



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Direct Distribution Channels for Pure Protection Products

Applicable to:

1. Licensed insurers carrying on life business
2. Licensed takaful operators carrying on family takaful business

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PART A OVERVIEW

1 Introduction

- 1.1 On 23 November 2015, the Bank issued the Life Insurance and Family Takaful Framework (the Framework) which aims to support the long-term development of the life insurance and family takaful industry. Pillar Two of the Framework sets out initiatives for the diversification of distribution channels to promote greater accessibility and wider outreach of life insurance and family takaful products. One of these initiatives is for a licensed person to offer commission-free standalone pure protection products through at least one direct distribution channel.
- 1.2 With improvements in financial literacy and technological advancements, the growth of direct distribution channels is expected to complement agency channels in reducing the protection gap and contribute towards greater financial inclusion.
- 1.3 The requirements in this policy document for licensed persons to offer pure protection products via direct distribution channels aim to –
 - (a) increase access for consumers to pure protection products;
 - (b) ensure the availability of simple pure protection products to the public;
 - (c) safeguard consumers' interest through proper disclosure and enhanced transparency; and
 - (d) promote competition and innovation.
- 1.4 This policy document sets out the following –
 - (a) specific requirements for pure protection products offered through direct distribution channels; and
 - (b) business conduct, infrastructure and operational requirements for direct distribution channels.

2 Applicability

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

3 Legal provisions

- 3.1 The requirements in this policy document are issued pursuant to section 123 of the Financial Services Act 2013 (FSA) and section 135 of the Islamic Financial Services Act 2013 (IFSA).

4 Effective date

- 4.1 This policy document comes into effect on 1 March 2019.
- 4.2 The Bank is committed to ensure that its policies remain relevant and continue to meet the intended objectives and outcome. Accordingly, the Bank will review this policy document within 5 years from the date of

issuance or the Bank's last review and, where necessary, amend or replace this policy document.

5 Interpretation

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

5.2 For the purpose of this policy document –

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

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

5.3 “**direct distribution channel**” refers to the distribution of insurance or takaful products through any or both of the following –

- (a) the head office and branch premises of the licensed person; or
- (b) an online platform, whether developed as the licensed person’s proprietary system or outsourced to third party vendors,

whereby consumers purchase the product directly from the licensed person.

“**direct product**” refers to any insurance or takaful product that is distributed through a direct distribution channel;

“**licensed person**” refers collectively to a licensed insurer carrying on life business and a licensed takaful operator carrying on family takaful business;

“**pure protection product**” refers to all or any of the following –

- (a) a term life insurance or family takaful product that covers only the risk of death with or without total permanent disablement, and does not have maturity benefits (referred to as a pure protection term product in this policy document);
- (b) a critical illness product that covers only critical illnesses (referred to as a pure protection critical illness product in this policy document); or
- (c) a medical and health product that covers only medical treatment, hospitalisation and surgery (referred to as a pure protection medical and health product in this policy document).

6 Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular –
- (a) 'Life Insurance and Family Takaful Framework';
 - (b) 'Guidelines on Outsourcing for Insurers';
 - (c) 'Guidelines on Outsourcing for Takaful Operators';
 - (d) 'Guidelines on Internet Insurance (Consolidated)';
 - (e) 'Internet Takaful';
 - (f) 'Guidelines on Product Transparency and Disclosure';
 - (g) 'Introduction of New Products by Insurers and Takaful Operators';
 - (h) 'GPIS: Management of business in IT environment';
 - (i) 'Schedules 8 and 10 of the Financial Services Act 2013';
 - (j) 'Anti-Money Laundering & Counter-Financing of Terrorism for Insurance and Takaful (Sector 2)';
 - (k) 'Guidelines on Medical and Health Insurance Business (Revised)' and
 - (l) 'Guidelines on Medical and Health Takaful Business'.

7 Policy document superseded

- 7.1 The policy document on Direct Distribution Channels for Pure Protection Products issued on 23 June 2017 is superseded by this policy document with effect from 1 March 2019.

PART B POLICY REQUIREMENTS**8 Direct distribution channels**

- S** 8.1 A licensed person must make available pure protection products to consumers through a direct distribution channel as follows –
- (a) standalone pure protection term products that meet the requirements specified in Appendix 1¹; and
 - (b) with effect from 1 March 2019, standalone pure protection critical illness and standalone pure protection medical and health products.
- G** 8.2 A licensed person should provide direct distribution channels which facilitate wide access for consumers to pure protection products, having regard to the geographical reach, convenience and efficiency of the distribution channels.
- S** 8.3 A licensed person shall obtain the Bank's prior approval for any new online platforms under the relevant policy document issued by the Bank on internet insurance/takaful.
- S** 8.4 A licensed person that develops an online platform by outsourcing to third party vendors shall comply with the relevant policy documents issued by the Bank with regard to internet insurance/takaful, outsourcing by insurers/takaful operators and other aspects of technology.
- S** 8.5 A licensed person shall not include commissions to agents, bancassurance/bancatakaful partners or financial advisers in the pricing of any direct product (whether or not a pure protection product). In cases where the licensed person offers the same product through different channels, including a direct distribution channel, that product, when offered via a direct distribution channel, must exclude such commissions.
- G** 8.6 Pure protection products offered through direct distribution channels should be designed to be easily understood by self-directed consumers and to maximise their protection value to consumers.

¹ Licensed persons have already been required to make available standalone pure protection term products through a direct distribution channel from 1 July 2017 pursuant to the policy document on Direct Distribution Channels for Pure Protection Products issued on 23 June 2017. For the avoidance of doubt, licensed persons must continue to make available such products through a direct distribution channel pursuant to paragraph 8.1(a) above with the coming into effect of this policy document.

9 Business conduct requirements

Product suitability requirements

- S** 9.1 A licensed person shall make appropriate tools available for consumers to conduct self-assessments of a direct product's suitability having regard to their needs, financial circumstances and risk profiles. Such tools shall include the following –
- (a) a needs analysis calculator to estimate the amount of coverage needed; and
 - (b) a financial budget calculator to gauge the affordability of premiums/contributions payable based on current income, expenditure and financial obligations.
- S** 9.2 A licensed person shall direct consumers' attention to the suitability assessment tools referred to in paragraph 9.1 prior to or during the purchase process.
- S** 9.3 A licensed person shall take reasonable steps to conduct regular validation and reviews of the effectiveness of the suitability assessment tools and make amendments where necessary.
- S** 9.4 A licensed person shall make available Frequently Asked Questions (FAQ) to consumers on factors to consider in choosing a direct product that is suitable for their needs and circumstances.
- S** 9.5 A licensed person shall provide to consumers a free-look period of 15 days to run after the date the policy/certificate for a direct product is delivered to the consumers, to provide them the opportunity to review the suitability of their newly-purchased product.
- S** 9.6 A licensed person shall inform consumers of the free-look period specified in paragraph 9.5 and the consumers' right to return the policy/certificate within the 15 days after the delivery of the policy/certificate.
- S** 9.7 In the event that a consumer returns the policy/certificate within the free look period specified in paragraph 9.5, any premium/contribution which has been paid in respect of the policy/certificate shall be immediately refunded by the licensed person to that consumer.

Disclosure requirements

- S** 9.8 A licensed person shall comply with the disclosure requirements specified under the Guidelines on Product Transparency and Disclosure for direct products.
- S** 9.9 A licensed person shall ensure that information on each type of direct product is presented in plain language to facilitate consumers' understanding of that product.

- S** 9.10 A licensed person shall clearly distinguish a pure protection product from other types of products.
- G** 9.11 To distinguish a pure protection product from other types of products, the licensed person should, for example, highlight the defining aspects of the pure protection product in sales and marketing materials, product disclosure sheets or on the licensed person's website. This may be in the form of a statement that such a product does not include, where applicable, any savings or investment elements.
- S** 9.12 For the distribution of direct products through an online platform, a licensed person must provide the "confirmation of understanding" questionnaire specified in Appendix 2 for consumers to complete before the purchase transaction for that direct product can be completed².
- G** 9.13 A licensed person should put in place the necessary infrastructure or measures to validate the effectiveness of the "confirmation of understanding" specified in paragraph 9.12.
- S** 9.14 A licensed person shall publish, for a specific direct product, a concise step-by-step guide on the claims procedure for that product and, where applicable, the importance of making a nomination and the process involved.
- S** 9.15 A licensed person shall make the following documentation on direct products easily accessible to consumers at all times –
- (a) sales and marketing materials;
 - (b) product disclosure sheet;
 - (c) FAQ;
 - (d) claims guides and, where applicable, nomination guides;
 - (e) policy/certificate wording; and
 - (f) claims, nomination and other relevant forms.
- S** 9.16 For the distribution of direct products through an online platform, a licensed person must ensure that the platform is designed to make clear to consumers that they are purchasing the product directly from the licensed person. A notice to consumers for this purpose shall include –
- (a) the full registered name of the licensed person; and
 - (b) a statement that the licensed person is licensed under the FSA/IFSA and regulated by Bank Negara Malaysia.

10 Other operational requirements

Customer support and electronic payment facilities

- S** 10.1 A licensed person distributing direct products through an online platform shall have in place customer support services for consumers to make enquiries, obtain information, file complaints or make claims.

² The purchase transaction must not be completed unless the "confirmation of understanding" questionnaire is completed by the consumer.

- G** 10.2 Customer support services may be in various forms, such as live chat features, a customer service hotline or email query facilities.
- S** 10.3 Head office and branch employees involved in the sales/marketing of direct products and/or customer support services shall be given proper training by the licensed person on such products and be able to clearly explain the key features of such products.
- S** 10.4 A licensed person shall publish its client charter which provides among others, the turnaround time for responding to enquiries and complaints in respect of its direct products. The licensed person shall put in place adequate monitoring mechanisms to ensure adherence to the client charter.
- S** 10.5 A licensed person shall make available electronic payment options for the use of credit cards, debit cards or bank transfers for more efficient payment of premiums/contributions for direct products.
- G** 10.6 A licensed person should simplify claims procedures for direct products to minimise the claims administrative burden for policy owners/takaful participants and/or beneficiaries.

11 Additional specifications for products other than pure protection products

- S** 11.1 A licensed person intending to distribute products other than pure protection products through direct distribution channels shall first assess whether such products are suitable for distribution through the selected direct distribution channel. In doing so, the licensed person shall take into consideration the non-advisory nature of direct distribution channels and careful evaluation of the following –
- (a) whether the product's features, design and structure can be easily understood by consumers without assistance or advice;
 - (b) whether the product's exclusions, terms and conditions are sufficiently unambiguous and easily explained through disclosures; and
 - (c) whether the costs of mispurchase by consumers are likely to be limited.
- S** 11.2 A licensed person shall comply with specific requirements and principles for other types of products offered through direct distribution channels, as the Bank may specify.

Appendix 1 Specific requirements for pure protection term products offered through direct distribution channels

- 1.1 For the purposes of this policy document, a licensed person shall, at a minimum, make available a pure protection term product without surrender benefits³.
- 1.2 Where a pure protection term takaful product is designed such that a portion of the contribution is allocated to the Participants' Investment Fund, the licensed takaful operator shall take steps to minimise the savings/investment element in line with the intention for the product not to have any surrender or maturity benefits, while ensuring that the contribution charged is sufficient to cover the tabarru' throughout the term of the product.
- 1.3 A licensed person shall ensure that pure protection term products offered through the direct distribution channels provide a reasonable level of coverage. In this regard, the licensed person is required to offer pure protection term products to consumers between 21 and 45 years of age, subject to underwriting considerations, with maximum sum assured/covered no less than the following:
 - (a) RM200,000 by 1 July 2017; and
 - (b) RM500,000 by 1 January 2018.
- 1.4 A licensed person shall quote the premium/contribution rate for a pure protection term product in denominations of RM1,000 of the sum assured/covered in order to facilitate product comparability.

³ For the purposes of this policy document, the return of the balance of the Participants' Investment Fund and accrued surplus in the Participants' Risk Fund, as required under the Takaful Operational Framework is not deemed to be a maturity or surrender benefit.

Appendix 2 “Confirmation of understanding” questionnaire pursuant to paragraph 9.12

You are required to carefully read and answer the following questions to complete your purchase:

1. Are you aware that the product provides coverage/pays out benefits on the following¹? **Yes**

- i. _____
 ii. _____
 iii. _____

If you are unsure, click [here](#)³ for more information.

2. Are you aware that the product does not provide coverage/pay out benefits on the following²? **Yes**

- i. _____
 ii. _____
 iii. _____

If you are unsure, and for more details on exclusions, terms and conditions, click [here](#)³.

3. Are you aware that: **Yes**

- i. If you change your mind, you have 15 days to return the policy/certificate after the date it has been delivered to you and you can obtain a refund;

- ii. *Applicable for term life insurance only:*

You can nominate your beneficiaries by clicking [here](#)⁴, (you may wish to inform them about the policy to make payment of future claims easier).

Applicable for term family takaful only:

You can nominate an executor[s] or your beneficiaries under conditional hibah [here](#)⁴ (you may wish to inform them about the certificate to make payment of future claims easier).

To make a claim, please refer to the claims [guide](#)⁵. If you wish to access all other product documentation, click [here](#)⁶. For any other enquiries, our customer service can be reached at 03-XXXXXXX or customerservice@company.com.

¹ To select up to three most important benefits to highlight to consumer.

² To select up to three most important exclusions, limitations or terms and conditions.

³ *To link to the relevant section(s) of the product disclosure sheet.*

⁴ *To link to the product's nomination guide, where applicable.*

⁵ *To link to the product's claims guide.*

⁶ *To link to the product documentation stipulated in paragraph 9.15.*