

# **Frequently Asked Questions**

## **Universal Life Business**

This document supplements the Universal Life (UL) Business policy document (BNM/RH/PD 032-22) by providing an explanation to interpretation issues faced by licensed insurers in implementing the requirements.

**Bank Negara Malaysia**

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## **Definition**

### **1. What does the term “property” used in the definition “universal life policy” mean?**

**[Paragraph 5.2]**

The definition of “property” is defined broadly in section 2 of the FSA to include financial assets, as follows:

*“property” means any movable or immovable property, whether tangible or intangible and includes—*

- (a) any right, interest, title, claim, chose in action, power or privilege, whether present or future, or whether vested or contingent, in relation to any property, or which is otherwise of value;*
- (b) any conveyance executed for conveying, assigning, appointing, surrendering, or otherwise transferring or disposing of immovable property of which the person executing the conveyance is the proprietor or has possession or in which he is entitled to a contingent right, either for the whole interest or for any less interest;*
- (c) any security, including any stock, share, debenture and fund;*
- (d) any negotiable instrument, including any bank note, bearer note, Treasury bill, dividend warrant, bill of exchange, promissory note, cheque and negotiable certificate of deposit; or*
- (e) any mortgage or charge, whether legal or equitable, guarantee, lien or pledge, whether actual or constructive, letter of hypothecation, trust receipt, indemnity, undertaking or other means of securing payment or discharge of a debt or liability, whether present or future, or whether vested or contingent.*

## **Product design**

### **2. Should a licensed insurer explicitly highlight the guarantee(s) it provides to a policy owner?**

**[Paragraphs 8.1, 8.2, 8.3, 8.4 17.9 and 17.10]**

Yes, a licensed insurer must explicitly highlight the guarantee(s) it provides to a policy owner, in accordance to requirements in 8.1 to 8.4, as well as paragraphs 17.9 and 17.10 of the UL Business policy document. Where the guarantee(s) is provided by a third party guarantor, the licensed insurer is required to comply with the additional disclosure requirements set out in paragraph 17.10 of the policy document.

## **Fund Management Charge (FMC)**

### **3. How can a licensed insurer adhere to the annual limit of the FMC?**

**[Paragraph 14.1]**

A licensed insurer must comply with the FMC limit at the point of declaration of the crediting interest rate.

4. **Is the maximum FMC limit of 1% (of the policy account value), for policy accounts that is fully invested in money market instruments or fixed income securities?**

[Paragraph 14.1]

The annual maximum FMC limit is 1% of the policy account value, in which the policy accounts are fully invested in money market instrument or fixed income securities, as per paragraph 14.1. A licensed insurer may consider to apply FMC between 1% to 1.5% of the account values, where the policy accounts are invested in managed fund(s).

5. **Is the computation methodology of the FMC standardised by the Bank?**

[Paragraph 14.1]

No, the Bank is not standardising the computation methodology of the FMC. However, FMC must only be levied for the purpose of management of the UL fund. A licensed insurer must be guided by its internal policies and governance to ensure that the FMC is calculated on a consistent basis and complies with the requirements set out in paragraph 14.1 of the UL Business policy document.

6. **Is a licensed insurer allowed to use other terminologies to represent the FMC, such as crediting spread?**

[Paragraphs 17.2]

No, licensed insurers must not use other terminologies such as crediting spread to represent the FMC in any of its marketing materials or product disclosure. This is to facilitate better understanding and comparison by the consumers on the charges for fund management activities and to aid their decision making. However, the Bank is not standardising the computation methodology of FMC as clarified in question 5 above.

### **Crediting interest rates**

7. **Can a licensed insurer—**

**(a) smooth the crediting rates provided to the policy owner; and/or**

**(b) determine crediting rates (including for the purpose of computation of the FMC) based on different cohorts?**

[Paragraphs 7.2(b), 7.3, 7.4, 16.2 and 16.3]

Yes, a licensed insurer can apply discretion on smoothing of crediting interest rates. However, the licensed insurer must ensure that clear internal policies and governance are put in place. Specifically, the licensed insurer risk control framework and internal policies must encompass principles and parameters for the exercise of discretion by the licensed insurer as specified in paragraph 7.2(b).

### **Surrender values**

8. **Are there any requirements for the surrender of a policy where the cost of insurance charges and other charges are funded upfront?**

[Paragraph 10]

Yes, please refer to requirements in paragraph 10 of the UL Business policy document.

### **Free-look period**

9. **Are there any requirements for refunds for cancellation of a policy within the free-look period?**

[Paragraph 11]

Yes, please refer to requirements in paragraph 11 of the UL Business policy document.

### **Minimum Allocation Rates**

10. **Are licensed insurers required to apply the Minimum Allocation Rate (MAR) and Sum Assured Multiple (SAM) rule to universal life products?**

No, a licenced insurer is not required to apply the MAR and SAM rule on its UL products.

However, licensed insurers are required to meet the principles on fair treatment of financial consumers as set out in the policy document on Fair Treatment of Financial Consumers.

### **Investment Limits**

11. **What are the investment limits for the assets in UL business?**

[Paragraph 22.1]

Please refer to **Appendix III** of the *Risk Based Capital Framework for Insurers*.

### **Valuation of Liabilities**

12. **What are the requirements on valuation of liabilities for UL business?**

[Paragraph 23.1]

A licensed insurer must value the liabilities of its universal life business in accordance to **Appendix VII** of the *Risk Based Capital Framework for Insurers*.

However, the Bank is consulting the industry on requirements on valuation of liabilities via an exposure draft on Valuation of Insurance and Takaful Liabilities in December 2019. Licensed insurers are encouraged to provide any relevant feedback to the exposure draft.

## **Disclosure**

- 13. Can a licensed insurer be allowed to use terminologies for its UL policies that are consistent with its own internal terminologies but differ from those set out in the UL Business policy document?**

[Paragraph 17.2 and paragraph 2 of Appendix 1]

No, a licensed insurer must comply with paragraph 17.2 in the UL Business policy document.

- 14. Is the statement to policy owners referred to paragraph 20 the same as the annual statement to policy owners?**

[Paragraph 20]

Yes.

- 15. Can a licensed insurer modify the product illustration format where it does not reflect the design of the UL policy sold by the licensed insurer?**

[Paragraph 2 of Appendix I]

Yes, modifications are allowed provided that they do not reduce the extent of disclosure as required in Part G of the UL Business policy document, and the licensed insurer complies with the requirements in paragraph 2 of **Appendix I** of the policy document.

- 16. Can a licensed insurer remove reference to other types of insurance products in the Product Illustration (for example, participating products) where such products are not offered by the licensed insurer?**

[Appendix I]

No, the explanation of different types of insurance products available is intended to inform prospective policy owners on the availability of other insurance products in the financial sector that may better serve their needs.

- 17. Is there a requirement for a licensed insurer which no longer sells UL products to disclose the crediting interest rates at the insurer's website?**

[Appendix I(a)]

Yes, where there are still universal life policies in-force, the crediting interest rates should continue to be disclosed in the website of the licensed insurer.

- 18. Are there any additional disclosure requirements for the FMC?**

[Appendix II]

Yes, a licensed insurer must disclose how the FMC is determined to policy owners in the Fund Fact Sheet as required in **Appendix II** of the UL Business policy document.

- 19. Can a licensed insurer choose not to provide the Fund Fact Sheet?**

[Appendix II]

No, the licensed insurer must provide the Fund Fact Sheet to the policy owner as per the requirements in **Appendix II** of the UL Business policy document. This

is an important document that provides factual information to the policy owners, including investment mandate and highlight performance of the UL product to aid decision making by the policy owner.

### **UL products classification**

#### **20. What is the classification of UL products for the purpose of financial reporting to the Bank?**

UL products are currently classified as non-participating life insurance products.

### **Qualifications of agents**

#### **21. What are the requirements on qualifications of agents selling universal life products?**

Agents are encouraged to obtain PCE and CEILI certifications to sell UL products, given the similarities to investment-linked products.