



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Universal Life Business

Applicable to:

1. Licensed insurers

Issued on: 23 December 2019

BNM/RH/PD 032-22

TABLE OF CONTENTS

PART A OVERVIEW	1
1. Introduction	1
2. Applicability	2
3. Legal provisions	2
4. Effective date and transitional arrangements	2
5. Interpretation	3
6. Related legal instruments and policy documents	4
PART B MANAGEMENT OF UNIVERSAL LIFE BUSINESS	5
7. Governance	5
8. Product design	6
9. Management of sustainability of cover	7
10. Surrender values	11
11. Free-look period	11
PART C FEES, CHARGES AND EXPENSES	13
12. General conditions	13
13. Allocation of expenses	14
14. Fund Management Charges	15
15. Other charges	15
16. Maintenance and management of insurance fund	16
PART D DISCLOSURE	17
17. Disclosure requirements	17
18. Product literature and illustration	19
19. Fund Fact Sheet	21
20. Statement to policy owners	21
PART E INVESTMENT	23
21. General principles	23
22. Investment limits	23
PART F VALUATION AND CAPITAL	24
23. Valuation of liabilities	24
24. Capital requirements	24
PART G APPENDICES	25
Appendix I Product illustration	25
Appendix I(a) Product illustration	28
Appendix II Fund Fact Sheet	31

PART A OVERVIEW

1. Introduction

1.1 A universal life policy has the feature of providing for premiums to be paid by a policy owner into a non-unitised account to build up the account value of the policy. The policy account is invested at the discretion of the licensed insurer and the returns to the policy account are quoted based on annual crediting interest rates applied at the discretion of the licensed insurer. The account value of a universal life policy is used to fund the insurance protection for the policy owner and other fees and charges related to the policy. Flexibilities of the universal life policy which are provided to the policy owner may include the following:

- (a) premium top-ups, partial withdrawals and/or premium holidays; and
- (b) changes to insurance coverage as the consumer's protection needs or financial circumstances change, by adding or removing extensions of cover.

1.2 The principal-agent problem exists for universal life policies as the licensed insurer makes decisions on the investment choices and crediting rates of the account value while the policy owner bears the risks. The risks borne by a policy owner include investment risk to the policy account value and the long-term sustainability of the policy which can be affected by both the investment risk and other flexibilities accorded to the policy. Therefore, it is critical for a licensed insurer to:

- (a) maintain high standards of governance in the management of its universal life business; and
- (b) uphold high conduct and transparency standards in sales, marketing and disclosure of information to aid informed decision-making by consumers at all times.

1.3 The objectives of this policy document are to:

- (a) facilitate the orderly development of universal life business in Malaysia;
- (b) promote and maintain high standards of governance and professionalism in the administration of universal life business; and

- (c) enhance product transparency and ensure that policy owners are treated fairly.

1.4 This policy document sets out the following:

- (a) the roles and responsibilities of the board and senior management in the licensed insurer's management of universal life business;
- (b) overall governance in the management of universal life business, including product design, establishment and revision of fees and charges, and management of expenses;
- (c) investment, valuation and capital treatment of the universal life fund; and
- (d) disclosure requirements to promote transparency to universal life policy owners.

2. Applicability

2.1 This policy document is applicable to licensed insurers carrying on life business, which offer, market or sell universal life policies (hereinafter referred to as "universal life business").

3. Legal provisions

3.1 This policy document is issued pursuant to sections 47, 123, 143 and 266 of the Financial Services Act 2013 (FSA).

4. Effective date and transitional arrangements

4.1 This policy document comes into effect on 1 January 2021.

5. Interpretation

5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA, unless otherwise defined in this policy document.

5.2 For the purpose of this policy document—

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

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

“**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;

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

“**universal life policy**” refers to a contract of insurance on human life or an annuity where the benefits are, wholly or partly, to be determined by reference to a non-unitised account, and the value of which is related to:

- (a) the income from property of any description; or
- (b) the market value of such property.

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) Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10);
 - (b) Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12);
 - (c) Corporate Governance (BNM/RH/PD 029-9);
 - (d) Management of Insurance Funds (BNM/RH/GL 003-30);
 - (e) Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3);
 - (f) Guidelines on Medical and Health Insurance Business (Revised) (BNM/RH/GL 003-20);
 - (g) Operating Cost Controls for Life Insurance and Family Takaful Business (BNM/RH/PD 029-35).

PART B MANAGEMENT OF UNIVERSAL LIFE BUSINESS**7. Governance**

- S** 7.1 The board must ensure effective oversight of the licensed insurer's universal life business as part of the licensed insurer's overall strategy management and risk control framework.
- S** 7.2 The licensed insurer's risk control framework must address—
- (a) appropriate governance arrangements and management considerations in resolving conflicts and balancing the interests of policy owners and shareholders, including the manner in which universal life business is to be managed separately from other types of business; and
 - (b) principles and parameters for the exercise of discretion by the licensed insurer, including the choice of investment, determination and revision of the crediting interest rates, fees and charges.
- S** 7.3 The board must ensure that the governance surrounding the management of the licensed insurer's universal life business (including policies and processes) is consistent with the requirements set out in the policy document on Corporate Governance, and enables the licensed insurer to fulfil its responsibility of ensuring fair treatment of policy owners. Towards this, the board must establish appropriate reporting structures for senior management to support the board in its oversight responsibilities of the licensed insurer's universal life business.
- S** 7.4 The licensed insurer's senior management is responsible for the day-to-day management of its universal life business. Therefore, the senior management must—
- (a) establish clear systems, policies and procedures for the day-to-day management of the licensed insurer's universal life 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 systems, policies and procedures are communicated effectively to all parties involved in the day-to-day management of the licensed insurer's universal life business; and
- (d) advise the board on developments that have an impact on the licensed insurer's universal life business such as regulatory changes, changes in social and economic factors, including the financial landscape, and circumstances which may lead to the closing or merging of funds, and recommend any changes that may be required to address these developments.

8. Product design

- G** 8.1 A licensed insurer may offer universal life products which contain options and guarantees. Examples of such options and guarantees may include capital guarantees, minimum crediting interest rates, guaranteed maturity benefit, guaranteed cash payments and/or no lapse guarantees.
- S** 8.2 Where a licensed insurer provides options and guarantees for a universal life policy, such options and guarantees must be clearly disclosed by the licensed insurer to the policy owners to ensure their understanding of the product and avoid misinterpretation.
- S** 8.3 All universal life policies which are designed and marketed as a capital guaranteed policy by a licensed insurer must be supported by an explicit guarantee provided by the licensed insurer or a third party. Such a third party must be a bank or investment bank licensed under the FSA.
- S** 8.4 A licensed insurer must ensure that the following are not represented or capable of being construed as a 'capital guaranteed' universal life policy including as 'capital protected' or 'capital preserved' universal life policy:
 - (a) a policy which does not meet the criteria set out in paragraph 8.3; and
 - (b) a fund that merely adopts an investment strategy aimed at returning policy owners' capital.

- S** 8.5 Where a policy owner has taken a premium holiday, a licensed insurer must:
- (a) explicitly obtain the policy owner's written consent before deducting any charges for riders from the fund; and
 - (b) ensure that the deduction for premium-paying riders are computed net of commissions, if the premium holiday occurs during the commission payment period.
- S** 8.6 A licensed insurer must ensure that universal life policies sold on or after 1 January 2021 are designed with avenues for policy owners to take action to manage the sustainability of cover, including allowing additional or top-up premiums; and providing options for alternative actions to be recommended to policy owners as required in paragraph 9. These shall also apply to universal life policies with no-lapse guarantees that may cease to be in effect before the contractual maturity of the policy.
- S** 8.7 As a transitional arrangement for all universal life policies sold prior to 1 January 2021, which do not allow for premium top ups or increases, licensed insurers are required to establish plans to assess the potential impact of such product features and manage the sustainability of these policies.

9. Management of sustainability of cover

- S** 9.1 At the point of sale, a licensed insurer must ensure that premiums are priced at a level where a universal life policy is expected to sustain coverage until the end of its contractual policy period.
- S** 9.2 A licensed insurer must also actively manage the sustainability of a universal life policy throughout the contractual policy period on an ongoing basis, by performing regular sustainability tests, unless an explicit guarantee of coverage until the end of the contractual policy period is in effect. In performing such sustainability tests, the licensed insurer must assess if coverage will continue to be sustainable until the end of the contractual policy period. A sustainability test must be performed by the licensed insurer—

- (a) at least annually; and
- (b) in the event that the policy owner indicates the intention to exercise an option or make an alteration to the policy, unless the licensed insurer can demonstrate that the policy owner is able to take the action without prior notification to the licensed insurer, such as taking a premium holiday.

For a universal life policy which offers no-lapse guarantee, sustainability tests must be carried out once the no-lapse guarantee ceases to be in effect.

- G** 9.3 Examples of instances where a no-lapse guarantee ceases to be in effect, includes but not limited to the following:
- (a) The no-lapse guarantee ceases after a specific number of years during the contractual policy period as part of the product design; and/or
 - (b) The no-lapse guarantee ceases due to specific actions which may have been taken by the policy owner, such as making a partial withdrawal or taking a premium holiday.
- G** 9.4 In relation to paragraph 9.2(b), options and alterations to a universal life policy include the following actions taken by policy owners:
- (a) partial withdrawals;
 - (b) addition of extensions to the policy (riders); and/or
 - (c) increase in the contractual policy period of insurance cover.
- S** 9.5 In carrying out a sustainability test for a universal life policy, a licensed insurer must ensure that:
- (a) all information used is up-to-date and specific to the individual policy owner, and reflect actual past actions of the policy owner;
 - (b) all relevant future inflows and outflows pertaining to the policy account are considered. This includes cash flows arising from riders attached to the policy; and
 - (c) any assumptions used are not more optimistic than the best estimate assumptions. In addition, the assumptions on fund growth must be reflective of the intrinsic performance of the underlying universal life funds.

- S** 9.6 A licensed insurer must disclose the outcome of the sustainability test to policy owners to facilitate timely and informed decision-making as follows:
- (a) for paragraph 9.2(a), the disclosure must be made in the statement to be provided annually to policy owners as required in paragraph 20; and
 - (b) for paragraph 9.2(b), the disclosure must be made prior to an event¹ that will affect the sustainability of cover of a universal life policy.
- S** 9.7 The disclosure by a licensed insurer to policy owners must at minimum include the following:
- (a) the expected sustainability of cover under the universal life policy;
 - (b) where the policy owner has taken a premium holiday, a reminder of any automated deductions from the fund which are in effect, and an explanation of the possible consequences of these automated deductions; and
 - (c) in the event that the cover is no longer sustainable until the contractual maturity of the policy:
 - (i) a clear and concise explanation on the factors which have affected the sustainability of the cover; and
 - (ii) the recommended amount of additional or top-up premiums needed to restore the sustainability of cover, and options for alternative actions.
- S** 9.8 In the event of an increase in the reviewable insurance charges, the licensed insurer must—
- (a) for a universal life policy sold prior to 1 January 2021 which does not allow for unilateral premium adjustments by the licensed insurer, recommend to the affected policy owners the amount of additional or top-up premiums necessary to restore the sustainability of the universal life policy until the contractual maturity of the policy, with options for alternative actions; and

¹ Event refers to the point when a policy owner expresses 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 makes one or more alterations to the policy; and
- (b) when the policy owner exercises one or more options available to the policy.

(b) for a universal life policy that allows for unilateral premium adjustments by the licensed insurer, ensure that the increase in the reviewable insurance charges is supported by an equivalent increase in the premium level. This is to promote transparency and ensure that policy owners are kept aware of any increase in charges. In communicating the increase in the premium level to affected policy owners, the licensed insurer must also provide options for alternative actions.

G 9.9 Examples of the alternative actions in paragraphs 9.7 and 9.8 include:

- (a) reducing coverage;
- (b) reducing the contractual policy period;
- (c) removing extensions to the policy (riders); or
- (d) utilising the universal life policy account to fund increases in insurance charges, provided that the coverage will continue to be sustainable until the end of the contractual policy period.

S 9.10 Where the action under paragraph 9.9(d) is opted for, the licensed insurer must highlight to the policy owner that this option will result in a higher rate of depletion of the policy account value.

S 9.11 A licensed insurer must ensure that all disclosures to the policy owner are clear and not misleading, particularly in relation to the outcomes of the sustainability test. This includes the licensed insurer 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 including that sustainability test is based on estimates of future outcomes;
- (c) there are potential for variations if there are material or unexpected deviations of the actual experience with the estimates; and
- (d) sufficient information on how the volatility associated with the different returns to the policy account value may impact the sustainability of cover.

10. Surrender values

- S** 10.1 The surrender value of a universal life policy must not be less than the policy account value after deducting any insurance charges, policy fees and surrender charges, where applicable.
- S** 10.2 Where the cost of insurance and other charges are funded in advance, a licensed insurer 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.
- S** 10.3 A licensed insurer must promptly effect the payment of surrender values to a policy owner pending which his universal life policy must remain in force.
- S** 10.4 A licensed insurer must ensure that any surrender charges levied for the cancellation of a universal life policy reasonably reflects the expected expenses to be incurred up to the point of surrender. A licensed insurer must not profit from the surrender charge levied.

11. Free-look period

- S** 11.1 In accordance with paragraph 2(1) of Schedule 8 of the FSA, a licensed insurer must allow a policy owner within 15 calendar days after the date of delivery of the universal life policy—
 - (a) to examine the terms and conditions of such policy; and
 - (b) a right to terminate such policy within the 15-day free-look period.
- S** 11.2 In accordance with paragraph 2(1) of Schedule 8 of FSA, a licensed insurer must only deduct expenses which have been incurred for the medical examination of the life insured and refund to the policy owner the remaining premium paid for the universal life policy which was returned within the 15-day free-look period including the following:
 - (a) any unallocated premiums;

- (b) the policy account value at the next valuation date; and
- (c) any insurance charges and policy fees which have been deducted.

PART C FEES, CHARGES AND EXPENSES**12. General conditions**

- S** 12.1 A licensed insurer must ensure that only expenses that are specifically identified and incurred for the management of the universal life fund are charged to the fund.
- S** 12.2 A licensed insurer must not charge indirect expenses to the universal life fund, such as general overheads of the licensed insurer. In addition, a licensed insurer must ensure that any rebates in respect of the fund's transactions are credited to the fund. Such rebates include rebates on commissions and fees received from brokers.
- S** 12.3 A licensed insurer must adequately disclose the information on fees and charges borne by the policy owner in the sales and marketing materials, as well as in the policy documentation, in compliance with **Part D**.
- S** 12.4 A licensed insurer must give at least three months' written notice² to all existing policy owners prior to making any changes to the fees and charges for a universal life policy. Changes to such fees and charges must only be implemented by the licensed insurer at the policy anniversary date.
- S** 12.5 A licensed insurer must notify the Bank of any revisions to the existing fees and charges for a universal life policy.
- S** 12.6 A licensed insurer must comply with the limits on commissions stipulated in the Operating Cost Controls for Life Insurance and Family Takaful Business policy document for a universal life policy.

² For medical and health riders, to follow the 30 days notification period as per Guidelines on Medical and Health Business.

13. Allocation of expenses

- S** 13.1 A licensed insurer must include the following in its overall policy on the allocation of expenses for a universal life fund:
- (a) the types of expenses, including expenses incurred for any outsourcing arrangements, which are directly attributed or which can be allocated to the universal life fund;
 - (b) the method used to allocate the expenses between the universal life fund and the shareholders' fund;
 - (c) the method used to apportion expenses charged to the universal life fund to the different cohorts and individual universal life policies within the fund; and
 - (d) the internal process and controls to monitor, report and approve any deviation from the overall policy.
- S** 13.2 The licensed insurer must only charge to a universal life fund the costs which have been, or will be incurred for the ongoing management of the universal life fund.
- S** 13.3 The licensed insurer must ensure that all of the following associated costs³ provided to policy owners are borne by the shareholders' fund and not charged to the universal life fund:
- (a) any action to provide restitution or redress to policy owners arising from errors⁴; and
 - (b) any action to meet any undue policy owners' reasonable expectations, including expectations caused by inappropriate management of the universal life fund.
- G** 13.4 For purposes of paragraph 13.3(b), examples of inappropriate management of the universal life fund include:

³ Including any cost of compensation and ex-gratia payments.

⁴ Such as system errors.

- (a) taking investment risks that are not commensurate with the risk profile of the business; and
- (b) mis-selling.

- S** 13.5 The licensed insurer must ensure that all costs incurred for promotional gifts are charged to the shareholders' fund and not the universal life fund.

14. Fund Management Charges

- S** 14.1 The licensed insurer must ensure that the annual Fund Management Charge payable for the management of the universal life fund commensurates with the investment strategy employed. The Fund Management Charge must not exceed—
- (a) 1% of the policy account value, in which the policy account is invested in money-market instruments or fixed income securities; and
 - (b) 1.5% of the policy account value, in which the policy account is invested in other types of assets.

15. Other charges

- S** 15.1 A licensed insurer must ensure that other charges in respect of a universal life policy, including any service charge, top-up charge, partial withdrawal, and surrender charge, are reflective of the expenses incurred or expected to be incurred.
- S** 15.2 A licensed insurer must not profit from the other charges referred to in paragraph 15.1.
- S** 15.3 As a general principle, if a relevant expense has already been considered in one of the other charges imposed in respect of a universal life policy, a licensed insurer must not charge again for the same expense under another category.

16. Maintenance and management of insurance fund

- S** 16.1 A licensed insurer must, notionally segregate the assets backing its universal life business from all its other assets, to ensure that the crediting of interest rates attributed to the universal life policy accounts can be determined objectively.
- S** 16.2 As part of the governance and management of the universal life business as required in paragraph 7.2(a), a licensed insurer must have in place a clear internal policy containing the principles, parameters and conditions relating to the maintenance and management of the segregated assets.
- G** 16.3 In developing the principles and parameters on the determination and revision of crediting rates as required in paragraph 7.2(b), the licensed insurer may further segregate policies into groups of policies.
- S** 16.4 If a licensed insurer opts to segregate universal life policies into groups of policies, the licensed insurer must strike a balance between the benefits of risk pooling and maintaining equity between different groups of policy owners

PART D DISCLOSURE**17. Disclosure requirements**

- S** 17.1 A licensed insurer must—
- (a) ensure any information provided to consumers relating to any universal life product is in compliance with the Guidelines on Product Transparency and Disclosure, 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 a universal life 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 on their universal life policies; and
 - (d) provide sufficient information and narrative to policy owners on how the volatility associated with the investment fund(s) may impact expectations on sustainability of their universal life policies.
- S** 17.2 A licensed insurer must ensure that the terminology used in all marketing materials for a universal life product is consistent with the terminology used in this policy document, including all disclosure requirements set out in **Part D** and that:
- (a) Fund Management Charge must be used as the standard terminology; and
 - (b) crediting spread must not be used to represent the Fund Management Charge.
- S** 17.3 If the licensed insurer determines that there are terminologies that are not appropriate for a specific universal life policy, the licensed insurer must ensure that the variations to the terminologies used do not reduce the extent of the disclosure required in **Part D**. The licensed insurer must clearly identify the variations made in its submission of product documentation to the Bank as required under the Introduction of New Products by Insurers and Takaful Operators policy document.

- S** 17.4 The licensed insurer must ensure that any statement of opinion made in respect of a universal life policy to a consumer is reasonable, relevant, factual-based, suitably qualified, and verifiable.
- S** 17.5 A licensed insurer must, in respect of a universal life policy—
- (a) immediately withdraw any information that becomes misleading following any change in circumstances; and
 - (b) immediately notify the existing policy owners of any change if the impact of such change is significant to the benefits to the existing policy owners.
- S** 17.6 Any statement regarding the performance of a universal life fund on its own, or in relation to other universal life funds, or other alternative investment vehicles, must be relevant, factual-based and attributable to an independent source, with the date and source of the statement prominently disclosed.
- S** 17.7 A licensed insurer must ensure that a reference to past investment performance of a universal life 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 insurer must ensure that past performance figures are based on actual historical performance and not simulations, and are not unduly biased.
- G** 17.8 An example of unduly biased past performance figures is historical performance that is based only on a period of exceptionally favourable market conditions.
- S** 17.9 For any universal life product which provides a guarantee (including guarantee features as described in paragraph 8.1), a licensed insurer must ensure that any representation made to the policy owner 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 any policy documentation.

- S** 17.10 At a minimum, a licensed insurer must disclose the following information for any universal life product which provides a guarantee by a third party guarantor in accordance to requirements in paragraph 8.3—
- (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 provided by third party guarantors.
- S** 17.11 In marketing a universal life product, a licensed insurer must not represent the universal life policy to be similar to a ‘whole life’ policy. Therefore, the licensed insurer must not use the term ‘whole life’ or specify the term of the universal life policy in a manner that may be construed as or perceived to operate like a ‘whole life’ plan, since there will be no guarantee on the level of coverage up to a reasonable old age.
- S** 17.12 A licensed insurer must not use any term for its universal life products or funds that may give rise to the perception that the product or fund is an Islamic or Shariah-compliant product. In this regard, a licensed insurer must not use terms such as “Islamic”, “Shariah”, “Shariah-approved” and “Shariah-compliant”, or any other Arabic references in the descriptions or names of any universal life product that may cause confusion to prospective policy owners.
- S** 17.13 Where a licensed insurer makes references to “Shariah-approved securities” or “Islamic corporate debt securities” to describe the nature of investments of a universal life fund, the licensed insurer must clarify in the relevant marketing documents that the universal life product itself is not a Shariah-compliant product.

18. Product literature and illustration

- S** 18.1 A licensed insurer must adequately disclose the information on the design and features of a universal life product in the product illustration and relevant

product literature, in accordance with the requirements on product design in paragraph 8.

- G** 18.2 Product literature is an additional document to the product illustration and Fund Fact Sheet, aimed at providing enhanced information to policy owners on a universal life product. Product literature includes all announcements, promotional material, telemarketing scripts or advertisements, sales/marketing brochures, or any other material provided before and at the point of sales/marketing.
- S** 18.3 A licensed insurer must ensure that the product literature for a universal life product is consistent with the information provided in its product illustration and Fund Fact Sheet.
- S** 18.4 A licensed insurer must ensure that the statement '*This is an insurance 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 its product literature for a universal life product.
- S** 18.5 In relation to paragraph 18.1, a licensed insurer must at minimum disclose the following information at the point of sale of a universal life product to the customer:
- (a) key features and risks of the product that are relevant and applicable, such as the feature of a policy account value⁵;
 - (b) the reviewable nature of fees and charges;
 - (c) investment risk due to the nature of the crediting interest rates, including the methodology used to determine the crediting interest rates; and
 - (d) factors that could lead to an unsustainable policy account value.
- S** 18.6 In addition to paragraph 18.5, a licensed insurer must also ensure that the product illustration for its universal life product complies with the format in **Appendix I(a)** of this policy document and must—

⁵ Including the mechanism of allocation of premiums and the dripping of insurance and fees charges.

- (a) illustrate guaranteed cash payments as cash payouts, where applicable; and
- (b) highlight the benefits and risks of other payout options that are offered.

S 18.7 A licensed insurer must provide a copy of the product illustration for a universal life policy, based on the actual premium rates subscribed, to the policy owner together with other documentation relating to the universal life policy.

19. Fund Fact Sheet

S 19.1 A licensed insurer must provide to a prospective policy owner a separate Fund Fact Sheet for its universal life fund. The Fund Fact Sheet must contain the minimum information set out in **Appendix II** of this policy document.

S 19.2 A licensed insurer must provide to a prospective policy owner the Fund Fact Sheet together with the product illustration at the point of sale of the universal life product.

20. Statement to policy owners

- S** 20.1 A licensed insurer must—
- (a) provide a statement on the value of the universal life policy, at least once a year, to each policy owner; and
 - (b) distribute to policy owners the statement within two months after the end of each financial year of the licensed insurer, or where more frequent statements are provided, at the end of the financial reporting period.
- S** 20.2 A licensed insurer must ensure that the statement to each policy owner on the status of the universal life policy includes, but is not limited to, the communication of the outcome of the sustainability test required in paragraph 9.6.

- S** 20.3 A licensed insurer must report every transaction during the relevant period referred to in paragraph 20.1, together with the date on which each transaction occurred, in the statement. At minimum, a licensed insurer must provide the following information to the policy owner:
- (a) policy account value at the end of the previous statement period, during the statement period and at the end of the statement period;
 - (b) premiums received and allocated to the universal life fund during the statement period;
 - (c) interest credited during the statement period;
 - (d) fees and charges deducted during the statement period; and
 - (e) key benefit values such as death and surrender benefits at the beginning of the statement period and at the end of the statement period.

PART E INVESTMENT**21. General principles**

- S** 21.1 A licensed insurer must ensure that its universal life fund, including any such fund under an investment account platform, is invested in accordance with the licensed insurer's stated objectives at all times as disclosed in the Fund Fact Sheet and the universal life policy. In particular, the licensed insurer must ensure that—
- (a) all investments are made in accordance to the objectives and investment policy of the fund in relation to a particular security, class of securities, economic sector or market; and
 - (b) any performance benchmark is aligned with the underlying investment strategy of the fund.

22. Investment limits

- S** 22.1 In respect of its universal life fund, a licensed insurer must comply with the investment limits as set out in **Appendix III** of the Risk-Based Capital Framework for Insurers⁶ at all times.

⁶ Investment and Individual Counterparty Limits.

PART F VALUATION AND CAPITAL**23. Valuation of liabilities**

- S** 23.1 A licensed insurer must value the liabilities of its universal life business in accordance with **Appendix VII** of the Risk-Based Capital Framework for Insurers⁷.

24. Capital requirements

- S** 24.1 A licensed insurer must apply the appropriate capital requirements as specified in the Risk Based Capital Framework for all assets backing its universal life liabilities.
- S** 24.2 A licensed insurer must apply the life insurance liabilities risk charges for universal life liabilities valued in accordance with **Appendix VII** of the Risk-Based Capital Framework for Insurers⁹.

⁷ Valuation Basis for Life Insurance Liabilities.

PART G APPENDICES**Appendix I Product illustration**

1. Licensed insurers must ensure that its product illustration is provided to a prospective policy owner at the point of sale or marketing of a universal life product and:
 - (a) must contain information about the product, including details which are specific to the policy for that product; and
 - (b) for an extension to a universal life policy (rider), the product illustration must be as set out in **Appendix I** of this policy document.

2. A licensed insurer must ensure that the product illustration complies with the format set out in **Appendix I(a)** of this policy document, unless the licensed insurer determines that the prescribed format is inappropriate for a specific universal life policy. In such an event, the licensed insurer must ensure that changes made to the prescribed format do not reduce the extent of the disclosure required under this Appendix. The licensed insurer must clearly identify the changes made with its submission of product documentation to the Bank as required under the Introduction of New Products by Insurers and Takaful Operators policy document.

3. A licensed insurer must explain to the prospective policy owner that the product illustration is meant to illustrate possible movements of cash flows of the universal life policy and impact of fees and charges on the cash values.

4. A licensed insurer 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) an explanation must be provided to clarify whether the death or maturity benefit of the universal life policy is determined as the higher of the policy account value or sum assured, or the aggregate of the two;
 - (d) charges should be separated into three categories:
 - (i) insurance charges;
 - (ii) Fund Management Charges; and

- (iii) other charges, which include the policy fee and other charges;
 - (e) the period of illustration must be up to the contractual maturity of the universal life policy, as required in paragraph 9 to aid informed decision making by the prospective policy owner. The period of 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;
 - (f) the illustration of basic plan and riders must be as follows:
 - (i) **Table 1 of Appendix I(a)** of this policy document must illustrate possible movements of cash flows of only the basic policy; and
 - (ii) **Table 2 of Appendix I(a)** of this policy document must provide a summary of costs and benefits of each rider that is attached to the basic policy; and
 - (iii) where the policy owner attaches riders in which charges are deducted from the policy account, the licensed insurer must ensure that the product illustration for the rider complies with the format set out in **Table 1 of Appendix I(a)** of this policy document, where applicable.
5. The illustration in Table 1 of **Appendices I(a)** of this policy document, contained in this policy document, must be based on two rates, denoted as 'Scenario X' and 'Scenario Y', on a gross basis⁸. These rates denote hypothetical rates of return of the underlying assets of the universal life fund, and are to be used to better demonstrate to policy owners the interactions between the cash flows described on the summary page of the product illustration, without giving rise to undue expectations. The rates for X and Y must be set at 2% and 5%, respectively.
6. Licensed insurers must ensure that extensions to the universal life policy (riders)⁹ are included in the product illustration. In any case, a clear distinction

⁸ Refers to the returns of the underlying assets before deduction of tax and charges.

⁹ The treatment for riders may vary depending on the product design, the application of premium, and insurance charges for such riders

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 I(a) Product illustration

READ Is this universal life policy right for you? Are you aware of the costs, benefits and risks of this policy?

Name of insurer: [ABC Insurance Berhad]
 Product name: [XYZ Policy]
 Type of policy: [Regular premium universal life]

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 ...

The policy is flexible but you bear some of the investment risk

It is an insurance product that is tied to the performance of the investment fund(s) managed by your insurer.

Benefits

- **Flexibility** to vary your premium amount or coverage if your financial needs change (may not be applicable to all products).

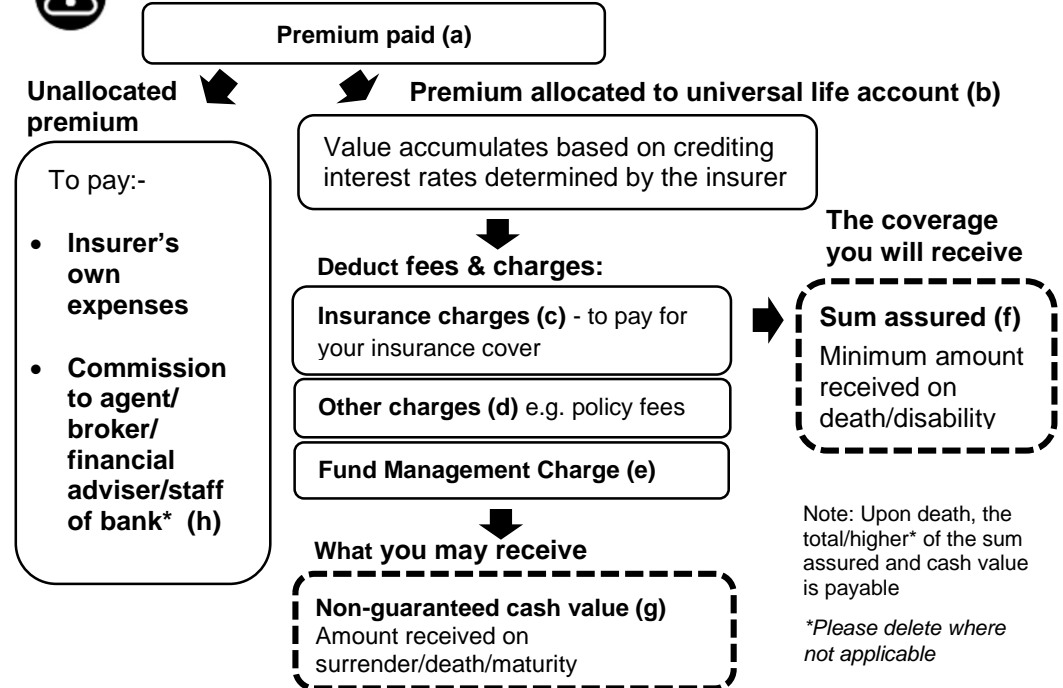
Risks

- You bear **some investment risk** 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.

Are there 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.
- **Investment-linked products:** The benefits and coverage period are not guaranteed and you will have a choice of funds, depending on the level of risk you are comfortable with. However, you will bear the investment risk entirely. The policy account value is unitised.

How your premiums will be used



Note: Upon death, the total/higher* of the sum assured and cash value is payable

*Please delete where not applicable

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, and top-up charge]

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

- The numbers in the table below illustrate the possible movements of cash flows of the universal life 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 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.**

The amount you need to pay

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	%			Scenario X	Scenario Y		Scenario X	Scenario Y	Scenario X	Scenario Y	RM	%
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
15														
20														
30														
40														
∞ ^{**}														

[**Please illustrate at 10 year intervals until the maturity of the policy]

¹ The illustrated insurance charges 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 non-guaranteed cash value (column g). [*Please delete where not applicable]

⚠ Where the non-guaranteed portion becomes zero/negative, it means that your universal life policy account is no longer able to pay for your insurance cover.

i The actual crediting interest rates (net of Fund Management Charge) over the past 12 months in the calendar year immediately preceding the current calendar year are as follows:

January	February	March	April	May	June	July	August	September	October	November	December
---------	----------	-------	-------	-----	------	------	--------	-----------	---------	----------	----------

Crediting interest rates history for the earlier years and the latest crediting interest rates are available in the insurer's website. Past crediting interest rates are not indicative of future crediting interest rates.

Table 2: Rider(s) (Optional)

1. A rider can provide additional protection or enhance existing benefits payable under your basic policy.
2. 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	Premium Paid (RM)	Sum Assured (RM)	Coverage Period (years)
Rider 1			
Rider 2			
Rider 3			

Appendix II Fund Fact Sheet

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.).
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 insurer itself or a third party appointed by the insurer.
Fees & Charges	
Fund Management Charge	<ul style="list-style-type: none"> ○ To disclose how the FMC is determined. ○ To disclose that the FMC is not guaranteed and may be varied from time to time by giving X month notice to the policy owners, where applicable.
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 in the past 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 paid of the universal life product). • Any performance comparison of a universal life 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 insurer 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	
<p><u>For funds that invests in collective investment schemes (CIS):</u></p> <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 universal life policy account 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. <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><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. 	
Other info	
<ul style="list-style-type: none"> • Target Market 	