



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Proper Advice Practices for Insurance and Takaful Business

Exposure Draft

Applicable to:

1. Licensed banks
2. Licensed Islamic banks
3. Licensed insurers
4. Licensed takaful operators
5. Prescribed development financial institutions
6. Approved financial advisers and approved Islamic financial advisers
7. Approved insurance brokers and approved takaful brokers

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This Exposure Draft (ED) sets out Bank Negara Malaysia's (BNM) proposed requirements and guidance applicable to financial service providers (FSPs) and intermediaries involved in the provision of advice, recommendation and sale of insurance and takaful products.

The proposals in this ED seek to strengthen proper advice practices and sales conduct standards across the insurance and takaful industry. In particular, the proposed requirements aim to enhance needs-based assessment, product suitability and affordability assessments, sales quality reviews and telemarketing safeguards, while promoting greater accountability by FSPs and intermediaries for the advice and recommendations provided to customers. The proposals are intended to support better customer outcomes and strengthen public confidence in the provision of financial advice.

BNM invites written feedback on the regulatory requirements and expectations proposed in this ED, including suggestions for further clarification or concerns arising from the proposed requirements, or alternative proposals which BNM should consider. The written feedback should be supported with clear rationale, evidence and illustrations, as may be appropriate, to facilitate assessment.

Feedback must be submitted electronically to BNM by **31 January 2027** through this [link](#). When preparing the feedback, specific queries can be directed to conductpolicy@bnm.gov.my and addressed to the following officers-

- (a) Avinder Sandhu;
- (b) Najwa Diyana Othman;
- (c) Nurina Mohd Hairay; and
- (d) Manzil Kaur Dhillon.

Submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

PART A OVERVIEW

1 Introduction

- 1.1 The provision of proper advice is fundamental to ensuring that customers make informed decisions and obtain insurance or takaful products that are suitable for their needs, objectives and circumstances. As insurance or takaful products continue to evolve in complexity and diversity, customers increasingly rely on financial service providers (FSPs) and intermediaries to provide professional advice and recommendations that support their financial well-being and financial resilience.
- 1.2 Rapid digitalisation, increasingly sophisticated products, changing customer needs and heightened expectations on service standards continue to reshape the financial services landscape. Against this backdrop, FSPs and intermediaries are expected to adopt robust advisory practices that are aligned with customers' interests. This includes obtaining sufficient information on a customer's needs, objectives, financial circumstances and other relevant considerations to enable intermediaries to assess suitability and provide appropriate recommendations. Such practices should be guided by the principles of suitability, transparency, fairness, professionalism and accountability, while ensuring that customers are provided with clear and meaningful information to support informed decision-making.
- 1.3 This Policy Document aims to-
 - (a) establish minimum standards and expectations for FSPs and intermediaries in providing suitable, fair and customer-focused advice throughout the sales and advisory process for insurance or takaful products;
 - (b) protect policy owners'/takaful participants' interests by ensuring they receive sufficient and appropriate information and recommendations that are suitable and aligned with their needs, objectives and financial circumstances when purchasing insurance or takaful products;
 - (c) promote a culture of professionalism, accountability and responsible conduct among FSPs and intermediaries to ensure the fair treatment of customers; and
 - (d) strengthen public confidence in the quality of advice provided by FSPs and intermediaries, mitigate the risk of unsuitable recommendations and customer detriment, and support the long-term sustainability and integrity of the insurance and takaful industry.
- 1.4 Accordingly, this Policy Document sets out the minimum requirements that FSPs and intermediaries must comply with throughout the sales and advisory process, including;
 - (a) Governance, oversight and accountability;
 - (b) Customer suitability and affordability assessment;
 - (c) Pre-sales key customer disclosures;

- (d) Customer fact-finding and needs-based assessment;
- (e) Product recommendation, record of advice and confirmation of advice;
- (f) Safeguards for investment-linked products;
- (g) Sales quality review and monitoring; and
- (h) Telemarketing channel controls.

2 Applicability and scope

- 2.1 The Policy Document is applicable to FSPs and intermediaries as defined in paragraph 5.2.
- 2.2 For the purposes of this Policy Document, “insurance or takaful products” refer to all individual life insurance and family takaful products, as well as all medical and health insurance/takaful (MHIT) products¹.
- 2.3 Subject to paragraph 2.4, this Policy Document applies to all insurance or takaful products referred to in paragraph 2.2.
- 2.4 This Policy Document is not applicable to the following insurance or takaful products:
- (a) Sold through digital channels² or mail service channels;
 - (b) Group life insurance policies/family takaful certificates;
 - (c) Business insurance policies/takaful certificates including keyman insurance or takaful;
 - (d) Simple term insurance policies/takaful certificates sold as ancillary products to loan/financing, including the mortgage reducing term assurance policies/mortgage reducing term/takaful certificates;
 - (e) Pre-packaged simple employee benefit³ products that are marketed at the workplace;
 - (f) Additions (top-ups), exclusions (deletions), renewals, reinstatements and changes to existing in-force policies/certificates; and
 - (g) Perlindungan Tenang plans.

¹ For avoidance of doubt, this includes MHIT products offered by general insurers and general takaful operators.

² For avoidance of doubt, the exclusion applies to products sold through digital channels as defined in the Interpretation section of this Policy Document, where no advice or recommendation is provided by an intermediary. This Policy Document continues to apply where digital tools or applications are used by staff or intermediaries to conduct customer fact-finding, needs-based assessment, product recommendation, record of advice or sales quality review.

³ Refers to a non-customised product which offers a maximum of three main benefits and does not provide many options for the customer to exercise.

- 2.5 For avoidance of doubt, this Policy Document applies to:
- (a) MHIT standalone policies/takaful certificates, and MHIT riders, regardless of whether the rider is purchased upon or after inception of the base life insurance policy/family takaful certificate; and
 - (b) Any new policies recommended to replace, convert or switch an existing policy/takaful certificate, including where proceeds (in whole or in part) are used to fund the new policy/takaful certificate where the change results in increased benefits or a material change in product features.

Question 1

Are there any other insurance or takaful products, distribution channels or customer segments for which the proper advice requirements under this Policy Document should not apply? If so, please explain the basis for the proposed exclusion and support your feedback with relevant data, evidence, illustrations, and justification.

3 Legal provisions

- 3.1 The requirements in this Policy Document are specified pursuant to-
- (a) sections 123 and 143 of the Financial Services Act 2013 (FSA);
 - (b) sections 135 and 155 of the Islamic Financial Services Act 2013 (IFSA); and
 - (c) section 42C of the Development Financial Institutions Act 2002 (DFIA).
- 3.2 The guidance in this Policy Document is issued pursuant to section 266 of the FSA, section 277 of the IFSA and section 126 of the DFIA.

4 Effective Date

- 4.1 This Policy Document comes into effect on [day] [month] [year].

Question 2

BNM is considering bringing the requirements proposed in this Exposure Draft into effect six (6) months from the date of issuance of the Policy Document. This is to ensure that FSPs have sufficient time to enhance their existing systems and processes to comply with the new and revised requirements in the Policy Document.

- a) What are the anticipated challenges in implementing the proposed requirements within the proposed timeframe? Please elaborate on the extent of enhancements required to your FSPs' existing processes and systems including relevant data, illustration and justification to support your feedback.
- b) Which requirements in this Exposure Draft require the most significant operational, process or system changes? Please rank the top three areas and explain the justification to support your feedback.

5 Interpretation

5.1 The terms and expressions used in this Policy Document shall have the same meanings assigned to them in the FSA, IFSA or DFIA, as the case may be, unless otherwise defined in this Policy Document.

5.2 For the purpose of this Policy Document:

“S” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretive, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“G” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“Board” refers to the board of directors of a FSP, 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. However, the Board remains fully accountable for any authority and responsibilities delegated to such committee;

“customer” refers to any person who uses, has used or may be intending to use⁴ any financial product including-

⁴ Any person who may be intending to use refers to a potential customer who has provided his/her information to the FSP for purposes of using the FSP's financial product, including a person who subsequently withdraws his/her application or whose application has been rejected by the FSP.

- (a) a representative of the customer (such as the parents of a minor child or authorised representative⁵ of the customer); and
- (b) a person who has entered into or intends to enter into an agreement or arrangement with a FSP (such as a guarantor or third-party security provider) on account of or for the benefit of a customer;

“digital channel” refers to any digital or electronic platforms, including but not limited to:

- (a) email;
- (b) Short Message Service (SMS);
- (c) a particular application such as a mobile application;
- (d) online platform;
- (e) instant messaging services such as WhatsApp, Telegram, WeChat;
- (f) social media; and
- (g) website;

regardless of whether the digital channel is operated, administered or maintained by the FSP;

“financial service provider” or **“FSP”** refers to:

- (a) a licensed insurer;
- (b) a licensed takaful operator;
- (c) a licensed bank;
- (d) a licensed Islamic bank;
- (e) a prescribed development financial institution;
- (f) an approved insurance broker
- (g) an approved takaful broker;
- (h) an approved financial adviser; and
- (i) an approved Islamic financial adviser;

“intermediaries” refer to persons, both individuals and firms (including representatives, agents and their related parties⁶) involved in recommending, arranging or selling of insurance or takaful products to customers, for and on behalf of, or pursuant to an arrangement with, a licensed insurer or licensed takaful operator (licensed ITO);

“licensed ITOs” refer to licensed insurers and licensed takaful operators;

“rider” refers to a supplementary or extension of cover attached to a base life policy/family takaful certificate (issued either on a standalone basis or as a rider) that adds benefits to or amends the terms of the base life policy/family takaful certificate to provide additional coverage. A rider may come at an extra cost in addition to the premium/takaful contribution for the base life policy/family takaful certificate;

⁵ Any person authorised by a customer to act on his/her behalf, for example, a trustee, someone with power of attorney, a legal guardian or an insurance agent authorised by a customer.

⁶ “Related parties” refer to any person accustomed to representing or take instructions from an insurance or takaful operator’s intermediary in relation to insurance and takaful products offered by the insurance and takaful operator, unless otherwise stated in relevant and applicable laws or regulatory instruments issued by BNM.

“senior management” refers to the chief executive officer and senior officers of the FSP; and

“staff” refers to persons employed by a FSP, including temporary or contract staff whose conduct would have an impact on customer outcomes, regardless of whether that person has direct contact with customer of the FSP.

6 Related and superseded policy documents and legal instruments

- 6.1 This Policy Document must be read together with other relevant policy documents and legal instruments that have been issued by BNM⁷, in particular-
- (a) Policy Document on Corporate Governance for Prescribed Development Financial Institutions issued on 24 June 2026 (BNM/RH/PD 035-5);
 - (b) Policy Document on Complaints Handling issued on 28 March 2025 (BNM/RH/PD 028-137)
 - (c) Policy Document on Product Transparency and Disclosure issued on 2 December 2024 (BNM/RH/PD 028-136);
 - (d) Policy Document on Persistency Rate by Distribution Channels issued on 29 March 2024 (BNM/RH/PD 029-67);
 - (e) Policy Document on Fair Treatment of Financial Consumers issued on 27 March 2024 (BNM/RH/PD 028-103);
 - (f) Policy Document on Medical and Health Insurance/Takaful Business issued on 29 February 2024 (BNM/RH/PD 029-66);
 - (g) Policy Document on Management of Participating Life Business issued on 10 July 2023 (BNM/RH/PD 032-1);
 - (h) Policy Document on Professionalism of Insurance and Takaful Agents issued on 17 April 2023;
 - (i) Policy Document on Investment-linked Business issued on 13 February 2023 (BNM/RH/PD 029-36);
 - (j) Policy Document on Bancassurance/Bancatakaful issued on 30 June 2022 (BNM/RH/PD 028-123);
 - (k) Policy Document on Prudent and Professional Conduct by Financial Advisers issued on 26 April 2022 (BNM/RH/PD 029-51)
 - (l) Policy Document on Operating Cost Controls for Life Insurance and Family Takaful Business issued on 24 December 2019 (BNM/RH/PD 029-19);
 - (m) Policy Document on Universal Life Business issued on 13 February 2023 (BNM/RH/PD 032-22);
 - (n) Policy Document on Shariah Governance issued on 20 September 2019 (BNM/RH/PD 028-100);
 - (o) Policy Document on Direct Distribution Channels for Pure Protection Products issued on 3 September 2018 (BNM/RH/PD 029-16);
 - (p) Policy Document on Corporate Governance issued on 3 August 2016 (BNM/RH/PD 029-9);
 - (q) Policy Document on Prohibited Business Conduct issued on 15 July 2016 (BNM/RH/PD 028-21); and

⁷ Including any amendments or modifications made after the issuance date, as well as reissuances.

- (r) Policy Document on Introduction of New Products by Insurers and Takaful Operators issued on 15 May 2015 (BNM/RH/STD 029-10).

6.2 This Policy Document supersedes the Guidelines on Proper Advice Practices for Life Insurance/Family Takaful Business issued on 17 August 2012 (BNM/RH/GL/010-16).

PART B POLICY REQUIREMENTS

7 Effective oversight, accountability, and internal controls

Roles and responsibilities of Board and Senior Management of FSPs

- S** 7.1 The Board and senior management of a FSP shall ensure that the governance arrangements with respect to the FSP's sales and advisory practices commensurate with the nature, scale and complexity of its business and are consistent with the requirements of this Policy Document and other relevant policy documents issued by BNM, including the Policy Documents on Corporate Governance, Fair Treatment of Financial Consumers, Complaints Handling and, where applicable, Shariah Governance⁸.
- S** 7.2 The Board of a FSP shall maintain effective oversight of the FSP's internal governance and control framework for ethical sales and advisory practices to ensure that such practices are being conducted fairly, transparently and in the best interests of customers by:
- (a) overseeing the formulation and effective implementation of the FSP's internal governance and control framework for ethical sales and advisory practices;
 - (b) ensuring that the FSP's internal governance and control framework is designed and implemented such that business objectives, remuneration arrangements and practices do not encourage misconduct, compromise the interest of customers or result in poor customer outcomes;
 - (c) promoting a sound corporate culture that prioritises integrity and professionalism, consistent with principles of fair treatment of financial consumers throughout the sales and advisory processes.
- S** 7.3 The senior management of a FSP shall be responsible for establishing, implementing and maintaining an effective internal governance and control framework that promotes sales and advisory practices that are fair, transparent and in the best interests of customers. This shall include:
- (a) developing, approving and overseeing the implementation of robust policies, procedures and controls under the internal governance and control framework to promote ethical sales practices and ensure the provision of appropriate advice to customers;
 - (b) ensuring that the FSP's internal governance and control framework establishes clear authority, accountability and oversight for the approval, documentation and monitoring of exceptions to the framework;
 - (c) establishing measurable key performance indicators (KPIs) under the internal governance and control framework to identify, monitor and manage risks arising from improper advice, unsuitable recommendations, misleading sales practices and other inappropriate sales and advisory practices;

⁸ Including any amendments or modifications made after the issuance date, as well as reissuances.

- (d) ensuring that controls within the internal governance and control framework address risks arising from the FSP's product design and management, distribution arrangements, remuneration arrangements and practices that may directly or indirectly encourage unsuitable product recommendations or inappropriate sales and advisory practices;
- (e) ensuring that digital and technology-enabled sales and advisory channels are subject to appropriate governance, controls and oversight under the internal governance and control framework to mitigate conduct risks, in line with principles of fair treatment of financial consumers; and
- (f) ensuring periodic review of the relevance, adequacy and effectiveness of the FSP's internal governance and control framework, and the timely reporting of material findings, identified gaps and remedial measures to the Board or its relevant committee.

S 7.4 The senior management of a FSP shall ensure that appropriate independent oversight arrangements are established and maintained to monitor and assess the effectiveness of the FSP's internal governance and control framework for ethical sales and advisory practices, including the effectiveness of its pre-issuance verification controls and post-issuance sales quality review processes, by:

- (a) ensuring that the independent oversight arrangements conduct regular monitoring and assessment of sales and advisory practices
- (b) ensuring the timely reporting of material findings, weaknesses and conduct risks identified through such monitoring and assessment activities to the Board or its relevant committee; and
- (c) using the outcomes of such monitoring and assessment activities to identify systemic weaknesses, recurring issues and root causes and implementing appropriate measures to strengthen the FSP's internal governance and control framework for ethical sales and advisory practices.

S 7.5 The senior management of a FSP shall ensure that conduct risks associated with sales and advisory practices are identified, assessed, monitored and managed on an ongoing basis across all stages of the product lifecycle, including:

- (a) conducting periodic reviews of products and distribution arrangements, taking into consideration relevant qualitative and quantitative indicators, including, but not limited to, complaints data, claims experience, persistency rates⁹, customer feedback and other indicators of customer outcomes;
- (b) implementing controls to mitigate risks arising from inadequate fact-finding and needs-based assessments, unsuitable product recommendations, inaccurate or misleading information provided to customers; and

⁹ Refers to the percentage of policies/takaful certificates that remain in force over the total number of new policies/takaful certificates issued within the exposure period.

- (c) ensuring that remuneration arrangements and practices appropriately balance business objectives with fair customer outcomes, regulatory compliance and expected standards of sales and advisory practices.

- S** 7.6 The senior management of a FSP shall ensure that appropriate measures are taken to address and remediate identified instances of mis-selling, unsuitable recommendations, poor customer understanding, and inappropriate sales and advisory practices, including, but not limited to:
- (a) taking prompt, appropriate and proportionate action to investigate identified instances and address any associated deficiencies;
 - (b) ensuring that appropriate and timely remedial actions is taken where a customer has suffered or is likely to suffer, detriment, including providing appropriate redress where necessary, and assessing whether the same or similar issue may have affected other customers;
 - (c) taking appropriate actions against intermediaries responsible for material breaches, having regard to the nature, severity and recurrence of the misconduct, including assessing whether the same or similar misconduct by the intermediary may have affected other customers; and
 - (d) ensuring that material findings relating to misconduct and customer detriment including the remedial actions taken or proposed, are reported to the Board or relevant Board committees in a timely manner.
- S** 7.7 In line with paragraph 7.3 of the Policy Document on Complaints Handling¹⁰, a FSP shall ensure that complaints analysis and complex cases, and their resolution outcomes, are periodically reported to the senior management and Board, in a timely manner.
- S** 7.8 In line with paragraph 8 of the Policy Document on Complaints Handling¹¹, a FSP shall ensure that complaints relating to the provision of advice are monitored, analysed and escalated to the senior management and Board, in a manner that clearly differentiates between vulnerable consumer and other customers, to ensure that due regard is given to vulnerable consumers who may be at heightened risk of customer detriment.

¹⁰ Paragraph 7.3 of the Policy Document on Complaints Handling requires FSPs to establish and implement an effective internal governance and control framework for handling customer complaints, including the timely escalation to the Board of any recurring or material deviations from the framework that have resulted in poor outcomes to customers.

¹¹ Paragraph 8 of the Policy Document on Complaints Handling requires FSPs to establish and implement effective complaints handling procedures, including the assessment and analysis of complaints to identify root causes and support fair and timely resolution.

- S** 7.9 A FSP shall ensure that its intermediaries involved in selling of and advising on insurance or takaful products comply with the requirements of this Policy Document. Notwithstanding any failure by an intermediary to comply with such requirements, the FSP remains accountable for ensuring compliance with this Policy Document.

Independent Oversight Functions ¹²

- S** 7.10 The independent oversight arrangements established and maintained by a FSP shall include, at a minimum, periodic review, analysis and monitoring of:
- (a) complaints and dispute trends, including the nature, frequency and root causes of complaints relating to sales and advisory practices;
 - (b) product persistency, cancellations, lapses and early surrenders, including trends that may indicate unsuitable recommendations, mis-selling or other weaknesses in sales and advisory practices;
 - (c) findings from sales quality assurance reviews, pre-sale and post-sale verification processes and customer follow-up engagements;
 - (d) compliance with additional safeguards required under this Policy Document, including reviews of audio-recorded confirmations where applicable; and
 - (e) the quality and suitability of recommendations provided to customers, including reviews of customer fact-find, needs analysis and other documentation supporting the recommendation process.
- G** 7.11 A FSP may consider conducting more frequent reviews of its internal governance and control framework for ethical sales and advisory practices where there is a heightened risk of mis-selling, unsuitable recommendations, poor customer understanding, or other inappropriate sales and advisory practices that may result in poor customer outcomes arising from its products, services, distribution arrangements or customer base.

8 Customer suitability and affordability assessment

- S** 8.1 A licensed ITO shall ensure that customer suitability and affordability assessments are incorporated into the product governance processes of insurance or takaful products throughout the product lifecycle, including at the product design, distribution and periodic product reviews. For the avoidance of doubt, the customer suitability and affordability assessments under this paragraph relate to product-level governance and do not replace customer-level affordability assessments at the point of advice.

¹² Oversight roles and responsibilities prescribed in this section may be performed by one or more independent functions within the FSP, including, but not limited to, compliance, risk management, complaints handling, quality assurance, internal audit and, where applicable, Shariah control functions, depending on the FSP's governance arrangements and organisational structure.

- G** 8.2 The aim of a customer suitability and affordability assessment is to promote robust assessments of affordability by a licensed ITO in a manner that allows customers to meet both current and future payment obligations, thereby reducing their vulnerability to unexpected adverse events and income shocks.
- S** 8.3 In relation to paragraph 8.1, a licensed ITO shall give due consideration to products where affordability may be materially affected over time, including products exposed to:
- (a) repricing risk;
 - (b) medical inflation;
 - (c) adverse investment performance; and
 - (d) step-up premium/takaful contribution structures.
- S** 8.4 A licensed ITO shall establish and implement appropriate customer suitability and affordability assessment methodologies using relevant and credible internal and external data sources¹³. Such methodologies shall take into account differences in affordability constraints across customer segments.
- G** 8.5 In relation to paragraph 8.4, the credible internal and external data sources may include, but are not limited to:
- (a) claims experience;
 - (b) persistency and lapse experience;
 - (c) medical inflation trends;
 - (d) healthcare utilisation and expenditure patterns;
 - (e) household income and expenditure indicators;
 - (f) socioeconomic data; and
 - (g) other relevant information that may affect the ability of customers to sustain premium/takaful contribution payments.
- S** 8.6 A licensed ITO shall incorporate relevant customer insights in its customer suitability and affordability assessment and product governance processes to ensure that affordability assumptions appropriately reflect the circumstances and constraints of the intended target market.
- G** 8.7 Customer insights referred to in paragraph 8.6 may include, but not limited to, information obtained from customer surveys, focus group discussions, research studies, behavioural analysis, complaint trends and other relevant customer engagement channels.

¹³ For example, the Household Income and Expenditure Survey (HIES) published by the Department of Statistics Malaysia (DOSM) and Malaysia's National Health Account (MNHA) data.

- S** 8.8 For investment-linked products, including investment-linked products with MHIT riders, a licensed ITO shall assess the sustainability of premiums/takaful contributions throughout the expected duration of the product, taking into account, where applicable:
- (a) regular premium/takaful contribution payments;
 - (b) single premium/takaful contribution top-ups;
 - (c) recurring top-ups;
 - (d) projected fund performance; and
 - (e) the impact of changes in insurance charges, takaful charges or medical costs on future premium/takaful contribution adequacy.

For avoidance of doubt, this paragraph relates to product-level customer suitability and affordability assessments for product governance purposes and does not replace the sustainability tests required under paragraph 16 of the Policy Document on Investment-linked Business.

- S** 8.9 A licensed ITO shall establish appropriate customer suitability and affordability indicators and thresholds to facilitate the ongoing monitoring of customer suitability and affordability outcomes arising from the sale and distribution of its products.

- G** 8.10 Such indicators referred to in paragraph 8.9 may include, but not limited to, lapse rates, persistency experience, complaints relating to affordability, premium/takaful contribution increases, premium/takaful contribution payment patterns, policy alterations, reinstatements and other relevant customer outcome metrics.

- S** 8.11 A licensed ITO shall conduct periodic reviews of customer suitability and affordability assessment outcomes and take timely remedial actions where material affordability risks are identified.

- G** 8.12 The remedial actions referred to in paragraph 8.11 may include, but not limited to:
- (a) product redesign;
 - (b) repricing adjustments;
 - (c) refinement of the target market;
 - (d) enhancement of disclosures and customer communications; or
 - (e) implementation of additional distribution safeguards.

Question 3

BNM is proposing new requirements to strengthen the assessment of customer suitability and affordability throughout the product lifecycle.

- (a) Do you agree with the proposed customer suitability and affordability requirements at product design and throughout the product lifecycle? If not, please provide alternative proposals for consideration.
- (b) What are the anticipated challenges that your institution may face in implementing the proposed requirements?
- (c) Does your institution currently assess customer suitability and affordability at the product level, beyond affordability assessments conducted for individual customers during the sales and underwriting process (for example, beyond the use of premium-to-income ratios)?

If yes, please elaborate on the methodologies, indicators, thresholds and data sources used, including how the outcomes are incorporated into product design, product governance and periodic product review processes.

9 Customer Fact-Find (CFF)

Key disclosures prior to customer fact-find

- G** 9.1 The objective of the disclosure of the intermediary's status to a customer is to promote transparency by enabling the customer to understand the range of products that the intermediary is authorised to advise on or sell, and the licensed ITO or licensed ITOs that the intermediary represents or from which the products may be sourced. The disclosure should also enable customer to identify any actual or potential conflicts of interest that may affect the advice and recommendations provided.
- S** 9.2 The intermediary must provide a written disclosure to the customer at the earliest reasonable opportunity when advising on insurance or takaful products (i.e. at the beginning of the CFF form), on the following particulars:
 - (a) the name, address and contact information of the intermediary;
 - (b) the licensed ITO that the intermediary represents. In the case of insurance or takaful brokers, financial advisers, and Islamic financial advisers, the licensed ITO from which they can source the products;
 - (c) the range of products (by major product lines such as term insurance or takaful, whole life insurance and investment-linked insurance or takaful) that the intermediary is allowed to advise on or sell;
 - (d) a statement that the intermediary is remunerated by the licensed ITO for providing advice on or selling of the insurance or takaful products; and

- (e) in the case of insurance or takaful brokers, financial advisers, and Islamic financial advisers any conflicts of interest that may affect the advice they provide to the customer.

- S** 9.3 Prior to requesting complete customer disclosure and conducting the needs-based assessment in accordance with this Policy Document, intermediaries shall ask customers at the beginning of the CFF form to identify financial priorities they intend to address or specific types of insurance or takaful coverage they intend to obtain through the sales and advisory process.

Complete Customer Disclosure

- G** 9.4 The objective of the 'Customer Fact Find' (CFF) form and the complete customer disclosure requirement is to ensure that an intermediary consistently obtain sufficient and relevant information from customers to support robust customer fact-finding and needs-based assessments.
- S** 9.5 Prior to providing any advice or recommendation on and/or selling any insurance or takaful products, a licensed ITO shall ensure:
- (a) CFF forms are designed to facilitate customers to disclose accurate and relevant information to support product recommendations that are suitable for the customer's needs, objectives, financial circumstances, and risk profile; and
 - (b) intermediaries obtain complete customer disclosure from the customer in accordance with the requirements of this Policy Document.
- S** 9.6 In accordance with paragraph 9.5(b), a licensed ITO shall design CFF forms to facilitate intermediaries in obtaining the following information from customers, at minimum:
- (a) Simplified personal information (minimally, name, NRIC/passport number, occupation, and number of dependents);
 - (b) Vulnerable consumer identification, through a questionnaire on the customer's personal and financial circumstances;¹⁴
 - (c) Risk questionnaire, spanning knowledge and experience on financial products, risk tolerance, and investment preference;
 - (d) Income information (minimally, range and regularity¹⁵ of annual amount);
 - (e) Existing insurance or takaful coverage (minimally, sum covered, premium/takaful contribution amount, and medical and health insurance or takaful coverage provided by their employer); and

¹⁴ A FSP shall not refuse the sale of an insurance or takaful product solely on the basis that a customer has been identified as a vulnerable consumer. The identification shall be used to facilitate appropriate assistance and advice, subject to applicable underwriting and product eligibility requirements.

¹⁵ For avoidance of doubt, CFF forms shall be designed to allow customers to input whether they receive their income in fixed amounts on a regular basis, or otherwise, to cater for customers who may experience irregular amounts and/or frequencies of income (for example, customers who are self-employed or employed by contract or through gig work).

- (f) Budget for new or additional insurance or takaful coverage, by each financial need (e.g., coverage against death/total permanent disability/medical and health expenses, savings and investment, children's education, retirement), or a cumulative amount across all financial needs.

- S 9.7** Licensed ITOs shall refer to Appendix 1 for detailed information required for purposes of paragraph 9.6.

Question 4

BNM is considering replacing the three (3) prevailing options under Client's Choice in Paragraph 7.1 of the Guidelines (BNM/RH/GL/010-16) with a standardised Complete Customer Disclosure requirement to promote more consistent and robust customer fact-find and needs-based assessment practices.

- (a) Do you agree with the proposed approach? If not, please provide alternative proposals for consideration.
- (b) Do you consider the disclosures in paragraph 9.6 sufficient, or should recurring financial commitments (e.g., housing loans, vehicle financing, personal loans, credit card repayments, and other material obligations) also be disclosed?
- (c) What are the anticipated challenges in implementing the proposed requirements, including any impact on customer onboarding, advisory processes, and sales journeys?
- (d) Which information fields proposed under the Complete Customer Disclosure requirements are likely to be most difficult for customers to provide accurately and completely? Please explain the operational implications and any alternative approaches.
- (e) Please share any anticipated data management, system or operational challenges that may arise from the collection, use, access, retention and secure disposal of the disclosures in paragraph 9.6.

Where relevant, please also quantify the expected impact on business operations and customer outcomes, and provide relevant data and evidence, where possible.

Needs-based assessment

- S 9.8** An intermediary shall obtain and consider information disclosed by a customer in accordance with the complete customer disclosure requirements set out in paragraphs 9.5, 9.6, and 9.7 to enable the intermediary to provide proper advice and make suitable recommendations on insurance or takaful products.

- S** 9.9 An intermediary shall conduct a needs-based assessment of the customer's personal and financial circumstances to identify the customer's financial needs, objectives, priorities and risk appetite prior to recommending any insurance or takaful products.
- S** 9.10 In conducting a needs-based assessment as set out in paragraph 9.9, an intermediary shall take into consideration the following factors, where relevant:
- (a) the customer's existing coverage and need for further coverage in relation to income protection (i.e. coverage against death, total and permanent disability, and medical and health expenses) and income accumulation (i.e. savings and investment, children's education, and retirement);
 - (b) the customer's risk profile, including risk appetite and investment preferences;
 - (c) the customer's personal and financial circumstances, including whether they are identified as a vulnerable consumer; and
 - (d) affordability considerations, in accordance with paragraph 8.
- G** 9.11 An intermediary may utilise the information previously collected from the customer, provided that the customer confirms that the information remains relevant and up to date. A licensed ITO may also request other information from the customer, as reasonably considered relevant.
- S** 9.12 If a customer chooses not to provide the information required under the complete customer disclosure requirement set out in paragraph 9.4, the intermediary shall inform the customer that the sale will not be able to proceed without complete information, as this may result in the customer entering into an insurance policy/takaful certificate that is not appropriate to the customer's needs, objectives, and financial circumstances.
- S** 9.13 A FSP must have controls in place to ensure that the intermediaries preserve the confidentiality of the information disclosed by the customer.
- S** 9.14 An intermediary is required to sign a clause in the CFF form to preserve the confidentiality of information disclosed by a customer and must not release such information to any third party and must restrict the use of such information only for the purpose of recommending insurance or takaful products.

10 Product recommendations and advice

- S** 10.1 An intermediary shall not recommend any purchase of insurance or takaful products unless the intermediary can demonstrate that the recommendation is suitable for the customer, having regard to the facts disclosed by the customer, the needs-based assessment conducted by the intermediary, and other relevant facts about the customer which are made available to the intermediary.

- S** 10.2 When recommending insurance or takaful product, an intermediary must:
- (a) provide clear explanation and take reasonable steps to ensure the customer understands the recommended product before making a final decision to purchase.
 - (b) demonstrate that the recommendation is suitable for the customer's identified needs, objectives and financial circumstances, and that the product is affordable for the customer having regard to the information disclosed during the customer fact-find and needs-based assessment at the time the product recommendation is made;
 - (c) ensure all information provided and explained to the customer is clear, fair and not misleading; and
 - (d) refrain from making unfair or misleading comparisons or criticisms of insurance or takaful products offered by other licensed ITO that the intermediary does not represent.
- S** 10.3 If the intermediary is unable to recommend a suitable product in line with the needs and affordability of a customer with any insurance or takaful product that the intermediary is authorised to sell, the intermediary shall not recommend any product to the customer. This shall be recorded in the manner stated in paragraph 10.5.

Question 5

BNM is considering the proposed requirement in paragraph 10.3 to mitigate the risk of inappropriate or unsuitable recommendations that do not adequately consider the needs, objectives and financial circumstances of the customer.

This proposed requirement replaces the existing practice of allowing intermediaries to provide information on other products, while clearly informing the customer that the product may not meet the customer's specific needs and explaining the risks and gaps between the product's features and the customer's needs to aid the customer in making an informed decision.

- (a) Do you agree with the proposed approach? If not, please provide alternative proposals for consideration.
- (b) What are the anticipated challenges in implementing the proposed requirement, including any impact on customer onboarding, advisory processes, and sales journeys?

Please support your feedback with relevant data, illustrations and justification.

- S** 10.4 An intermediary shall provide and use customer-specific product materials, including, at least, the Product Disclosure Sheet (PDS) and product illustration, where applicable, to clearly explain all the main features and considerations of

the insurance or takaful products recommended to the customer, including but not limited to:

- (a) information on the licensed ITO underwriting the product;
- (b) policy/takaful certificate benefits and risks (including non-guaranteed features);
- (c) exclusions and limitations;
- (d) premium/takaful contribution rates¹⁶;
- (e) fees and charges;
- (f) the period of the insurance or takaful coverage;
- (g) frequency/term of premium/takaful contribution payment; and
- (h) customers' obligation to fulfil their duty of disclosure and representation (particularly, in relation to accurate completion of health questionnaires in proposal forms) and the consequences of failure to disclose the relevant information, or provision of inaccurate or false information.

Record of Advice

- S** 10.5 The product recommendations, if any, to a customer must be stated in a Record of Advice section of the CFF form and include:
- (a) types of products identified as suitable, term of policy/takaful certificate, name of insured/takaful participant, sum assured/participated and additional benefits; and
 - (b) explanation or reasons that led to the recommendation of the product and why they are likely to satisfy the customer's financial needs, objectives, and financial circumstances.
- S** 10.6 With reference to paragraph 10.3, if the intermediary cannot match the needs and affordability of a customer with any insurance or takaful product that the intermediary is authorised to sell, the intermediary shall state in the Record of Advice that the intermediary is unable to offer a product suited to the customer's financial needs, objectives, and financial circumstances.
- S** 10.7 A FSP shall ensure that, where an intermediary recommends the termination or surrender of an existing insurance policy/takaful certificate and its replacement with a new policy/takaful certificate, the intermediary clearly explains to the customer and includes in the Record of Advice:
- (a) the reasons for recommending the termination or surrender of the existing policy/takaful certificate and its replacement;
 - (b) any surrender charges, termination charges, penalties or other financial costs arising from the termination or surrender of the existing policy/takaful certificate;

¹⁶ For recommendations of medical reimbursement insurance or takaful products, explanations shall include how premium/takaful contribution rates increase with age and may be subject to revisions arising from the licensed ITO's periodic review of premium/takaful contribution rates due to prevailing claims experience and medical inflation.

- (c) any entry charges or other initial costs associated with the replacement policy/takaful certificate, including any duplication of initial costs already incurred under the existing policy/takaful certificate;
- (d) any loss of benefits, guarantees or other rights arising from the termination or surrender of the existing policy/takaful certificate;
- (e) any new waiting periods, exclusions, underwriting requirements or other coverage limitations that may apply under the replacement policy/takaful certificate; and
- (f) any material implications arising from changes in the customer's age, health or insurability.

Confirmation of Advice

- S** 10.8 After the purchase of the insurance or takaful product, the licensed ITO must issue a 'Confirmation of Advice' (CA) to the policy owner/takaful participant together with the insurance policy/takaful certificate. The CA shall contain a summary of the fact-finding, product recommendation and key features of the insurance or takaful product (if any).
- S** 10.9 The licensed ITO and the intermediary shall retain the CA signed by the intermediary for the duration of the policy/takaful certificate. The CA must be made available by the licensed ITO or the intermediary in the case of complaints or disputes.

11 Sales controls for investment-linked products

- S** 11.1 As part of the CFF, intermediaries shall gauge a customer's interest in purchasing investment-linked products and prior experience with financial products and services (including investment-linked products) within the vulnerable consumer identification questionnaire. Product recommendations arising from the CFF and needs-based assessment may include investment-linked products for vulnerable consumers only where the customer:
- (a) has prior experience with financial products and services (including investment-linked products), or has expressed an interest in purchasing investment-linked products; and
 - (b) has provided consent for the remainder of the sales journey to be recorded via audio or video.

Where these conditions are not met, investment-linked products shall not form part of the product recommendation to vulnerable consumers.

- S** 11.2 Where customer fact-find, needs-based assessments, and sales processes are conducted by intermediaries using digital tools and applications¹⁷, a licensed ITO shall ensure that such digital tools and applications have built-in controls to ensure product recommendations to vulnerable consumers comply with paragraph 11.1.
- S** 11.3 In relation to the audio and video recordings referenced in paragraph 11.1 and digital tools and applications referenced in paragraph 11.2, a licensed ITO shall ensure:
- (a) intermediaries conduct time-stamped audio or video recordings of the sales scenario outlined in paragraph 11.1(b), and
 - (b) intermediaries are provided a platform with system capabilities to upload and for a licensed ITO to retain and access the time-stamped audio and video recordings of the sales scenario outlined in paragraph 11.1(b).
- S** 11.4 A licensed ITO shall refer to the definition of vulnerable consumer, as well as the requirements under Principle 7¹⁸, as set out in the Policy Document on Fair Treatment of Financial Consumers in identifying and responding to the needs of vulnerable consumers during the customer fact-find process. For the purposes of paragraph 11 of this Policy Document, the CFF form should, at a minimum, facilitate identification of customers who may be vulnerable, including but not limited to:
- (a) senior citizens (i.e., individuals aged 60 and above);
 - (b) person with disabilities¹⁹ (i.e., where disability is voluntarily disclosed);
 - (c) unemployed and financially dependent (e.g., students, housewives, retirees);
 - (d) death or total permanent disability of the main breadwinner; and
 - (e) only speaks a language other than Bahasa Malaysia or English.

¹⁷ This refers to the use of digital sales and advisory tools, such as digital customer fact-finding forms, system generated product recommendations, record of advice and personalised sales materials (PDS and product illustration) generated from customer information obtained from fact-finding process.

¹⁸ Principle 7: A financial service provider must take appropriate actions to ensure that vulnerable consumers are treated fairly and equitably.

¹⁹ In circumstances where the disability is not apparent, a FSP may consider the following non-exhaustive procedures to verify that a customer falls within this category of persons. However, such procedures should not be compelled on or used against a customer in any way-

- (a) voluntary submission of a medical letter/report or a verified copy certifying the person's disability issued by a doctor/specialist registered under the Malaysian Medical Council;
- (b) voluntary disclosure of an OKU card issued by Jabatan Kebajikan Malaysia; or
- (c) voluntary disclosure of disability to the FSP (by filling up a form/document prepared by the FSP for purposes of such voluntary disclosure).

Confirmation of Understanding

- S** 11.5 In relation to paragraph 11.1(b), a licensed ITO shall ensure intermediaries obtain confirmation of understanding²⁰ from vulnerable consumers who agree to purchase a recommended investment-linked product.
- S** 11.6 The confirmation of understanding shall be obtained from such customers in a written or verbal format, and time stamped. Where the confirmation of understanding is provided verbally, these shall be recorded via audio or video and clearly demonstrate that the questions are asked by the intermediary and answers provided by the customer.
- S** 11.7 A licensed ITO shall design the confirmation of understanding to enable customers to answer simple and open-ended questions in relation to the purchase of the recommended investment-linked product, minimally spanning:
- (a) nature (single or regular premium/takaful contribution), amount of premium/takaful contribution, and frequency with which and period over which payment is to be made in respect of regular premium/takaful contribution product;
 - (b) name and type of investment-linked fund(s) chosen, and acknowledgement that insurance or takaful benefits may fluctuate based on the underlying performance of the chosen fund (i.e., future fund performance may differ from historical fund performance);
 - (c) acknowledgment that fees and charges may increase as the customer ages;
 - (d) insurance or takaful benefits payable and whether these benefits are guaranteed or non-guaranteed; and
 - (e) acknowledgement that the customer may not receive their entire account value if they choose to surrender the policy/takaful certificate.
- S** 11.8 In line with paragraph 11.3, a licensed ITO shall ensure intermediaries are provided a platform with system capabilities to upload and for the FSP to retain and access the time-stamped written and audio or video recordings of the confirmation of understanding.

²⁰ For avoidance of doubt, this is in addition to the Confirmation of Advice (CA) referred to in paragraph 10.7.

Question 6

BNM is considering safeguards in the proposed requirement in paragraph 11 to reduce the risk of unsuitable investment-linked products recommendations to specific financial needs and objectives of vulnerable consumers.

- (a) Do you agree with the proposed approach in paragraph 11.1(b) (i.e. for the remainder of the sales journey to be recorded via audio/video)? If not, please provide alternative proposals for consideration, including the proposed portion of the sales journey which can be recorded via audio/video.
- (b) Are the parameters described in paragraph 11.3 and 11.8 feasible for system implementation? If not, please provide alternative proposals for consideration.
- (c) Do you agree with the proposed scope of vulnerable consumers in paragraph 11.4? If not, please share your rationale for expansion or reduction of the proposed scope.
- (d) What are the anticipated challenges in implementing the proposed requirement, including any impact on customer onboarding, advisory processes, and sales journeys?
- (e) Are there alternative safeguards that would achieve similar outcomes?

Where relevant, please also quantify the expected impact on business operations and customer outcomes, and provide relevant data and evidence, where possible.

12 Sales quality review

- S** 12.1 A licensed ITO shall establish and implement robust internal policies, procedures and controls to ensure the quality of sales and advisory practices conducted by its staff and intermediaries. Such policies, procedures and controls shall include:
 - (a) pre-issuance verification controls to identify and address potential mis-selling risks prior to policy/takaful certificate issuance; and
 - (b) post-issuance sales quality review processes to assess whether customers have received appropriate advice and understood the key features, risks and obligations associated with the product purchased.
- S** 12.2 In relation to paragraph 12.1, a licensed ITO shall ensure the pre-issuance verification controls and post-issuance sales quality review is conducted by an independent party such as a staff who is not directly or indirectly involved in the sale of the recommended insurance policy/takaful certificate.

- G** 12.3 In carrying out the requirement under paragraph 12.1(b), a licensed ITO may also have in place measures²¹ to ensure that sales quality review processes remain effective for customers who may have difficulty accessing or using digital channels (e.g. senior citizens, persons with disabilities, or customers with limited access to the internet), such that the licensed ITO can adequately assess whether these customers have received appropriate advice and understood the key features, risks and obligations associated with the product purchased.

Pre-Issuance Verification Controls

- S** 12.4 A licensed ITO shall establish and implement pre-issuance verification controls to verify prior to underwriting, the customer's purchase decision, understanding of the recommended product and the quality of advice provided.
- S** 12.5 The pre-issuance verification controls referred to in paragraph 12.4 shall include the use of simple and open-ended questions covering key information, including, but not limited to:
- (a) the scope of coverage, sum assured/sum participated and any riders attached;
 - (b) premium/takaful contribution commitments;
 - (c) significant exclusions or limitations;
 - (d) implications of surrender, termination, lapse or missed premium/takaful contribution payments;
 - (e) investment risks and non-guaranteed elements, where applicable;
 - (f) waiting periods and free-look rights;
 - (g) the nature and amount of any guaranteed and non-guaranteed benefits; and
 - (h) whether the intermediary has provided the PDS and product illustration where applicable, and guided the customer through the key sections of the PDS.
- S** 12.6 A licensed ITO shall, prior to underwriting, conduct a pre-issuance verification call where the sale involves products, intermediaries, or distribution channels assessed by the licensed ITO to present elevated risks of mis-selling, unsuitable recommendations, poor customer understanding, or other inappropriate sales and advisory practices that may result in poor customer outcomes.
- S** 12.7 In determining the sales that require a pre-issuance verification call under paragraph 12.6, a licensed ITO shall take into consideration, at a minimum, but not limited to:
- (a) first-time purchasers of insurance or takaful products;
 - (b) savings or investment-linked products;

²¹ Such measures may include providing alternative communication, verification or engagement channels for vulnerable consumers as defined in the PD FTFC issued on 27 March 2024.

- (c) replacement of existing policies/takaful certificates;
 - (d) policies/takaful certificates involving high premium/takaful contribution and/or sum assured or sum participated amounts²²;
 - (e) vulnerable consumers²³; and/or
 - (f) sales conducted through telemarketing channel.
- G** 12.8 In relation to paragraph 12.6, examples of products, intermediaries or distribution channels that may present elevated risks of poor customer outcomes may include, but not limited to:
- (a) intermediaries with low persistency rates, recurring complaints or a history of sales conduct concerns;
 - (b) products demonstrating high early lapse experience, persistency concerns or heightened susceptibility to unsuitable recommendations or mis-selling; and
 - (c) distribution channels assessed by the licensed ITO as requiring enhanced monitoring or scrutiny.
- S** 12.9 To facilitate the effectiveness of pre-issuance verification controls, a FSP shall inform customers in advance that customer will be contacted as part of the pre-issuance verification control and that completion of the verification is required before the underwriting process can proceed.
- S** 12.10 A licensed ITO shall not proceed with underwriting where the pre-issuance verification controls identify material concerns ²⁴ relating to customer understanding, purchase intent or sales conduct, unless such concerns have been appropriately resolved and documented. This shall include requiring the intermediary or relevant sales staff to re-engage with the customer to provide further explanation and clarification on the recommended insurance or takaful product, where customer understanding is assessed to be inadequate or unclear.
- S** 12.11 For sales which are not assessed as requiring a pre-issuance verification call under paragraph 12.7, a FSP shall implement alternative verification measures prior to underwriting that are reasonably designed to achieve outcomes comparable to those set out in paragraphs 12.4 and 12.5.
- G** 12.12 Alternative verification measures referred to in paragraph 12.11 may include, but not limited to digital acknowledgements, awareness checklists, customer

²² Refers to amounts that may present a heightened risk of financial loss if the product is unsuitable.

²³ In line with the definition of "vulnerable consumers" from the PD FTFC issued on 27 March 2024.

²⁴ Examples of material concerns may include, but not limited to, potential mis-selling, unsuitable recommendations, poor customer understanding of the product, inconsistencies between the customer's disclosed needs and the recommended product, or uncertainty regarding the customer's purchase intent.

declarations, interactive knowledge assessments or other appropriate verification tools.

- G** 12.13 Verification tools referred to in paragraph 12.12 may take the form of digital or physical questionnaires requiring customers to actively acknowledge and confirm their understanding of key product information prior to underwriting, rather than solely obtaining acknowledgement of receipt of product documents. Such tools may include, but not limited to declarations, tick-box confirmations, short questions or knowledge checks.
- G** 12.14 A FSP may provide customers with a confirmation of purchase notification²⁵ containing key product information following completion of the pre-issuance verification process.

Post-Issuance Sales Quality Review

- S** 12.15 A licensed ITO shall establish and implement a risk-based post-issuance sales quality review framework to obtain direct and timely customer feedback and assess the quality of advice and sales provided by its staff and intermediaries.
- S** 12.16 In relation to paragraph 12.15, a licensed ITO shall obtain direct feedback from selected customers, based on its risk assessment, within fifteen (15) calendar days from policy/takaful certificate issuance through appropriate channels, which may include, but not limited to telephone calls, digital acknowledgements, awareness checklists, customer declarations, interactive knowledge assessments, digital questionnaires or other suitable communication channels.
- S** 12.17 The post-issuance sales quality review referred to in paragraph 12.16 shall seek to confirm, at a minimum, but not limited to:
- (a) the customer's decision to purchase the product;
 - (b) receipt of the policy/takaful certificate;
 - (c) awareness and understanding of key product features, benefits and risks, including important exclusions or limitations, any non-guaranteed returns, waiting periods, and free-look period;
 - (d) the presence of any indicators of potential mis-selling, unsuitable recommendations, poor customer understanding, or other inappropriate sales and advisory practices that may result in poor customer outcome.

²⁵ For example, a confirmation of purchase notification may be delivered through messaging applications, customer portals, mobile applications, SMS or email, and contain key information relating to the product purchased.

- G** 12.18 A licensed ITO is encouraged to leverage secure digital channels and automated customer touchpoints to facilitate timely feedback collection while minimising unnecessary customer inconvenience.
- G** 12.19 As an example of the digital channels and automated customer touchpoints referred to in paragraph 12.18, a licensed ITO is encouraged to implement automated completeness and suitability checks within intermediaries' sales systems to support sales quality reviews and oversight of sales and advisory practices²⁶.

Monitoring and Reporting

- S** 12.20 A licensed ITO shall establish and implement a monitoring framework to support the oversight arrangements referred to in paragraph 7.4 and assess the effectiveness of its sales and advisory practices, including its pre-issuance verification controls, post-issuance sales quality review processes and other sales quality assurance measures.
- S** 12.21 The monitoring framework referred to in paragraph 12.20 shall include periodic reviews of, at a minimum, but not limited to:
- (a) customer feedback obtained through sales quality reviews;
 - (b) the quality and completeness of CFF form, record of advice, confirmation of advice, and other documentation supporting the needs-based assessment and product recommendation;
 - (c) the appropriateness of product recommendations having regard to the information obtained through the CFF form and needs-based assessment;
 - (d) complaints and dispute trends;
 - (e) potential mis-selling, unsuitable recommendations, poor customer understanding, or other inappropriate sales and advisory practices that may result in poor customer outcomes;
 - (f) outcomes of pre-issuance verification and post-issuance sales quality reviews; and
 - (g) the effectiveness of remedial actions implemented.
- S** 12.22 A licensed ITO shall submit periodic reports to its senior management on significant findings arising from the monitoring activities referred to in paragraph 12.21, including material indicators of potential mis-selling, unsuitable recommendations, poor customer understanding, or other inappropriate sales and advisory practices that may result in poor customer outcomes, emerging trends and corrective actions undertaken.

²⁶ Such checks may identify incomplete customer fact-find information or potential inconsistencies between the customer's needs, objectives, financial circumstances or risk profile and the recommended product (or recommended fund selection for investment-linked products). Where such issues are identified, the system may generate alerts or warnings for further review before the recommendation is finalised.

- G** 12.23 Examples of matters that may be reported to senior management as referred to paragraph 12.22 include, but not limited to:
- (a) trends in customer complaints;
 - (b) pre-issuance verification calls' exceptions;
 - (c) recurring weaknesses in CFF practices;
 - (d) product-specific sales conduct concerns, and
 - (e) the effectiveness of remediation measures implemented by the licensed ITO.
- S** 12.24 In order to ensure that the advice and recommendation given by a newly appointed intermediary is sound, the supervisor of the agent/salaried staff is responsible for evaluating the advice and recommendation given by the new agent/salaried staff during his first year of appointment. The one-year period shall also be applicable if the agent/salaried staff were to join another licensed ITO.
- G** 12.25 With reference to paragraph 12.24, a licensed ITO is encouraged to adopt a risk-based approach in monitoring its staff and intermediaries who may present higher sales conduct risks. This may include, but not limited to, supervisory reviews, pre-submission sign-offs and the use of automated monitoring tools to identify recommendations that warrant further review.

Question 7

The proposed requirements in paragraph 12 seek to strengthen sales quality assurance through the introduction of pre-issuance verification, risk-based post-issuance sales quality reviews and enhanced monitoring of sales conduct outcomes. These measures are intended to improve the quality of advice and reduce the risk of mis-selling.

- (a) Do you agree with the proposed approach? If not, please provide alternative approaches for BNM's consideration.
- (b) Are the proposed risk factors and requirements relating to pre-issuance verification controls appropriate and proportionate? Please describe any implementation challenges, operational considerations or alternative approaches that BNM should take into account.
- (c) Please provide an estimate of the implementation and ongoing operational costs associated with the proposed requirements under paragraph 12.
- (d) Are there alternative controls that would achieve comparable outcomes at lower operational cost?

13 Telemarketing channel controls

- G** 13.1 A FSP may market insurance or takaful products and provide information on the key features, terms and conditions of such products through telemarketers.
- S** 13.2 Notwithstanding paragraph 13.1, a FSP shall not permit telemarketers to conclude the sale of its insurance or takaful products, either on a standalone basis or as a rider, over the phone. Instead, the FSP shall refer customers who are interested to make a purchase to an intermediary who is qualified to conduct the needs-based assessment in line with the requirements under paragraphs 9 and 10 in this Policy Document.
- S** 13.3 Prior to referring a customer under paragraph 13.2, a FSP shall obtain the customer's explicit consent to be contacted by, or transferred to, the qualified intermediary for the purpose of receiving advice and product recommendations.
- S** 13.4 A FSP shall ensure that telemarketing personnel provide clear, fair and not misleading disclosures to customers, including at a minimum:
- (a) the nature and purpose of the telemarketing interaction;
 - (b) key product features and benefits;
 - (c) significant exclusions, limitations and risks;
 - (d) applicable premiums/takaful contributions, fees and charges;
 - (e) the customer's rights, including any free-look and cancellation rights, where applicable; and
 - (f) a clear statement that no sale of an advisory product may be concluded through the telemarketing channel.
- S** 13.5 A FSP shall maintain appropriate controls to ensure that telemarketing personnel adhere to approved telemarketing scripts and disclosure requirements.
- S** 13.6 A FSP shall ensure telemarketing calls relating to insurance or takaful products are recorded and retain such recordings for at least seven (7) years.
- S** 13.7 A FSP shall conduct periodic reviews of recorded telemarketing calls on a risk-based approach to assess compliance with its approved scripts, disclosure requirements and telemarketing procedures.
- G** 13.8 In determining the scope and frequency of reviews under paragraph 13.7, a FSP should take into consideration factors including complaint trends, customer feedback, product complexity, vulnerable consumers and other relevant conduct risk indicators.

- S** 13.9 A FSP shall establish escalation procedures for material deviations from approved scripts, disclosure requirements or telemarketing procedures.
- S** 13.10 Where deficiencies or non-compliance are identified, a FSP shall take timely remedial actions, which may include, but not limited to:
- (a) customer remediation;
 - (b) retraining of telemarketing personnel;
 - (c) enhanced supervision and monitoring;
 - (d) disciplinary actions; and
 - (e) enhancements to internal controls and procedures.
- S** 13.11 A FSP shall provide periodic management reporting to senior management on the effectiveness of telemarketing controls, including information relating to:
- (a) outcomes of telemarketing call reviews;
 - (b) identified control breaches and exceptions;
 - (c) customer complaints arising from telemarketing activities; and
 - (d) remedial actions undertaken.

Question 8

The proposed requirements in paragraph 13 seek to strengthen safeguards for the telemarketing channel by prohibiting the conclusion of sales of insurance or takaful products via telemarketing and introducing enhanced controls over telemarketing activities.

- (a) Do you agree with the proposed prohibition on concluding insurance or takaful products sales through the telemarketing channel? If not, please provide alternative approaches for BNM's consideration.
- (b) What implementation challenges do you anticipate in complying with the proposed requirements?

Question 9

Are there any proposals in this Exposure Draft that may result in unintended consequences for customers, intermediaries or FSPs, including reduced access to advice, increased costs, product withdrawal, or other adverse outcomes? Please explain and provide supporting evidence where possible.

PART C APPENDICES

Appendix 1 Details required under Complete Customer Disclosure

- S** *The following table sets out the details that intermediaries shall obtain from customers during the customer fact-find process, prior to providing any product recommendations, in line with paragraphs 9.5 to 9.12 of this Policy Document.*

To encourage meaningful and accurate customer disclosure, a licensed ITO shall design CFF forms to be user-friendly and intuitive, including through use of clear and plain language and, where possible, the provision of reasonable assistance or alternative formats to customers who may face difficult completing the CFF form independently.

Simplified personal information

- a. Name
- b. NRIC/passport
- c. Occupation
- d. Number of dependents

Customer profiling (vulnerable consumer identification questionnaire)

A licensed ITO shall include questions to gauge customers' characteristics, current circumstances, and level of financial literacy, in order to identify vulnerable consumers and take appropriate actions to ensure they are treated fairly and equitably.

a. Gauge of customer language proficiency

e.g., Please indicate which language(s) you best understand and can fluently communicate in.

- i. Spoken: (English / Bahasa Malaysia / Mandarin / Tamil / Others)
- ii. Written: (English / Bahasa Malaysia / Mandarin / Tamil / Others)

b. Gauge of any long-term disabilities experienced by customer, or dependents

e.g., Are you, or your dependents, currently experiencing any long-term disabilities or conditions that may require additional support when managing financial matters?

- i. Hearing Impairment;
- ii. Visual Impairment;
- iii. Speech Impairment;
- iv. Physical Impairment
- v. Learning Impairment e.g., dyslexia/low spectrum Autism;
- vi. Others (to specify)

c. Gauge of customer ability to withstand financial shocks

e.g., How many months' worth of emergency funds do you currently have for daily and household expenses, in case you experience a sudden loss of income?

- i. 0 – 3 months

- ii. 3 – 6 months
- iii. More than 6 months

d. Gauge of customer experience of any adverse life events resulting in temporary or long-term financial hardship

e.g., Are you experiencing (or have you recently experienced) any financial strain, for example,

- loss or reduction of income or employment,
- death or total and permanent disability of the main breadwinner of your household
- damage to home/vehicle arising from natural disasters

(Yes/No)

e. Gauge of customer experience with financial products and services

e.g., Do you have prior experience with investments e.g. shares, unit trust, investment-linked insurance or takaful?

- i. Yes; I have prior experience and understand the products' features and risks
- ii. Limited; I have prior experience, but I do not fully understand the products' features and risks
- iii. No; I have a savings account and/or fixed deposits only

f. Gauge of customer understanding on financial products and services

e.g., If you pay a premium/takaful contribution of RM10,000 for your first policy year, can the cash value of your policy be lower than RM10,000 at the end of the first year?

- i. Yes; the cash value of my policy may decrease or increase.
- ii. No; my premium/takaful contribution will be fully invested and earn interest.

e.g., An insurance product (such as an investment-linked product) may offer higher potential returns than a banking savings product. Do you bear the same level of investment risk with both products?

- i. Yes; both products are low risk.
- ii. No; products offering higher potential returns involve higher investment risks.

e.g., If an investment-linked product projects a 5% return per year, does this mean your investment will grow by 5% every year?

- i. Yes; the 5% figure is fixed, and I will not suffer any losses by holding this product.
- ii. No; projected investment returns are not guaranteed, and I may earn a lower or negative return.

e.g., Do insurance or takaful products typically deduct any fees and charges?

- i. There are no other fees or charges deducted; premiums/takaful contributions are fully to provide coverage or earn interest like a banking savings product.
- ii. Fees and charges may be deducted during the coverage term and even during surrender of the policy/takaful certificate.
- iii. Fees and charges are only payable once at the beginning.

g. Gauge of customer preference to purchase complex financial product and services

e.g., *Do you intend to purchase any financial service or product with investment elements today?*

(Yes/No) *

*** Licensed ITO shall include a note that answering “Yes” requires the remainder of the sales interaction to be recorded via audio/video.**

Risk profiling

a. Gauge of customer preference for protection and savings

e.g., *Which of the following best describes your approach to the sales journey today?*

- i. *I'm interested in income protection only (e.g. to secure myself/my family in the event of death, total and permanent disability, or high medical costs)*
- ii. *I'm interested in income growth only (e.g. to diversify my savings and investment portfolio; to explore savings for my children's education and/or my retirement planning)*
- iii. *I'm interested in both income protection and income growth*

b. Gauge of customer preference for policy/takaful certificate coverage and payment term

e.g., *How long are you willing to pay for a new life insurance/family takaful plan?*

- i. *Less than 10 years*
- ii. *10 to 19 years*
- iii. *20 years or more*
- iv. *Other duration (to specify)*

e.g., *What is your preference on the duration of your insurance or takaful coverage?*

- i. *Up to age 60*
- ii. *Up to age 70*
- iii. *Up to age 80*
- iv. *Other age (to specify)*

c. Gauge of customer investment experience

e.g., *Have you had any knowledge or experience investing in the following via direct investments and/or unit trust funds?*

- i. *Fixed income*
- ii. *Shares*
- iii. *Both fixed income and shares*
- iv. *None of the above*

d. Gauge of customer investment preference

e.g., *Which of the following best describes your investment objective and your willingness to accept investment risk?*

- i. *Preserve capital - I am not willing to take on any losses.*

- ii. *Achieve steady income and capital growth - I am willing to invest in low-risk funds only and understand that I may still experience losses on my principal investment amount.*
- iii. *Maximize capital growth - I am prepared to invest in moderate-risk to high-risk funds for the higher potential returns, and understand that I may still experience losses on my principal investment amount.*

Income information

Gauge of annual income, i.e., whether customers receive their income in fixed amounts on a regular basis, or otherwise.

This section shall also allow input from customers who may experience irregular amounts and/or frequencies of income (for example, customers who are self-employed or employed by contract or through gig work).

Existing life insurance/family takaful coverage

Gauge of existing life insurance/family takaful coverage – at minimum, sum covered (or annual and lifetime limits, where applicable) and premium/takaful contribution amounts by each financial need, for example:

- a. income protection (e.g. coverage against death, total and permanent disability, critical illness);
- b. income accumulation (e.g. savings and investment, children's education, and retirement); and
- c. medical and health expenses;

or a cumulative amount across all financial needs.

Budget/planning for additional life insurance/family takaful coverage

Gauge of financial capacity and need for additional life insurance/family takaful coverage – at minimum, sum covered (or annual and lifetime limits, where applicable) and premium/takaful contribution amounts by each financial need, for example:

- a. income protection (e.g. coverage against death, total and permanent disability, critical illness);
- b. income accumulation (e.g. savings and investment, children's education, and retirement);
- c. medical and health expenses;

or a cumulative amount across all financial needs.