Life Insurance & Family Takaful Framework:

Concept Paper

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PART A OVERVIEW

1. Introduction

1.1 This concept paper sets out proposals that will support the long-term sustainable growth and development of the life insurance and family takaful industry with increased value proposition to consumers.

1.2 The initiatives proposed took into account the current state of readiness of the industry, the level of market development and consumer literacy, and also the future vision of the industry.

1.3 Interested parties are invited to provide their written feedback on the proposals set out in this concept paper by 9 January 2014 to communication@bnm.gov.my.

2. Scope

2.1 The proposals cover a wide range of areas including operating flexibility, product disclosure, delivery channels and market practices. In view of this, the initiatives once finalised will be reflected in the relevant policy documents to be issued under the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA).

3. Applicability

3.1 This proposed framework will be applicable to:

i. Life insurers licensed under the FSA;

ii. Family takaful operators licensed under the IFSA; and

iii. Financial advisers and Islamic financial advisers approved under the FSA and IFSA.

4. Issuance Date

4.1 This concept paper is issued on 7 November 2013.

5. Definitions and Interpretations

5.1 The terms and expressions used in this concept paper have the same meanings assigned to it in the FSA and IFSA as the case may be unless otherwise defined in this concept paper.

5.2 For the purposes of this concept paper:

"Agency Commission" refers to remuneration directly due to the agents, agency supervisors and agency managers (which forms the 3-tier agency structure) which includes basic commission, overriding commission, bonuses, and allowances.

"Agency related expenses (ARE)" refer to all benefits in cash or kind provided to agents, agency supervisors and agency managers including medical expenses, insurance/takaful scheme, takaful contributions to retirement, gratuity schemes, agency seminars/conferences, subsidised trips, etc.

"**Agency Remuneration**" refers to total benefit payments payable to agents/intermediaries in the form of commissions and agency related benefits.

"Direct channel" refers to the channel used in selling life insurance or family takaful products directly to the end consumers without the involvement of intermediaries:

i. Walk-in: – A client who is physically present at the head office or branch offices of a life insurer or a family takaful operator;
ii. Telemarketing operated by the life insurer or family takaful operator or outsourced to a third party;
iii. Internet marketing where the website is operated and belongs fully to the life insurer or family takaful operator; or
iv. Direct mailing from the life insurer or family takaful operator.

The service may be operated by the life insurer or family takaful operator or outsourced to a third party.

"Bancassurance/Bancatakaful" refers to an arrangement for the marketing or distribution of life insurance or family takaful product at the premise of banking institutions or by using the banking institution's distribution channels, which include the banking institution's call centers, internet, branches, marketing booths as well as third parties providing such sales support services.

"Intermediaries" refer to both individuals and institutions involved in the marketing and selling of life insurance/family takaful products.

"Internal rate of return (IRR)" refers to the discount rate that zerorises the net present value of all cash flows (premium/contribution paid and benefits payable) arising from a life insurance policy/family takaful certificate.

"Investment-linked products (IL)" refer to a contract of insurance or family takaful or an annuity where the insurance and takaful benefits are, wholly or partly, to be determined by reference to units, the value of which is related to –

i. income from property of any description; or
ii. the market value of such property.

"Management expenses (ME)" refer to all operating expenses of a life insurer/family takaful operator, including office expenses, staff salaries, director's remuneration but excluding benefits paid to the agency force.

"Minimum allocation rate" refers to the minimum proportion of premium/ contribution that is to be invested in the unit fund before deduction of charges.

PART B FUTURE LANDSCAPE

6. Future Landscape of the Life Insurance and Family Takaful Industry

6.1 As the market becomes more competitive, the future landscape of the life insurance and family takaful sector is set to evolve. The presence of diverse institutions will offer an expanded range of products and services innovated to better serve the needs of consumers. There will be a larger segment of more discerning consumers demanding for more products and services that meet their needs to be delivered through new delivery channels most convenient to them. The more empowered consumers with higher expectations would demand increased level of professionalism provided by intermediaries and enhanced transparency in the provision of products and services.

6.2 The framework is introduced to transition the life insurance and family takaful industry into this new environment with the aim of achieving a higher insurance and takaful penetration rate of 75 percent[1] (2012: 54 percent[2]) while at the same time ensuring that consumers continue to receive proper advice. This entails having in place several initiatives broadly summarised as follows:

a) Allow greater operational flexibility to promote product innovation while preserving policy/certificate value

Life insurers and family takaful operators will be given greater flexibility to manage their operating expenses, commensurate with their business strategy. However, consumers' interest will remain protected through appropriate safeguards that will preserve their policy/certificate value.

b) Diversified distribution channels to widen outreach

Life insurance and family takaful products will be provided to consumers through multiple delivery channels and therefore a broader choice of channels will be available for consumers to utilise depending on whichever is most convenient and appropriate.

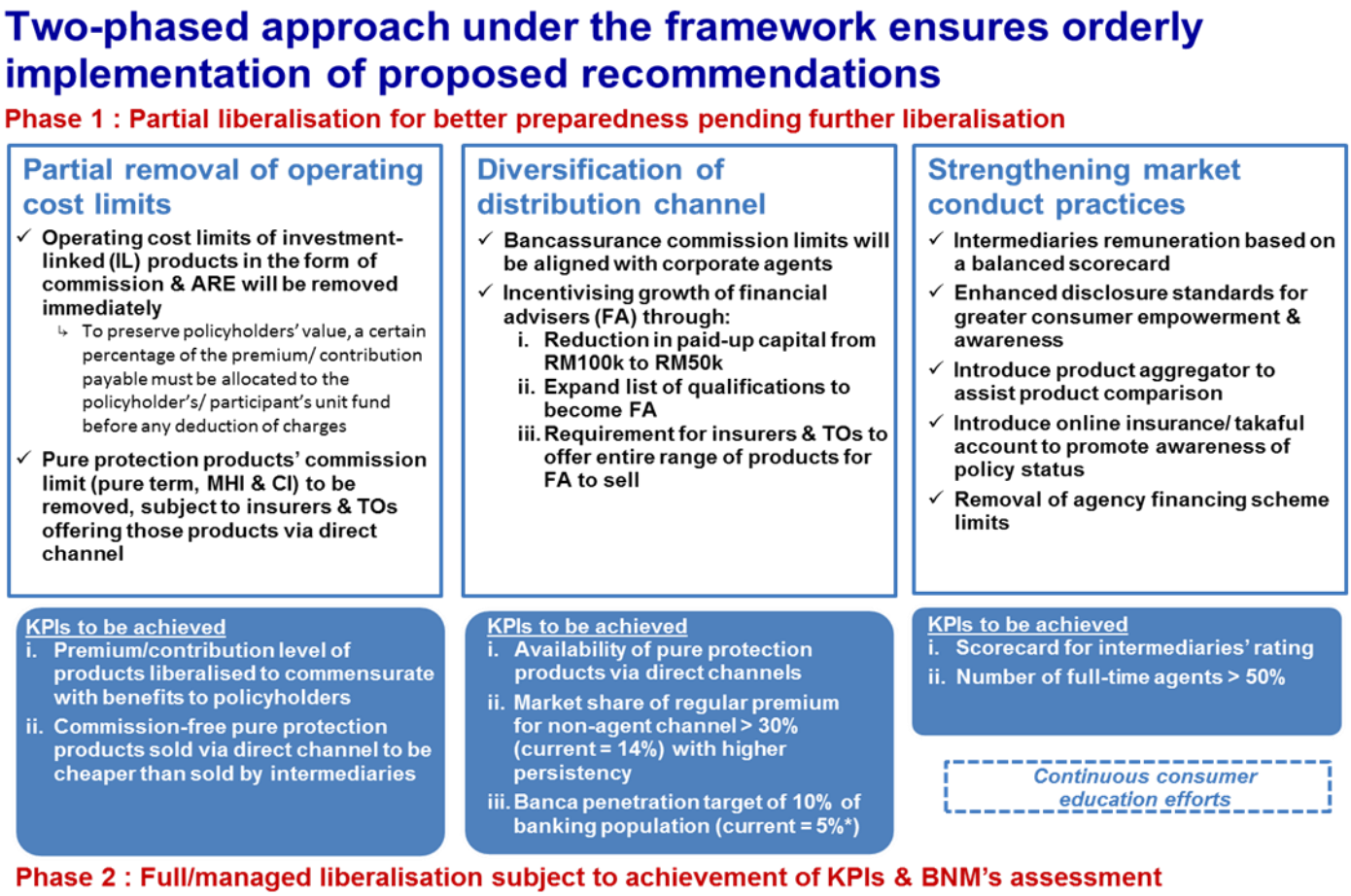
[1] Based on the target set under the Economic Transformation Programme (ETP).
[2] The Bank defines the penetration rate as the ratio of number of policies and certificate in force to the total population.

c) Strengthened market conduct to enhance consumer protection

The level of professionalism of intermediaries will be enhanced to ensure consumers are given proper advice. At the same time, product disclosure standards will be strengthened with greater transparency in order for consumers to better understand product features and for ease of product comparison. Meanwhile, financial education and awareness efforts will continue to be pursued to promote greater consumer empowerment.

6.3 Whilst the proposed initiatives are largely premised on the future landscape, the Bank also takes into consideration the current state of readiness of the industry, the intermediaries and the level of consumer literacy. Towards this end, the liberalisation of the life insurance and family takaful sector will be undertaken in a gradual and progressive manner to ensure the orderly growth and development of the industry.

6.4 Therefore, the framework suggests for the adoption of a two-phased approach to provide industry players sufficient time to put in place the necessary safeguards and to achieve several key performance indicators (KPIs) to provide greater value proposition to consumers before introducing further flexibility. The following diagram provides a brief summary of the initiatives proposed and the KPIs to be achieved under this two-phased approach.



6.5 Details of the proposals highlighted in the diagram are elaborated in Part C below.

PART C PROPOSALS

7. Partial Removal of Operating Cost Limits

7.1 In providing life insurance and family takaful, the industry is subjected to operating cost control limits that are applied to commissions, management expenses and agency related expenses[3]. The limits were introduced in 1996 to suit the operating environment at that time. However, with the transformation of the financial landscape over time and taking into account the future vision of the industry, these limits will be reviewed for both investment-linked and non-investment linked products.

[3] Please refer to the table on page 35 on the existing limits applicable to commissions, management expenses and agency related expenses

Investment-Linked (IL) Products

7.2 For IL products, a proportion of yearly premiums paid by a policyholder is used by the life insurer/family takaful operator to pay commission and other expenses, and the balance would be paid into the policyholder's/takaful participant's unit fund. Presently, the Bank regulates the amount of commission that may be paid for a given level of premium.

7.3 Under this proposal, operating limits in the form of commission limit and agency related expenses will be removed.

7.4 To ensure that policyholders'/takaful participants' unit value is preserved when such limits are removed, a minimum proportion of premium/contribution payable by policyholders/takaful participants (minimum allocation rate) must be retained in the unit fund of the policyholder before deduction of any charges. The proposed minimum allocation rates are as follows:

Policy Year	**Minimum Allocation Rate**	
	Annual Premium/ Contribution	**Single Premium/Contribution / Top-up premiums/Contribution**
1 – 3	70%	93%
4 – 6	80%	
7 - 10	90%	
11 onwards	100%	

7.5 As an illustration, if RM1,000 annual premium/contribution is payable in the first year, RM700 will be allocated into the policyholder's/takaful participant's unit fund and the remaining RM300 will be deducted upfront to be used by life insurers or family takaful operators to meet their expenses.

7.6 The minimum allocation rate requirement is a further safeguard for consumers in addition to the existing Sum Assured Multiple (SAM)[4] rule.

7.7 The 3-tier agency structure which is an existing requirement on agents will be retained.

[4] SAM defines the minimum amount of Sum Assured that must be provided as a multiple of the annual insurance premium/ takaful contribution. Please see **Appendix I** for more information on the Minimum Allocation Rate and SAM rule for Investment-Linked Business.

Non Investment-Linked (Non-IL) Products

7.8 Non-IL products are currently sold either as pure protection products without savings elements or products that provide both protection and savings element such as endowment product. These non-IL products are currently subjected to operating cost limits specified by the Bank in respect of commission, management expenses and agency related expenses. Moving forward, the commission limit for pure protection products namely term policy, critical illness and medical and health (MHI) will be removed. Other than these products, the current commission limits will continue to apply.

7.9 Therefore, for pure protection products, life insurers and family takaful operators will have the flexibility of setting their own commission scale subject to fulfilling the requirements in 7.12 (b).

7.10 The existing limit for agency related expenses and the existing 3-tier agency structure for all non-IL business will be retained. Within the specified limits, the life insurers and family takaful operators may establish their own performance-based scheme of benefits for all their intermediaries.

7.11 The limits on management expenses for all non-IL business will be removed.

KPIs to be achieved in partial removal of operating cost limits

7.12 In allowing partial removal of the operating cost limits, TWO KPIs must be achieved:

a) Following the removal of operating limits for products liberalised, the premium/contribution payable by policyholders/takaful participants must commensurate with policy/certificate benefits.

b) For the benefit of empowered consumers who prefer to manage their insurance needs on their own, life insurers and family takaful operators must make available similar pure protection products via direct channel and are commission-free, before the limits on commission for these products can be removed.

8. Diversification of Distribution Channels

8.1 Several initiatives will be put in place to promote diversified delivery channels and to introduce new direct channels such as online and walk-in. This will widen the options for consumers to access their life insurance and family takaful needs in a way most convenient to them and promote healthy competition in the market.

a) Commission Payable to Bancassurance/Bancatakaful Channel will be Aligned to that of Corporate Agents

(i) The new framework suggests for commission payable to bancassurance/bancatakaful channel for non-IL products other than the pure protection products to be aligned to the current basic commission level for corporate agents.

(ii) This new framework will therefore allow insurers and takaful operators to have greater flexibility to structure the payment of commission to banking institutions.

b) Introduce Direct Channel for Selling Commission-Free Products

(i) As a precondition for the removal of commission limit for pure protection products mentioned in paragraph 7.12 (b), insurers and takaful operators are required to establish direct channel that offers these products free of commission.

c) Enhancing the Financial Advisers (FAs) framework

(i) Financial advisers are intermediaries approved by the Bank to provide advice to the public on the whole range of insurance and takaful products and services, offered by of all licensed insurers and takaful operators.

(ii) To promote financial advisers as a viable channel through which consumers can obtain insurance advice and at the same time encourage agents to scale up their operations to become financial advisers and Islamic financial advisers, the framework proposes:

- FAs and Islamic financial advisers (IFAs) will be able to sell the entire range of products offered by all insurers and takaful operators;

- To reduce the paid-up capital requirement from RM 100,000 to RM 50,000 to encourage the establishment of FAs and IFAs to address the concern on high start-up costs; and
- To review and expand the existing qualifying requirements to become FAs and IFAs.

KPIs to be achieved in diversification of distribution channels

8.2 In the area of diversification of distribution channels, THREE KPIs must be achieved:

a) Pure protection products must be available via direct channels;

b) The market share of regular premium other than that generated through agents must account for more than 30% of total premium and with higher persistency; and

c) For bancassurance/bancatakaful, the framework targets to achieve a penetration level of 10% of the banking population[5].

9. Strengthening Market Conduct

9.1 Under the framework, various market conduct practices will be strengthened to elevate the level of professionalism in the industry. These enhanced practices will also facilitate the liberalisation process and for the industry to effectively respond to the recommended proposals in an appropriate manner.

a) Expectation on Board of Directors to Elevate Intermediaries' Professionalism

The board of directors of life insurers and family takaful operators are required to put in place a Balanced Scorecard framework to prescribe minimum standards for intermediaries that will serve as a basis for the company's remuneration policy. To assist life insurers and family takaful operators in monitoring the performance level of their intermediaries in an equitable manner, the framework propose that the elements of training, certification and conduct of the intermediaries be incorporated into the Scorecard as areas of performance assessment.

[5] Bancassurance/bancatakaful penetration target is based on the ratio of number of bancassurance/bancatakaful policies with regular premium/contribution to the number of savings account in Malaysia.

b) Enhance Disclosure of Products

The product disclosure requirements will be enhanced to better able consumers to make informed decisions through greater transparency. Details of the proposed disclosure are provided in **Appendix II**.

c) Availability of Online Facilities

(i) The framework proposes for the establishment of an online product aggregator to facilitate the comparison of at least, pure protection products. Hence, the existing *insuranceinfo* website will be enhanced to incorporate user-friendly aggregating features.

(ii) Life insurers and family takaful operators will also be required to develop online insurance and takaful accounts to allow consumers easy access to the status of coverage of the policy/certificate.

d) Removal of Current Limits on Agency Financing

(i) To further allow greater flexibility for life insurers and family takaful operators in managing their agents, the existing credit financing limit for agents to assist agency development effort will be removed under the framework.

(ii) However, such financing facilities granted to agents must be sourced from the shareholders' fund and be subject to the existing capital requirement for life insurance and family takaful businesses.

e) Continuous Consumers Awareness Effort

(i) The Bank is committed to continuously enhance financial capability of consumers through financial education to equip them with knowledge, skills and tools to make informed financial decisions.

(ii) Initiatives to educate consumers on life insurance and family takaful will be carried out through multiple approaches, including making available specific financial capability programmes at different life stages and providing access to reliable and timely information.

KPIs to be achieved in strengthening of market conduct

9.2 In strengthening of market practices, the TWO KPIs that must be achieved are:

a) The effective implementation of a balanced scorecard to determine the remuneration of intermediaries; and

b) The number of full time agents to be more than 50% of the total agency force.

10. Conditions for Further Liberalisation

10.1 Bank Negara Malaysia will undertake an assessment on the overall performance under phase 1 to determine the level of readiness of the industry to move into the next phase. This includes the level of achievement of the key performance indicators as highlighted.

Appendix I Application of Minimum Allocation Rate and Sum Assured Multiple Rule for Investment-Linked Business

1. Investment-Linked Life Insurance Policies / Family Takaful Certificates

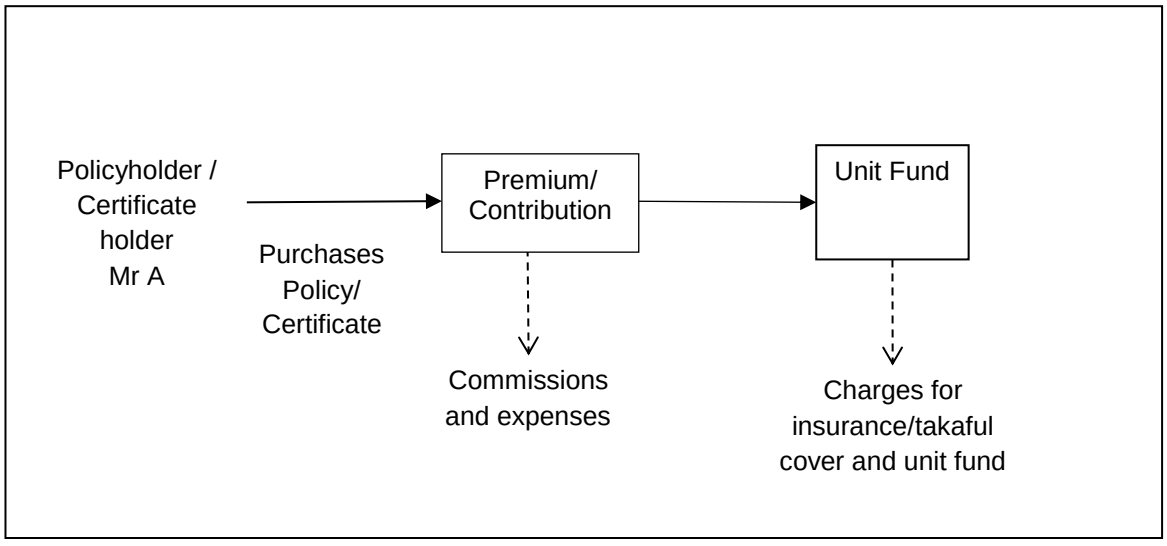
1.1 This information note explains how the Minimum Allocation Rate preserves the value derived from a policyholder's/takaful participant's investment-linked insurance/takaful plans following the liberalisation of operating limits and how it complements the existing Sum Assured Multiple (SAM) rule safeguard.

How does Investment-Linked Insurance/Takaful policy work?

1.2 For an investment-linked insurance policy/takaful certificate, premiums/ contributions paid will be invested into the policyholder's/takaful participants's unit fund. From the unit fund, charges will be deducted to pay for the cost of providing insurance/takaful cover and other expenses related to the maintenance of the policy/certificate.

1.3 In the initial years of the policy, however, only a proportion of the premium/contribution paid will be invested into the unit fund. This is because life insurers/family takaful operators will deduct from the premium/contribution to pay for expenses and remuneration to intermediaries.

1.4 The diagram below summarises the mechanics of an investment-linked policy.



How much will be paid into the unit fund?

1.5 Minimum Allocation Rate (MAR)

The proposal specifies the *minimum* proportion of premium/contribution that must be paid into the policyholder's unit fund. This ensures that policyholder's/takaful participant's premiums/contributions are preserved to meet the costs of insurance/takaful benefits and for investment.

a) Regular Premium/Contribution Policies/Certificates

For a policyholder/certificate holder with a regular premium/contribution policy/certificate with an annual premium/contribution of RM1000, the minimum amount to be paid into his/her unit fund is as follows:

Year	1	2	3	4	5	6	7	8	9	10	>10
Premium Paid	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Minimum Allocation Rate	70%	70%	70%	80%	80%	80%	90%	90%	90%	90%	100%
Premium Paid to Unit Fund	700	700	700	800	800	800	900	900	900	900	1,000

b) Single Premium/Contribution Policies/Certificates and Top Up Premiums/ Contributions

For a policyholder/certificate holder with a single premium investment linked policy/certificate or top-up premiums/contributions, the minimum amount to be paid into his/her unit fund is 93%.

1.6 Sum Assured Multiple (SAM) rule

a) SAM rule ensure that policy/certificate governs the segregations of the following for the purpose of determining commissions payable:
   (i) premiums/contributions into annual insurance premiums/takaful contributions; and
   (ii) top-ups or investment premiums/contributions

b) SAM rule specifies minimum cover that must be provided, measured as a multiple of annual premium. The SAM is subject to the limits specified by the Bank.

c) For example, for a person aged 30 purchasing an IL policy, a SAM of 50 is used. If the insurance coverage is RM100,000, the annual premium charged must not exceed RM2,000 (i.e. RM100,000 / 50).

d) Insurers/takaful operators must continue to meet the requirements on SAM.

How do the MAR and SAM Work to Preserve Value?

1.7 SAM ensures that the amount of premiums/contributions paid is appropriately segregated to meet both insurance/takaful protection and investment needs. MAR further ensures that the amount paid for insurance/takaful component is preserved to meet the needs of the policy.

Example

Suppose a policyholder has an investment-linked insurance policy which provides life insurance coverage of RM100,000 and pays annual premiums of RM5,000. The SAM limit is 50. This RM5,000 will be divided into insurance and investment premiums.

a) What happens to my insurance premiums?

Based on a SAM of 50, the annual insurance premium charged must not exceed RM2,000 (i.e. RM100,000 / 50). From this RM2,000, the minimum amount to be paid into the unit fund for each policy year is as follows:

Year	1	2	3	4	5	6	7	8	9	10	>10
Insurance Premium	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Minimum Allocation Rate	70%	70%	70%	80%	80%	80%	90%	90%	90%	90%	100%
Insurance Premium Paid to Unit Fund	1,400	1,400	1,400	1,600	1,600	1,600	1,800	1,800	1,800	1,800	2,000

b) What happens to my investment premiums?

The remaining premium of RM3,000 will be subjected to the MAR of 93%. Each year, at least 93% of RM3000 (RM2790) will be paid into the unit fund.

Total Amount Paid into Unit Fund

Year	1	2	3	4	5	6	7	8	9	10	>10
Total Premium Paid	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Insurance Premium Paid to Unit Fund	1,400	1,400	1,400	1,600	1,600	1,600	1,800	1,800	1,800	1,800	2,000
Investment Premium Paid to Unit Fund	2,790	2,790	2,790	2,790	2,790	2,790	2,790	2,790	2,790	2,790	2,790
Total Paid to Unit Fund	**4,190**	**4,190**	**4,190**	**4,390**	**4,390**	**4,390**	**4,590**	**4,590**	**4,590**	**4,590**	**4,790**

Appendix II Enhance Disclosure Requirements

1. Sales/Marketing Illustration

1.1 To enable consumers to understand and evaluate the different insurance products, life insurers/family takaful operators are required to provide sales/marketing illustration to prospective policyholders/takaful participants at the point of sale/marketing of life insurance/family takaful products. Information provided shall be presented in a user friendly manner that is consistent, clear and adequate that allows comparability between the various life insurance/family takaful products thus enabling consumers to make an informed decision. The sales/marketing illustration shall, among others, disclose:-

a) the types and features of the products, including the guaranteed and non-guaranteed benefits, as well as the components of premiums/contributions paid and costs deducted;

b) the two rates of interest assumed to reflect the potential variability of returns of the participating fund; and

c) the assumptions that are used.

1.2 The current sales/marketing illustration format could be enhanced to facilitate consumers' understanding on the features, benefits as well as costs of life insurance/family takaful products in addition to facilitating comparison between similar products. These pertinent information can help consumers decide on the type of product and provider that best suits the consumer's needs.

1.3 To promote greater understanding, a layered approach to sales/marketing illustration will be adopted to convey information on the product to consumers, as follows:-

a) **Summary page** that provides a snapshot of key elements of the product;

b) **Sales illustration table** that provides detailed year to year illustration of benefits, namely survival, death and maturity benefits followed by surrender value;

c) **Total costs and charges table** to show the main components of costs and expenses which will be deducted from premium/ contribution paid by consumers; and

d) For participating policy, **a section on important information regarding the policy** that provides explanation on the different types of bonuses payable under the policy and how these bonuses are determined.

A. Summary Page

1.4 The summary illustration page contains key elements of the policy/ certificate including:-

(a) Coverage period;

(b) Premium/contribution payment term and total premium/contribution payable;

(c) Total death, survival and maturity benefits, segregating guaranteed and non-guaranteed benefits. The non-guaranteed benefits should be shown separately based on two rates for high and low scenarios. For products with non-level guaranteed death benefit amount, life insurers/family takaful operators shall specify the formula or description on the death benefit and refer consumers to the detailed SaIes Illustration Table;

(d) Annualised return if the policy/certificate is held until maturity. It shows the effective rate of return received at maturity for the survival/ savings benefits of the life insurance policy/family takaful certificate;

(e) Comparison on premium/contribution payable for a term life insurance policy/family takaful certificate for the same coverage period and guaranteed death benefit amount;

(f) A notice to guide consumers to make an informed decision in deciding between buying a policy or participating in a takaful certificate which provides pure protection or savings/investment types of products. The uniform wordings for the notice are as follows:-

Note:

- If you are looking for a pure protection insurance/takaful product, you should consider buying a term life insurance policy/family takaful certificate which incurs lower premium/contribution.
- If you are looking for an insurance/takaful product with savings element, you may wish to compare the annualised return of this product with other investment alternatives.

(g) A warning statement as follows:-

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

1.5 The information on the annualised return will only be applicable for participating and non-participating life insurance as well as family takaful products. It will not apply to investment-linked insurance/takaful products. For a whole life policy term, the maturity value to be used is the cash value at the age of 80 years.

For family takaful operators – Please comment whether pure takaful plan which is similar to term life insurance is currently offered to participants, and if there is no such cover currently available, would takaful operators be able to design a pure term takaful plan to cater to the protection needs of consumers.

B. Sales/Marketing Illustration Table

1.6 The existing sales/marketing illustration table will be revised into a more simplified and easy-to-use format. Key revisions are as follows:-

Features	Existing format	Proposed format
Premium	▪ Yearly premium to be paid	▪ Cumulative premium to be paid
Projection duration	▪ Until maturity or the age of 100 years	▪ Until maturity or the age of 80 years, which ever is earlier
Product features	▪ Illustration of benefits components based on guaranteed and summarised non-guaranteed benefits	Illustration of guaranteed and non-guaranteed benefits based on stage of events (periodically, upon death, at maturity and upon surrender)
	▪ Detailed illustration of the components of non-guaranteed benefits (cash bonuses, terminal bonuses and others) are provided in a separate page	▪ Detailed illustration on components of non-guaranteed benefits will not be shown. This will be replaced with a narrative statement on the types of non-guaranteed benefits payable.
	▪ Summarised non-guaranteed benefit column include guaranteed benefit amount	▪ Summarised non-guaranteed benefit column should not include guaranteed benefit amount

	▪ May illustrate survival benefits/ bonuses left accumulated with the insurer	▪ Illustration based on survival benefits/ bonuses cash out when received, with accompanying statement on option to keep benefits accumulated with the insurer
Costs information	▪ Information on premium to be paid only	▪ Additional information on direct commission, management expenses and total deductions from premium paid

1.7 To promote greater transparency and facilitate informed decision making, life insurers/family takaful shall adopt the following additional principles:-

a) Requirement to highlight as a statement if the product has complex features such as:-

(i) decreasing sum assured/death benefit

(ii) increasing yearly premium/contribution

(iii) non-guaranteed premium/contribution

b) Costs and benefits of an extension or rider of a policy/certificate must not be illustrated together with the basic policy/certificate. There must be a clear distinction of costs and benefits attributable to the basic policy/certificate and extension/ rider respectively. This is also applicable when two or more life insurance policies/family takaful certificates are sold together as packaged products.

C. Cost and Expenses Table

1.9 Transparency on costs and expenses is important especially in a more liberalised environment. As these expenses would reduce the premiums/contributions paid and hence reduce the amount available for policy/ certificate benefits, disclosure of how much intermediaries are remunerated for the sales/marketing of the products is useful to facilitate informed decision making and manage potential conflict of interest.

1.10 Life insurers/takaful operators to make available the estimated year to year costs and expenses to be deducted from the amount of premium/contribution paid. Such disclosure should be segregated by the different parties that would receive the payments:-

a) How much is charged by the insurer/takaful operator as management expenses;

b) How much is received by the individual intermediary in terms of direct commission; and

c) How much is deducted in total, including the agency related expenses.

D. Important Information regarding the policy – for participating life insurance policy

1.11 The following information provided in the existing sales illustration format on participating life insurance policy will be retained:-

a) Definition of a participating policy;

b) Explanation on the different types of bonuses payable on the policy; and

c) Explanation on how the bonuses are determined (in general).

1.12 The new sales illustration format is in **Appendix II(A)** whilst numerical examples of the sales illustration is provided in **Appendix II(B)**

Note:

- The new sales illustration format is only applicable to participating/ non-participating life insurance products and family takaful products. Except for summary page (explained in paragraph 1.4 to 1.5 above), the new sales illustration format will not be applicable to investment-linked life insurance/ takaful products as the existing format for investment-linked products provides clarity on the costs and charges.

Questions

(i) Please provide comments and suggestions on the enhanced disclosure requirements.
   a) Are the proposals adequate in improving consumers' understanding on the features of life insurance/family takaful products and assist consumers to make informed decisions?
   b) How the expectations on non-guaranteed benefits can be better managed and explained at the point of sale?
   c) Is there any other important information to be provided for participating life insurance products?

(ii) Is a time frame of six months adequate before the revised sales illustration format is implemented? What are the main challenges that the industry may face in implementing the new sales illustration format?
   [Note: the sales illustration table must also incorporate the call outs on the definition of benefits payable as shown in Appendix II(A)]

(iii) The revised sales illustration format will be made applicable to participating/ non-participating life insurance and family takaful products. Do you think that same format should also be made applicable to investment-linked products?

APPENDIX II(A)

FORMAT FOR SALES/MARKETING ILLUSTRATION

A. Summary page

Name of Insurer/Takaful Operator	[ABC Insurance/Takaful Berhad]
Product Name	[XYZ plan]
Types of policy/certificate	[e.g. Endowment Participating]
Client's Name	
Sex	[Male/ female]
Smoker	[Yes/ No]
Age	[Age of proposer]

[XYZ Plan]		If you buy term life policy/certificate	
Coverage Period	[length of policy coverage]	Coverage Period	[same length of policy coverage]
Premium payment	[amount of yearly premium and premium payment term] e.g. RM2,200 for 6 years	Premium Payment	[amount of yearly premium and premium payment term] e.g. RM111 for 30 years
Total Premium Payment	[total amount of premium] e.g. RM13,200	Total Premium Payment	[total amount of premium] e.g. RM3,330
Your Guaranteed Benefits		Guaranteed Death Benefits	[Death benefit payable] e.g. RM20,000
• Death/Total and Permanent Disability	[e.g. RM20,000]		
• Survival (Maturity)	[e.g. RM20,000]		
Your Non-Guaranteed Benefits			
• Survival			
➢ Yearly cash Payout	Scenario X: RMxx Scenario Y: RMxx		
➢ Maturity	Scenario X: RMxx Scenario Y: RMxx		
Your Annualised Return if held to maturity			
• Guaranteed Benefits only	x.x% p.a.		
• Total Benefits (inclusive of Non-Guaranteed Payments)	Scenario X: x.x% p.a. Scenario Y: x.x% p.a.		

Annualised return is the effective rate of return received at maturity for the survival/savings benefits of the life insurance policy/family takaful certificate. However, the actual annualised return can only be determined at maturity

Note :

- If you are looking for pure protection insurance/takaful, you should consider buying a term life insurance policy or participating in a term family takaful plan which incurs lower premium/contribution.
- If you are looking for insurance/ takaful products with savings element, you may wish to compare the annualised return of this product with other investment alternatives.

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

B. Sales illustration table

Plan Type:
Plan description:

What does your policy pay periodically?

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

What you can cash out periodically

End of Policy Year /Age	Premiums Paid Each Year	**Survival Benefits**		
		Guaranteed Cash Payments Each Year	Non-Guaranteed Cash Dividend Payments Each Year	
			Scenario X	Scenario Y
1/31 2/32 3/33 4/34 5/35 6/36 7/37 8/38 9/39 10/40 11/41 12/42 13/43 14/44 15/45 16/46 17/47 18/48 19/49 20/50 25/55 30/60 35/65 40/70 45/75 50/80				

- The above table indicates the yearly cash flows on your policy.
- Please refer to the notes in the next page for the explanation on guaranteed and non-guaranteed benefits and the assumptions used in the illustration table.

How is the benefits compared with total premiums paid to date?

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

How much premium you would have paid to date?

How much cash out you would have received to date?

What is payable upon death?

How much will you get if you keep this policy until maturity?

End of Policy Year/ Age	Total Premium Paid To Date [refers to cumulative premium to be paid from policy inception]	**Survival Benefits**			**Death Benefits**		
		Guaranteed: Total Cash Payment To Date	Non-Guaranteed : Total Cash Dividend To Date [excluding any guaranteed cash payment amount]		Guaranteed	Non-Guaranteed [excluding guaranteed benefits amount and any survival benefits kept with insurer]	
			Scenario X	Scenario Y		Scenario X	Scenario Y
1/31 2/32 3/33 4/34 5/35 6/36 7/37 8/38 9/39 10/40 11/41 12/42 13/43 14/44 15/45 16/46 17/47 18/48 19/49 20/50 25/55 30/60 35/65 40/70 45/75							
Maturity 50/80							

- GUARANTEED benefits are the MINIMUM amount you will receive regardless of the insurance company's investment performance.
- The illustrations of NON-GUARANTEED benefits have been prepared on two hypothetical investment scenarios:-
  a. Scenario X = Assumes the participating fund earns x% every year
  b. Scenario Y = Assumes the participating fund earns y% every year

  The two rates are used purely for illustrative purposes and are NOT GUARANTEED. They do not represent upper and lower limits on the investment performance of the participating fund.
- The investment return rates earned in the previous five years are as follows:-

Year 2008:	Year 2011:
Year 2009:	Year 2012:
Year 2010:	

Notice: This is strictly the performance of the life insurance fund, and not the returns earned on the actual premiums/ paid for the life insurance product. Please note that past investment performance of the fund is not an indication of its future performance.

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

How much will you receive if you cancel the policy prematurely?

End of Policy Year /Age	Total Premium Paid To Date	**Surrender Value**		
		Guaranteed	Non-Guaranteed [excluding guaranteed benefits amount and any survival benefits kept with insurer]	
			Scenario X	Scenario Y
1/31 2/32 3/33 4/34 5/35 6/36 7/37 8/38 9/39 10/40 11/41 12/42 13/43 14/44 15/45 16/46 17/47 18/48 19/49 20/50 25/55 30/60 35/65 40/70 45/75				

- Please refer to the notes for the explanation on guaranteed and non-guaranteed benefits and the assumptions used in the illustration table.

- Types of benefits payable for this product:-
  [to provide description of benefits payable]
  - Survival benefits:
  - Death benefits:
  - Maturity benefits:

- You can also opt to leave the guaranteed cash payment and cash dividend with the insurance company. Interest for such deposit with insurance company will be paid at the discretion of the insurance company.

Notice: Buying life insurance policy is a long-term financial commitment. The surrender value that the insurance company will pay you when you cancel the policy before the maturity period will be much less than the total amount of premium that you have paid.

C. Total Costs and Expenses

This table shows all the costs and expenses that ABC Insurance Berhad expects to incur in relation to your policy. These costs have already been allowed for in calculating your insurance premium.

End of Policy Year /Age	**Total Premium Paid To Date**	**Total Management Expenses To Date (A)**	**Total Direct Commission To Date (B)**	**Total Deductions To Date (A + B + Agency-Related Expenses)**
1/31 2/32 3/33 4/34 5/35 6/36 7/37 8/38 9/39 10/40 11/41 12/42 13/43 14/44 15/45 16/46 17/47 18/48 19/49 20/50 25/55 30/60 35/65 40/70 45/75 50/80				

- Total management expenses show how much is expected to be incurred by the insurer in managing the insurance fund. It could contain management salaries, bonus and perks, advertisement expenses etc.
- Total direct commission is the amount received by the intermediary for the sale/marketing of this policy and services that the intermediary will provide to you for the duration of your policy.
- Total deductions refer to the total expenses and costs that are priced into your premiums/contributions amount. These include management expenses, direct commission as well as other payments of benefits in cash or kind to the intermediary (e.g. medical expenses, insurance/ takaful scheme, contributions to retirement/gratuity schemes and agency seminars/ trainings.

Important Information regarding your Participating Policy

What is a Participating Policy?

A participating policy enables you to share in the profits of a life insurance Company. Profits that are allocated to the participating policyholders are usually in the form of reversionary bonuses or cash bonuses/dividends. The actual payment of these bonuses or dividends are not guaranteed and can increase or decrease depending on the operating and investment results experienced by the Company.

What are the different types of bonuses payable on my policy?

- Cash Bonus / Dividends

This is a non-guaranteed bonus which is determined annually by the Company. Once allocated to your policy, you will usually have the option of withdrawing the cash bonus or leaving it with the Company to grow with interest (at a rate determined by the Company).

OR

-Reversionary Bonus

This is a non-guaranteed bonus which is allocated and added to the sum assured of a participating policy, usually on an annual basis. Once allocated, their values are guaranteed provided you continue to pay the premiums as defined in your policy contract. In addition to the sum assured, these bonuses are payable upon maturity of the policy, or on earlier death of the life assured.

However, if you choose to surrender your policy, you may not receive the full amount of the allocated bonuses. The amount of the bonuses payable may be significantly lower compared to those payable if you keep your policy until maturity, or on earlier death.

- Terminal Bonus

This is a non-guaranteed bonus which may be payable when your policy ends - upon death, maturity or if you choose to surrender your policy. The terminal bonus is usually designed to give policyholders a fair share of the past operating and investment results experienced by the Company, and this can make up a significant portion of the final payout.

How are the bonuses determined?

These bonuses are not guaranteed, and they are determined by the Company based on the operating and investment results experienced. For example, if the investments have performed well over the past year, the Company may be able to pay a higher bonus. If the investments have performed poorly, the Company may pay a lower bonus, or it may not be able to pay a bonus at all.

The bonuses paid are 'smoothed'. This means that, in years where the Company has experienced good operating and investment results, they may hold back some of the profits and use them to top up bonuses in poorer years. This is a feature unique to participating policies. This means that a Company will try to even out the payout to policyholders when results have not been so favourable. However, smoothing does not give you complete protection against poor results. If poor results continue over several years, the Company may have to reduce bonuses to reflect the poor results.

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You are advised to discuss with your life insurance agent or contact the company directly for more information on your participating policy.

Disclaimer

This document is intended for your general information only. It does not contain exhaustive information relating to the subject matter.

APPENDIX II(B)
Numerical examples of the Sales Illustration

A. Summary page

Name of Insurer/Takaful Operator	ABC Life InsuranceBerhad
Product Name	XYZ Plan
Types of policy/certificate	Individual Ordinary Life/ Endowment / Participating
Client's Name	Mr. A
Sex	Male
Smoker	No
Age	25

[XYZ Plan]		If you buy term life policy/certificate	
Coverage Period	20 years	Coverage Period	20 years
Premium payment	RM4,360 p.a. for 20 years	Premium Payment	RM560 p.a. for 20 years
Total Premium Payment	RM87,200	Total Premium Payment	RM11,200
Your Guaranteed Benefits		Guaranteed Death Benefits	RM60,000
• Death/Total and Permanent Disability	RM 20,000 from policy year 1-8 RM 40,000 from policy year 9-14 RM 60,000 from policy year 15-20		
• Yearly Cash • Survival (Maturity)	RM 600 from policy year 1 – 8 RM 1,200 from policy year 9 – 14 RM 1,600 from policy year 15 – 20 RM 50,000		
Your Non-Guaranteed Benefits			
• Death • Survival	Please refer to sales illustration table page xx		
➢ Yearly cash Payout	Please refer to sales illustration table page xx		
➢ Maturity	Please refer to sales illustration table page xx		
Your Annualised Return if held to maturity			
• Guaranteed Benefits	-2.28% p.a.		
• Total Benefits (inclusive of Non-Guaranteed Payments)	Scenario X: 1.24% p.a. Scenario Y: 2.85% p.a.		

Annualised return is the effective rate of return received at maturity for the survival/ savings benefits of the life insurance policy/family takaful certificate. However, the actual annualised return can only be determined at maturity

Note :

- If you are looking for pure protection insurance/takaful, you should consider buying a term life insurance policy/family takaful plan which incurs lower premium/contribution.
- If you are looking for insurance/ takaful products with savings element, you may wish to compare the annualised return of this product with other investment alternatives.

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

B. Sales illustration table

Plan Type: Participating Plan

Plan description: (i) This product is a 20-year endowment plan with Guaranteed Cash Payment payable from end of year 1 until maturity.
(ii) This policy participates in the surplus of the life fund in the form of cash dividend and terminal bonus from the inception of the policy.

What does your policy pay periodically?

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

What you can cash out periodically

End of Policy Year /Age	Premiums Paid Each Year	**Survival Benefits**		
		Guaranteed Cash Payments Each Year	Non-Guaranteed Cash Dividend Payments Each Year	
			Scenario X	Scenario Y
1/26	4,360	600	0	0
2/27	4,360	600	1	2
3/28	4,360	600	19	26
4/29	4,360	600	45	60
5/30	4,360	600	74	100
6/31	4,360	600	109	148
7/32	4,360	600	145	198
8/33	4,360	600	187	258
9/34	4,360	1,200	231	321
10/35	4,360	1,200	271	381
11/36	4,360	1,200	312	443
12/37	4,360	1,200	355	510
13/38	4,360	1,200	400	580
14/39	4,360	1,200	446	655
15/40	4,360	1,800	495	734
16/41	4,360	1,800	539	809
17/42	4,360	1,800	585	890
18/43	4,360	1,800	633	975
19/44	4,360	1,800	683	1,065
20/45	4,360	1,800	735	1,160

- The above table indicates the yearly cash flows on your policy.
- Please refer to the notes in the next page for the explanation on guaranteed and non-guaranteed benefits and the assumptions used in the illustration table.

How is the benefits compared with total premiums paid to date?

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

How much premium you would have paid to date?

How much cash out you would have received to date?

What is payable upon death?

How much will you get if you keep this policy until maturity?

End of Policy Year/ Age	Total Premium Paid To Date	**Survival Benefits**			**Death Benefits**		
		Guaranteed : Total Cash Payment To Date	Non-Guaranteed : Total Cash Dividend To Date		Guaranteed	Non-Guaranteed	
			Scenario X	Scenario Y		Scenario X	Scenario Y
1/26	4,360	600	0	0	20,000	106	117
2/27	8,720	1,200	1	2	20,000	993	1,045
3/28	13,080	1,800	20	28	20,000	1,984	2,113
4/29	17,440	2,400	65	88	20,000	3,090	3,341
5/30	21,800	3,000	139	188	20,000	4,326	4,748
6/31	26,160	3,600	248	336	20,000	5,558	6,205
7/32	30,520	4,200	393	534	20,000	6,934	7,870
8/33	34,880	4,800	580	792	20,000	8,301	9,592
9/34	39,240	6,000	811	1,113	40,000	9,612	11,330
10/35	43,600	7,200	1,082	1,494	40,000	9,138	11,350
11/36	47,960	8,400	1,394	1,937	40,000	10,192	12,968
12/37	52,320	9,600	1,749	2,447	40,000	11,220	14,637
13/38	56,680	10,800	2,149	3,027	40,000	12,219	16,355
14/39	61,040	12,000	2,595	3,682	40,000	13,185	18,122
15/40	65,400	13,800	3,090	4,416	60,000	14,126	19,954
16/41	69,760	15,600	3,629	5,225	60,000	15,040	21,841
17/42	74,120	17,400	4,214	6,115	60,000	15,922	23,785
18/43	78,480	19,200	4,847	7,090	60,000	16,767	25,783
19/44	82,840	21,000	5,530	8,155	60,000	17,566	27,833
20/45	87,200	22,800	6,265	9,315	60,000	18,314	29,932
Maturity		50,000	18,314	29,932			

- GUARANTEED benefits are the MINIMUM amount you will receive regardless of the insurance company's investment performance.
- The illustrations of NON-GUARANTEED benefits have been prepared on two hypothetical investment scenarios:-
  c. Scenario X = Assumes the participating fund earns 4% every year
  d. Scenario Y = Assumes the participating fund earns 6% every year
  The two rates are used purely for illustrative purposes and are NOT GUARANTEED. They do not represent upper and lower limits on the investment performance of the participating fund.
- The investment return rates earned in the previous five years are as follows:-

Year 2008: 2.5%	Year 2011: 5.5%
Year 2009: 10.0%	Year 2012: 7.0%
Year 2010: 6.0%	

Notice: This is strictly the performance of the life insurance fund, and not the returns earned on the actual premiums/ paid for the life insurance product. Please note that past investment performance of the fund is not an indication of its future performance.

UNDER THE WORST CASE SCENARIO (WHERE INVESTMENT RETURN IS ZERO), YOU WILL ONLY RECEIVE THE GUARANTEED AMOUNT UPON SURVIVAL/ SURRENDER/ DEATH/ MATURITY

End of Policy Year /Age	Total Premium Paid To Date	**Surrender Value**		
		Guaranteed	Non-Guaranteed	
			Scenario X	Scenario Y
1/26	4,360	0	106	117
2/27	8,720	818	993	1,045
3/28	13,080	2,233	1,984	2,113
4/29	17,440	3,892	3,090	3,341
5/30	21,800	5,922	4,326	4,748
6/31	26,160	8,054	5,558	6,205
7/32	30,520	10,582	6,934	7,870
8/33	34,880	13,237	8,301	9,592
9/34	39,240	15,468	9,612	11,330
10/35	43,600	19,791	9,138	11,350
11/36	47,960	22,527	10,192	12,968
12/37	52,320	25,402	11,220	14,637
13/38	56,680	28,421	12,219	16,355
14/39	61,040	31,593	13,185	18,122
15/40	65,400	34,300	14,126	19,954
16/41	69,760	37,141	15,040	21,841
17/42	74,120	40,124	15,922	23,785
18/43	78,480	43,256	16,767	25,783
19/44	82,840	46,545	17,566	27,833

How much will you receive if you cancel the policy prematurely?

- Please refer to the notes for the explanation on guaranteed and non-guaranteed benefits and the assumptions used in the illustration table.

- Types of benefits payable for this product:-
  - Survival benefits: Yearly guaranteed cash payment starting from end of year 1 up to maturity, and yearly cash dividend, if any.
  - Death benefits: The guaranteed death benefits, and a special terminal dividend, if any.
  - Maturity benefits: The policy will mature upon survival of Life Assured until the end of year 20. A maturity benefits consists of a guaranteed benefits and a special terminal dividend (if any) is payable.

- You can also opt to leave the guaranteed cash payment and cash dividend with the insurance company. Interest for such deposit with insurance company will be paid at the discretion of the insurance company.

  Notice: Buying life insurance policy is a long-term financial commitment. The surrender value that the insurance company will pay you when you cancel the policy before the maturity period will be much less than the total amount of premium that you have paid.

C. Total Costs and Expenses

This table shows all the costs and expenses that ABC Insurance Berhad expects to incur in relation to your policy. These costs have already been allowed for in calculating your insurance premium.

End of Policy Year /Age	**Total Premium Paid To Date**	**Total Management Expenses[7] To Date (A)**	**Total Direct[8] Commission To Date (B)**	**Total Deductions To Date (A + B + Agency-Related Expenses[9])**
1/26	4,360	813	2,834	3,778
2/27	8,720	1,083	4,578	5,792
3/28	13,080	1,356	5,712	7,199
4/29	17,440	1,631	6,584	8,346
5/30	21,800	1,908	7,020	9,059
6/31	26,160	2,188	7,456	9,774
7/32	30,520	2,470	7,456	10,056
8/33	34,880	2,755	7,456	10,341
9/34	39,240	3,042	7,456	10,628
10/35	43,600	3,332	7,456	10,918
11/36	47,960	3,625	7,456	11,211
12/37	52,320	3,921	7,456	11,507
13/38	56,680	4,220	7,456	11,806
14/39	61,040	4,522	7,456	12,108
15/40	65,400	4,828	7,456	12,414
16/41	69,760	5,137	7,456	12,723
17/42	74,120	5,450	7,456	13,036
18/43	78,480	5,766	7,456	13,353
19/44	82,840	6,087	7,456	13,673
20/45	87,200	6,411	7,456	13,998

- Total management expenses show how much is expected to be incurred by the insurer in managing the insurance fund. It could contain management salaries, bonus and perks, advertisement expenses etc.
- Total direct commission is the amount received by the intermediary for the sale/ marketing of this policy and services that the intermediary will provide to you for the duration of your policy.
- Total deductions refer to the total expenses and costs that are priced into your premiums/ contributions amount.These include management expenses, direct commission as well as other payments of benefits in cash or kind to the intermediary (e.g. medical expenses, insurance/ takaful scheme, contributions to retirement/ gratuity schemes and agency seminars/ trainings.

[7] Existing limits on management expenses on an aggregated basis are as follows:
i. 28% of first year premium
ii. Tiered structure for renewal premium:
19% for first RM5mil; 14% on next RM10mil; 9% on next RM10mil;
4% on next RM15mil; & 1% on balance
iii. 10% of single premium

[8] Under the existing requirement, the maximum percentage of agency commissions payable on a life insurance policy/family takaful certificate with premium/contribution paying terms of 20 years or more is 171% of annual premium/contribution payable over a 6-year period. However, for a policy/certificate of premium/contribution paying term of less than 20 years, the commission limit will be pro-rated.

[9] The agency related expenses are currently capped at 3% of total annual premiums