



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Management of Participating Life Business**

Applicable to:

1. Licensed insurers

Issued on: 10 July 2023

BNM/RH/PD 032-1

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## **PART A            OVERVIEW**

### **1.            Introduction**

- 1.1        A participating life policy provides policy owners with the opportunity to participate in the profits of the insurance fund, in addition to receiving guaranteed benefits. The profits may be distributed by way of bonus determined by the licensed insurer.
- 1.2        As the licensed insurer has the discretion on all management decisions of the participating life fund, including in determining bonus distributions, it is critical for the licensed insurer to:
- (a) maintain high standards of governance in the management of its participating life business to safeguard the interests of policy owners; and
  - (b) maintain high transparency standards in sales, marketing and disclosure of information to aid informed decision-making by consumers at all times.
- 1.3        This policy document sets out requirements for the effective management of participating life business to promote the sustainability of the business and the protection of policy owners' interests.
- 1.4        This policy document addresses:
- (a) the roles and responsibilities of the board, senior management and appointed actuary in respect of the licensed insurer's management of its participating life business;
  - (b) requirements in relation to the determination of benefit payouts, allocation of expenses to participating life funds, the management of estate and the closure of the participating life fund to new business, as well as conditions for acquiring new business;
  - (c) considerations of the board in approving senior management's proposals on bonus revisions and matters to be communicated to policy owners on such revisions; and
  - (d) requirements to promote transparency and adequate disclosures to participating life policy owners, both prior to entering into and over the duration of a participating life contract.

### **2.            Applicability**

- 2.1        This policy document is applicable to all licensed insurers under the Financial Services Act 2013 (FSA) which carry on participating life business, subject to paragraph 2.2 below.
- 2.2        The requirements in paragraphs 14.1 to 14.35 of this policy document are only applicable to licensed insurers with estate in the participating life fund.

### 3. Legal provisions

- 3.1 The requirements in this policy document are issued pursuant to sections 47(1), 83, 123 and 143(2) of the FSA.
- 3.2 The guidance in this policy document is issued pursuant to section 266 of the FSA.

### 4. Effective date

- 4.1 This policy document comes into effect on 1 July 2024.

### 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 document.
- 5.2 For the purposes 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 the licensed insurer, 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;
- “**regular bonus**” refers to non-guaranteed bonuses and dividends that are declared or paid regularly to the participating life policy. Regular bonus can be in the form of cash bonus, cash dividend or reversionary bonus;
- “**senior management**” means the chief executive officer and senior officers of the licensed insurer;
- “**terminal bonus**” refers to non-guaranteed bonuses and dividends that are paid upon termination of the participating life policy. Terminal bonus can be in the form of terminal bonus or terminal dividend.

### 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) Appointed Actuary: Appointment and Duties (BNM/RH/STD 029-5) issued on 28 April 2014;
- (b) Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12) issued on 17 December 2018;
- (c) Corporate Governance (BNM/RH/PD 029-9) issued on 3 August 2016
- (d) Risk Governance (BNM/RH/GL 013-5) issued on 1 March 2013;
- (e) Management of Insurance Funds (BNM/RH/PD 032-15) issued on 7 July 2023;
- (f) Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3) issued on 31 May 2013;
- (g) Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10) issued on 15 May 2015;
- (h) Fair Treatment of Financial Consumers (BNM/RH/PD 028-103) issued on 6 November 2019;
- (i) Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) for Insurers (BNM/RH/GL/003-29) issued on 25 February 2012; and
- (j) Financial Condition Report (BNM/RH/PD 029-54) issued on 16 November 2022.

## **7. Policy documents superseded**

- 7.1 This policy document supersedes the policy document on Management of Participating Life Business (BNM/RH/PD 032-1) issued on 15 July 2015.

**PART B GOVERNANCE AND OVERSIGHT****8. Duties of board, senior management and appointed actuary**

- S** 8.1 The board must ensure effective oversight of the licensed insurer's participating life business as part of the licensed insurer's overall strategy management and risk control framework.
- S** 8.2 For the purpose of ensuring appropriate management of participating life business, in addition to the requirements set out in the policy document on Corporate Governance (BNM/RH/PD 029-9), the board must:
- (a) review and approve a policy for the licensed insurer's management of its participating life business (MPB policy), consistent with this policy document. The board must also approve any changes to the MPB policy, as well as the circumstances which may result in such changes;
  - (b) as part of its oversight, require an independent review to be carried out at least once every three years by persons<sup>1</sup> with relevant expertise and experience, to provide the board with an assessment of how actual practices are aligned with the MPB policy, the effectiveness of the MPB policy in practice, as well as recommendation(s) for improvements to the policy and on existing practices;
  - (c) ensure that the interests and fair treatment of policy owners is taken into account in the MPB policy and practices by the licensed insurer;
  - (d) review and approve bonus rates annually, including but not limited to, any revision of bonus rates and specific actions to be taken to implement the revisions; and
  - (e) provide adequate oversight on the implementation of the MPB policy by senior management to ensure that the licensed insurer's practices are aligned with the MPB policy.
- S** 8.3 The primary duty of senior management is to ensure the effective implementation of the MPB policy approved by the board. In addition to the requirements set out in the policy document on Corporate Governance (BNM/RH/PD 029-9), senior management must:
- (a) establish clear procedures for the day-to-day management of the participating life business to give effect to the MPB policy;
  - (b) ensure that the MPB policy and related procedures are communicated effectively to all parties involved in the day-to-day management of the licensed insurer's participating life business;
  - (c) put in place processes for monitoring and reporting compliance with the MPB policy and related procedures at all times. This should include well-defined processes for escalating and remediating incidents of non-compliance in a timely manner; and
  - (d) advise the board on developments that have an impact on the management of the licensed insurer's participating life business and recommend any measures to respond to such developments.

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<sup>1</sup> Such person must not have a role in the day-to-day management of participating life business.

- G** 8.4 In relation to paragraph 8.3(d), examples of relevant developments include, but are not limited to:
- (a) regulatory changes;
  - (b) changes in social and economic factors, including but not limited to the financial landscape; and
  - (c) circumstances which may lead to the closing or merging of funds.
- S** 8.5 The board and senior management must ensure that any decisions made, and the ensuing actions taken by the licensed insurer have given due regard to the interests and fair treatment of its policy owners and adhere to the requirements set out in paragraph 8.1(a) and Appendix 1(a) of the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103) and to the licensed insurer's Treat Customers Fairly Charter (TCF Charter). This includes ensuring that:
- (a) the determination of benefit payouts is objective and equitable between groups of policy owners;
  - (b) the decisions on bonus rates (including any revision to the bonus rates) and the ensuing actions take into account the interests and fair treatment of policy owners, including the Policy Owners' Reasonable Expectations (PRE);
  - (c) overall strategies and actions, on new business or closure to the participating life business, consider policy owners' interests; and
  - (d) communications to policy owners are clear, relevant and timely.
- S** 8.6 The appointed actuary provides critical support for the effective oversight and implementation of the MPB policy by the board and senior management. In carrying out his responsibilities, in addition to the requirements set out in the policy document on Appointed Actuary: Appointment and Duties (BNM/RH/STD 029-5), the appointed actuary must:
- (a) conduct a bonus supportability study annually to justify his recommendations for surplus distribution to policy owners and transfers to the shareholders' fund in accordance with the policy document on Management of Insurance Funds (BNM/RH/PD 032-15);
  - (b) ensure that the recommendation takes into account the interests and fair treatment of policy owners, including PRE; and
  - (c) assess the use of the estate by the licensed insurer and include his opinion on the matters set out in paragraph 14.18 of this policy document, in his Financial Condition Report (FCR).

**PART C REQUIREMENTS ON THE MANAGEMENT OF THE BUSINESS****9. Benefit payout**

- S** 9.1 In determining the benefit payout under a participating life policy, the licensed insurer must consider the interests and fair treatment of policy owners, including PRE as set out under paragraph 10 of this policy document.
- S** 9.2 The licensed insurer's MPB policy shall set out its principles and practices for the benefit payout, including:
- (a) the categorisation of cohorts of policies (cohorts), and management of cohorts in the event of changes in the nature and size of the cohorts over time;
  - (b) the determination of the asset share, including:
    - (i) the methods to establish the parameters in the asset share calculation, including but not limited to, parameters used for investment performance, expenses and claims experience;
    - (ii) where actual experience is not available, the methods to establish the main assumptions and the limitations of the assumptions;
    - (iii) the circumstances under which parameters and assumptions may be changed, together with the internal process and governance and the required documentation for such changes;
    - (iv) any non-standard additions and deductions in the asset share formula and any limits for these additions and deductions;
    - (v) the methodology for the adjustment of the asset share to take into account profits from riders and surrenders, as well as other unreconciled items<sup>2</sup>; and
    - (vi) the treatment of tax in the calculation of the asset share;
  - (c) bonus declarations<sup>3</sup> and adjustments<sup>4</sup>, including:
    - (i) the approach used to determine the level of the bonus declaration, including any interim bonus declarations;
    - (ii) thresholds which trigger bonus adjustments at the cohort level; and
    - (iii) the process to determine the level and order of bonus adjustments for different types of bonuses and different cohorts<sup>5</sup>;
  - (d) the smoothing of benefits<sup>6</sup>, including:
    - (i) the methodology and parameters used for smoothing, and the rationale for the application of smoothing;
    - (ii) any differences in smoothing approaches for different cohorts; and
    - (iii) the methodology<sup>7</sup> to track the difference between the asset shares with and without smoothing; and
  - (e) transfers to and from the shareholders' fund, including:
    - (i) the basis used for the transfer to shareholders;

<sup>2</sup> Excluding the estate.

<sup>3</sup> This includes regular, terminal and special (one-off) bonuses.

<sup>4</sup> Upwards or downwards, as the case may be.

<sup>5</sup> Applicable to policies sold prior to 1 July 2005, for which bonus rates must be set such that the ratio of the asset share to the gross premium valuation reserves is between 90% and 110%, inclusive, as per paragraph 9.9.

<sup>6</sup> Where target benefit payout differs from the asset share computed.

<sup>7</sup> For example, the use of the smoothing reserve.

- (ii) the circumstances under which the transfer to shareholders will be reduced or withheld; and
- (iii) the circumstances under which shareholders will transfer money into the participating life fund to support the bonuses or any short-term tactical deviations, or both.

**S** 9.3 In relation to paragraph 9.2(a):

- (a) the categorisation of cohorts by the licensed insurer must be determined:
  - (i) in a manner which balances the objectives of preserving equity among the different groups of participating life policy owners and the benefits of risk pooling. The MPB policy must explain how this balance is achieved to support its consistent implementation of cohorting; and
  - (ii) at minimum, based on inception period and product features;
- (b) the cohorts determined by the licensed insurer must be consistently applied for the purposes of the bonus supportability study and the determination of the benefit payout, including but not limited to revision of bonus; and
- (c) there must not be any cross-subsidy between different cohorts for participating life policies designed and sold on or after 1 July 2005.

**G** 9.4 Balancing the objectives to achieve equity and risk pooling in paragraph 9.3(a)(i) may result in the grouping of policies of a few successive inception years with expected similar experience into a single cohort, if the licensed insurer is of the view that this would enhance risk pooling. Similarly, the degree of granularity of factors applied by the licensed insurer for grouping of policies with similar product features would need to consider the effects of equitability between groups of policies and the size of resulting groups of policies, particularly where more granular factors are applied simultaneously.

**S** 9.5 In relation to paragraph 9.3(a)(ii), when categorising the cohorts based on product features, the licensed insurer must take into consideration the type and structure of bonuses, and policy duration. The Bank may require specific factors to be taken into account, having regard to the interests and fair treatment of policy owners.

**S** 9.6 As required in paragraph 8.2(b), a licensed insurer must require an independent review of the asset share to be carried out by an independent actuary and must include, at minimum, the following:

- (a) appropriateness and adequacy of the data used for the calculations and the setting of assumptions;
- (b) appropriateness of methodology and assumptions used to determine the asset share;
- (c) adequacy of checks and controls in place for the entire asset share calculation process, including but not limited to, the reconciliation of results with financial statements;
- (d) adequacy of documentation on asset share, including:
  - (i) procedures and controls for the calculation of the asset share;
  - (ii) any deviations from the standard procedures; and
  - (iii) justifications for the assumptions used;
- (e) adequacy of the infrastructure, including systems used to carry out the calculations of asset share;
- (f) validation of the asset share figures; and

- (g) appropriate disclosure of any limitations in carrying out the independent review.
- S** 9.7 In determining the benefits payable under participating life policies designed and sold on or after 1 July 2005, the licensed insurer must ensure that:
- (a) for the benefit payout on death and maturity, the higher of 100% of the asset share or guaranteed benefits must be paid out;
  - (b) the payment of cash surrender values must be at least 100% of the asset share from the 15th policy year onwards, for participating whole life policies and after the mid-term of the policy for all other participating life plans. However, cash surrender values for early years must be at least 90% of the asset share on aggregate for each cohort in the expected main age range, with an allowance for deviation of 3% for other ages within each cohort; and
  - (c) the amount of cash and reversionary bonuses paid can be sustained by the participating life fund in the long term.
- S** 9.8 In determining the cash surrender value, the licensed insurer must ensure that any balance of unpaid asset share created by paying less than 100% asset share for each cohort in any year must be rolled over to the following year's asset share and must be taken into account in the determination of the cash surrender value for that particular year, in accordance with the methodology in paragraph 9.7(b). In any event, any balance of unpaid asset share for each cohort must be completely distributed by maturity.
- S** 9.9 In determining the benefits payable under the participating life policies designed and sold prior to 1 July 2005<sup>8</sup>, the licensed insurer must ensure that—
- (a) for the benefit payout on death and maturity, the payout is either within 90% and 110% inclusive of asset share at the cohort level, or the amount of guaranteed benefits, whichever is higher; and
  - (b) for the annual bonus supportability study, the ratio of the asset share to the gross premium valuation (GPV) reserves is—
    - (i) between 90% and 110% inclusive, at the cohort level. However, despite the allowable range, the effects of cross-subsidisation must be neutralised over time to ensure no one cohort is consistently being subsidised by or is subsidising other cohorts over its policy duration; and
    - (ii) close to 100% at the fund level.

## **10. Policy Owners' Reasonable Expectations (PRE)**

- G** 10.1 PRE concerns the policy owners' expectations on how the non-guaranteed benefits of their participating life policies are managed and paid. Such expectations can be influenced by factors including, but not limited to, communications and past practices of the licensed insurer.

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<sup>8</sup> The asset share requirement is applicable to all new products from 1 April 2005 onwards. For products introduced prior to 1 April 2005, companies had to ensure that at least 50% of new business from these existing participating products was in compliance with the requirement by 1 May 2005, with full compliance by 1 July 2005.

- S** 10.2 In managing PRE, the licensed insurer must:
- (a) actively manage bonus rates in line with the level of participating life fund returns to avoid the creation of undue PRE with regard to the level of bonus rates;
  - (b) ensure that policy owners are aware of the non-guaranteed nature of bonuses as well as its impact on policy benefits, including but not limited to, conditions which could lead to possible future bonus revisions; and
  - (c) ensure that the content and effect of its communication with policy owners including but not limited to, those carried out by its intermediaries, sales practices and past bonus decisions do not mislead policy owners to form expectations that bonuses are guaranteed.
- G** 10.3 In relation to paragraph 10.2(a), examples of situations which may give rise to undue PRE include, but is not limited to:
- (a) maintaining bonus rates when a bonus revision is more appropriate and justified, based on the performance of the fund over a sustained period; and
  - (b) declaring a special bonus without clear communication that it is a one-off declaration.
- G** 10.4 In relation to paragraph 10.2(b), licensed insurers may consider undertaking periodic assessments of PRE through focus groups and surveys, and evaluate the need to enhance the content, timing and form of communications with policy owners on bonus payments.

## **11. Bonus supportability study**

- S** 11.1 The annual bonus supportability study to be conducted by the appointed actuary, as required in paragraph 8.6(a), must include a comparison between the asset share and the GPV reserves for the particular cohort. The study must be carried out separately by the appointed actuary for various types of bonuses, including but not limited to, comparisons with GPV reserves with and without terminal bonuses.
- S** 11.2 For the computation of the GPV reserves, the appointed actuary must—
- (a) take into account both guaranteed and non-guaranteed benefits;
  - (b) take into account the transfer of the shareholders' portion of the declared bonus out of the participating life fund;
  - (c) ensure consistency of the best estimate assumptions used for the annual bonus supportability study with those in the valuation requirements in the policy document on Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12); and
  - (d) in the event that the GPV reserves are negative, which would invalidate the bonus supportability study for the cohort:
    - (i) assess the reasons for this;
    - (ii) assess the expected length of time that the reserves will be negative; and
    - (iii) consider alternative methods to assess the sustainability of the existing bonus rates<sup>9</sup>.

<sup>9</sup> Such as taking into account projections of future expected asset shares and GPV reserves.

- S** 11.3 As part of the annual bonus supportability study, the appointed actuary must conduct sensitivity testing on the participating life fund in order to assess potential events that could lead to future bonus adjustments. The assessment must take into account the key risk factors affecting the sustainability of the participating life fund and clearly show the impact of the stress on individual cohorts.
- S** 11.4 In conducting the sensitivity test, the appointed actuary must consider the licensed insurer's own business and risk profiles, the risk factors from external environment for both economic and non-economic risk factors, including but not limited to, changes in interest rates, the performance of equities and property markets, as well as the corresponding changes in the fund-based yield assumption used to discount liabilities.
- S** 11.5 The results of the sensitivity test must be escalated by the appointed actuary to the board and senior management, particularly on any areas of vulnerability that may affect the decisions that need to be taken, including but not limited to, in relation to the quantum of the bonus revisions, cohorting or appropriate communications to manage PRE.
- S** 11.6 In making the bonus recommendation, the appointed actuary must be able to demonstrate and attest to the board that:
- (a) the bonus supportability study is conducted in accordance with all the requirements applicable to the appointed actuary in making the bonus recommendation, including the requirements set out in the policy document on Appointed Actuary: Appointment and Duties (BNM/RH/STD 029-5); and
  - (b) the interests and fair treatment of policy owners, including PRE (as described in paragraph 10) have been adequately considered and accounted for, which are in line with paragraph 8.1(a) and Appendix 1(a) of the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103) and the licensed insurer's TCF Charter.
- S** 11.7 In relation to paragraph 11.6(b), in the case where the appointed actuary infers that undue PRE has been formed, the licensed insurer must comply with the requirement in paragraph 12.3. The benefit payout linked to undue PRE must be treated as guaranteed and must be reserved for appropriately.
- S** 11.8 A report on the bonus recommendation must be appended by the appointed actuary to his FCR, and must address the following, with sufficiently detailed descriptions to enable a review of the appointed actuary's recommendations, including their bases, by an independent actuary:
- (a) the definition and formula for the asset share, including but not limited to, details of the calculation of each component in the asset share, as well as any smoothing and specific charges applied;
  - (b) the grouping of participating life policies supported by the data used, including but not limited to, a list of plans included and excluded in the study;
  - (c) assumptions<sup>10</sup> used in the calculation of the asset share and GPV reserves, with supporting justification for the choice of assumptions;

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<sup>10</sup> For example, assumptions made in allocating death benefits/costs to each policy due to timing considerations.

- (d) results of the annual bonus supportability study, showing for each group of participating life policies, the asset shares over GPV reserves, both with and without terminal bonus;
- (e) results of the sensitivity test showing the key factors affecting the variability of the results of the annual bonus supportability study;
- (f) documentation of the reasonableness checks conducted to ensure the consistency, accuracy and completeness of data used, and any qualifications relating to limitations on the data; and
- (g) an elaboration of how the interests and fair treatment of policy owners, including PRE, have been taken into account in the bonus recommendation and the impact of any recommendations to meet undue PRE on the financial condition of the licensed insurer.

## 12. Allocation of expenses

- S** 12.1 The licensed insurer must include the following in its overall policy on the allocation of expenses:
- (a) the types of expenses, including but not limited to, expenses incurred for any outsourcing arrangements, which are directly attributed or which can be allocated to the participating life fund;
  - (b) the method used to allocate the common expenses between the participating life fund, other insurance funds and the shareholders' fund;
  - (c) the method used to apportion expenses charged to the participating life fund to the different cohorts and individual participating life policies within the fund; and
  - (d) the internal process and controls to monitor, report and approve any deviation from the overall policy.
- S** 12.2 The licensed insurer must only charge costs to a participating life fund which have been, or will be, incurred in the ongoing management of that participating life fund.
- S** 12.3 The licensed insurer must ensure that all costs of compensation provided to policy owners as a result of deficiencies in the management of the participating life fund is borne by the shareholders' fund and not charged to the participating life fund. The costs of compensation include, but are not limited to costs associated with–
- (a) actions to provide restitution or redress to policy owners arising from errors<sup>11</sup>; and
  - (b) actions to meet any undue PRE that have been formed, including but not limited to, due to inappropriate management of the participating life fund.
- G** 12.4 With reference to paragraph 12.3, examples of the inappropriate management of the participating life fund include, but are not limited to–
- (a) taking investment risk that is not commensurate with the risk profile of the business to increase competitiveness; and
  - (b) mis-selling.

<sup>11</sup> Such as system errors in the computation of any benefit payouts.

- S** 12.5 The licensed insurer must ensure that all costs of promotional gifts must be borne by the shareholders' fund and must not be charged to the participating life fund.

### **13. Investment and risk management**

- S** 13.1 In addition to ensuring that the licensed insurer's investment and risk management practices for participating life business are in accordance with the requirements in the policy documents on Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12) and Risk Governance (BNM/RH/GL 013-5), the licensed insurer must ensure that its investment strategy must also be in line with any communication made to policy owners.

### **14. Estate**

- G** 14.1 A licensed insurer may have built up an estate from:
- (a) benefit payout under participating life policies issued before the implementation of the asset share rule on 1 April 2005 being less than the corresponding asset shares;
  - (b) retention of the shareholders' share of bonuses declared in the past;
  - (c) past injections of capital from shareholders;
  - (d) miscellaneous profits not allocated to the asset share, including but not limited to, surrender and rider profits; or
  - (e) investment returns on the estate.

- S** 14.2 The value of the estate must be calculated by a licensed insurer as the difference between–
- (a) the market value of the total assets allocated to the participating life fund net of "other liabilities"; and
  - (b) the higher of the aggregate asset share of the participating life policies and the participating life reserve for guaranteed benefits.
- For this purpose, the present value of the guaranteed benefits must be calculated based on the GPV reserves discounted at Malaysian Government Security (MGS) rates, as prescribed in the policy document on Risk-Based Capital Framework for Insurers (BNM/RH/PD 032-12).

- S** 14.3 The licensed insurer must take steps to draw down the estate in the participating life fund over time, as set out in paragraphs 14.4 to 14.35, with the aim to–
- (a) preserve the safety and soundness of the participating life fund;
  - (b) uphold the principles of protecting policy owners' interests; and
  - (c) ensure orderly and gradual resolution of the estate.

#### ***One-off assessment***

- S** 14.4 A licensed insurer must carry out a one-off assessment to–
- (a) reaffirm the reliability of the estate estimation; and
  - (b) ascertain that the estate is not directly attributable to identifiable groups of policy owners.

The one-off assessment must include an attestation by the board that the participating life business has been managed in accordance with the prevailing requirements set out by the Bank, supported by clear justifications and identification of the sources of the estate (where available).

- S** 14.5 In reaffirming the reliability of the estate estimation, a licensed insurer must be able to explain the movements of the asset share and the estate since the first asset share review following the implementation of the policy document on Management of Participating Life Business (BNM/RH/PD 032-1) issued on 15 July 2015. The licensed insurer must support its explanation with reconciliations of relevant components of the asset share with reported figures in the financial statements.
- G** 14.6 In carrying out the analysis as stated in paragraph 14.5, a licensed insurer may rely on the independent review of its asset share, provided that the independent review—
- (a) has been carried out within 12 months prior to the one-off assessment;
  - (b) provides explanation for the movements of the asset share and the estate; and
  - (c) the findings in the independent review remain relevant.
- S** 14.7 In the event that a licensed insurer has assessed that there are past underpayments<sup>12</sup> to policy owners that have contributed to the build-up of the estate based on the outcome of the one-off assessment, the licensed insurer must make good such underpayments from the estate to the relevant policy owners, including but not limited to, those that may have exited the participating life fund.
- S** 14.8 In addressing the underpayments to policy owners that have exited the participating life fund, a licensed insurer must communicate the underpayments to all exited policy owners in a timely manner and is subject to the requirements as set out in paragraphs 14.9 to 14.11.
- S** 14.9 For any underpayments above RM10, the licensed insurer must exhaust all efforts to contact the exited policy owners, as follows:
- (a) the licensed insurer must use appropriate and reasonably effective modes of communication<sup>13</sup> to ensure that the exited policy owners are made aware of the underpayments and informed of the necessary actions that they can take to avail of the underpayments;
  - (b) any attempts to notify the exited policy owners must be made at least three times regardless of the mode of communication; and
  - (c) in the event of failed delivery, the licensed insurer must demonstrate that it has exhausted all efforts to contact the policy owners by other means<sup>14</sup>.
- If the exited policy owners are unreachable following these efforts, the licensed insurer must transfer the underpayments to the Registrar of Unclaimed Moneys in accordance with the Unclaimed Moneys Act 1965.
- G** 14.10 For underpayments of RM10 and below, the licensed insurer may proceed to transfer the underpayments to the Registrar of Unclaimed Moneys in accordance with the Unclaimed Moneys Act 1965 if the licensed insurer does not have the

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<sup>12</sup> An underpayment is defined as a shortfall of payment to the policy owners in relation to PRE, contractual obligations and the prevailing requirements during the time when payments were made.

<sup>13</sup> For example, via letters, online notifications, SMS or telephone calls.

<sup>14</sup> For example, having current or former servicing agents contact their respective policy owners or requesting for updated contact details from the servicing agents.

policy owners' banking information and there is no response after the first attempt of communication to the exited policy owners.

- S** 14.11 In the event a licensed insurer decides to fully utilise the relevant electronic channels to communicate to exited policy owners, the licensed insurer must ensure that there are measures in place to address the risks of some customer segments not being able to access these channels such as those who do not have internet access. In addition, the licensed insurer must monitor that policy owners have received the notification and keep a record of the efforts exhausted, as well as a list of policy owners who have received and those who have not received such notification.
- S** 14.12 In addition to the requirement for a licensed insurer to make good past underpayments from the estate, the licensed insurer must pay compensation to policy owners from its shareholders' fund, as set out in paragraph 12.3 of this policy document and the requirements in paragraphs 10.2 and 10.3 of the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103) or as required by the Bank.
- S** 14.13 A licensed insurer must carry out additional independent reviews if such is required by the Bank and in accordance with any additional requirements imposed by the Bank from time to time.
- S** 14.14 Notwithstanding the attestation provided under paragraph 14.4, if required by the Bank, the licensed insurer must undertake the necessary remedial action in the event evidence of underpayments or mismanagement of the participating life fund emerge after the one-off assessment.
- S** 14.15 A licensed insurer must submit the one-off assessment report to the Bank no later than four months from the end of its financial year.

***Uses of estate as working capital for the participating life fund***

- S** 14.16 A licensed insurer is allowed to use the estate as the working capital for the participating life fund for the following purposes:
- (a) alleviate new business strain for profitable new business;
  - (b) facilitate investment management for the participating life fund; and
  - (c) support bonus management in line with PRE, including but not limited to, smoothing of bonus for participating life policies.
- S** 14.17 A licensed insurer is restricted from using the estate in a manner that creates an unfair competitive advantage or leads to adverse effects on the interests of the existing participating life policy owners, including:
- (a) to support aggressive pricing of policies that are inconsistent with technical pricing levels and declarations of special bonuses to enhance marketability;
  - (b) to support a greater level of risk beyond the risk appetite and limits set out by the licensed insurer;
  - (c) to pay compensation costs arising from mis-selling and consumer redress, negligence or mismanagement of the licensed insurer; and
  - (d) for any other purposes as determined by the Bank, based on the Bank's assessment of the practices of an individual licensed insurer.

- S** 14.18 As required under paragraph 8.6(c), in assessing and providing an opinion on the use of the estate, the appointed actuary must take into consideration the allowed uses set out in paragraph 14.16 and the restrictions set out in paragraph 14.17.
- S** 14.19 In relation to paragraph 14.17(d), a licensed insurer must take specific actions, as may be required by the Bank in connection with any additional restrictions imposed by the Bank on the use of the estate.
- S** 14.20 A licensed insurer must perform an annual assessment to ascertain whether the amount of estate to be retained as the working capital for the participating life fund is appropriate. This annual assessment must also consider the interest of policy owners, including ensuring–
- (a) ongoing solvency and sustainability of the participating life fund; and
  - (b) fair distribution and utilisation of the estate over time.
- S** 14.21 In the annual assessment, a licensed insurer must consider the following factors:
- (a) nature and size of the participating life business;
  - (b) smoothing practices of the licensed insurer;
  - (c) practices relating to the cost of providing guarantees;
  - (d) for a participating life fund that is still open to new business, the projected size of the participating life fund, taking into consideration the interactions between the new business and in-force business;
  - (e) for a participating life fund that is closed to new business, the projections for the run-off of the participating life fund; and
  - (f) the licensed insurer’s plan to manage the participating life fund, including but not limited to, its investment strategy and management of future bonus distribution.
- S** 14.22 A licensed insurer must submit the report of its assessment of the use of the estate as its working capital to the Bank no later than four months from the end of each financial year<sup>15</sup>. The report must include, at minimum the following:
- (a) description of the methodology and assumptions used in determining the amount of estate used as the working capital for the participating life fund;
  - (b) justifications for the methodology and assumptions used in determining the working capital, for example, using historical data to support future outlook; and
  - (c) future projections of the bonus sustainability at fund and cohort levels, such as bonus supportability ratio of asset share to GPV reserves, and projections of assets and liabilities.
- S** 14.23 In the event that the working capital for the participating life fund becomes insufficient, a licensed insurer is not allowed to increase its working capital by clawing back the amounts that have been distributed, committed or allocated for other purposes.

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<sup>15</sup> The first annual assessment by the licensed insurer must be submitted together with the one-off assessment set out in paragraph 14.15.

***Distribution of residual estate in excess of working capital needs***

- S** 14.24 As part of the annual assessment carried out by a licensed insurer, in the event where the licensed insurer identifies that there is residual estate beyond that is used for the working capital (hereinafter referred to as the “excess estate”), a licensed insurer must distribute the excess estate from the participating life fund.
- S** 14.25 In determining the distribution of the excess estate, the licensed insurer must give due regard to the interests and fair treatment of policy owners, including PRE, and must avoid any windfall gain to any group of policy owners.
- S** 14.26 Where a licensed insurer adopts the manner provided under paragraph 13.7<sup>16</sup> of the policy document on Management of Insurance Funds (BNM/RH/PD 032-15) to distribute the excess estate, the licensed insurer must notify the Bank in writing of the distribution no later than four months from the end of its financial year. The notification must be accompanied by an assessment of how the distribution gives due regard to the interests and fair treatment of policy owners including PRE, while not impairing the solvency of the participating life fund. The assessment must be supported by the following:
- (a) details of the scope of policy owners that are eligible for the distribution of the excess estate, the criteria used for determining the eligibility of policy owners and the methodology used to determine the allocation of the amounts. The Bank generally expects the distribution to apply to all participating life policy owners and consistently applied across all participating life policies. Where the licensed insurer adopts a different distribution approach, the licensed insurer must provide clear rationale on how the approach is consistent with the objectives of treating policy owners fairly;
  - (b) details of the form of the benefits distributed to the relevant policy owners and terms and conditions of such distribution where they materially affect the benefits; and
  - (c) the annual working assessment report as set out in paragraph 14.22.
- S** 14.27 A licensed insurer must obtain the prior written approval of the Bank on the proposed distribution if it intends to distribute the excess estate in a manner other than as set out in paragraph 14.26, where the licensed insurer–
- (a) determines that such proposed distribution is necessary to avoid a windfall gain to any group of policy owners; or
  - (b) proposes to apply the excess estate towards specific initiatives that serve public interest in promoting a sound, progressive and inclusive financial sector.
- S** 14.28 In the application to the Bank for the purpose of paragraph 14.27, the licensed insurer must–
- (a) demonstrate how the proposed distribution is in line with section 83 of the FSA, specifically in preserving the sustainability of the participating life fund in meeting its liabilities and giving due regard to the interests and fair treatment of policy owners, including PRE;

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<sup>16</sup> As described in table 1 of paragraph 13.7 of the policy document on Management of Insurance Funds (BNM/RH/PD 032-15) on the proportion of surplus of participating life policies allocated for transfer to the shareholders' fund.

- (b) justify how its proposed distribution meets the intended outcome as set out in paragraphs 14.27(a) or 14.27(b), where relevant;
  - (c) demonstrate that there is no legal impediment in implementing the proposed distribution; and
  - (d) submit the application together with its annual working capital assessment.
- S** 14.29 In assessing a licensed insurer's application for the purposes of paragraph 14.28, if required by the Bank, the licensed insurer must commission an Independent Review Panel (IRP) to provide an independent assessment of the appropriateness and reasonableness of the licensed insurer's overall plan for the management of estate, including the use of the estate as the working capital and proposed distribution of the excess estate, in accordance with section 83 of the FSA and the requirements set out in this policy document.
- S** 14.30 The IRP must be appointed by the board, in consultation with the Bank and in accordance with the requirement on the appointment of the IRP as set out in paragraphs 14.31 to 14.33. In addition, the board must comply with the following requirements relating to the IRP and where relevant, ensure that the IRP carries out its functions accordingly:
  - (a) the licensed insurer must set out the Terms of Reference of the IRP to establish the roles and responsibilities of the IRP and its members, as well as the accountability of the IRP to the board;
  - (b) the IRP must be given access by the licensed insurer and the board to any relevant information and data to perform its assessment. The IRP may also leverage external actuarial or legal expertise where necessary;
  - (c) the IRP must provide its written assessment to the board to facilitate informed decision making by the board;
  - (d) the cost of IRP must be borne by the shareholders' fund and must not be compensated from the estate;
  - (e) the licensed insurer must submit a copy of the IRP written assessment to the Bank no later than 7 days after the IRP written assessment is submitted to the board; and
  - (f) any additional requirements as specified by the Bank, where necessary on the IRP arrangements.
- S** 14.31 The composition of the IRP must comprise–
  - (a) representatives from professions with sufficient knowledge and experience on the participating life business, including those from the actuarial and legal professions; and
  - (b) at least one member representing policy owner's interest, with sufficient expertise and experience in consumer issues and is wholly responsible for considering policy owners' interest.
- S** 14.32 In the event that a member of the IRP (including the Chairman) resigns, or for any other reasons ceases to be a member of the IRP, the board must, in consultation with the Bank, appoint another suitable member to replace such exiting member.
- S** 14.33 In appointing the IRP member, a licensed insurer must ensure that the terms of appointment for the IRP do not prohibit the IRP and its members from communicating freely and in confidence with the Bank.

- S** 14.34 In setting out the Terms of Reference of the IRP, the licensed insurer must include, at minimum, the following areas:
- (a) the membership of the IRP;
  - (b) the functions, roles and responsibilities of the IRP and its members, which include but are not limited to, the role of the IRP to ensure complete documentation on the methodology, assessment applied by the IRP and basis for its conclusions and recommendations;
  - (c) the meeting procedures of the IRP, including but not limited to, the need for all members of the IRP to be present for the convening of any meeting;
  - (d) the need for the members of the IRP to be free from any conflict of interest (whether real, potential or perceived in nature), that would impair the ability of the IRP to carry out its functions, role and responsibilities effectively. This includes—
    - (i) attestation from members of the IRP that they are independent, performing their roles in good faith and free from any conflict or potential conflict of interest;
    - (ii) declaration by the members of the IRP on any conflict of interest, at any time such conflict of interest arises; and
    - (iii) actions taken by the IRP to manage any conflicts of interest; and
  - (e) confidentiality obligation on all information provided to the IRP (including any assessments produced by the IRP using the information provided) and ensuring that the information is used solely for the performance of the duties as members of IRP.
- S** 14.35 In relation to the written assessment provided by the IRP under paragraph 14.30(e), the board must take into account the written assessment by the IRP and is accountable for enhancements or amendments, if any, that must be made to the licensed insurer's overall plan for the management of estate in light of the written assessment by the IRP.

## **15. Acquisition of and closure to new business**

- S** 15.1 The licensed insurer must include in its MPB policy the principles and practices relating to new business, which address—
- (a) the circumstances, including but not limited to, specific trigger points and thresholds, that will result in the participating life fund being closed to new business for a particular product type and for the overall participating life business;
  - (b) the actions that the licensed insurer would take if the participating life fund ceases to take on new business; and
  - (c) the conditions, including but not limited to, pricing assumptions, for effecting new contracts in an existing participating life fund so as to avoid or minimise any material adverse effect on the interests of existing policy owners.
- S** 15.2 In relation to paragraph 15.1(c), if the new contracts are priced based on the assumption of transfers to shareholders' fund being less than that allowed under the limit as specified in the policy document on the Management of Insurance Funds (BNM/RH/PD 032-15), future actual transfers to shareholders' fund must not exceed the limit assumed in the pricing of the new contracts. A board

resolution must be obtained, as evidence of the shareholders' commitment to undertake less profit than allowed under the specified limit.

- S** 15.3 If the licensed insurer intends to close the participating life fund to new business, whether temporarily or permanently, the licensed insurer must submit a detailed report to the Bank, including but not limited to the following:
- (a) the reasons and period of the closure;
  - (b) changes in the investment strategy and bonus distribution;
  - (c) the impact of the closure on the allocation of expenses to the participating life fund;
  - (d) implications for the management of PRE, supported by specific actions (including communication to policy owners) that will be taken by the insurer to manage PRE; and
  - (e) at least five-year projections of the financial position of the participating life fund post-closure to new business under base and stress scenarios.

## **16. Management of small and shrinking participating life fund**

- S** 16.1 Where the participating life fund is small<sup>17</sup>, has been on a declining trend and is expected to shrink to an unsustainable level in the foreseeable future, a licensed insurer must monitor the level of the following risks:
- (a) fund solvency risk;
  - (b) liquidity risk;
  - (c) persistency risk;
  - (d) expense risk;
  - (e) insurance risk;
  - (f) investment risk; and
  - (g) conduct risk.
- G** 16.2 In implementing paragraph 16.1, a licensed insurer may deem the participating life fund as small if–
- (a) the size of the policy owners' fund is less than RM 2 billion;
  - (b) the number of in-force policies is less than 200,000; and
  - (c) the annual office premiums are less than RM 200 million.
- S** 16.3 Where a participating life fund is not considered small but observed to be shrinking to an unsustainable level at a rapid pace, a licensed insurer must take reasonable pre-emptive measures to address the issue such that policy owners' interests are safeguarded.
- S** 16.4 The appointed actuary must ensure users of the FCR, including the board, are properly informed of any potential risks in relation to the small and shrinking participating life fund by disclosing the following in the FCR:
- (a) trend of the size of fund measured by number of policies and size of net cashflows for the past five years, and projected for the next five years;
  - (b) trend of the size of cohorts measured by number of policies, asset share and net liabilities, for the past five years, and projected for the next five years;

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<sup>17</sup> This includes participating annuity fund.

- (c) outcome from the monitoring of risks set out in paragraph 16.1;
  - (d) key risks observed from the outcome of stress or scenario tests in relation to the shrinking participating life fund; and
  - (e) any remedial or mitigation actions taken to manage the risks.
- S** 16.5 Where the risks are observed to have heightened, a licensed insurer must put in place the following remedial or mitigation actions taking into consideration the interests and fair treatment of policy owners, including PRE:
- (a) remedial actions to be taken to manage the specific risks;
  - (b) communication strategy to policy owners to manage PRE;
  - (c) any necessary revision of bonus management strategy to manage the PRE; and
  - (d) any actions of last resort to be taken.
- S** 16.6 In implementing paragraph 16.5, the extent of the above remedial or mitigation actions must be commensurate with the nature, size and complexity of the risks.
- G** 16.7 Examples of the actions of last resort referred to in paragraph 16.5(d) include, but are not limited to–
- (a) guaranteeing part or all of the non-guaranteed benefits;
  - (b) support from shareholders via capital injection; and
  - (c) setting up a special reserve using withheld shareholders' transfer.

**PART D            SPECIFIC REQUIREMENTS ON BONUS REVISIONS****17.      Proposal to board on bonus revision**

- S** 17.1 Any bonus revision must be proposed formally by senior management to the board for its approval.
- S** 17.2 The senior management's proposal for a bonus revision must include at least the following, for the board's consideration:
- (a) a recommendation on the type and magnitude of the bonus revision by the appointed actuary;
  - (b) details on previous bonus revisions, including but not limited to, the dates of the bonus revisions, type of bonus and products affected, the quantum and rationale of the bonus revisions, as well as the number of affected policy owners;
  - (c) the annual bonus supportability study as at the last financial year end to demonstrate the appropriateness of the current bonus rates for the various policies;
  - (d) a legal opinion<sup>18</sup> on whether there are any legal constraints which can impact the licensed insurer's ability to undertake the bonus revision, as set out in paragraph 17.3;
  - (e) results from a comprehensive risk assessment of the impact of the bonus revisions to different stakeholders and plans to manage the risks;
  - (f) communication strategy to the affected stakeholders, including policy owners, on the bonus revision as required under paragraph 19; and
  - (g) considerations relating to the interests and fair treatment of policy owners, including PRE, in line with the requirements in paragraph 8.1(a) and Appendix 1(a) of the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103) and with the licensed insurer's TCF Charter as set out under paragraph 8.5.
- S** 17.3 The senior management must ensure that the legal opinion referred to in paragraph 17.2(d) takes into account the following:
- (a) all relevant sales and marketing material;
  - (b) documents related to participating life policies;
  - (c) agency training material used for the promotion of products; and
  - (d) any other communication, expressed or implied, to the policy owners that may have formed PRE. This includes any communication made during the actual sales process.
- S** 17.4 The board must be satisfied that the matters in paragraph 17.2 have been adequately deliberated before making the decision to undertake a bonus revision, including the legal opinion that there are no legal constraints that impede the licensed insurer's ability to undertake a bonus revision.
- S** 17.5 The licensed insurer must maintain adequate documentation and supporting information on the bonus revision as set out in paragraph 17.2 and **Appendix 1A** of this policy document.

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<sup>18</sup> The legal opinion can be provided by internal or external legal counsel.

- S** 17.6 The complete documentation and supporting information referred to in paragraph 17.5 must immediately be made available by the licensed insurer to the Bank upon request by the Bank.

## **18. Notification to the Bank on bonus revision**

- S** 18.1 The licensed insurer must submit the board's decision to approve any changes made to bonus or dividend rates to the Bank prior to the implementation of the bonus revision, with the exception of changes to terminal bonus for participating life policies sold on or after 1 July 2005.
- S** 18.2 The submission made under paragraph 18.1 must comprise the following information:
- (a) summary of the bonus revision<sup>19</sup>, which include–
    - (i) products<sup>20</sup> affected by the bonus revision, grouped according to cohort;
    - (ii) type and quantum of the bonus revision;
    - (iii) number of affected policies and proportion of affected policies (out of total participating life policies);
    - (iv) reasons for the bonus revision; and
    - (v) implementation date of the bonus revision;
  - (b) description of other means to restore bonus supportability other than downward bonus revision, if applicable; and
  - (c) asset share, GPV of guaranteed benefits, regular bonuses and total benefits, before and after the revision<sup>21</sup>.

## **19. Communication to stakeholders**

- S** 19.1 A licensed insurer must ensure that its communication strategies are developed and appropriately tailored to manage specific expectations of different groups of stakeholders<sup>22</sup>.
- S** 19.2 A licensed insurer must ensure that all communications to its policy owners are in line with the Bank's disclosure and provision of information principles in the Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3) and the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103) respectively, and the requirements contained in Part E of this policy document.
- S** 19.3 A licensed insurer must duly notify policy owners of any bonus revisions, prior to the effective date of such bonus revision. In the communication with affected policy owners, the licensed insurer must ensure PRE is appropriately managed and adequate advice is provided to facilitate informed decisions<sup>23</sup>, in line with the

<sup>19</sup> To be provided according to the format as per Table 1 in Appendix 1B.

<sup>20</sup> Names of the products must be consistent with the name of the products in the licensed insurer's submission of information to the Bank under "Form E2-1\_FYE only" in the Risk-Based Capital Framework form.

<sup>21</sup> To be provided according to the format as per Table 2 in Appendix 1B.

<sup>22</sup> Such as policy owners, the distribution force, press and media, as well as the general public.

<sup>23</sup> For the avoidance of doubt, licensed insurers shall also ensure paragraph 19.3 is complied with for their agents who are advising policy owners on their behalf.

requirements set out in paragraph 12.3 of the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103).

- S** 19.4 In relation to paragraph 19.3, the licensed insurer must ensure the notification includes at least the following:
- (a) reasons for the bonus revision;
  - (b) types of bonus affected;
  - (c) quantum of the bonus revision and quantitative impact of the revision to policy owners' benefits (at minimum, the maturity benefits) in nominal (RM) figures and percentage of change to facilitate policy owners' understanding of changes to their future benefits;
  - (d) effective date of the bonus revision;
  - (e) for policies sold with a critical year option, information on the expected year the policy will lapse following the bonus revision and the available courses of action to policy owners; and
  - (f) details of dedicated avenues for affected policy owners to seek clarification, advice and assistance as well as to lodge any complaints.
- G** 19.5 In providing advice to policy owners, licensed insurers should take into consideration the individual circumstances of the policy owner, including:
- (a) understanding the impact of the bonus revisions to the policy owners' financial circumstances or as part of their overall financial planning; and
  - (b) any actions to be taken by policy owners, if any.
- S** 19.6 In relation to paragraph 19.3, a licensed insurer is allowed to issue the notification of the bonus revision to affected policy owners on the effective date of the bonus revision, provided that the notification of the bonus revision is issued together with the annual bonus statement, and the timing of the issuance of annual bonus statement coincides with the effective date of the bonus revision.

**PART E           TRANSPARENCY AND DISCLOSURE REQUIREMENTS****20.       Marketing material**

- S** 20.1   A licensed insurer must ensure that its marketing material for participating life policies complies with the general requirements set out in the Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3) and the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103).
- S** 20.2   A licensed insurer must ensure that its printed marketing material for a participating life policy includes at least the following information:
- (a) a brief description of the nature of bonuses (i.e. whether cash, reversionary or terminal);
  - (b) events upon which each type of bonus is payable;
  - (c) a statement to explain that the face value of the reversionary bonus is not payable on early termination or conversion of the policy; and
  - (d) a statement to direct policy owners to refer to the product illustration for further information on the product.

**21.       Product illustration**

- S** 21.1   A licensed insurer must provide to all prospective policy owners an illustration of premiums and benefits (product illustration) applicable to a specific proposal for a participating life policy at the point of sale.
- S** 21.2   A licensed insurer must ensure that the product illustration for a participating life policy complies with the Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3).
- S** 21.3   A licensed insurer must ensure that its product illustration complies with the format prescribed in **Appendix 2** of this policy document. In the event the licensed insurer, makes any changes, the licensed insurer must ensure that changes made to the prescribed format do not dilute the adequacy of information that must be provided to policy owners to aid decision making. The licensed insurer shall clearly identify the changes made with its submission of product documentation to the Bank as required under the policy document on Introduction of New Products by Insurers and Takaful Operators (BNM/RH/STD 029-10).
- S** 21.4   A licensed insurer must include in the product illustration the following:
- (a) a description of the general features of the participating life policy;
  - (b) an explanation of the different types of bonuses payable under the policy; and
  - (c) a general explanation of how the bonuses are determined.
- S** 21.5   A licensed insurer must illustrate in the product illustration the following values as at the end of each policy year for policy years 1 to 20 and every five years thereafter until maturity or the age of 80 years, whichever is earlier:
- (a) premiums paid;

- (b) guaranteed survival benefits;
  - (c) guaranteed death benefits;
  - (d) guaranteed surrender value; and
  - (e) non-guaranteed benefits.
- S** 21.6 A licensed insurer must ensure that the illustration of premiums payable does not indicate that premium payment is not (or may not) be required after any point of time during the duration of the participating life policy, notwithstanding situations where premiums payable may be financed through the guaranteed and non-guaranteed cash values of the policy.
- S** 21.7 The illustration for benefit payout must—
- (a) clearly separate non-guaranteed and guaranteed benefits;
  - (b) clearly state that the non-guaranteed values illustrated are not guaranteed with potential of higher or lower quantum declared in future;
  - (c) show non-guaranteed benefits under two hypothetical scenarios based on the two prescribed return rates, 2% and 5%. This is solely intended to demonstrate the variability of non-guaranteed benefits under the different investment scenarios;
  - (d) highlight that the returns in paragraph 21.7(c) are hypothetical and do not reflect past or expected future returns of the participating life fund. It must also highlight that policy owners should refer to the annual bonus statement for information on actual past returns for the participating life fund and future outlook of the participating life fund; and
  - (e) in the case of a collateral policy where the benefit payout (inclusive of non-guaranteed benefits) at maturity is designated for settlement of a credit facility, indicate that the actual maturity payout may not be sufficient to cover the outstanding loan amount after taking into account the variability of non-guaranteed benefits.
- S** 21.8 A clear distinction must be made between the costs and benefits attributable to the participating life policy and any extensions respectively, unless the participating life policy is marketed as a packaged product<sup>24</sup>.
- S** 21.9 The product illustration must disclose the participating life fund's returns over the past five years. In doing so, a statement must be included to inform policy owners of the limitations on the information of past performance, including a prominent statement to indicate that past performance is not an indicator of future performance.
- S** 21.10 The licensed insurer must enhance the details of disclosure of commissions, in line with paragraphs 14.12 and 14.13 of the policy document on Fair Treatment of Financial Consumers (BNM/RH/PD 028-103) (to facilitate policy owners' understanding and enable them to make comparison between different participating products) as follows:
- (a) disclose the amount of commissions expected to be paid by the policy owners in respect of each participating life policy, in nominal (RM) figures and as a percentage of annual premium;

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<sup>24</sup> Subject to Schedule 7 of the Financial Services Act 2013.

- (b) disclose the total nominal amount of commissions expected to be paid over the duration of the policy and further express this as a percentage of total premiums payable over the duration of the policy; and
- (c) include a reminder to the policy owners to refer to the service guide to understand the services they should expect to receive for the commissions.

## **22. Annual bonus statement**

- S** 22.1 A licensed insurer must provide information on an annual basis to each participating life policy owner on his participating life policy, in the form of an annual bonus statement. The statement must contain the information set out in paragraphs 22.2 and 22.3.
- S** 22.2 The annual bonus statement must contain the following qualitative information:
  - (a) the status of the participating life policy;
  - (b) whether the policy has been assigned or has a nominee and if so, the name and address of the assignee or nominee;
  - (c) for policies that do not have nominees, a reminder to assign a nominee for the policy; and
  - (d) caveats on the non-guaranteed nature of bonuses.
- S** 22.3 The annual bonus statement must contain the following quantitative information:
  - (a) any bonus declared for the current and preceding five years;
  - (b) the sum assured, the vested bonus including the total accumulated reversionary bonus, and other vested non-guaranteed benefits as at the date of the statement;
  - (c) any bonus or other non-guaranteed benefit which has vested since the date of the last statement;
  - (d) the guaranteed cash value;
  - (e) the total cash surrender value; and
  - (f) the balance of the loan amount, accrued interest and the policy loan rate at the date of the statement, in the case of a loan taken from the licensed insurer on the security of the policy.
- S** 22.4 The licensed insurer must also provide an updated description of the investment performance of the relevant participating life fund and take reasonable steps to ensure the accuracy of the description. The description must include:
  - (a) quantitative information on the fund's performance over the past five years and a qualitative description of the performance of the fund over the previous accounting period;
  - (b) key factors affecting bonuses to be allocated in the current accounting period such as investment performance or operating experience;
  - (c) the future outlook of the participating life fund, in particular the changes in the outlook in respect of the key factors affecting non-guaranteed bonuses. This description must provide a balanced view of both upside and downside risk to avoid undue PRE; and
  - (d) an explanation of how past experience and future outlook of the participating life fund will impact the future bonus allocation and reserves for future bonuses.

- S** 22.5 As part of the requirements in paragraph 8.2(b), the annual bonus statements must be reviewed to include both the adequacy and the quality of information provided to policy owners.

### **23. Disclosure of the projections of future cash flows**

- S** 23.1 After the sale of a participating life product, a licensed insurer is permitted to provide information on the projection of future cash flows to further facilitate policy owners' understanding of their potential future benefits, subject to compliance with the following conditions:
- (a) the methodology and assumptions used in the projections are appropriate, relevant and no more optimistic than the latest long-term best estimate assumptions, taking into consideration the interest of policy owners, including PRE (as set out in paragraph 10) and the licensed insurer's TCF Charter;
  - (b) the methodology used in setting the assumptions for the projections of future benefits must be subject to the appropriate governance by the licensed insurer, is properly documented and ready to be made available to the Bank if required;
  - (c) the information is clear on the nature of non-guaranteed benefits and allows policy owners to understand the context and potential impact to their future benefits. In providing the information, the licensed insurer must at least include information that clearly segregates the projection of guaranteed and non-guaranteed benefits;
  - (d) the information must be provided through channels deemed appropriate by the licensed insurer for effective communication to policy owners and to facilitate awareness and understanding (including but not limited to the purpose of the disclosure and the nature of non-guaranteed benefits). If the information is disclosed through agents or customer service personnel, the licensed insurer must ensure that the licensed insurer's customer service or branch and agents are adequately trained and competent to handle any enquiries from in-force policy owners on the projection of future benefits;
  - (e) policy owners must be informed that the information does not constitute or replace the product illustration provided at the point of sale;
  - (f) the information is not used in any way, shape or form for sales and marketing purposes when the participating life policy is sold and must not contain misleading terms or language such as 'post-sales illustration' or 'revised product illustration'; and
  - (g) reminders are provided to policy owners that the bonus supportability study is conducted annually and that the outcome may differ from year to year, depending on actual experience and outlook of the future.

## APPENDICES

### Appendix 1 Documentation on Bonus Revision

#### A. MINIMUM INFORMATION FOR LICENSED INSURER'S DOCUMENTATION ON BONUS REVISION

1. Details of the proposed bonus revisions which include:
  - (a) products<sup>25</sup> affected, grouped according to cohort;
  - (b) number of affected policies;
  - (c) type and magnitude of the bonus revision (e.g. the magnitude of the revision of the regular bonus or terminal bonus<sup>26</sup> or both);
  - (d) rationale for the revision, including the order of revision, such as revision to the regular bonus before the terminal bonus);
  - (e) for bonus revisions which are phased-in over a period of time, the quantum of bonus revision for each year and the considerations in setting the phasing-in and quantum for each year; and
  - (f) implementation date of the bonus revisions.
  
2. The impact of bonus revisions on sustainability at cohort level and product level, which include:
  - (a) commentary on the key risk factors affecting the bonus supportability of the cohorts and solvency of the fund such as movements in the equity market, interest rate levels and credit spreads;
  - (b) asset share (AS), and GPV of guaranteed benefits, regular bonuses and total benefits, before and after the revision;
  - (c) present value of the shareholders' portion of the bonus, before and after the revision;
  - (d) required yields to maintain the sustainability of:
    - (i) regular bonuses (including guaranteed benefits), with and without the shareholders' portion; and
    - (ii) total benefits, with and without the shareholders' portion, before and after the revision;
  - (e) results of sensitivity test or scenario test in terms of the AS/GPV ratios at cohort level; and
  - (f) statement on the licensed insurer's ability to continue to achieve the required yields to maintain regular bonuses (including guaranteed benefits), after the revision, by taking into account the licensed insurer's assessment of the expected long-term return.
  
3. Impact of bonus revisions on the policy owner's benefits including:
  - (a) impact on the surrender value, death benefit and maturity benefit at cohort and product levels;
  - (b) impact on the internal rate of return, at product level;
  - (c) impact on the sustainability of products with a critical year option, and the top-up amounts needed to maintain the original term to maturity; and

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<sup>25</sup> Names of the products must be consistent with the name of the products in the licensed insurer's submission of information to the Bank under "Form E2-1\_FYE only" in the Risk-Based Capital Framework form.

<sup>26</sup> Refers to pre-determined terminal bonuses (e.g. where they have been defined as a percentage of regular bonuses).

- (d) impact at individual policy level, demonstrated using at least three sample points for each product.
4. Details of all previous bonus revisions, including, for each revision:
    - (a) date of the revision;
    - (b) products affected;
    - (c) type of bonus affected and corresponding magnitude of the revision;
    - (d) rationale of the revision; and
    - (e) number and proportion of policies (out of total participating life policies affected).
  5. Historical experience relating to the participating life fund, as well as the affected cohorts and products, including:
    - (a) actual investment returns of the participating life fund for the past five years;
    - (b) if asset allocation deviated from the Strategic Asset Allocation (SAA), the hypothetical investment returns of the participating life fund based on the SAA for the past five years;
    - (c) fund based yield for the past five years; and
    - (d) historical AS, GPV and the AS/GPV ratio at cohort level and product level for the past five years.
  6. Legal opinion on whether there are legal constraints which can impact the insurer's ability to undertake the proposed bonus revision, as set out in paragraph 17.3.
  7. A comprehensive risk assessment on the affected stakeholders and the steps taken to manage the risk as set out in paragraph 17.2(e). The stakeholders include:
    - (a) policy owners;
    - (b) the distribution force;
    - (c) internal staff;
    - (d) shareholders; and
    - (e) the public.
  8. Communication strategies for affected stakeholders including:
    - (a) letter to policy owners on the bonus revision, which must include the information set out in paragraph 19.4;
    - (b) annual bonus statement;
    - (c) Frequently Asked Questions document used by the customer service department;
    - (d) material used for the training of agents in relation to bonus revisions;
    - (e) press releases; and
    - (f) material used for internal staff briefings.

**B. FORMAT FOR SUBMISSION OF INFORMATION TO THE BANK**

**Table 1: Details of bonus revisions**

Cohort	Product	Number of affected policies	Affected policies as a proportion of total participating life policies	Description of revision <sup>27</sup>	Reason for revision <sup>28</sup>	Implementation date
				<i>e.g. z% change to regular bonus</i>		

**Table 2: Impact of bonus revisions on sustainability**

Cohort	Product	Asset share (AS)	GPV of guaranteed benefits	Before bonus revision					After bonus revision					
				GPV of non-guaranteed regular bonus	GPV of non-guaranteed terminal bonus	PV of future transfers to shareholders	GPV of total benefits <sup>29</sup>	$\frac{AS}{GPV}$	GPV of non-guaranteed regular bonus	GPV of non-guaranteed terminal bonus	PV of future transfers to shareholders	GPV of total benefits <sup>29</sup>	$\frac{AS}{GPV}$	

<sup>27</sup> Including details of the phasing-in period and the quantum of revision each year, where applicable.

<sup>28</sup> Including the considerations in setting the phasing-in structure.

<sup>29</sup> Including transfers to shareholders.

## Appendix 2 Product Illustrations

### A. SUMMARY

This is a summary of what this policy offers and how much it costs you to buy this policy. It also displays the option that you should consider before purchasing this policy.

Name of Insurer:	<b>[ABC Insurance Berhad]</b>	Client's Name:	<b>[Mr. Customer]</b>
Product Name:	<b>[XYZ policy]</b>	Sex:	<b>[Male/ female]</b>
Type of policy:	<b>[Endowment Participating]</b>	Smoker:	<b>[Yes/ No]</b>
		Age:	<b>[Age of proposer]</b>



**What you should know?**



**What you should consider?**



**What you should be aware of?**



**What does this policy offer?**

- Protection against death and Total and Permanent Disability (TPD)
- Payment of cash periodically



**Have you considered term life?**

- Term life offers protection against death and TPD with lower premiums
- You can invest the balance in other savings/ investment alternatives

XYZ Policy	Premium payment	Term Life Policy
RM ___ X ___ years = RM ___	How much will you need to pay	RM ___ X ___ years = RM ___
___ years	<b>Coverage period</b> How long will you be covered	___ years
RM ___	<b>Commission</b> Amount paid to intermediaries from your premium	RM ___

XYZ Policy	Guaranteed Benefits Amount company promises to pay	Term Life Policy
Year __ - __ : RM ___ Year __ - __ : RM ___	<ul style="list-style-type: none"> <li>• If you die or suffer TPD</li> </ul>	RM ___
Year __ - __ : RM ___ Year __ - __ : RM ___	<ul style="list-style-type: none"> <li>• Cash every year</li> </ul>	-
RM ___	<ul style="list-style-type: none"> <li>• At maturity</li> </ul>	-

XYZ Policy	Non-Guaranteed Benefits The company may or may not pay the following amount	
Scenario X: RM ___ Scenario Y: RM ___	<ul style="list-style-type: none"> <li>• Total cash received</li> </ul>	-
Scenario X: RM ___ Scenario Y: RM ___	<ul style="list-style-type: none"> <li>• At maturity</li> </ul>	-

XYZ Policy	Your Annualised Return* [Net gain/ loss] if held to maturity	Term Life Policy
____% p.a.	<ul style="list-style-type: none"> <li>Guaranteed benefits only</li> </ul>	-
Scenario X: ____% p.a. Scenario Y: ____% p.a.	<ul style="list-style-type: none"> <li>Total benefits (inclusive of non-guaranteed payments)</li> </ul>	-

\* Annualised return (net gain/loss) is the estimated average investment return on the survival/ savings benefits that you will receive over the period of the policy until its maturity **with respect to the premium that you paid**. However, the actual annualised return of your policy can only be determined when your policy matures.

 If you are looking for insurance policy with savings element, you may wish to compare the return of this policy with the effective returns of other investment alternatives.

 You may only receive the guaranteed amount upon survival/ surrender/ death/ maturity.

**B. PRODUCT ILLUSTRATION TABLE**

**Table 1: This shows the amount of premium you will be paying each year and the yearly cash flow on your policy until the end of the policy period.**

How much are you paying?
What can you cash out periodically?

End of Policy Year /Age	Premium Paid Each Year	Survival Benefits		
		Guaranteed Cash Payments Each Year	Non-Guaranteed Cash Dividend 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				
Cash payment at the end of the policy period (At maturity)				

 You may only receive the guaranteed amount periodically.  
 Please refer to the notes in the next page for the assumptions used in the illustration table.

**How do the benefits compare against the total premiums paid to date?**

How much premium you would have paid?

How much is paid to the intermediaries?

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

What is payable upon death?

End of Policy Year/ Age	Total Premium Paid To Date <small>[refers to cumulative premium to be paid from policy inception]</small>	Commission		Surrender Value			Death Benefits		
		RM	%	Guaranteed	Non-Guaranteed <small>[excluding guaranteed benefits amount and any survival benefits kept with insurer]</small>		Guaranteed	Non-Guaranteed	
					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									
50/80									
<b>Total</b>									



- You may only receive the guaranteed amount upon surrender/ death.
- \*If you cancel the policy **before the maturity period**, the amount that you will receive will be **much less** than the total amount of premium that you have paid.
- The illustrations of Non-Guaranteed benefits have been prepared on two hypothetical investment scenarios.
  - a. Scenario X = Assumes the participating life fund earns 2% every year
  - b. Scenario Y = Assumes the participating life fund earns 5% every year
 The two rates are used purely for illustrative purposes to show the variability of non-guaranteed benefits under the different investment scenarios and are NOT GUARANTEED. They do not represent upper and lower limits on the investment performance of the participating life fund, and are not the returns earned on the actual premiums paid for the life insurance product.
- The investment return rates earned i.e. performance of the life insurance fund in the previous five years are as follows:-
 

Yr 2010:	Yr 2011:	Yr 2012:	Yr 2013:	Yr 2014:
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 The past investment performance of the fund is not an indication of its future performance. This is strictly the investment performance of the insurance participating life fund, and not the returns earned on the premiums. The actual returns earned on premiums at maturity/surrender will be lower due to cost of insurance and expenses.
- Total direct commission is the amount received by the intermediary for the sale of this policy and services that the intermediary will provide to you for the duration of your policy.

**Table 2: Rider(s) Optional**

A rider can provide additional protection or enhance existing benefits payable under your basic policy

<b>Riders</b>	<b>Premium Paid (RM)</b>	<b>Sum Assured (RM)</b>	<b>Coverage period (Years)</b>
[Rider name]			
[Rider name]			
[Rider name]			

## IMPORTANT INFORMATION REGARDING YOUR PARTICIPATING POLICY

### What is a Participating Policy?

A participating policy enables you to share in the profits of the participating life fund. Profits are shared by adding bonuses to the policy. The actual payment of these bonuses is not guaranteed and can reduce (or increase) to reflect the operating performance of the participating life fund.

### 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 and will be payable to you each year in cash.

#### **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 stated in your policy contract.

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 policy owners a fair share of the profits earned by the participating life fund.

### How are the bonuses determined?

These bonuses which are not guaranteed, are determined by the Company based on the participating life fund's actual operating and investment performance. 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.

Please also note that the investment performance is not the only factor that will affect the bonuses that you will receive. Other factors such as expenses incurred to meet the direct distribution cost, agency related expenses and Company's expenses, as well as the actual level of death and disability claims on the fund, will also affect the bonuses that you will receive.

In addition to actual operating performance, bonuses may also be adjusted if there is expected persistent deterioration in future investment environment or operating conditions to maintain the long term sustainability of the fund.

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 policy owners 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.

**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.