensed takaful operators; and
- (b) the requirements on sales and marketing illustrations in **Appendices IV(c)** and **IV(d)** of this policy document, will cease to apply from 1 January 2020 for licensed persons.

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 purposes 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

³ Issued on 15 November 2018.

intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“board” means the board of directors of a licensed person, including a committee of the board where the responsibilities of the board set out in this policy document have been delegated to such a committee;

“licensed person” refers collectively to —

- (a) a licensed insurer; and
- (b) a licensed takaful operator;

“Minimum Allocation Rate (MAR)” refers to the minimum proportion of premiums payable by policy owner/takaful contributions made by takaful participant that is allocated in the unit fund(s) of choice before the deduction of any charges;

“net asset value (NAV)” refers to the total market value of assets in the fund divided by the total number of units of the fund;

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

“Sum Assured or Participated Multiple (SAM) rule” is used to determine:

- (a) the minimum amount of sum assured/participated that must be provided for a given level of premium relating to insurance coverage/takaful contribution relating to takaful coverage; or
- (b) the maximum amount of premium/takaful contribution that can be classified as the portion relating to insurance/takaful coverage, for a given level of sum assured/participated. Any excess premium/takaful contribution must be classified as top-up premiums/takaful contributions.

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) Guidelines on Family Takaful Products (BNM/RH/GL/004-9);
 - (b) Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3);
 - (c) Guidelines on Takaful Operational Framework (BNM/RH/GL 004-22);
 - (d) Introduction of New Products for Insurers and Takaful Operators (BNM/RH/STD 029-10);
 - (e) Life Insurance and Family Takaful Framework (BNM/RH/NT 028-10);
 - (f) Corporate Governance (BNM/RH/PD 029-9);
 - (g) Outsourcing (BNM/RH/PD 028-93);
 - (h) Management of Insurance Funds (BNM/RH/PD 032-15);
 - (i) Financial Reporting (BNM/RH/STD 032-5);
 - (j) Financial Reporting for Takaful Operators (BNM/RH/STD 033-5);
 - (k) Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12);
 - (l) Guidelines on Valuation Basis for Liabilities of Family Takaful Business (BNM/RH/GL 004-20);
 - (m) Revised Guidelines on Derivatives for Insurers (BNM/RH/GL 003-26);
 - (n) Guidelines on Medical and Health Business (BNM/RH/GL/003-20);
 - (o) Guidelines on Medical and Health Takaful Business (BNM/RH/GL/004-11);
 - (p) Operating Cost Controls for Life Insurance and Family Takaful Business (BNM/RH/PD 029-35);
 - (q) Specification pursuant to Sections 47 and 123 of the Financial Services Act 2013 (FSA) on Interim Sustainability Tests for Investment-linked Insurance/Takaful Business (IL business) (PO/8808/18/01)⁴; and
 - (r) Specification pursuant to Sections 57 and 135 of the Islamic Financial

⁴ Issued on 15 November 2018.

Services Act 2013 (IFSA) on Interim Measures for Investment-linked Insurance/Takaful Business (IL business) (JPIT/PT/1/17)⁴.

7. Policy document superseded

7.1 This policy document supersedes the following documents on the corresponding dates shown below:

Documents	Date superseded
'Guidelines on Investment-Linked Insurance/Takaful Business' (BNM/RH/GL 010-15)	11 January 2019
Specification pursuant to Sections 47 and 123 of the Financial Services Act 2013 (FSA) on Interim Sustainability Tests for Investment-linked Insurance/Takaful Business (IL business)	1 January 2020
Specification pursuant to Sections 57 and 135 of the Islamic Financial Services Act 2013 (IFSA) on Interim Measures for Investment-linked Insurance/Takaful Business (IL business)	1 January 2020

PART B APPROVAL AND ROLES**8. Approval to conduct investment-linked business**

- S** 8.1 A licensed person must not carry out investment-linked business except with the prior written approval of the Bank and subject to such conditions as the Bank may impose.
- S** 8.2 A licensed person must submit to the Bank an application for approval to carry on investment-linked business. The application must include the minimum information stipulated in **Appendix I** of this policy document.
- S** 8.3 Where an application under paragraph 8.2 is pending the Bank's approval or a licensed person has already been approved by the Bank under paragraph 8.1, the licensed person must notify the Bank in a timely manner of any material changes to any information that the licensed person has submitted to the Bank in respect of its application to carry on investment-linked business.
- 8.4 Where a licensed person has already been approved by the Bank under paragraph 8.1, the Bank may, based on the licensed person's notification referred to in paragraph 8.3 or such other information that the Bank becomes aware of —
- (a) revoke approval for the licensed person to carry on investment-linked business; or
 - (b) impose or vary any conditions attached to the approval given under paragraph 8.1.

9. Roles of board and senior management

- S** 9.1 The board must ensure effective oversight of the licensed person's investment-linked business as part of the licensed person's overall strategy management and risk control framework.

- S** 9.2 The licensed person's risk control framework referred to in paragraph 9.1 must address —
- (a) appropriate governance arrangements and management considerations in resolving conflicts and balancing the interests of policy owners/takaful participants and shareholders; and
 - (b) the parameters under which discretion over investments are exercised by senior management.
- S** 9.3 The board must ensure that the governance for the management of the licensed person's investment-linked business (including internal structures, policies and processes) is consistent with the requirements set out in the policy document on Corporate Governance, and enable the licensed person to fulfil its responsibility of ensuring fair treatment of policy owners/takaful participants. Towards this, the board must establish appropriate reporting structures for senior management to support the board in its oversight responsibilities of the licensed person's investment-linked business.
- S** 9.4 The board must consider whether the establishment of an appropriate internal board committee is necessary for the purposes of effecting paragraph 9.3. If the board establishes such a committee, the board must ensure that the committee —
- (a) has clear responsibilities for the oversight, management and control of the licensed person's investment-linked business; and
 - (b) is able to provide a countervailing influence on management perspectives, for the benefit of policy owners/takaful participants.
- G** 9.5 Where necessary, a licensed person may appoint a trustee approved by the board for its investment-linked funds to safeguard the interests of policy owners/takaful participants.
- S** 9.6 The board of a licensed takaful operator must ensure that its investment-linked takaful business is managed in compliance with Shariah principles and relevant regulatory requirements. This includes, but is not limited to the

following areas:

- (a) management of investment-linked takaful funds;
- (b) investment activities;
- (c) product design and structure; and
- (d) the suitability of the underlying contracts.

- S** 9.7 The licensed person's senior management is responsible for the day-to-day management of the investment-linked business. Therefore, they must ensure effective implementation of the requirements specified in this policy document, including all systems, policies and procedures as approved by the board. In doing so, the licensed person's senior management must —
- (a) establish clear systems, policies and procedures for the day-to-day management of the licensed person's investment-linked business;
 - (b) ensure that there are mechanisms and processes in place to monitor compliance with the policies and procedures at all times. This must include well-defined processes for escalating and remediating incidents of non-compliance in a timely manner;
 - (c) ensure that all systems, policies and procedures are communicated effectively to all parties involved in the day-to-day management of the licensed person's investment-linked business; and
 - (d) advise the board on developments that have an impact on the licensed person's investment-linked business and recommend any changes that may be required in response to such developments.

PART C MANAGEMENT OF FUNDS**10. General requirements**

- S** 10.1 A licensed person must have adequate systems, policies and procedures in place to manage and administer the investment-linked funds held by it in compliance with regulatory requirements. There must be clear principles and policies established for the valuation of funds and calculation of unit prices.
- S** 10.2 For purposes of paragraph 10.1, a licensed person must ensure —
- (a) that the valuation of assets in each investment-linked fund is fair and conducted on a timely basis;
 - (b) that the allocations and provisions or deductions for expenses and charges in respect of an investment-linked fund are fair, and in accordance with the terms and disclosures of the investment-linked policy/takaful certificate made to policy owners/takaful participants; and
 - (c) equitable treatment of different policy owners/takaful participants, and groups of policy owners/takaful participants, within or between individual investment-linked fund(s), as the case may be.
- S** 10.3 A licensed person must manage the investment-linked funds in a manner that will avoid unnecessary costs or risks to policy owners/takaful participants. A licensed person must ensure that —
- (a) all transactions of the funds are undertaken on terms that are consistent with the interests of policy owners/takaful participants; and
 - (b) any terms of engagement of brokers or dealers reflects terms which are comparable with the best available terms in the market.
- S** 10.4 A licensed person and its fund manager(s) are prohibited from receiving soft commissions in the form of any travel, accommodation or entertainment benefits.

- S** 10.5 Where soft commissions are received for products and services obtained from a broker (for example, research and advisory services, economic and portfolio analyses, and market report), the following conditions must apply:
- (a) the services rendered relate to the management of the investment-linked funds and bring demonstrable and justified benefits to policy owners/takaful participants; and
 - (b) the form of the soft commissions is adequately disclosed in the fund performance report.
- S** 10.6 For any changes made to the management of investment-linked funds, including investment objectives, strategies, asset allocation and risk management strategy, a licensed person must —
- (a) ensure that any changes made are justified and supported with demonstrable benefit to the policy owners/takaful participants; and
 - (b) notify the policy owners/takaful participants of the changes, at least three months in advance of those changes taking place.
- S** 10.7 For investment management activities that are outsourced to another entity within the group, a licensed person must ensure compliance with the policy document on Outsourcing (BNM/RH/PD 028-93). In addition, a licensed person must disclose the outsourcing arrangement to policy owners/takaful participants.
- S** 10.8 A licensed person must seek the Bank's prior approval to —
- (a) close any investment-linked fund to new money; or
 - (b) transfer the assets of any investment-linked fund to another fund.

11. Objectives of funds

- S** 11.1 A licensed person must ensure that the objectives of an investment-linked fund are clear, specific and sufficiently detailed to enable a policy owner/takaful participant to make informed assessments on the nature and

performance of the fund's underlying assets and potential risks.

- S** 11.2 A licensed person must clearly and adequately disclose an investment-linked fund's objectives and allocations to the fund's various types of investments in all —
- (a) sales and marketing materials used; and
 - (b) investment-linked policies/takaful certificates issued.

12. Separation of funds

- S** 12.1 A licensed person must establish and maintain one or more separate investment-linked fund(s) for the purposes of carrying on any investment-linked business, as necessary.
- S** 12.2 A licensed person must keep assets of an investment-linked fund separate from all its other assets.

13. Pricing and dealing of units

- S** 13.1 A licensed person must sell and repurchase units of an investment-linked fund at the NAV per unit of the fund. The sale and repurchase price for units must be the NAV per unit of the fund as at the next valuation point immediately after the request to sell or repurchase units is received by the licensed person (and not when such request is approved by the licensed person).
- G** 13.2 A licensed person may impute transaction costs of acquiring or disposing of the assets of an investment-linked fund, if such costs are significant, to ensure fair treatment to all policy owners/takaful participants. The licensed person may make an adjustment using either one of the two methods below to recoup the cost of acquiring and disposing of assets as follows:

- (a) make a dilution or transaction cost adjustment to the NAV per unit to recover any amount which the fund has already paid or reasonably expects to pay for the creation or cancellation of units; or
 - (b) impose a dilution fee or transaction cost.

- S** 13.3 Where a licensed person opts for the method in paragraph 13.2(b), the licensed person must ensure that the fee becomes due at the same time payment is made for the sale and repurchase of units. The dilution fee or transaction cost charged must be allocated back to the unit fund.

- S** 13.4 A licensed person must carry out the valuation of units every business day. If the nature of the investible assets does not support the daily valuation of units, the licensed person must carry out the valuation at alternative frequencies appropriate to the nature of the investment. However, the frequency of valuation must not be less than once a month.

- G** 13.5 Examples of cases where the investible assets do not support the daily valuation of units are closed-end funds with investments linked to Over-the-counter (OTC) derivatives.

- S** 13.6 A licensed person must ensure that appropriate controls are in place and operate effectively to —
 - (a) ensure the calculation of unit prices is timely and accurate; and
 - (b) support the early detection of unit pricing errors and/or delays.

- S** 13.7 A licensed person must assume responsibility for unit pricing errors or delays. In addition, a licensed person must make adequate provisions for the occurrence of any errors or delays, in order to compensate affected policy owners/takaful participants for losses incurred as a result of such errors or delays, in accordance with paragraph 14.7.

- S** 13.8 A licensed person must ensure that a split or combination exercise for any investment-linked fund is carried out only if the following conditions are met:
- (a) a unit split or combination has not been previously carried out in the same financial year; and
 - (b) there has been a sustainable appreciation in the NAV of the fund over a six-month period preceding the split. This refers to an increase in the average monthly NAV from one month to another, over the six-month period.
- S** 13.9 For unit split or combination referred to in paragraph 13.8, the licensed person must —
- (a) provide a statement promptly after the unit split or combination exercise to all affected the policy owners/takaful participants;
 - (b) ensure that the statement required in paragraph 13.9(a) sets out the NAV before and after the unit split or combination, together with reasons for undertaking the unit split or combination; and
 - (c) concurrently notify the Bank of any unit split or combination exercise undertaken.

PART D PRODUCT DESIGN**14. General conditions**

- S** 14.1 A licensed person must disclose the information on the design of an investment-linked product and its features in the sales or marketing material for the product as required under **Part F** of this policy document.
- S** 14.2 A licensed person must ensure that the name of an investment-linked product and investment-linked fund reflects the underlying investment strategy for the linked assets and their inherent volatility. In addition, the description of the product must clearly state that it is an investment-linked product⁵ to avoid any misrepresentation of such product as a pure investment plan.
- S** 14.3 For an investment-linked product to be represented as a capital guaranteed product, a licensed person or a third party must explicitly provide a guarantee for the investment-linked product as follows:
- (a) in the case of a third party guarantor, the guarantor must be a bank, investment bank or Islamic bank licensed under FSA and IFSA respectively; and
 - (b) in the case of a licensed takaful operator, it must ensure that the guarantee is in line with Shariah principles.
- S** 14.4 Any investment-linked product that does not meet the criteria set out in paragraph 14.3 must not be represented as a capital guaranteed product or any other name capable of being construed as having a similar meaning, including, but not limited to examples such as 'capital protected' or 'capital preserved'. An investment-linked fund that merely adopts an investment strategy aimed at returning policy owners/takaful participants' capital must not be represented as a capital protected product or any other name that is

⁵ For a licensed insurer, the product must be stated as an investment-linked insurance product, and for a licensed takaful operator, the product must be stated as an investment-linked takaful product.

capable of being construed as having a similar meaning.

- G** 14.5 A licensed person may design extensions to an investment-linked product (or riders) in the form of unit deducting riders or premium/contribution-paying riders.
- S** 14.6 Where a policy owner/takaful participant has taken a premium or takaful contribution holiday, a licensed person must —
- (a) explicitly seek the consent of the policy owner/takaful participant's consent before deducting any charges for riders from the unit fund; and
 - (b) ensure that the deduction for premium/takaful contribution-paying riders is computed net of commissions, if the premium/takaful contribution holiday occurs during any commission payment period.
- S** 14.7 A licensed person must charge the cost of any compensation or ex-gratia payments in relation to an investment-linked product to the shareholders' fund of the licensed person. Examples of occurrences that lead to the cost of compensation or ex-gratia payments being incurred include, but are not limited to:
- (a) mis-selling;
 - (b) errors or delays in unit pricing;
 - (c) incorrect fees and charges levied to funds and policy owners/takaful participants; and
 - (d) incorrect computations of NAV.

15. Minimum Allocation Rate (MAR)

- S** 15.1 A licensed person must ensure that the proportion of premiums/takaful contributions for investment-linked policies/takaful certificates allocated to a unit fund(s) is not lower than the MAR as per **Table 1** below for —
- (a) regular premium policies/regular takaful contribution certificates with

- premium/takaful contribution-paying terms of 3 years or more; and
- (b) unitised extensions to a policy/takaful certificate (or riders) with premium/takaful contribution-paying terms of 3 years or more.

Year of premium payment or contribution	MAR (Percentage of annual premiums or contributions)
1 to 3	60
4 to 6	80
7 to 10	95
11 onwards	100

Table 1

- S** 15.2 In addition to the requirement in paragraph 15.1, for regular premium policies/regular takaful contribution certificates with premium/takaful contribution-paying terms of 3 to 19 years, the licensed person must ensure that the total premiums/takaful contributions which are not allocated to the unit fund(s), as a proportion of total premiums/takaful contributions, do not exceed Y%, where —

$$Y\% = \left(\frac{X}{20}\right) \times 200\%, \text{ and } X \text{ is the premium/takaful contribution-paying term.}$$

- S** 15.3 A licensed person must seek the Bank's prior approval to apply allocation rates that are lower than the MAR as per **Table 1** above. In order to be considered for approval, the licensed person must demonstrate that the proposal will result in a better overall outcome for policy owners/takaful participants. In particular, the licensed person must ensure that:
- (a) any allocation rates that are lower than the MAR must only take place after the 7th policy year; and
- (b) the total amount of premiums/takaful contributions not allocated to the unit fund(s) is lower than:
- (i) 200% of total premiums/takaful contributions in the case of investment-linked policies/takaful certificates with premium/takaful contribution-paying terms of 20 years and above; and
- (ii) Y% of total premiums/contributions in the case of investment

linked policies/takaful certificates with premium/takaful contribution-paying terms of less than 20 years, where Y% is calculated in accordance with paragraph 15.2.

- S** 15.4 A licensed person must allocate at least 95% of the annual regular or single premium/takaful contribution to the unit fund(s) for any —
- (a) investment-linked policies/takaful certificates with premium/takaful contribution-paying terms of less than 3 years;
 - (b) unitised extensions to an investment-linked policy/takaful certificate (or riders) with premium/takaful contribution-paying term of less than 3 years;
 - (c) top-up premiums/takaful contributions; and
 - (d) additional premiums/takaful contributions relating to increases in cost of insurance/tabarru’.

16. Management of sustainability of cover

- S** 16.1 At the point of sale, a licensed person must ensure that premiums/takaful contributions are priced at a level where an investment-linked policy/takaful certificate is expected to sustain its coverage until the end of its contractual term.
- S** 16.2 A licensed person must also actively manage the sustainability of an investment-linked policy/takaful certificate throughout its term on an ongoing basis, by performing regular sustainability tests. In performing such sustainability tests, the licensed person must assess if coverage will continue to be sustainable until the end of the contractual term of the investment-linked policy/takaful certificate. A sustainability test must be performed by the licensed person —
- (a) at least annually; and
 - (b) in the event that the policy owner/takaful participant indicates the intention to exercise an option or make an alteration to the

policy/takaful certificate, unless the licensed person can demonstrate that the policy owner/takaful participant is able to take such action without prior notification to the licensed person.

- G** 16.3 In relation to paragraph 16.2(b), options and alterations to an investment-linked policy/takaful certificate which would generally result in the assessment of the impact on the sustainability of cover include the following actions taken by policy owners/takaful participants —
- (a) partial withdrawals;
 - (b) addition of extensions to an investment-linked insurance policy/takaful certificate (or riders); and
 - (c) increases in the term of insurance or takaful cover.
- G** 16.4 In relation to paragraph 16.2(b), an example of an action that can be taken by policy owners/takaful participants without prior notification to a licensed person is taking a premium/takaful contribution holiday.
- S** 16.5 In carrying out a sustainability test for an investment-linked policy/takaful certificate, a licensed insurer must ensure that —
- (a) all information used is sufficiently up-to-date and specific to the individual policy owner/takaful participant, and reflect actual past actions of the policy owner/takaful participant;
 - (b) all relevant future inflows and outflows pertaining to the unit account are considered. This includes cash flows arising from unit-deducting and unitised premium/takaful contribution-paying riders attached to the basic policy/takaful certificate; and
 - (c) any assumptions used are no more optimistic than the best estimate assumptions. In addition, the assumptions on fund growth must be reflective of the intrinsic performance of the underlying funds selected by the policy owner/takaful participant. In the event that the policy owner/takaful participant chooses multiple funds, the licensed person must use a weighted fund growth rate based on the percentage of allocation of premiums/takaful contributions into the respective funds.

- S** 16.6 A licensed person must disclose the outcome of the sustainability test carried out under paragraph 16.2 to the policy owners/takaful participants to facilitate timely and informed decision-making for them:
- (a) for paragraph 16.2(a), the disclosure must be made in the annual statement as required in paragraph 29; and
 - (b) for paragraph 16.2(b), the disclosure must be made prior to an event⁶ that will affect the sustainability of cover of an investment-linked policy/takaful certificate.
- S** 16.7 The disclosure by a licensed person as required in paragraph 16.6 must at minimum include the following:
- (a) the expected sustainability of the cover under the investment-linked policy/takaful certificate;
 - (b) where the policy owner/takaful participant has taken a premium/takaful contribution holiday, a reminder of any automated deductions from the unit fund which are in effect, and an explanation of the possible consequences of these automated deductions; and
 - (c) in the event that cover is no longer sustainable until the end of the contractual term, then —
 - (i) a clear and concise explanation on the factors which have affected the sustainability of the cover; and
 - (ii) the recommended amount of top-up premiums/takaful contributions needed to restore the sustainability of cover under the investment-linked policy/takaful certificate, and alternative actions.
- S** 16.8 In the event of an increase in the reviewable insurance charges/tabarru', the licensed person must —

⁶ Event refers to the point after which a policy owner/takaful participant has expressed an intention to take the following actions but before the action materialises. This includes, but is not limited to the following:

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

- (a) for an investment-linked policy/takaful certificate sold prior to 1 January 2020 which has a contract that does not allow for unilateral premium/takaful contribution adjustments by the licensed person, recommend to the affected policy owners/takaful participants the amount of top-up premiums/takaful contributions necessary to restore the sustainability of the policy/takaful certificate to the end of its contractual term, with options for alternative actions.
- (b) for all other contracts, ensure that increases in the reviewable insurance charges/tabarru' are supported by an equivalent increase to the premium/takaful contribution level. This is to promote transparency and ensure that policy owners/takaful participants are kept aware of any increases in charges/tabarru'. In communicating the increase to the premium/takaful contribution level to affected policy owners/takaful participants, the licensed person must also provide options for alternative actions.

- G** 16.9 Examples of the alternative actions taken for an investment-linked policy/takaful certificate referred to in paragraphs 16.7 and 16.8 include:
- (a) reducing coverage;
 - (b) reducing the policy/takaful certificate term;
 - (c) removing extensions to the policy/takaful certificate (or riders); or
 - (d) utilising the unit fund to fund increases in insurance charges/tabarru', provided that the coverage will continue to be sustainable until the end of the contractual term of the policy/takaful certificate.
- S** 16.10 Where action under paragraph 16.9(d) is opted for, the licensed person must highlight to policy owners/takaful participants that this option will result in a higher rate of depletion of the unit fund value.
- S** 16.11 A licensed person must ensure that all disclosures to the policy owner/takaful participant are clear and not misleading, particularly in relation to the outcomes of the sustainability test. This includes the licensed person ensuring that —

- (a) the technical components of the communication and disclosures are not overly complex or excessively detailed such that there is room for misrepresentation or misinterpretation;
- (b) the limitations to the sustainability test are clearly highlighted (e.g. sustainability test is based on estimates of future outcomes); and
- (c) there are potential for variations or deviations from the sustainability if there are material or unexpected deviations of actual experience with the estimates.

17. Death benefits

- S** 17.1 A licensed person must ensure that a basic investment-linked policy/takaful certificate provide the following minimum death benefits:
- (a) for single premium policies/takaful contribution certificates —
 - (i) minimum death benefits of RM 5,000 or 105% of the entire premium/takaful contribution paid at inception⁷, whichever is higher, for older ages and substandard lives; and
 - (ii) minimum death benefits of RM 5,000 or 125% of the entire premium/takaful contribution paid at inception⁷, whichever is higher, other than for those under paragraph 17(a)(i);
 - (b) for regular premium policies/regular takaful contribution certificates, RM 5,000 or the prevailing multiple of annual premiums/takaful contributions, whichever is higher.
- S** 17.2 The prevailing multiple of annual premiums/takaful contributions in paragraph 17.1(b) refers to the SAM factors specified by the Bank in **Appendix II** of this policy document.
- S** 17.3 The requirement for minimum death benefits does not apply to top-up premiums/takaful contributions.

⁷ There must not be any top-up premiums/takaful contributions at inception.

- S** 17.4 Notwithstanding paragraph 17.3, a licensed person must not segregate any premium/takaful contribution paid for single premium policies/takaful contribution certificates into single and top-up premium/takaful contribution at the point of entering into the contract. The entire premium/takaful contribution paid by a policy owner/takaful participant must be treated as a single premium/takaful contribution and the requirement on minimum death benefits must be applied to such entire amount paid.

18. Surrender values

- S** 18.1 The surrender value of an investment-linked policy/takaful certificate must not be less than the value of units (based on the unit price at the time of cancellation) less any insurance/takaful charges, policy/takaful certificate fees and surrender charges, where applicable.
- S** 18.2 Where the cost of insurance/takaful charges and other charges are funded in advance, a licensed person must ensure that the surrender values are determined in accordance with generally accepted actuarial principles and in a manner that ensures fair treatment of policy owners/takaful participants.
- S** 18.3 A licensed person must promptly effect the payment of surrender values to a policy owner/takaful participant pending which his investment-linked policy/takaful certificate must remain in force.
- S** 18.4 A licensed person must ensure that any surrender charges levied for the cancellation of an investment-linked policy/takaful certificate reasonably reflects the expected incurred expenses up to the point of surrender. A licensed person must not profit from the surrender charge levied.

19. Free-look period

- S** 19.1 In accordance with paragraph 2 of Schedule 8 of the FSA/IFSA, a licensed person must allow a policy owner/takaful participant within 15 calendar days after the date of delivery of the investment-linked policy/takaful certificate —
- (a) to examine the terms and conditions of such policy/takaful certificate; and
 - (b) a right to terminate such policy/takaful certificate within the 15-day free-look period.
- S** 19.2 In accordance with paragraph 2 of Schedule 8 of the FSA/IFSA, if an investment-linked policy/takaful certificate is cancelled within the 15-day free-look period, the licensed person must, after deducting expenses which have been incurred for the medical examination of the life insured or participant, refund the following:
- (a) any unallocated premiums/takaful contributions;
 - (b) the value of units that have been allocated (if any) at the unit price at the next valuation date; and
 - (c) any insurance/takaful charges, and policy/takaful certificate fees that have been deducted.

PART E FEES/CHARGES AND EXPENSES**20. General conditions**

- S** 20.1 A licensed person must ensure that only expenses that are specifically identified to be necessary for the management of an investment-linked fund are charged to the unit fund. These expenses are —
- (a) commissions and fees paid to brokers for carrying out the investments of the fund;
 - (b) tax and other duties charged on the fund by the Government and other authorities;
 - (c) fees and other expenses incurred by the auditor appointed for the fund;
 - (d) fees for the valuation of the fund's investment by independent valuers;
 - (e) custodian fee; and
 - (f) cost of hedging⁸.
- S** 20.2 A licensed person must not charge indirect expenses to the unit fund, such as general overheads of the licensed person. In addition, a licensed person must ensure that any rebates in respect of an investment-linked fund's transactions are credited to the fund, which includes rebates on commissions and fees received from brokers.
- S** 20.3 A licensed person must adequately disclose the information on fees and charges borne by a policy owner/takaful participant in the sales and marketing materials, and in the investment-linked policy/takaful certificate documents, in compliance with **Part F** of this policy document.

⁸ Licensed persons are required to describe their hedging strategy in the risk management section of the Fund Fact Sheet and explain their hedging strategy for the year, including the cost of hedging, in the fund performance report.

- S** 20.4 A licensed person must give at least three months' written notice⁹ to all existing policy owners/takaful participants prior to making any changes to the fees and charges an investment-linked policy/takaful certificate. Changes to fees and charges at the policy/takaful certificate level must only be implemented on the policy/takaful certificate anniversary date.
- S** 20.5 A licensed person must notify the Bank of any revisions to the existing fees and charges in accordance with the requirements set out in the Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10) policy document.

21. Fund management charge

- G** 21.1 A licensed person may be remunerated by way of an annual fund management charge (FMC) for rendering fund management services to policy owners/takaful participants of investment-linked products.
- S** 21.2 If a licensed person imposes an annual FMC on a policy owner/takaful participant, such annual FMC must be charged to the fund via the unit pricing method.
- S** 21.3 The licensed person must ensure that the annual FMC is commensurate with the investment strategy the licensed person has employed and must not exceed —
- (a) 1% of an investment-linked fund's NAV for a fund which invests fully in money-market instruments or fixed income securities; and
 - (b) 1.5% of the fund's NAV for other funds.
- S** 21.4 A licensed person must make adjustments to the unit price for accrued fund

⁹ For medical and health riders, to follow the 30 days notification period as per the Guidelines on Medical and Health Business (BNM/RH/GL/003-20) and Guidelines on Medical and Health Takaful Business (BNM/RH/GL/004-11).

management fees according to the exact number of days that have elapsed since the previous unit pricing date.

22. Other charges

- S** 22.1 A licensed person must ensure that other charges including any service charge, top-up charge, switching charge, partial withdrawal charge, and surrender charge are reflective of the expenses incurred or expected to be incurred.
- S** 22.2 A licensed person must not profit from the other charges referred to in paragraph 22.1.
- S** 22.3 As a general principle, if a relevant expense has already been considered in one of the charges imposed, a licensed person must not charge again for the same expense in another category.

23. Commissions

- S** 23.1 A licensed person must comply with requirements relating to regular premium/takaful contribution investment-linked insurance policies/takaful certificates as specified in **Appendix II** of this policy document.
- S** 23.2 A licensed person must ensure that any investment-linked policy/takaful certificate sold through bancassurance/bancatakaful is subject to the limits stipulated in the Operating Cost Controls for Life Insurance and Family Takaful Business policy document (BNM/RH/PD 029-35).

- S** 23.3 A licensed person must ensure that the maximum percentages of commissions¹⁰ payable on an investment-linked policy/takaful certificate to its agency force and other intermediaries for marketing and servicing the policy/takaful certificate must be subject to the limits stipulated in the Operating Cost Controls for Life Insurance and Family Takaful Business policy document (BNM/RH/PD 029-35) as follows:
- (a) for single premium/takaful contribution policies/takaful certificates and top-up premium/takaful contributions, 3.75% of the amount of premium/takaful contribution;
 - (b) for annual premium/contribution policies/takaful certificates sold through the agency force, 160% of the annual premium/takaful contributions, to be payable over at least six years, with the maximum commissions payable in the first three policy/takaful certificate years of 40%, 40% and 25% respectively. This scale of maximum commissions is applicable for a policy/takaful certificate with a premium/takaful contribution-paying term of 20 years or more. This commission scale must be pro-rated accordingly for a policy/takaful certificate with a premium/takaful contribution-paying term of less than 20 years; and
 - (c) for a policy owner/takaful participant with a premium/takaful contribution-paying term of 5 years and below, the commission scale must be subject to the condition that the total commission paid in each policy/takaful certificate year is not greater than the corresponding pro-rated outer maximum commission limit (determined based on the maximum total commissions payable of 160% for a policy/takaful certificate with a premium/takaful contribution-paying term of 20 years or more).

¹⁰ Including overriding commission, production bonus and persistency bonus.

24. Agency Related Expenses (ARE)

- G** 24.1 The licensed person may incur payments of benefits in cash or kind to agents, agency supervisors and agency managers. These payments of benefits referred to as ARE, include medical expenses, insurance/takaful schemes, contributions to retirement or gratuity schemes, and agency seminars or conferences.
- S** 24.2 All ARE must be consistent with the licensed person's remuneration policy approved by its board and aligned to the performance measures imposed on the licensed person's agency force including productivity and persistency.
- S** 24.3 A licensed person must ensure that ARE are only charged to —
- (a) its non-unit fund, in the case of a licensed insurer; and
 - (b) its shareholders' fund, in the case of a takaful operator.
- S** 24.4 The licensed person must ensure that the agency supervisor or agency manager submits quarterly reports on its performance to the licensed person for purposes of monitoring.
- S** 24.5 A licensed person must maintain proper records and documentation of all ARE, which must be made readily available to the Bank upon request.
- S** 24.6 A licensed person must ensure that the total amount spent on ARE is subject to a limit of 3% of the annual regular premiums/takaful contributions as stipulated in the Operating Cost Controls for Life Insurance and Family Takaful Business policy document (BNM/RH/PD 029-35).

PART F DISCLOSURE**25. Disclosure requirements**

- S** 25.1 A licensed person must —
- (a) ensure any information provided to consumers relating to any investment-linked products is in line with the Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3), adequate to facilitate comparisons, and enable informed decisions by consumers. Such disclosures must include, but are not limited to, the key product features, benefits and risks, fees and charges, and contractual rights and obligations of consumers;
 - (b) not provide information on an investment-linked product that is inconsistent with the contents of its product documentation filed with the Bank;
 - (c) provide accurate and up-to-date information to policy owners/takaful participants on their investment-linked policies/takaful certificates; and
 - (d) provide sufficient information and narrative to policy owners/takaful participants on how the volatility associated with the different investment funds may impact expectations on sustainability.
- S** 25.2 The licensed person must ensure that any statement of opinion made to consumers must be reasonable, relevant, factually-based, suitably qualified, and verifiable.
- S** 25.3 The licensed person must —
- (a) immediately withdraw any information that becomes misleading following any change in circumstances; and
 - (b) notify existing policy owners/takaful participants of any change if the impact of such change on benefits to the existing policy owners/takaful participants is significant.
- S** 25.4 Any statement regarding the performance of an investment-linked fund on its own, or in relation to other investment-linked funds, or other alternative

investment vehicles, must be relevant, factually-based and attributable to an independent source, with the date and source of the statement prominently disclosed.

- S** 25.5 A licensed person must ensure that a reference to the past investment performance of an investment-linked fund is supplemented by a clear warning statement that such past performance is not indicative of future performance and the performance of the fund is not guaranteed. The licensed person must ensure that the past performance figures are based on actual historical performance and not simulations, and are not be unduly biased.
- G** 25.6 For purposes of paragraph 25.5, an example of unduly biased past performance figures is historical performance that is based only on a period of exceptionally favourable market conditions.
- S** 25.7 A licensed person must not market an investment-linked fund such that it forms undue expectations by consumers based on projected returns. The licensed person must illustrate all investment-linked funds in line with the requirements on the hypothetical scenarios specified in paragraph 26 and the product illustrations in **Appendix IV** of this policy document, with the exception of investment-linked funds which invest in structured products or derivatives, where the licensed person must illustrate the potential gains and losses through numerical examples for the following hypothetical scenarios to enhance understanding by consumers on the variability of the outcomes:
- (a) bull scenario (positive performance of underlying asset);
 - (b) flat scenario (0% performance of underlying assets, i.e. no movement in either direction); and
 - (c) bear scenario (negative performance of underlying assets) where an illustration of potential losses must be included.
- S** 25.8 For any investment-linked product which provides a guarantee (for

example, a capital guaranteed product), a licensed person must ensure that any representation made to the policy owner/takaful participant is clearly communicated and not misleading. This includes information provided during the sales or marketing process and disclosures made in the marketing literature as well as policy/takaful certificate documents and the minimum particulars as required in **Appendix III** of this policy document.

- S** 25.9 At minimum, a licensed must disclose the following information for any investment-linked product which provides a guarantee —
- (a) the name and credit rating of the guarantor;
 - (b) the material terms and scope of the guarantee; and
 - (c) appropriate caution with regard to counterparty risks associated with any guarantee, in particular with third party guarantors.
- S** 25.10 In the marketing of an investment-linked product a licensed insurer must not represent the policy to be similar to a ‘whole life’ policy. Therefore, the licensed person must not use the term ‘whole life’ or specify the term of the investment-linked policy in a manner that may be perceived to operate like a ‘whole life’ plan, in view that there is no guarantee on the level of coverage up to a reasonably old age.
- S** 25.11 A licensed insurer must not use any term for its investment-linked products or funds that may give rise to the perception that the product or fund is an Islamic or Shariah-compliant product or fund. In this regard, a licensed insurer —
- (a) must not use terms such as “Islamic”, “Shariah”, “Shariah-approved” and “Shariah-compliant”, or Arabic-references, or other terms capable of being construed as having the same meaning as these terms in the descriptions or names of investment-linked products to avoid confusion to prospective policy owners; but
 - (b) may make references to “Shariah-approved securities” or “Islamic corporate debt securities” to describe the nature of investments of an investment-linked fund. However, where such terms are used, a

licensed insurer must clarify in the relevant marketing documents that the investment-linked plan itself is not a Shariah-compliant product.

26. Product illustration

- S** 26.1 A licensed person must ensure the product illustration for its investment-linked policy/takaful certificate complies with **Appendix IV** of this policy document. In addition, a licensed takaful operator must ensure that the product illustration for an investment-linked takaful product meets the minimum content and other disclosure requirements specified in the Guidelines on Family Takaful Products (BNM/RH/GL/004-9).
- S** 26.2 A licensed person must provide a copy of the product illustration, based on actual premium/takaful contribution rates subscribed, to the policy owner/takaful participant together with the other investment-linked policy/takaful certificate documents.

27. Fund Fact Sheet

- S** 27.1 A licensed person must provide to consumers a separate Fund Fact Sheet for each of the licensed person's investment-linked funds containing the minimum information set out in **Appendix V** of this policy document.
- S** 27.2 A licensed person must provide the Fund Fact Sheet together with the product illustration at the point of sale of the investment-linked product.

28. Product literature

- G** 28.1 Product literature is additional material to the product illustration and Fund Fact Sheet, aimed at providing enhanced information to policy owners/takaful participants on the products. Product literature includes all announcements, promotional material, telemarketing scripts or advertisements in respect of an investment-linked product, sales/marketing brochures, or any other material provided before and at the point of sale/marketing.
- S** 28.2 A licensed person must ensure that the product literature is consistent with the information provided in its product illustration and Fund Fact Sheet. In addition, a licensed takaful operator must ensure that all product literature meets the minimum contents and other disclosure requirements specified in the Guidelines on Family Takaful Product (BNM/RH/GL/003-14).
- S** 28.3 A licensed person must ensure that the statement '*This is an [insurance or takaful]¹¹ product that is tied to the performance of underlying assets, and is not a pure investment product such as unit trusts*' is prominently displayed in large bold font in all product literature.

29. Statement to policy owners/takaful participants

- S** 29.1 A licensed person must —
- (a) provide a statement on the value of the investment-linked policy/takaful certificate, at least once a year, to each policy owner/takaful participant; and
 - (b) must distribute the statement within two months after the end of each financial year of the licensed person, or where more frequent statements are provided, at the end of the financial reporting period.

¹¹ As the case may be.

- S** 29.2 A licensed person must ensure that the statement to each policy owner/takaful participant on the status of the investment-linked policy/takaful certificate includes, but is not limited to the information stipulated in **Appendix VI** of this policy document.
- S** 29.3 A licensed person must report every transaction during the relevant reporting period referred to in paragraph 29.1, together with the date on which each of the transactions occurred, in the statement.

30. Fund performance report to policy owners/takaful participants

- S** 30.1 A licensed person must —
- (a) provide to each policy owner/takaful participant, at least once a year, a report on the performance of each investment-linked fund in which the policy owner/takaful participant has units; and
 - (b) distribute such fund performance report within four months from the end of each financial year of the licensed person, or where more frequent reports are provided, at the end of the reporting period. For closed-end funds, the licensed person may provide such report based on the investment-linked fund's financial year end.
- S** 30.2 A licensed person must ensure that the fund performance report to policy owners/takaful participants includes the following:
- (a) the licensed person's audited financial statements;
 - (b) notes to the licensed person's accounts; and
 - (c) the minimum information stipulated in **Appendix VII** of this policy document.

31. Publication of unit price

- S** 31.1 A licensed person must publish the latest NAV per unit of each of its investment-linked funds on its official website on a daily basis.
- S** 31.2 To ensure availability of information to members of the public without internet access, a licensed person must publish the NAV information of each of its investment-linked funds, on the last day of the month, in at least one widely circulated English national newspaper and at least one Bahasa Malaysia national newspaper.
- S** 31.3 In addition to paragraph 31.2, a licensed person is required to —
- (a) inform all policy owners/takaful participants on the availability of the information on the licensed person's website and in the newspaper publications; and
 - (b) provide access to the historical data of the NAV per unit of each of its investment-linked funds to policy owners/takaful participants when requested.

PART G INVESTMENT**32. General principles**

- S** 32.1 A licensed person must ensure that an investment-linked fund, including any such fund under an investment account platform, is invested in accordance with the licensed person's stated objectives at all times as disclosed in the Fund Fact Sheet and the investment-linked policy/takaful certificate. In particular, the licensed person must ensure that —
- (a) all investments are made in accordance with the objectives and investment policy of the relevant fund in relation to a particular security, class of securities, economic sector or market; and
 - (b) any performance benchmark used is aligned with the underlying investment strategy of the relevant fund.
- S** 32.2 In the case of a newly established investment-linked fund, a licensed person must ensure that the fund is fully invested in accordance to the fund's stated objectives, immediately after the initial offer period, subject to the following:
- (a) the initial offer period must not exceed two months; and
 - (b) in the event that the licensed person does not achieve the minimum required fund size, the licensed person must refund to policy owners/takaful operators all monies paid/contributed, with any interest/investment profits earned on any premiums/takaful contributions received during the offer period.

33. Investment limits

- S** 33.1 A licensed person must comply with the investment limits set out in **Appendix IX** of this policy document at all times, based on the most current value of an investment-linked fund and its underlying investments.
- S** 33.2 In cases of appreciation or depreciation of the investments of an investment-linked fund due to fluctuations in the values of the fund's assets which result in holdings in excess of the limits set out in **Appendix IX** of this policy document (stipulated limit), a 5% allowance in excess of the stipulated limit or restriction is permitted. Any rebalancing of investments necessary to rectify any excess exceeding the stipulated limit must be carried out by the licensed person within a period of 60 days.

PART H VALUATION OF ASSETS AND LIABILITIES**34. Valuation of assets**

- S** 34.1 A licensed person must comply with the applicable accounting standards issued by the Malaysian Accounting Standards Board (MASB) and requirements in the policy documents on Financial Reporting (BNM/RH/STD 032-5) or Financial Reporting for Takaful Operators (BNM/RH/STD 033-5), as well as other requirements applicable to the valuation of assets of investment-linked funds¹².
- S** 34.2 In addition, a licensed takaful operator must comply with **Appendix X** of this policy document.

35. Valuation of liabilities

- S** 35.1 For a licensed insurer, its appointed actuary must value the licensed insurer's non-unit liabilities of investment-linked policies in accordance with Appendix VII - Valuation Basis for Life Insurance Liabilities of the Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12).
- S** 35.2 For a licensed takaful operator, its appointed actuary must value the licensed takaful operator's liabilities of investment-linked takaful certificates in accordance with the basis set out in the Guidelines on Valuation Basis for Liabilities of Family Takaful Business (BNM/RH/GL 004-20).
- S** 35.3 A licensed person must maintain a matched position in respect of its unit liabilities. The value of the unit liabilities must be taken by the licensed person as the NAV of the matched units at the valuation date.

¹² For immovable property, licensed insurers must make appropriate adjustments where the market value of the assets changes significantly during the inter-valuation period.

PART I MARKETING**36. Marketing**

- S** 36.1 A licensed person must ensure that only agents and other intermediaries of the licensed person, who have passed the Certificate Examination in Investment-Linked Life Insurance (CEILLI) conducted by the Malaysian Insurance Institute or its equivalent, are allowed to market investment-linked products.

PART J APPENDICES**Appendix I Application to conduct investment-linked business**

1. Applications for approval to carry on investment-linked business, as specified in paragraph 8.2, must be submitted by a licensed person to the Bank together with a comprehensive business plan for carrying on such business that has been approved by the board.

2. The minimum information to be provided by a licensed person in the business plan must include the following:
 - (a) a clear description of the licensed person's governance structure with respect to the management of the investment-linked business, including lines of responsibility and reporting or oversight arrangements;
 - (b) confirmation that the licensed person has adequate resources to manage the business, including relevant internal experience and expertise to manage the investments of the funds, and the necessary infrastructure, system and capabilities such as IT support for fund accounting and unit valuation;
 - (c) description of the licensed person's risk management framework to ensure proper management of the investment-linked business, including compliance with existing laws and regulations; and
 - (d) an assessment of the expected impact of the investment-linked business on the licensed person's overall financial condition, risk profile and business strategy.

Appendix II Rules for regular premium/contribution investment-linked insurance policies/takaful certificates

1. The SAM rule supports the objective to protect the value of an investment-linked plan of a policy/takaful participant by ensuring a meaningful level of unit account value for a given amount of annual premiums¹³/annual takaful contributions¹³. The SAM rule is applied to segregate the premiums/takaful contributions into –
 - (a) the portion relating to insurance/takaful coverage, for which MAR as per paragraph 15.1 must apply; and
 - (b) the portion classified as top-up premiums/takaful contributions, for which MAR as per paragraph 15.4 must apply.

2. A licensed person must carry out the segregation set out in paragraph 1 of this appendix in a manner that ensures that the size of the sum assured/participated in relation to 1(a) is no lower than the SAM set out in **Table 2**:

Age	SAM
1 to 16	60
17 to 25	55
26 to 35	50
36 to 45	35
46 to 55	25
56 above	15

Table 2

¹³ This includes relevant riders as described in paragraph 3 of **Appendix II**.

3. In carrying out the assessment as required in paragraph 2 of this appendix, the licensed person must take into account all unit-deducting riders attached to the basic policy/takaful certificate, as follows:
- (a) for riders with the sum assured/participated payable on death, except accidental riders (Category 1 riders)¹⁴, the full amount of the sum assured/participated and premiums/takaful contributions must be included in the assessment; and
 - (b) for unit deducting riders without the sum assured/participated payable on death (Category 2 riders¹⁵), an adjustment must be made to the total annual premiums/takaful contributions in the form of a deduction of a Notional Premium/Takaful Contribution amount, calculated in accordance with paragraph 4 of this appendix.

For the avoidance of doubt, premium/takaful contribution-paying riders are not to be included in the assessment.

4. For Category 2 riders, the Notional Premium/Takaful Contribution must be calculated based on the following principles (level premium/takaful contribution approach):
- (a) the present value of the allocated portion of the Notional Premium/Takaful Contribution is set to be equal to the present value of the cost of insurance/tabarru' charge;
 - (b) the present value is calculated using a discount rate of 4%; and
 - (c) no decrement is to be used in the present value calculation.

¹⁴ Examples of Category 1 riders include term riders and critical illness riders with additional sums assured or participated on death.

¹⁵ Examples of Category 2 riders are critical illness riders with accelerated death benefits, hospital income riders, hospital and surgical riders, TPD riders, waiver of premium or contribution riders and accidental benefit riders.

5. In applying the requirements in paragraphs 1 to 4 of this appendix, the formula for the assessment is as follows:

For insurers

$$\frac{\text{Total sum assured}}{(\text{Annual premiums} - \text{Notional premium for Category 2 riders})}$$

For takaful operators

$$\frac{\text{Total sum participated}}{(\text{Annual contributions} - \text{Notional contribution for Category 2 riders})}$$

6. Notwithstanding paragraph 3 of this appendix, the licensed person must exercise judgement in considering the riders to be included in the assessment, to ensure that there are no distortions to the intended outcome of the SAM (e.g. dilution of the overall level of protection due to the inclusion of riders with a significantly high sum assured/participated relative to premiums/takaful contributions). This is to preserve the objective for policies/takaful certificates to have a meaningful level of unit account value for a given amount of total insurance premiums/takaful contributions.
7. Where there is an excess amount of premiums/takaful contributions, which if taken into account in the formula in paragraph 5 would result in the size of the sum assured/participated relative to total annual premiums/takaful contributions being lower than the SAM, that excess must be classified as a top-up premium/takaful contribution.

Appendix III Life insurance policy/family takaful certificate documentation

1. Licensed persons must ensure that the following additional minimum particulars are incorporated within the body of the life insurance policy/takaful certificate documentations:
 - (a) the nature of the benefits and how the benefits will be linked to the performance of the investment-linked funds that the policy owner/takaful participant has invested in. Where a fund is invested in structured products and derivatives (for yield enhancement purpose), a description of how the return or benefits are derived must be included;
 - (b) objectives and investment strategies of the investment-linked funds. The asset mix and conditions for departure from the fund's objectives (if any) must be clearly defined;
 - (c) allocation rates to purchase units in the investment-linked funds;
 - (d) types, amounts and methods of imposing the various charges applicable under the investment-linked insurance policy/takaful certificate, including the maximum charges;
 - (e) methodologies used in calculating unit prices for the purpose of allocating, creating or cancelling units in investment-linked funds;
 - (f) availability of options to vary the level of death benefits and premium/contributions, switch investment-linked funds, and take premium/contribution holidays; and
 - (g) provisions that allow the licensed person to take the following actions that may become necessary due to a change in circumstances (as a means to protect or advance the interests of policy owners/takaful participants):
 - (i) close the fund to new money, or transfer the assets to a new fund which has similar investment objectives;
 - (ii) change the name of the fund;
 - (iii) split or combine existing units;
 - (iv) suspend unit pricing and policy/takaful certificate transactions if any of the exchanges in which the fund is invested is temporarily

suspended for trading;

- (v) make any changes that may be required due to legislation and regulatory requirements; and
- (vi) refund monies contributed to a new unit fund after its initial offer period with interest due to the inability to achieve the minimum required fund size.

Appendix IV Product illustrations

1. Licensed persons must ensure that product illustration is provided to a prospect at the point of sale or marketing of an investment-linked insurance/takaful product (except for products which invest in derivatives or structured products) and the product illustration —
 - (a) must contain information about the product, including details specific to the policy/takaful certificate.
 - (b) for an extension to an investment-linked insurance policy/takaful certificate (or a rider) is set out further in paragraph 5 of **Appendix IV(a)** of this policy document.

2. A licensed person must ensure that product illustration complies to the format set out in **Appendix IV(b) for licensed insurers** and **Appendix IV(c) for licensed family takaful operators**, contained in this policy document, unless the licensed person determines that the prescribed format is inappropriate for a specific investment-linked policy/takaful certificate. In such an event, the licensed person must ensure that changes made to the prescribed format do not reduce the extent of the disclosure required under this section. The licensed person must clearly identify the changes made with its submission of product documentation to the Bank as required under the policy document on Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10).

3. A licensed person must explain to the policy owner/takaful participant that the product illustration is meant to illustrate the possible movements of cash flows of the policy and impact of fees and charges on cash values.

4. A licensed person must observe the following in their product illustration:
 - (a) product illustration must not be printed in small font size;
 - (b) product illustration must not illustrate partial withdrawal;
 - (c) a single combined product illustration may be provided in the case where a policy owner/takaful participant has selected more than one

- generic fund;
- (d) an explanation must be provided to clarify whether the death or maturity benefit of the investment-linked insurance policy/takaful certificate is determined as the higher of the value of units or sum assured or participated, or the aggregate of the two;
 - (e) charges should be separated by three categories:
 - (i) insurance/takaful charges. For unit deducting riders, a clear distinction between the cost of insurance or takaful protection for the basic policy/takaful certificate and riders must be made;
 - (ii) fund management charge; and
 - (iii) other charges, which include the policy/takaful certificate fee, switching fees and other charges;
 - (f) the period of illustration must be up to the maturity of the contractual term of the product, as required in paragraph 16 to aid informed decision-making by the consumer. The illustration must be presented as follows:
 - (i) yearly up to the 10th policy year;
 - (ii) at policy year 15; and
 - (iii) at ten-year intervals from policy year 20 and above until maturity;
 - (g) the illustration of basic plan and riders must be as follows:
 - (i) **Table 1 of Appendices IV(a) and IV(b)** of this policy document must illustrate possible movements of cash flows of only the basic policy including the insurance charges for unit deducting riders;
 - (ii) **Table 2 of Appendices IV(a) and IV(b)** of this policy document must provide a summary of costs and benefits of each rider that is attached to the basic policy/takaful certificate; and
 - (iii) where the policy owner/takaful participant attach unitised premium-paying riders, the licensed person must ensure that the product illustration for the unitised premium-paying rider complies with the format set out in **Table 1 of Appendices IV(a) and IV(b)**, where applicable; and
 - (h) for illustration of insurance charges for unit deducting rider, if there is space constraint to fit multiple unit deducting riders (UDR) in one

page, the licensed person may disclose the total insurance charges for all UDRs in the main table, and append individual UDR charges in a separate table.

5. The illustration in **Table 1** of **Appendices IV(a) and IV(b)** of this policy document, respectively, must be based on two rates, denoted as 'Scenario X' and 'Scenario Y', on a gross basis¹⁶. These rates denote hypothetical rates of return of the underlying assets of the fund, and are to be used to better demonstrate to policy owner/takaful participants the interactions between the cash flows described on the summary page of product illustration, without giving rise to undue expectations. The rates are as follows:
 - (a) for equity funds¹⁷ for policies/takaful certificates, of which all of the cost of insurance or tabarru' is guaranteed, including those relating to extensions to these policies/takaful certificates (or riders):
 - (i) X is 2%; and
 - (ii) Y is the 10-year average historical FTSE Bursa Malaysia KLCI returns¹⁸ for the first 20 years, and 5% thereafter, as applicable.
 - (b) for all other types of funds, X and Y are 2% and 5%, respectively.

6. Licensed persons must ensure that extensions to the investment-linked insurance policy/takaful certificate (or riders) are included in the product illustration. The treatment for riders may vary depending on the product design, the application of premium/contribution, and insurance/takaful charges for such riders. In any case, a clear distinction between the costs and benefits attached to each rider and basic plan must be shown to demonstrate the impact of the inclusion of riders on the cash value.

¹⁶ Refers to the returns of the underlying assets before deduction of tax and charges.

¹⁷ Equity funds refer to funds whose investment in equities is at least 80% of the fund's total NAV respectively.

¹⁸ As determined by the Life Insurance Association of Malaysia and the Malaysian Takaful Association.

Appendix IV(a) Product illustration (for licensed insurers)

READ Is investment-linked policy right for you? Are you aware of the costs, benefits and risks?

Name of insurer: [ABC Insurance Berhad]
 Product name: [XYZ Policy]
 Type of policy: [Regular premium investment-linked insurance]
 Ratio of fund(s) chosen: ___% in Fund 1 ___% in Fund 2

Client's name: [Mr. Customer]
 Gender: [Male / Female]
 Smoker: [Yes / No]
 Age: [Age of proposer]

Do you know that ...

It is flexible but you bear the investment risk?

It is an insurance product that is tied to the performance of the investment fund(s) which you selected

Benefits

- **Flexibility** to vary your premium amount or coverage if your financial needs change.
- **Choice of funds** depending on the level of risk you are comfortable with.

Risks

- You bear the **investment risk entirely** including poor returns.
- If your fund performs poorly or your insurer increases your charges –
 - You may lose your insurance cover; or
 - Your cash value may be adversely affected.
- You may need to increase your premiums or reduce the level of insurance protection to avoid losing your insurance cover.



Other products that could better meet your needs?

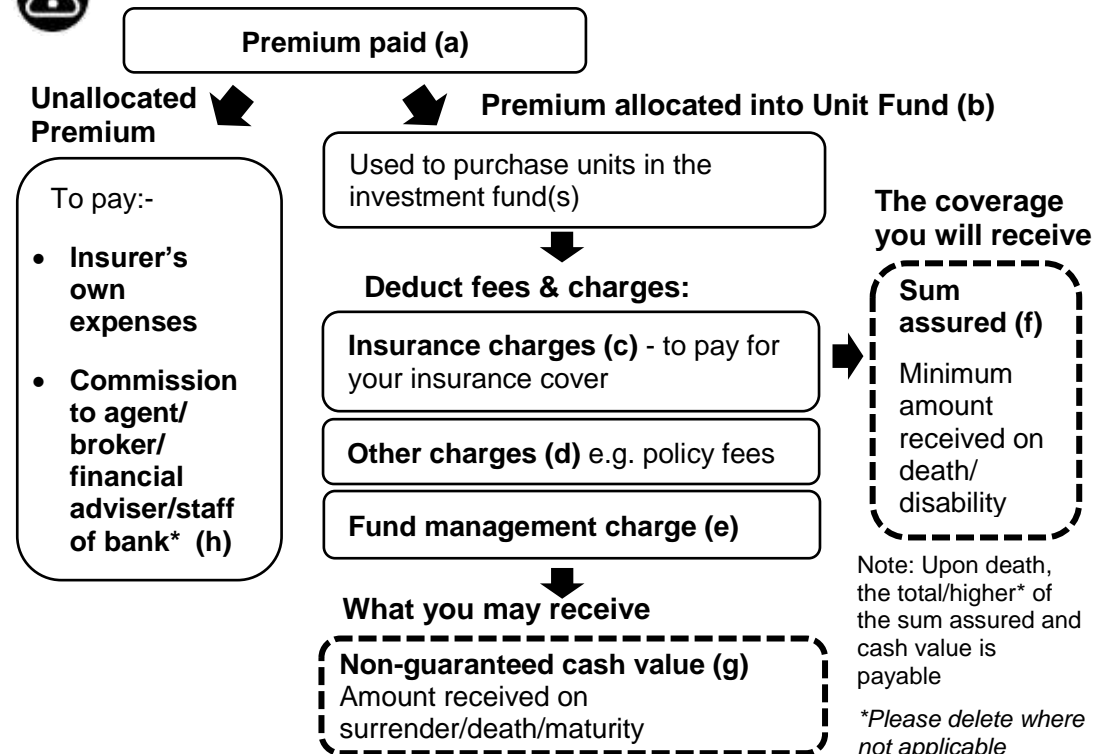
- **Non-participating products:** The benefits and coverage period are guaranteed as long as you pay premiums.
- **Participating products:** In addition to receiving guaranteed benefits and having a guaranteed coverage period, you can share in the profits (non-guaranteed) of the participating life fund.

Have you been advised of ...

Have you been told ...



How your premiums will be used?



Fees and charges taken out of your investment fund(s) which reduce the amount available for investment:-

- [List of fees and charges, include but not limited to surrender charge, partial withdrawal charge, fund switching fee, and top-up charge]

Table 1: XYZ Policy (For illustration purposes only. This may not be the benefits that you will receive)

- The numbers in the table below illustrate the possible movements of cash flows of the policy, including how fees and charges could impact cash values. In order to show the impact of different investment returns on the cash flows, two rates of return have been chosen, 2% (Scenario X) and 5% (Scenario Y). **The actual return rates may be higher or lower than the chosen rates, or even be negative.**
- Actual returns of the fund will fluctuate (i.e. rise or fall) each year based on the performance of the assets the fund(s) invested in.**



Please see the attached fund fact sheet(s) for the past actual annual investment returns.

The amount you need to pay

You should only purchase the riders you need as the cost of the riders will be borne by you. Riders are optional

At maturity or upon early cancellation, you may receive this amount (amount is not guaranteed)

End of Policy Year	Premium Paid (RM) (a)	Allocated Premium (b)		Insurance Charges ¹ (RM) (c)						Other Charges ¹ (RM) (d)	Fund Management Charge (RM) (e)		Sum Assured (RM) (f)	Non-Guaranteed Cash Value (RM) (g)		Non-Guaranteed Death Benefits ² (RM)		Commission (h)		
		RM	%	Basic policy	Unit-deducting rider(s)						Scenario X	Scenario Y		Scenario X	Scenario Y	Scenario X	Scenario Y	RM	%	
					1	2	3	4	5											6
1																				
2																				
3																				
4																				
5																				
6																				
7																				
8																				
9																				
10																				
15																				
20																				
30																				
40																				
t**																				

¹ The illustrated insurance and other charges are not guaranteed and may be varied from time to time by giving X month notice to policy owners, for example, charges for medical riders may increase due to rising medical costs.

² The death benefit payable is the total/higher* of the sum assured and cash value.

[*Please delete where not applicable]

Where the non-guaranteed portion becomes zero/negative, it means that your unit fund is no longer able to pay for your insurance cover.

Table 2: Rider(s) (Optional)

1. A rider can provide additional protection or enhance existing benefits payable under your basic policy.
2. Riders can be in the form of:
 - (i) Unit-deducting, where the cost of the rider has been incorporated into the premiums for your basic policy. The rider is therefore funded by deducting charges from your unit fund; and
 - (ii) Premium-paying, where the cost of the rider has not been incorporated into the premiums for your basic policy. Separate premiums to fund the cost of the rider will be required.

Riders	Type	Premium Paid (RM)	Sum Assured (RM)	Coverage Period (years)
Rider 1	[e.g. unit deducting rider]	[Not applicable]		
Rider 2	[e.g. unit deducting rider]	[Not applicable]		
Rider 3	[e.g. unit deducting rider]	[Not applicable]		
Rider 4	[e.g. unit deducting rider]	[Not applicable]		
Rider 5	[e.g. unit deducting rider]	[Not applicable]		
Rider 6	[e.g. unit deducting rider]	[Not applicable]		
Rider 7	[e.g. premium-paying rider]			
Rider 8	[e.g. premium-paying rider]			
Rider 9	[e.g. premium-paying rider]			

Appendix IV(b) Product illustration (for licensed takaful operators)



Is investment-linked certificate right for you? Are you aware of the costs, benefits and risks?

Name of takaful operator: [ABC Takaful Berhad]

Product name: [XYZ Certificate]

Type of certificate: [Regular contribution investment-linked takaful]

Ratio of fund(s) chosen: ___% in Fund 1 ___% in Fund 2

Client's name: [Mr. Customer]

Gender: [Male / Female]

Smoker: [Yes / No]

Age: [Age of proposer]

Do you know that ...

Have you been advised of ...

Have you been told ...

It is flexible but you bear the investment risk?

It is a takaful product that is tied to the performance of the investment fund(s) which you selected

Benefits

- **Flexibility** to vary your contribution amount or coverage if your financial needs change.
- **Choice of funds** depending on the level of risk you are comfortable with.

Risks

- You bear the **investment risk entirely** including poor returns.
- If your fund performs poorly or your takaful operator increases your charges –
 - You may lose your takaful cover; or
 - Your cash value may be adversely affected.
- You may need to increase your contributions or reduce the level of takaful protection to avoid losing your takaful cover.

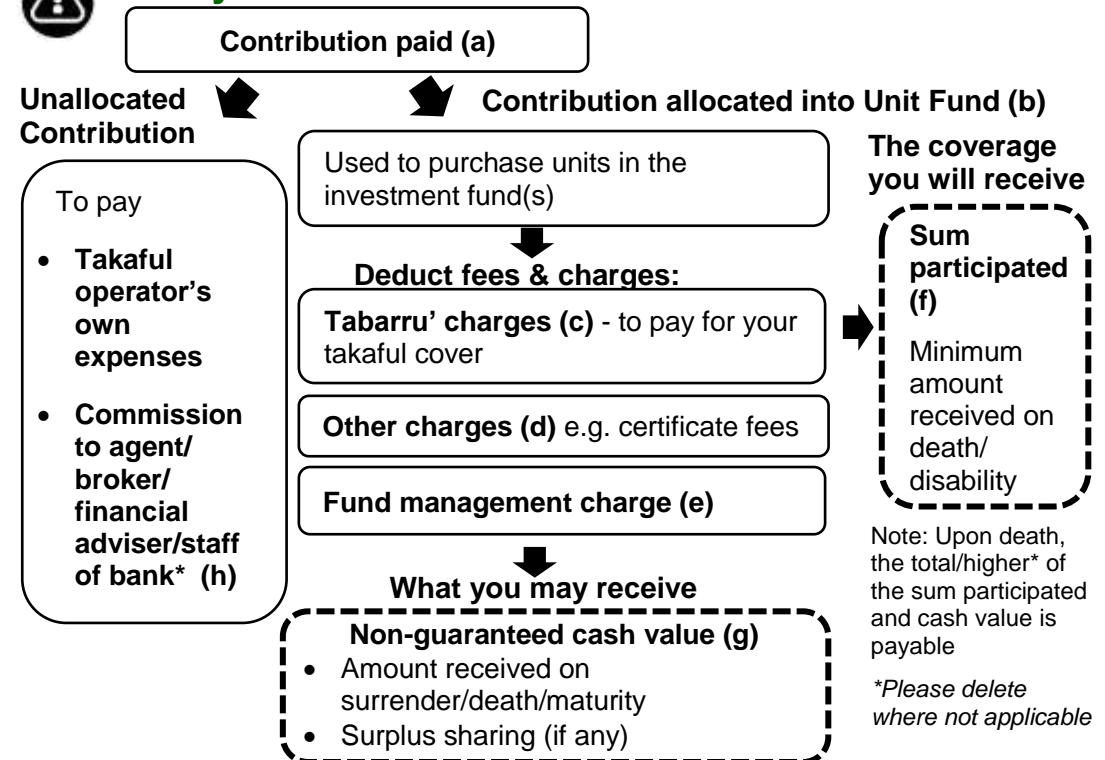


Other products that could better meet your needs?

- **Family takaful products:** Investment management is decided by the takaful operator on behalf of the participants. The benefits and coverage period are similar to investment-linked certificate.



How your contributions will be used?



Fees and charges taken out of your investment fund(s) which reduce the amount available for investment:-

- [List of fees and charges, including but not limited to surrender charge, partial withdrawal charge, fund switching fee, and top-up charge]

Table 1: XYZ Certificate (For illustration purposes only. This may not be the benefits that you will receive)

1. The numbers in the table below illustrate the possible movements of cash flows of the certificate, including how fees and charges could impact cash values. In order to show the impact of different investment returns on the cash flows, two rates of return have been chosen, 2% (Scenario x) and 5% (Scenario Y). **The actual return rates may be higher or lower than the chosen rates, or even be negative.**
2. **Actual returns of the fund will fluctuate (i.e. rise or fall) each year based on the performance of the assets the fund(s) invested in.**
3. **Please see the attached fund fact sheet(s) for the past actual annual investment returns.**

The amount you need to pay

You should only purchase the riders you need as the cost of the riders will be borne by you. Riders are optional

At maturity or upon early cancellation, you may receive this amount (amount is not guaranteed)

End of Certificate Year	Contribution Paid (RM) (a)		Allocated Contribution (b)		Tabarru' Charges ¹ (RM) (c)						Other Charges ¹ (RM) (d)	Fund Management Charge (RM) (e)		Sum Participated (RM) (f)	Non-Guaranteed Cash Value (RM) (g)		Non-Guaranteed Death Benefits ² (RM)		Commission (h)		
	RM	%	RM	%	Basic certificate	Unit-deducting rider(s)						Scenario X	Scenario Y		Scenario X	Scenario Y	Scenario X	Scenario Y	RM	%	
						1	2	3	4	5											6
1																					
2																					
3																					
4																					
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¹ The illustrated tabarru' and other charges are not guaranteed and may be varied from time to time by giving X month notice to certificate owners, for example, charges for medical riders may increase due to rising medical costs.

² The death benefit payable is the total/higher* of the sum participated and cash value.

[*Please delete where not applicable]



Where the non-guaranteed portion becomes zero/negative, it means that your unit fund is no longer able to pay for your takaful cover.

Table 2: Rider(s) (Optional)

1. A rider can provide additional protection or enhance existing benefits payable under your basic certificate.
2. Riders can be in the form of:
 - (i) Unit-deducting, where the cost of the rider has been incorporated into the contributions for your basic certificate. The rider is therefore funded by deducting charges from your unit fund; and
 - (ii) Contribution-paying, where the cost of the rider has not been incorporated into the contributions for your basic certificate. Separate contributions to fund the cost of the rider will be required.

Riders	Type	Contribution Paid (RM)	Sum Participated (RM)	Coverage Period (years)
Rider 1	[e.g. unit deducting rider]	[Not applicable]		
Rider 2	[e.g. unit deducting rider]	[Not applicable]		
Rider 3	[e.g. unit deducting rider]	[Not applicable]		
Rider 4	[e.g. unit deducting rider]	[Not applicable]		
Rider 5	[e.g. unit deducting rider]	[Not applicable]		
Rider 6	[e.g. unit deducting rider]	[Not applicable]		
Rider 7	[e.g. contribution-paying rider]			
Rider 8	[e.g. contribution-paying rider]			
Rider 9	[e.g. contribution-paying rider]			

Appendix IV(c) Sales or marketing illustrations

1. Licensed persons must ensure that sales or marketing illustration are provided to a prospect at the point of sale or marketing of an investment-linked insurance/takaful product (except for products which invest in derivatives or structured products) and must contain information about the product, including details specific to the policy/takaful certificate. The sales or marketing illustration for an extension to an investment-linked insurance policy/takaful certificate (or a rider) is set out further in paragraph 4 of **Appendix IV(d)** of this policy document.
2. Licensed persons must ensure that sales or marketing illustration conform with the minimum disclosure requirements and format set out in **Appendix IV(d)** of this policy document.
3. In general, the format of the sales or marketing illustrations for an investment-linked insurance policy/takaful certificate must be guided as follows:
 - (a) sales or marketing illustration must not be printed in small font size;
 - (b) two rates of illustrations on a gross basis¹⁹, denoted as '**Projected Investment Return of Fund: X%**' and '**Projected Investment Return of Fund: Y%**' in **Appendix IV(d)** of this policy document, must be shown to denote the range of possible returns of the underlying assets of the fund;
 - (c) the rates for illustration will vary by types of investment-linked funds;

¹⁹ Refers to the returns of the underlying assets before deduction of tax and charges.

- (d) the maximum gross rates for illustration (X% and Y%) for various types of funds should be within the limits as follows:

Illustrated return for generic funds²⁰	X%	Y%
Equity	2%	9%
Managed	3%	8%
Bond	4%	7%

- (e) a single sales or marketing illustration may be provided to contain illustration of different funds in the case where a policy owner/takaful participant has selected more than one generic fund;
- (f) an explanation must be provided to clarify whether the death or maturity benefit of the investment-linked insurance policy/takaful certificate is determined as the higher of the value of units or sum assured or participated, or the aggregate of the two;
- (g) charges should be separated by two categories:
- (i) insurance/takaful charges. For unit deducting riders, a clear distinction between the cost of insurance or takaful protection for the basic policy/takaful certificate and riders must be made;
 - (ii) other charges, which include the policy/takaful certificate fee, fund management fees, switching fees and other charges;
- (h) the period of projection for both single premium or contribution and regular premium/contribution plans must not exceed 30 years to avoid inappropriate expectations created by the projection of large pay-outs under long periods of compounded investment returns. For the projection period beyond the 20th year, licensed persons must continue to illustrate the “low” scenarios using the current “low” rates whereas for the “high” scenarios, rates of 5%, 5.5% and 6% must be used for bond, managed & equity funds respectively;
- (i) notwithstanding the maximum projection period allowed which is 30 years, licensed persons must not extend the illustration to 30 years if the cash value will be depleted earlier based on the projection basis. In

²⁰ ‘Equity’ and ‘Bond’ funds refer to funds whose investment in equities and fixed income securities are at least 80% of the fund’s total NAV respectively. ‘Managed’ funds refer to funds which do not fall into either of the former two categories.

- such cases, the projection must cease at the policy/takaful certificate year in which the cash value is depleted;
- (j) disclosure of the following:
 - (i) the availability of the top-up facility and its use as a vehicle to maximise the policy owner/takaful participant's investment value must be prominently highlighted;
 - (ii) the minimum regular premium/contribution required under the particular regular premium investment-linked insurance policies/regular contribution investment-linked takaful certificates;
 - (iii) the minimum amount required for top-ups; and
 - (iv) the ability of the policy owner/takaful participant to increase the sum assured or participated without increasing the regular premium/contribution, where applicable.
4. Licensed persons must ensure that extensions to the investment-linked insurance policy/takaful certificate (or riders) are included in the sales or marketing illustration. The treatment for riders may vary depending on the product design, the application of premium or contribution, and insurance or takaful charges for such riders. In any case, a clear distinction between the costs and benefits attached to each rider and basic plan must be shown to demonstrate the impact of the inclusion of riders on the cash value.

Appendix IV(d) Minimum disclosure format for sales or marketing illustrations

[No change]

Company	ABC Insurance/Takaful Berhad	Agent:	Mr. QWERTY
Quotation for:	[Product Name]		
	Date:		
Client:	Mr. XYZ	Basic Sum Assured/Participated:	RM100,000
Sex:	M	Optional/	Rider 1 RM5,000
Smoker:	No	Rider Coverage:	Rider 2 RM40,000
Occupation:	Class 1	Premiums/Contributions²¹:	RM2,000
Age:	35	Frequency:	Yearly/Half-yearly/Quarterly/Monthly
Plan Type:	Regular Premium/Contribution Investment-Linked Insurance/Takaful	Ratio of	---% in Fund 1
Charges:	List of all the charges	Fund/s Chosen	---% in Fund 2
(See below for the description of the charges)			

THIS IS AN INSURANCE/TAKAFUL PRODUCT THAT IS TIED TO THE PERFORMANCE OF THE UNDERLYING ASSETS, AND IS NOT A PURE INVESTMENT PRODUCT SUCH AS UNIT TRUSTS.

IMPORTANT:

- You should read this illustration together with the fund fact sheet(s) of the investment fund(s) which you have chosen. The fund fact sheet contains all the important information that you will need to know regarding the investment fund(s).
- Since only xx% of the Annual Premium/Contribution for the first two policy/certificate years is used to purchase units, while yy% of top-up is used to purchase units, you can **maximise your investment value by minimising your annual premium/contribution and maximising your top-ups.**
 - Minimum Annual Premium/Contribution Required: RMxxx
 - Minimum Top-Ups Allowed: RMxxx
- Therefore, if your purchase involves a premium/contribution of sizeable amount say RM5,000 and above, you should consider purchasing single premium/contribution investment-linked policy/certificate (rather than a regular premium/contribution policy/certificate) as single premium/contribution plans offer better allocation rates for investment.
- Your investment-linked policy/certificate will lapse/terminate if there is not enough units in your fund to pay the charges. Your units may not be enough over the years due to:
 - High insurance/tabarru' charges if you buy many riders, and especially if the charges are increasing over time as you get older
 - Poor investment returns

²¹ Premiums/contributions to be split by basic and riders, if applicable. For unit deducting riders, licensed persons to explain that coverage for these riders is paid from the basic premiums/contributions.

- Premium/contribution holiday – i.e. if you stop paying premiums/contributions for a long period of time

WARNING

YOUR INSURANCE/TABARRU' CHARGES WILL INCREASE AS YOU GET OLDER. IN THE LATER YEARS, IT IS POSSIBLE THAT THE ACCUMULATED FUND VALUE IS NOT ENOUGH TO PAY FOR YOUR INSURANCE/TABARRU' CHARGES DUE TO POOR INVESTMENT RETURNS, WHICH WILL RESULT IN YOUR POLICY/CERTIFICATE BEING CANCELLED. YOU MAY NEED TO INCREASE YOUR PREMIUMS/CONTRIBUTIONS OR REDUCE THE LEVEL OF INSURANCE/TAKAFUL PROTECTION, IF YOU WANT TO MAINTAIN YOUR POLICY/CERTIFICATE.*

* You should ask the agent/broker/financial adviser to explain to you about the insurance/tabarru' charges and its effect on your future insurance/takaful coverage.

SUMMARY ILLUSTRATION:

- **This summary illustration is intended to show the movements of possible cash flows for the investment and the impact of fees and charges on cash values based on illustration below.**
- **The projected investment returns used below are for illustrative purposes and not meant to show possible returns of your chosen investment fund(s). They are not guaranteed and not based on past performance.**
- **Actual returns of the fund will fluctuate (i.e. rise or fall) each year based on the performance of the assets the fund invests in.**
- **The actual returns may even be below the projected rates or negative.**

End of Policy /Certificate Year	Basic Sum Assured/Participated	Premium/Contribution Paid	Unallocated Premium/Contribution charge (Wakalah fee) ¹	Allocated Premium/Contribution	Insurance/Tabarru' Charges	Other Charges	Non-Guaranteed Return						Direct Distribution Cost ²
							Projected Investment Return: (X% p.a.)			Projected Investment Return: (Y% p.a.)			
							Fund Management Charge	Cash Value	Death Benefit	Fund Management Charge	Cash Value	Death Benefit	

¹ This represents a charge to your premium/contribution and is used to meet the direct distribution cost and company's expenses.

² Cost directly attributable to the distribution channel for the sale/marketing of this policy/certificate, i.e. payments to agent/broker/financial adviser. This cost is paid from the charges that are imposed on your policy/certificate for services that the agent/broker/financial adviser will provide to you for the duration of your policy/certificate.

Projected Investment Rate of Return

- **The returns of X% and Y% have been used respectively to represent the range of possible returns on Fund 1,2...k.**
- Please refer to the fund fact sheet for the past actual annual investment returns.

NOTE:

- (ABC Insurance/Takaful Berhad) believes it is important that you fully appreciate all the benefits under your policy/certificate, and that you also understand how the cost of the insurance/takaful protection, distribution, administration, investment and other costs affect these benefits.
- You should satisfy yourself that the plan serves your needs and that you can afford the premium/contribution. If you need clarification, please contact us or your agent.
- Buying a regular premium life policy or regular contribution family certificate is a long-term commitment. It is not advisable to hold this policy/certificate for a short period of time in view of the high initial costs.
- The information set out below explains the individual items in the sales/marketing illustration table.

Premium/Contribution Paid

- This is the amount that you (the policy/certificate owner) pay for this policy/certificate. Take note that not all of the amount paid will be invested into the investment fund(s) you selected. See explanation on unallocated and allocated premium/contribution below.

Unallocated Premium/Contribution (Wakalah fee)

- The unallocated premium/contribution charge is **an upfront charge on the premium/contribution** paid and is used to meet licensed insurer's/licensed takaful operator's expenses and direct distribution cost, including the commissions payable to the agency/broker/financial adviser. The agent/broker/financial adviser may also be entitled to production and persistency bonus during the first three years of the policy provided that the agent/broker/financial adviser meets the qualifying criteria set by the licensed insurer.

Allocated Premium/Contribution

- This is the amount that will be used to purchase units in the investment fund(s) which you selected.
- The allocation rates for this investment-linked policy/certificate are as follows (as a % of premiums/contributions): -

(1) Policy/Certificate Year	1	2	3	—————>
(2) Premiums/Contributions Paid	A	b	c	—————>
Allocated Premium/Contribution	%			—————>
	RM			—————>

Basic Sum Assured/Participated

- This is the minimum amount to be received on death or when you become disabled.

Charges

- These charges are taken out of your investment fund(s).
- The illustrated insurance/tabarru' and other charges are based on current levels. These are not guaranteed and may be varied from time to time by giving X months notice to policy owners/takaful participants.
- **Insurance/Tabarru' charges** are deducted monthly from the value of your units to pay for your insurance/takaful coverage. The insurance/tabarru' charge for insurance/takaful coverage varies by the attained age, sex, occupation, medical rating and smoking status. The insurance/tabarru' charges will increase as you grow older.
- **Other Charges** include policy/certificate fees.
- **[Maximum charges are]**

Cash value

- This is the projected value of units at any particular point in time that you may receive if you surrender the policy/certificate and is net of tax and all applicable charges.
- If the policy/certificate is terminated early, you may get less than the amount of premiums/contributions paid.

Fund Management Charge

- This refers to the annual management fee (% of investment fund) deducted to cover the cost of managing the investment fund.

Death Benefits

- This is the amount that will be payable on your death.
- [Benefit exclusions]

Supplementary Benefits

- If riders are illustrated with basic plan, clear distinction of cost and benefit of each rider and basic plan should be shown to show the impact of inclusion of riders on the cash value.

Appendix V Minimum format for Fund Fact Sheet

Name of Fund	
Features of Fund	
Investment Objective	
Investment Strategy & Approach	<ul style="list-style-type: none"> ○ To include investment focus (i.e. equities, bonds, CIS, etc.) and techniques used (passive or active, top-down/bottom-up, quantitative/fundamental analysis/technical analysis, etc.) For IL funds that invest in structured products and/or derivatives, to also explain how returns from such assets will be generated. Illustrations of gains and losses through numerical examples based on bull, flat and bear scenarios are allowed to give better understanding to the policy owner/takaful participant on the impact of different scenarios on the fund.
Asset Allocation	<ul style="list-style-type: none"> ○ Details on asset allocation, e.g. by type, by geographical region, etc.
Performance Benchmark	<ul style="list-style-type: none"> ○ Benchmark(s) used, including where to obtain further information on benchmark.
Fund Manager	<ul style="list-style-type: none"> ○ To clearly highlight if the fund manager is the licensed person itself or a third party appointed by the licensed person.
Fees & Charges	
Fund Management Charge	
Other Charges, if any	
Fund Performance	
<p>Notice: Past performance of the fund is not an indication of its future performance</p> <ul style="list-style-type: none"> • Actual returns of the immediately preceding ten years on a net basis (net of tax and charges), or since inception if shorter (warning statement: this is strictly the performance of the investment fund, and not the returns earned on the actual premiums/contributions paid of the IL product). The past performance shown must not exceed 10 years. • The investment returns must be calculated based on the unit price of the investment-linked fund and the formula must be consistent with that of the benchmark indices. • Any performance comparison of an investment-linked fund must be with that of a similar fund, in terms of investment objectives & focus and based on similar time frame of at least 12 months. For funds which have existed less than 12 months, the licensed person must not use the annualised monthly performance figures for such purposes. • The basis of calculation of past performance must also be disclosed. 	

Additional disclosure for specific funds	
<u>For funds that invest in derivatives contracts:</u>	
<ul style="list-style-type: none"> • A statement that the fund may be invested in financial derivatives. • Explanation of the purpose of such investments and how it can be achieved with a derivative strategy • Description of the derivative instruments used and expected participation rate (as precise as possible, since this will form policy/certificate holders' reasonable expectation) • Maximum limit on derivative exposures (as a ratio to an investment-linked fund's NAV) • Any other material information that would help policy owner/takaful participant make an informed decision 	
<u>For funds that invests in collective investment schemes (CIS):</u>	
<ul style="list-style-type: none"> • the name and type of the CIS • the fund manager of the CIS and its rating, if available • the higher fee structure arising from the double layer fund management fees and other hidden charges. E.g. the IL fund charges x% of fund management charge on top of the y% charged by the target fund CIS • historical performance of the underlying CIS 	
Risks	
<ul style="list-style-type: none"> • Proper description of relevant risks of investing in the fund. Any special risks should be highlighted. <p><i>(Description of risks must be specific based on the nature of the investment and not merely generic descriptions. Listing of risks by order of priority is encouraged)</i></p> <p><i>Risk Management</i></p> <ul style="list-style-type: none"> • Brief description of risk management techniques (e.g. adoption of a defensive strategy which may be inconsistent with the stated strategy) in attempting to respond to adverse market, economic conditions or application of investment limits to achieve a diversified portfolio. • Brief description of any derivative contracts entered into for risk management purposes (e.g. cross currency swaps to manage currency risk). 	
Other Info	
<ul style="list-style-type: none"> • Target Market 	
<ul style="list-style-type: none"> • Basis & Frequency of Unit Valuation 	Description must include the method of recouping transaction costs of acquiring and disposing of assets as per paragraph 13.2.
<ul style="list-style-type: none"> • Exceptional Circumstances 	Description of any exceptional circumstances under which issuance or redemption of units may be suspended.

Appendix VI Statement to policy owners/takaful participants

1. The statement on the status to investment-linked policies/takaful certificates of a policy owner/takaful participant must at least contain the following information:
 - (a) number and value of units held at the end of the previous statement period;
 - (b) number and value of units purchased and sold during the statement period;
 - (c) number and value of units held at the end of the statement period;
 - (d) number and value of bonus units and dividends payable during the statement period;
 - (e) charges incurred during the statement period;
 - (f) total amount of premiums or contributions received and allocated to buy units during the statement period;
 - (g) the death benefit and surrender value at the beginning of the statement period; and
 - (h) the death benefit and surrender value at the end of the statement period.

2. The statement must also include the communication of the outcome of sustainability test as required in paragraph 16.6.

Appendix VII Fund Performance Report to policy owner/takaful participants

1. Licensed persons must provide the minimum information set out below in the fund performance report to policy owners/takaful participants of investment-linked insurance policies/takaful certificates:
 - (a) summary of the audited financial statements of the fund. The minimum disclosure format for financial statements is set out in **Appendix VIII** of this policy document;
 - (b) description of the investment objectives of the fund, and asset allocation as at the reporting date;
 - (c) analysis on the fund performance of not less than five years, where applicable, on the net (of charges and tax) investment return of the fund;
 - (d) description on charges levied against the fund during the year;
 - (e) statement on any changes in the investment objectives, strategies, restrictions and limitations of the fund during the year. This includes explanations should the fund depart from its stated investment objectives and strategies;
 - (f) details of any distributions made and proposed during the period, and the effects in terms of the NAV per unit before and after the distributions;
 - (g) review of future prospects of the investments and proposed strategies of the fund;
 - (h) performance of relevant benchmark indices of the market in which the fund is invested;
 - (i) details of any soft commissions received by fund managers; and
 - (j) auditor's certification.

2. The statement must also include communication of the outcome of sustainability test as required in paragraph 16.6.

Appendix VIII Minimum disclosure format for financial statements in Fund Performance Report

A. Statement of Income and Expenditure

For financial year ended 31 December 20xx

	Fund 1	Fund 2*
Note	20xx	20xx-1
	RM	RM
<hr/>		
Net Investment Income		
Interest income or Income from investment		
Dividend income		
Others		
Profits on Disposal		
Securities		
Others		
Unrealised Capital Gain		
Other Income		
Total Income		
Policy Benefits		
Expenses		
Loss on Disposal		
Securities		
Others		
Other Outgo		
Total Outgo		
Excess of Income over Outgo		
Undistributed Income brought forward		
Amount Available for Distribution		
Undistributed Income carried forward		

* Please provide separate columns for all the investment-linked funds.

B. Statement of Assets and Liabilities

For financial year ended 31 December 20xx

	Fund 1	Fund 2*
Note	20xx	20xx-1
	RM	RM
Fixed Assets		
Investment Properties		
Loans/Financing		
Investments		
Malaysian Government papers / Government Islamic papers		
Malaysian Government guaranteed loans/financing		
Corporate/Debt securities		
Other investments		
Foreign Assets		
Cash & Deposits		
Other Assets		
Total Assets		
Total Liabilities		
Net Assets		
Value of Units		
Investment fluctuation reserves		
Undistributed income carried forward		
Net Asset Value Per Unit		

* Please provide separate columns for all the investment-linked funds.

Notes (for A and B)

1. Details on particular items of other income/outgo and assets should be given for each item that is larger than 10% of the total.
2. The definition of items is as per the *Guidance Notes for Completion of ICSS* in the *Garis Panduan Pengemukaan Penyata Statistik "Insurance Companies Statistical System (ICSS)"* (JPS/8900/1/5) for life direct business or *Guidance Notes for Completion of TOSS* for family takaful business in the *Garis Panduan Pengemukaan Penyata Statistik "Takaful Operators Statistical System (TOSS)"* (JPS/8900/1/5).

C. Statement of Changes in Net Asset Value

For financial year ended 31 December 20xx

	Fund 1	Fund 2*
Note	20xx	20xx-1
	RM	RM
Net asset value at the beginning of the period		
Net income for the period		
Changes in unrealised investment gains or losses		
Amounts received from units created		
Amounts paid for units cancelled		
Distributions to policy owner/takaful participant		
Net asset value at the end of the period		

* - Please provide separate columns for all the investment-linked funds.

D. Details of Investments

The composition of the investment portfolio (i.e. the list of individual securities) of the various investment-linked funds (by individual funds) as at the date of the financial report should be disclosed, grouped in the appropriate categories (e.g. sectoral, markets) showing for each category—

- (i) The quantity held;
- (ii) The cost of the investment;
- (iii) The market value of the investment; and
- (iv) The market value of each holding as a percentage of net asset value.

E. Comparative Performance Table

The table should cover the data for last five financial years, or if the fund has not been in existence during the whole of that period, over the whole of the period in which it has been in existence, showing for each financial year—

- (i) the composition of the fund according to industry sectors (e.g. financial, plantation, consumer products, etc.) and category of investments (equity, fixed income, derivatives, etc.);
- (ii) the total NAV;
- (iii) the number of units;

- (iv) the NAV per unit;
- (v) the highest NAV per unit during the financial year;
- (vi) the lowest NAV per unit during the financial year;
- (vii) the total annual return of the fund, expressed in terms of percentage, and the breakdown into capital growth and income distributions;
- (viii) average annual return measured over one-year, three-year and five-year periods; and
- (ix) the performance of relevant benchmark indices.

Appendix IX Investment limits

1. A licensed person must comply with the following limits for the investments of an investment-linked fund in accordance with the following limits, for both Malaysian and foreign assets:

Counterparty limit

- (a) the value of a fund's investments in equity of any single issuer must not exceed 10% of the fund's NAV.
- (b) the total value of a fund's investments in securities, OTC derivatives (other than for the purpose of hedging) and structured products of any single issuer/group of related issuers must not exceed 25% of the fund's NAV.

Asset Limit

- (c) the total value of a fund's investments in unlisted securities must not exceed 10% of the fund's NAV.
- (d) the total value of a fund's investments in structured products must not exceed 15% of the fund's NAV.
- (e) the total value of a fund's investments in any collective investment scheme (CIS) must not exceed 10% of the fund's NAV.

Limit on class of securities by a single issuer

- (f) notwithstanding paragraphs 1(a) to (e) of this appendix, a fund's investments in any class of securities of any single issuer must not exceed 10% of the total value of that class of security, except for securities issued/guaranteed by the Federal Government of Malaysia and Bank Negara Malaysia.

2. Notwithstanding paragraph 1 of this appendix, the following limit waivers for specific funds are allowed:

- (a) the investment limits applicable for a fund which aims to track or replicate an index fully may increase to not more than the weightage of the investee company's share in the benchmark index. Weightings may be based on either component securities, or a representative sample of the underlying benchmark index.

- (b) for a feeder fund²² and fund-of-funds²³, the 10% asset limit for CIS is waived.
 - (c) the asset and counterparty limits for exposure to structured products are waived if —
 - (i) the fund is to be offered as capital guaranteed products, as stipulated in paragraph 14.3; or
 - (ii) the counterparty which is a financial institution licensed outside Malaysia, have a minimum AA rating, accorded by internationally recognised rating agencies, and the structured product must carry a guarantee by the counterparty to return the original principal/capital.
- 3. A fund may participate in any derivatives contract subject to the requirements stipulated in **Appendix XI** of this policy document.
- 4. The total value of a licensed person's investments in foreign assets must be in compliance with Notice 3 of the Foreign Exchange Administration rules.
- 5. For funds that invest in other types of CIS, the licensed person must ensure that —
 - (a) the CIS is not be invested in any investment or transaction that is prohibited by the Bank in this policy document;
 - (b) the CIS is not itself be invested in a fund-of-funds or feeder fund; and
 - (c) the CIS is approved by the Securities Commission of Malaysia or registered/approved/authorised by a home authority in the case of foreign CIS.
- 6. A licensed person may request for limits higher than what is stipulated in paragraph 1 of this appendix for fixed income security during the initial period where the total fund size is still small. The request by the licensed person

²² A Feeder Fund is one which invests all its assets in a single collective investment scheme.

²³ A Fund-of-Funds is one which invests all its assets in other collective investment schemes.

must be supported by a proper plan and timeline on, among others, the measures to be put in place during and after the initial period to manage any risks (including concentration risk) that could arise from the flexibility given.

7. Any injection of seed money by a licensed person to assist in the start-up of an investment-linked fund should be made from its shareholders' fund. A licensed person must assess and manage the risk arising from the provision of seed money to its investment-linked funds. The provision of seed money should not jeopardise the shareholder's ability to support the needs of its other insurance or takaful funds. As seed money should not be a permanent feature in a licensed person's investment portfolio, a licensed person must have a clear exit strategy for the seed money provided. Such a strategy should ensure that the withdrawal of seed money injected does not adversely affect the interest of policy owner/takaful participant.
8. A licensed takaful operator must identify a relevant Shariah contract for providing the seed money from its shareholders' fund. In this regard, the licensed takaful operator must, at minimum, ensure the following:
 - (a) terms and conditions on injection of seed money are in line with Shariah requirements; and
 - (b) necessary process and procedures are in place to facilitate the injection of seed money.
9. A licensed person must ensure that the injection of seed money must not exceed the following limits:
 - (a) 10% of Total Capital Available for a licensed insurer. Any amount of seed money injected is above this limit must be excluded from capital available; and
 - (b) 10% of shareholders' fund assets for a licensed takaful operator.

Appendix X Valuation of assets for investment-linked takaful funds

1. The licensed person must ensure that the assets of an investment-linked takaful fund are valued at market value on a daily basis.

2. The licensed person must ensure that the values for the following assets are not be in excess of the fair value:
 - (a) Unlisted securities; and
 - (b) Listed securities that have been suspended from trading by any stock exchange for 14 or more consecutive trading days as at the date for which the value is to be determined.

The basis and techniques to be used in determining the fair value of the above assets should be disclosed to and verified by the external auditor. For Islamic debt instruments which have no active market, licensed persons or their independent valuers may use widely accepted valuation techniques that have been demonstrated to provide reliable estimates of the price.

Appendix XI Use of derivatives

1. A licensed person is permitted to use derivatives for the purpose of hedging of the risk exposures of an investment-linked fund, subject to the requirements stipulated in the Revised Guidelines on Derivatives for Insurers (BNM/RH/GL 003-26).
2. The licensed person is permitted to use derivatives for the purpose of yield enhancement with the prior approval of the Bank.
3. A licensed person must submit an application to the Bank to engage in derivatives for the purpose of yield enhancement as per paragraph 2 of **Appendix XI** of this policy document prior to the sale of the investment-linked insurance/takaful product. The application must include following information:
 - (a) the rationale for the licensed person's choice of derivative instruments (vis-à-vis the design of the investment-linked insurance/takaful product in terms of how the elected derivative instruments would support the investment strategies underlying the product);
 - (b) the credit rating of the counterparty involved;
 - (c) explanation on the types and nature of risks the fund will be exposed to and how these risks are mitigated; and
 - (d) a description of the licensed person's internal risk management system and capability to support the effective management of associated risks.
4. A licensed takaful operator must ensure that the derivative activities undertaken are in compliance with Shariah principles at all times and the derivatives structure shall be based on approved Shariah principles. These include 'urbun (deposit), hamish jiddiyah (security deposit) and wa'd (undertaking) with appropriate adaptations of the principles.