



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Investment-linked Business

Applicable to:

1. Licensed insurers
2. Licensed takaful operators

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PART A OVERVIEW

1. Introduction

- 1.1 An investment-linked product has unique features, whereby premiums/takaful contributions paid by a policy owner/takaful participant are invested in investment-linked fund(s) offered by the licensed person, and this investment is used to fund the coverage of the policy owner's/takaful participant's insurance/takaful protection and other fees and charges related to such investment-linked policy/takaful certificate. Flexibilities of the investment-linked policy/takaful certificate which are provided to policy owners/takaful participants may include the following:
- (a) switching between investment funds based on their risk appetite and financial needs;
 - (b) topping-up investments, making partial withdrawals and/or taking premium/ takaful contribution holidays; and
 - (c) varying their insurance/takaful coverage as their protection needs or financial circumstances change, by adding or removing extensions of cover.
- 1.2 Due to these unique features, policy owners/takaful participants bear both the upside and downside of the investment risks, and the long-term persistency of their investment-linked products can be affected by investment risks and the flexibilities accorded to such investment-linked products. Therefore, it is critical for a licensed person to maintain high standards of governance in the management of its investment-linked business and to uphold high conduct and transparency standards in the sales, marketing and disclosure of information relating to investment-linked products, at all times, to aid informed decision-making by policy owners/takaful participants.
- 1.3 The principal objective of this policy document is to ensure that licensed persons provide fair treatment to policy owners/takaful participants in preserving the value of the policy owners'/takaful participants' investment-

linked policy/takaful certificates. Therefore, this policy document stipulates requirements on licensed persons that are aimed to achieve the following:

- (a) promote and maintain high corporate governance and professionalism in the administration of investment-linked business;
- (b) ensure professional and proper conduct in the sales and marketing of investment-linked products; and
- (c) enhance product transparency and disclosure to protect the interests of policy owners/takaful participants.

1.4 To achieve the above objectives, this policy document sets out requirements on the following:

- (a) approval to carry on investment-linked business;
- (b) management of investment-linked funds;
- (c) product design;
- (d) fees, charges and expenses;
- (e) disclosure;
- (f) investment; and
- (g) valuation of asset and liabilities of investment-linked funds.

1.5 The Bank has carefully considered the feedback obtained during the consultation period of the Life Insurance and Family Takaful Framework (LIFE Framework), and followed up with additional industry consultation¹ to understand renewed concerns by the industry. This has led to —

- (a) the issuance of specification letters² by the Bank to licensed persons to communicate critical enhancements preceding the full implementation of this policy document; and
- (b) a phased implementation of the requirements in this policy document for investment-linked business to allow sufficient time for licensed persons to realign their business strategies and operational practices, including system enhancements, to comply with the requirements.

¹ In March 2018.

² On 15 November 2018.

- 1.6 This policy document stipulates key changes in the following areas:
- (a) implementation of Minimum Allocation Rates (MAR) as per the LIFE Framework to protect the account value of policy owners/takaful participants;
 - (b) introduction of standards for sustainability tests to ensure proper management of long-term persistency of investment-linked policy/takaful certificates; and
 - (c) enhancements to the product illustration format.

2. Applicability

- 2.1 This policy document is applicable to –
- (a) licensed insurers carrying on life business, which offer, market or sell investment-linked policies; and
 - (b) licensed takaful operators carrying on family takaful business, which offer, market or sell investment-linked takaful certificates,
- hereinafter collectively such business is referred to as “investment-linked business”.

3. Legal provisions

- 3.1 This policy document is issued pursuant to:
- (a) sections 47, 123, 143 and 266 of the Financial Services Act 2013 (FSA); and
 - (b) sections 57, 135, 155 and 277 of the Islamic Financial Services Act 2013 (IFSA).

4. Effective date and transitional arrangements

- 4.1 This policy document comes into effect on 13 February 2023.

5. Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and IFSA, unless otherwise defined in this policy 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 a licensed person, including a committee of the board where the responsibilities of the board set out in this policy document have been delegated to such a committee;

“**capital guaranteed**” means an investment-linked product which guarantees a maturity benefit of at least equal to the principal amount invested at the point of sale;

“**collective investment schemes**” or “**CIS**” means any arrangement made for the purpose, or having the effect, of providing facilities for persons to participate in or receive profits or income from the acquisition, holding, management or disposal of securities, or any other property, or sums paid out of such profits or income in such schemes;

“**licensed person**” refers collectively to a licensed insurer and a licensed takaful operator;

“**Minimum Allocation Rate**” or “**MAR**” refers to the minimum proportion of premiums/takaful contributions payable by policy owner/takaful participant that is allocated in the unit fund(s) of choice before the deduction of any charges;

“**net asset value (NAV)**” refers to the total market value of assets in the fund divided by the total number of units of the fund;

“**rider**” refers to an extension of cover for investment-linked policy/takaful certificates;

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

“**Sum Assured or Participated Multiple rule**” or “**SAM rule**” is used to determine-

- (a) the minimum amount of sum assured/participated that must be provided for a given level of premium/takaful contributions relating to insurance coverage/takaful coverage; or
- (b) the maximum amount of premium/takaful contributions that can be classified as the portion relating to insurance/takaful coverage, for a given level of sum assured/participated. Any excess premium/takaful contributions must be classified as top-up premiums/takaful contributions.

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) *Guidelines on Family Takaful Products* issued on 16 October 2006 (BNM/RH/GL/004-9);
- (b) *Guidelines on Product Transparency and Disclosure* issued on 31 May 2013 (BNM/RH/GL 000-3);
- (c) *Guidelines on Takaful Operational Framework* issued on 26 June 2019 (BNM/RH/GL 004-22);
- (d) *Introduction of New Products for Insurers and Takaful Operators* issued on 15 May 2015 (BNM/RH/STD 029-10);
- (e) *Life Insurance and Family Takaful Framework* issued on 23 November 2015 (BNM/RH/NT 028-10);
- (f) *Corporate Governance* issued on 3 August 2016 (BNM/RH/PD 029-9);
- (g) *Outsourcing* issued on 23 October 2019 (BNM/RH/PD 028-93);
- (h) *Management of Insurance Funds* issued on 17 December 2018 (BNM/RH/PD 032-15);
- (i) *Financial Reporting* issued on 29 April 2022 (BNM/RH/STD 032-5);
- (j) *Financial Reporting for Takaful Operators* issued on 29 April 2022 (BNM/RH/STD 033-5);
- (k) *Risk-Based Capital Framework for Insurers* issued on 17 December 2018 (BNM/RH/PD 032-12);
- (l) *Risk-Based Capital Framework for Takaful Operators* issued on 17 December 2018 (BNM/RH/PD 033-4);
- (m) *Guidelines on Valuation Basis for Liabilities of Family Takaful Business* issued on 16 May 2012 (BNM/RH/GL 004-20);
- (n) *Revised Guidelines on Derivatives for Insurers* issued on 21 March 2009 (BNM/RH/GL 003-26);
- (o) *Guidelines on Medical and Health Insurance Business (Revised)* issued on 26 August 2005 (BNM/RH/GL/003-20);

- (p) *Guidelines on Medical and Health Takaful Business* issued on 17 September 2007 (BNM/RH/GL/004-11); and
- (q) *Operating Cost Controls for Life Insurance and Family Takaful Business* issued on 24 December 2019 (BNM/RH/PD 029-19).

7. Policy document superseded

7.1 This policy document supersedes the following policy documents on the dates shown below:

Documents	Date superseded
Investment-linked Business policy document issued on 11 January 2019 (BNM/RH/PD 029-36)	13 February 2023
Specifications relating to Product Illustration Rate for Investment-Linked (IL) Insurance Policy/Takaful Certificate under the Policy Document on Investment-linked Business issued on 7 October 2020 (JKAP7500/POL/4/3/7)	13 February 2023
Specification pursuant to Sections 47, 123 and 143 of the Financial Services Act 2013 (FSA) and Sections 57, 135 and 155 of the Islamic Financial Services Act 2013 (IFSA) in respect of the Investment-linked Business Policy Document issued on 22 March 2021 (JKAP7500/POL/4/3/7)	13 February 2023

PART B APPROVAL AND ROLES**8. Approval to conduct investment-linked business**

- S** 8.1 A licensed person must not carry out investment-linked business except with the prior written approval of the Bank and subject to such conditions as the Bank may impose.
- S** 8.2 A licensed person must submit to the Bank an application for approval to carry on an investment-linked business. The application must include the minimum information stipulated in **Appendix I** of this policy document.
- S** 8.3 Where an application under paragraph 8.2 is pending the Bank's approval or the Bank has granted an approval to the licensed person under paragraph 8.1, the licensed person must notify the Bank in a timely manner of any material changes to any information that the licensed person has submitted to the Bank in respect of its application to carry on investment-linked business.
- G** 8.4 Where the Bank has given an approval to a licensed person under paragraph 8.1, the Bank may, based on the licensed person's notification referred to in paragraph 8.3 or such other information that the Bank becomes aware of —
- (a) revoke such approval granted pursuant to paragraph 8.1; or
 - (b) impose any new conditions, vary or revoke the existing conditions attached to the approval granted under paragraph 8.1.

9. Roles of board and senior management

- S** 9.1 The board must ensure effective oversight of the licensed person's investment-linked business as part of the licensed person's overall strategy management and risk control framework.
- S** 9.2 The board must ensure that its risk control framework addresses —
- (a) appropriate governance arrangements and management considerations in resolving conflicts and balancing the interests of policy owners/takaful participants and shareholders, including the manner in which investment-linked business is to be managed separately from other types of business; and
 - (b) the principles and parameters for exercising discretion over investments by the senior management.
- S** 9.3 The board must ensure that the governance surrounding the management of the licensed person's investment-linked business (including policies and processes) is consistent with the requirements set out in the Policy Document on *Corporate Governance* issued on 3 August 2016 (BNM/RH/PD 029-9) and enables the licensed person to fulfil its responsibility of ensuring fair treatment of policy owners/takaful participants. Towards this, the board must establish appropriate reporting structures for senior management to support the board in its oversight responsibilities of the licensed person's investment-linked business.
- S** 9.4 The board must consider whether the establishment of an appropriate internal board committee is necessary for the purposes of giving effect to the requirements under paragraph 9.3. If the board establishes such internal board committee, the board must ensure that the committee —
- (a) has clear responsibilities for the oversight, management and control of the licensed person's investment-linked business; and
 - (b) is able to provide a countervailing influence on management perspectives, for the benefit of policy owners/takaful participants.

- G** 9.5 Where necessary, a licensed person may appoint a trustee approved by the board for its investment-linked funds to safeguard the interests of policy owners/takaful participants.
- S** 9.6 The board of a licensed takaful operator must ensure that its investment-linked takaful business is managed in compliance with Shariah principles and relevant regulatory requirements. This includes, but is not limited to the Shariah principles and regulatory requirements in relation to the following areas:
- (a) management of investment-linked takaful funds;
 - (b) investment activities;
 - (c) product design and structure; and
 - (d) the suitability of the underlying contracts.
- S** 9.7 The licensed person's senior management is responsible for the day-to-day management of its investment-linked business. Therefore, they must ensure effective implementation of the requirements specified in this policy document, including all systems, policies and procedures as approved by the board. In doing so, the senior management must —
- (a) establish clear systems, policies and procedures for the day-to-day management of the licensed person's investment-linked business;
 - (b) ensure that there are mechanisms and processes in place to monitor compliance with the policies and procedures at all times. This must include well-defined processes for escalating and remediating incidents of non-compliance in a timely manner;
 - (c) ensure that all systems, policies and procedures are communicated effectively to all parties involved in the day-to-day management of the licensed person's investment-linked business; and
 - (d) advise the board on developments that have an impact on the licensed person's investment-linked business such as regulatory changes, changes in social and economic factors, including the financial landscape, and circumstances which may lead to the closing or merging of funds, and

recommend any changes that may be required in response to such development

PART C MANAGEMENT OF FUNDS**10. General requirements**

- S** 10.1 A licensed person must have adequate systems, policies and procedures in place to manage and administer the investment-linked funds held by it in compliance with regulatory requirements. The licensed person must establish clear principles and policies for the valuation of funds and calculation of unit prices.
- S** 10.2 For purposes of paragraph 10.1, a licensed person must ensure —
- (a) that the valuation of assets in each investment-linked fund is fair and conducted on a timely basis;
 - (b) that the allocations, provisions or deductions for expenses and charges in respect of an investment-linked fund are fair, and in accordance with the terms and disclosures of the investment-linked policy/takaful certificate made to policy owners/takaful participants; and
 - (c) equitable treatment of different policy owners/takaful participants, and groups of policy owners/takaful participants, within or between individual investment-linked fund(s), as the case may be.
- S** 10.3 A licensed person must manage the investment-linked funds in a manner that will avoid unnecessary costs or risks to policy owners/takaful participants. A licensed person must ensure that —
- (a) all transactions of the investment-linked funds are undertaken on terms that are consistent with the interests of policy owners/takaful participants; and
 - (b) any terms of engagement of brokers or dealers reflect terms which are comparable with the best available terms in the market.
- S** 10.4 A licensed person and its fund manager(s) are prohibited from receiving soft commissions in the form of any travel, accommodation or entertainment benefits.

- S** 10.5 Where soft commissions are received for products and services obtained from a broker (for example, research and advisory services, economic and portfolio analyses, and market report), the licensed person must ensure the application of the following conditions:
- (a) the services rendered relate to the management of the investment-linked funds and bring demonstrable and justified benefits to policy owners/takaful participants; and
 - (b) the form of the soft commissions is adequately disclosed in the fund performance report.
- S** 10.6 For any changes made to the management of investment-linked funds, including investment objectives, strategies, asset allocation and risk management strategy, a licensed person must —
- (a) ensure that any changes made are justified and supported with demonstrable benefit to the policy owners/takaful participants; and
 - (b) notify the policy owners/takaful participants in writing of the changes, at least three months in advance of those changes taking place.
- S** 10.7 For investment management activities that are outsourced to another entity within the group, a licensed person must ensure that such outsourcing complies with the Policy Document on *Outsourcing* issued on 23 October 2019 (BNM/RH/PD 028-93). In addition, a licensed person must disclose the outsourcing arrangement to policy owners/takaful participants.
- S** 10.8 A licensed person must seek the Bank's prior approval to —
- (a) close any investment-linked fund to new money; or
 - (b) transfer the assets of any investment-linked fund to another fund.

11. Objectives of funds

- S** 11.1 A licensed person must ensure that the objectives of an investment-linked fund are clear, specific, and sufficiently detailed to enable a policy owner/takaful participant to make informed assessments on the nature and performance of the fund's underlying assets and potential risks.
- S** 11.2 A licensed person must clearly and adequately disclose an investment-linked fund's objectives and allocations to the fund's various types of investments in all —
- (a) sales and marketing materials used; and
 - (b) investment-linked policy/takaful certificates issued.

12. Separation of funds

- S** 12.1 A licensed person must establish and maintain one or more separate investment-linked fund(s) for the purposes of carrying on any investment-linked business, as necessary.
- S** 12.2 A licensed person must keep assets of an investment-linked fund separate from all its other assets.

13. Pricing and dealing of units

- S** 13.1 A licensed person must sell and repurchase units of an investment-linked fund at the NAV per unit of the fund. The sale and repurchase price for units must be the NAV per unit of the fund as at the next valuation date after the request to sell or repurchase units is received by the licensed person (and not when such request is approved by the licensed person).
- S** 13.2 In relation to paragraph 13.1, upon receiving the request from the policy owner/takaful participant to alter the investment-linked policy/takaful certificate,

a licensed person must include the following additional information in the request application form:

- (a) the duration expected to be taken by the licensed person to provide the outcomes of the sustainability test;
- (b) the importance for the policy owner/takaful participant to understand the impact of such action on the sustainability of the investment-linked policy/takaful certificate and a confirmation that the policy owner/ takaful participant agrees to proceed with the request; and
- (c) the reference date for calculating the sale and repurchase price for the units.

- G** 13.3 A licensed person may impute transaction costs of acquiring or disposing of the assets of an investment-linked fund, if such costs are significant, to ensure fair treatment to all policy owners/takaful participants. The licensed person may make an adjustment using either one of the two methods below to recoup the cost of acquiring and disposing of assets as follows:
- (a) make a dilution or transaction cost adjustment to the NAV per unit to recover any amount which the fund has already paid or reasonably expects to pay for the creation or cancellation of units; or
 - (b) impose a dilution fee or transaction cost.
- S** 13.4 Where a licensed person opts for the method in paragraph 13.3, the licensed person must ensure that the fee becomes due at the same time the payment is made for the sale and repurchase of units. The dilution fee or transaction cost charged must be allocated back to the unit fund.
- S** 13.5 A licensed person must carry out the valuation of units on every business day. If the nature of the investible assets does not support the daily valuation of units, the licensed person must carry out the valuation at alternative frequencies appropriate to the nature of the investment. However, in such a case, the frequency of valuation must not be less than once a month.

- G** 13.6 Examples of cases where the investible assets do not support the daily valuation of units are closed-end funds with investments linked to over-the-counter (OTC) derivatives.
- S** 13.7 A licensed person must ensure that appropriate controls are in place and operate effectively to —
- (a) ensure the calculation of unit prices is timely and accurate; and
 - (b) support the early detection of unit pricing errors and/or delays.
- S** 13.8 A licensed person must assume responsibility for unit pricing errors or delays. In addition, a licensed person must make adequate provisions for the occurrence of any errors or delays in accordance with paragraph 22.4, in order to compensate affected policy owners/takaful participants for losses incurred as a result of such errors or delays.
- S** 13.9 A licensed person must ensure that a split or combination exercise for any investment-linked fund is carried out only if the following conditions are met:
- (a) a unit split or combination has not been previously carried out in the same financial year; and
 - (b) there has been a sustainable appreciation in the NAV of the fund over a six-month period preceding the split. This refers to an increase in the average monthly NAV from one month to another, over the six-month period.
- S** 13.10 For the unit split or combination exercise referred to in paragraph 13.9, the licensed person must —
- (a) provide a statement promptly after the unit split or combination exercise to all affected the policy owners/takaful participants;
 - (b) ensure that the statement required in paragraph 13.10(a) sets out the NAV before and after the unit split or combination, together with reasons for undertaking the unit split or combination; and
 - (c) concurrently notify the Bank in writing of any unit split or combination exercise undertaken.

PART D PRODUCT DESIGN**14. General conditions*****Name and design***

- S** 14.1 A licensed person must disclose the information on the design of an investment-linked product and its features in the sales or marketing materials for the product as required under **Part F** of this policy document.
- S** 14.2 A licensed person must ensure that the name of an investment-linked product and investment-linked fund reflect the underlying investment strategy for the investment-linked assets and their inherent volatility. In addition, the description of the product must clearly state that it is an investment-linked product³ to avoid any misrepresentation of such product as a pure investment plan.

Options and guarantees

- S** 14.3 Where a licensed person provides options and guarantees for an investment-linked product, the features of the options and guarantees must be clearly disclosed by the licensed person to the policy owners/takaful participants to facilitate their understanding of the product.
- S** 14.4 A licensed person must ensure that all investment-linked products which are designed and marketed as a capital guaranteed product must be supported by an explicit guarantee and meet the following conditions:
- (a) in the case of a third party guarantor, the guarantor must be a bank, investment bank or Islamic bank licensed under the FSA and IFSA respectively; and
 - (b) in the case of an investment-linked takaful product, the guarantee must be in line with Shariah principles.

³ For a licensed insurer, the product must be stated as an investment-linked insurance product, and for a licensed takaful operator, the product must be stated as an investment-linked takaful product.
Issued on: 13 February 2023

- S** 14.5 A licensed person must ensure that the following are not represented or capable of being construed as a ‘capital guaranteed’ investment-linked policy/takaful certificate or through such other terms with similar meaning including ‘capital protected’ or ‘capital preserved’ investment-linked policy/takaful certificate:
- (a) an investment-linked policy/takaful certificate which does not meet the criteria set out in paragraph 14.4; and
 - (b) a fund that merely adopts an investment strategy aimed at returning the policy owners’/takaful participants’ capital.

Riders

- G** 14.6 A licensed person may design riders to an investment-linked product in the form of unit deducting riders or premium/contribution-paying riders.

Extension to coverage term

- S** 14.7 Where a licensed person offers investment-linked products with features of an extension to the coverage term, the licensed person must ensure that the extension is designed as—
- (a) an option, whereby the policy owner/takaful participant must take explicit action to exercise the option after entering into the contract; or
 - (b) an extension that is automatically invoked by the licensed person (automatic extensions) after the point of sale.
- S** 14.8 For the purpose of paragraph 14.7, a licensed person must not offer investment-linked products whereby policy owners/takaful participants are required to opt in for an extension at the point of entering into the contract.
- S** 14.9 A licensed person must not offer additional benefits or incentives at the point of exercising the option and/or during the extended period, that may unduly influence the decision of the policy owner/takaful participant to extend the coverage term. The additional benefits or incentives that are prohibited include, but are not limited to, higher sum assured/participated and free gifts.

- S** 14.10 A licensed person must ensure that policy owners/takaful participants are provided with appropriate advice on how to manage an extension of the coverage term feature, at the point of sale and thereafter. This may include providing avenues for policy owners/takaful participants to pre-fund the extensions, as appropriate.

Premium or takaful contribution holiday

- S** 14.11 Where a policy owner/takaful participant has taken a premium or takaful contribution holiday, a licensed person must —
- (a) explicitly obtain the written consent of the policy owner/takaful participant before deducting any charges for riders from the unit fund, where applicable; and
 - (b) ensure that the deduction for premium/takaful contribution-paying riders is computed net of commissions, if the premium/takaful contribution holiday occurs during any commission payment period.

15. Minimum Allocation Rate (MAR)

- S** 15.1 A licensed person must ensure that the proportion of premiums/takaful contributions for investment-linked policy/takaful certificates allocated to a unit fund(s) is not lower than the MAR as per **Table 1** below for —
- (a) regular premium policies/regular takaful contribution certificates with premium/takaful contribution-paying terms of 3 years or more; and
 - (b) unitised riders with premium/takaful contribution-paying terms of 3 years or more.

Table 1

Year of premium payment or takaful contribution	MAR (Percentage of annual premiums or takaful contributions)
1 to 3	60
4 to 6	80
7 to 10	95
11 onwards	100

- S** 15.2 In addition to the requirement in paragraph 15.1, for regular premium policies/regular takaful contribution certificates with premium/takaful contribution-paying terms of 3 to 19 years, the licensed person must ensure that the sum of the unallocated annual premium/takaful contributions, expressed as a percentage of the annual premium/takaful contribution, does not exceed Y%, where —

$$Y\% = \left(\frac{X}{20}\right) \times 200\%, \text{ and } X \text{ is the premium/takaful contribution-paying term.}$$

- S** 15.3 A licensed person must seek the Bank's prior written approval to apply allocation rates that are lower than the MAR as per **Table 1** above. In such a case, the licensed person must demonstrate that the proposal will result in a better overall outcome for policy owners/takaful participants. In particular, the licensed person must ensure that—
- (a) any allocation rates that are lower than the MAR must only take place after the 7th policy year; and

- (b) the sum of the unallocated annual premium/takaful contributions (expressed as a percentage of the annual premium/takaful contributions) is lower than —
 - (i) 200% of the full annual premium/takaful contributions, in the case of investment-linked policy/takaful certificates with premium/takaful contribution-paying terms of 20 years and above; and
 - (ii) Y% of full annual premium/contributions in the case of investment-linked policy/takaful certificates with premium/takaful contribution-paying terms of less than 20 years, where Y% is calculated in accordance with paragraph 15.2.
- S** 15.4 A licensed person must allocate at least 95% of the annual regular or single premium/takaful contribution to the unit fund(s) for any —
- (a) investment-linked policy/takaful certificates with premium/takaful contribution-paying terms of less than 3 years;
 - (b) unitised riders with premium/takaful contribution-paying term of less than 3 years;
 - (c) top-up premiums/takaful contributions; and
 - (d) additional premiums/takaful contributions relating to increases in cost of insurance/*tabarru*'.

16. Management of sustainability of cover

- S** 16.1 At the point of sale, a licensed person must ensure that premiums/takaful contributions are priced at a level where an investment-linked policy/takaful certificate is expected to sustain its coverage until the end of its contractual coverage term.
- S** 16.2 A licensed person must also actively manage the sustainability of an investment-linked policy/takaful certificate throughout the contractual coverage term on an ongoing basis, by performing regular sustainability tests. In performing such sustainability tests, the licensed person must assess if coverage will continue to be sustainable until the end of the contractual coverage term of the investment-linked policy/takaful certificate. A sustainability test must be performed by the licensed person —
- (a) at least annually; and
 - (b) in the event that the policy owner/takaful participant indicates the intention to exercise an option or make an alteration to the investment-linked policy/takaful certificate, unless the licensed person can demonstrate that the policy owner/takaful participant is able to take such action without prior notification to the licensed person.
- G** 16.3 In relation to paragraph 16.2(b), options and alterations to an investment-linked policy/takaful certificate include the following actions taken by policy owners/takaful participants —
- (a) partial withdrawals;
 - (b) addition of riders to an investment-linked policy/takaful certificate; and
 - (c) increase in the contractual coverage term of insurance or takaful cover.
- G** 16.4 In relation to paragraph 16.2(b), an example of an action that can be taken by policy owners/takaful participants without prior notification to a licensed person is taking a premium/takaful contribution holiday.

- S** 16.5 In carrying out a sustainability test for an investment-linked policy/takaful certificate, a licensed person must ensure that —
- (a) all information used is up-to-date and specific to the individual policy owner/takaful participant, and reflect actual past actions of the policy owner/takaful participant;
 - (b) all relevant future inflows and outflows pertaining to the unit account are considered. This includes cash flows arising from unit-deducting riders and unitised premium/takaful contribution-paying riders attached to the basic product; and
 - (c) any assumptions used are not more optimistic than the best estimate assumptions. In addition, the assumptions on fund growth must be reflective of the intrinsic performance of the underlying funds selected by the policy owner/takaful participant. In the event that the policy owner/takaful participant chooses multiple funds, the licensed person must use a weighted fund growth rate based on the percentage of allocation of premiums/takaful contributions into the respective funds.
- S** 16.6 A licensed person must disclose the outcome of the sustainability test to policy owners/takaful participants to facilitate timely and informed decision-making as follows:
- (a) for paragraph 16.2(a), the disclosure must be made in the annual statement to be provided to policy owners/takaful participants as required in paragraph 29; and
 - (b) for paragraph 16.2(b), the disclosure must be made prior to an event⁴ that will adversely affect the sustainability of cover of an investment-linked policy/takaful certificate.

⁴ Event refers to the point after which a policy owner/takaful participant has expressed an intention to take the following actions but before the action materialises. This includes, but is not limited to the following:

- (a) when the policy owner/takaful participant makes one or more alterations to the investment-linked policy/takaful certificate; and
- (b) when the policy owner/takaful participant exercises one or more options available (as part of the investment-linked product feature) to the investment-linked policy/takaful certificate.

- S** 16.7 The disclosure by a licensed person to policy owners/takaful participants must at minimum include the following:
- (a) the expected sustainability of the cover under the investment-linked policy/takaful certificate;
 - (b) where the policy owner/takaful participant has taken a premium/takaful contribution holiday, a reminder of any automated deductions from the unit fund which are in effect, and an explanation of the possible consequences of these automated deductions; and
 - (c) where the cover is no longer sustainable until the end of the contractual coverage term of the investment-linked policy/takaful certificate, then—
 - (i) a clear and concise explanation on the factors which have affected the sustainability of the cover; and
 - (ii) the recommended amount of additional or top-up premiums/takaful contributions needed to restore the sustainability of cover under the investment-linked policy/takaful certificate, and options for alternative actions.
- S** 16.8 In the event of an increase in the reviewable insurance charges/*tabarru'*, a licensed person must —
- (a) for an investment-linked policy/takaful certificate sold prior to 1 January 2020 which does not allow for unilateral premium/takaful contribution adjustments by the licensed person, recommend to the affected policy owners/takaful participants the amount of additional or top-up premiums/takaful contributions necessary to restore the sustainability of the investment-linked policy/takaful certificate to the end of its contractual coverage term, with options for alternative actions; and
 - (b) for an investment-linked policy/takaful certificate that allows for unilateral premium/takaful contribution adjustments by the licensed person, ensure that the increase in the reviewable insurance charges/*tabarru'* are supported by an equivalent increase in the premium/takaful contribution level. This is to promote transparency and ensure that policy owners/takaful participants are kept aware of any

increases in insurance charges/*tabarru'*. In communicating the increase to the premium/takaful contribution level to affected policy owners/takaful participants, the licensed person must also provide options on alternative actions that the policy owners/takaful participants can take.

- G** 16.9 Examples of the alternative actions taken for an investment-linked policy/takaful certificate referred to in paragraphs 16.7 and 16.8 include —
- (a) reducing coverage;
 - (b) reducing the contractual coverage term period;
 - (c) removing rider(s) to the investment-linked policy/takaful certificate; or
 - (d) utilising the unit fund to fund increases in reviewable insurance charges/*tabarru'*.
- S** 16.10 Where action under paragraph 16.9(d) is opted for, the licensed person must highlight to policy owners/takaful participants that such option will result in a higher rate of depletion of the unit fund value.
- S** 16.11 A licensed person must ensure that all disclosures to a policy owner/takaful participant are clear and not misleading, particularly in relation to the outcomes of the sustainability test. This includes the licensed person ensuring that —
- (a) the technical components of the communication and disclosures are not overly complex or excessively detailed such that there is room for misrepresentation or misinterpretation;
 - (b) the limitations to the sustainability test are clearly highlighted (e.g. sustainability test is based on estimates of future outcomes);
 - (c) there are potential for variations if there are material or unexpected deviations of actual experience with the estimates; and
 - (d) sufficient information on how the volatility associated with the different returns to the policy account value may impact the sustainability of cover.

- S** 16.12 After the sale of an investment-linked product, a licensed person is permitted to provide additional information on the projection of future cash flows based on best estimate assumptions to supplement its disclosure of the sustainability test outcomes to policy owners/takaful participants, subject to compliance with the following conditions:
- (a) the additional information can only be provided to demonstrate how the policy would lapse prior to the end of the contractual coverage term, illustrating the cash flows up to the point of non-sustainability, i.e. where the account value reaches the value of zero;
 - (b) the additional information can only be disclosed upon request by a policy owner/takaful participant and in the context of the sustainability tests outcomes in order to avoid unnecessary information overload and potential confusion to the policy owner/takaful participant;
 - (c) policy owners/takaful participants must be informed that the additional information does not constitute or replace the product illustration provided at the point of sale;
 - (d) the additional information is not used in any way, shape or form for sales and marketing purposes when the investment-linked policy/takaful certificate is sold and must not contain misleading terms or language, such as 'post-sales illustration' or 'revised sales illustration'; and
 - (e) reminders are provided to the policy owner/takaful participant that the sustainability tests are conducted, at least annually and that the outcome may differ from year to year, depending on actual experience and outlook of the future.

17. Death benefits

- S** 17.1 A licensed person must ensure that a basic investment-linked policy/takaful certificate provide the following minimum death benefits:
- (a) for single premium policies/takaful contribution certificates —
 - (i) minimum death benefits of RM 5,000 or 105% of the entire premium/takaful contribution paid at inception⁵, whichever is higher, for older ages and substandard lives; and
 - (ii) minimum death benefits of RM 5,000 or 125% of the entire premium/takaful contribution paid at inception⁷, whichever is higher, other than for those under paragraph 17(a)(i); and
 - (b) for regular premium policies/regular takaful contribution certificates, RM5,000 or the prevailing multiple of annual premiums/takaful contributions, whichever is higher.
- S** 17.2 The prevailing multiple of annual premiums/takaful contributions in paragraph 17.1(b) refers to the SAM factors specified by the Bank in **Appendix II** that must be complied with by a licensed person of this policy document.
- S** 17.3 The requirement on minimum death benefits does not apply to top-up premiums/takaful contributions.
- S** 17.4 Notwithstanding paragraph 17.3, a licensed person must not segregate any premium/takaful contribution paid for single premium policies/takaful contribution certificates into single and top-up premium/takaful contribution at the point of sale. The entire premium/takaful contribution paid by a policy owner/takaful participant must be treated as a single premium/takaful contribution and the requirement on minimum death benefits must be applied to such entire premium/takaful contribution paid.

⁵ There must not be any top-up premiums/takaful contributions at inception.
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18. Surrender values

- S** 18.1 A licensed person must ensure that the surrender value of an investment-linked policy/takaful certificate must not be less than the value of units (based on the unit price at the time of cancellation) after deducting any insurance charges/*tabarru'*, policy/takaful certificate fees and surrender charges, where applicable.
- S** 18.2 Where the cost of insurance/*tabarru'* and other charges are funded in advance, a licensed person must ensure that the surrender value is determined in accordance with generally accepted actuarial principles and in a manner that ensures fair treatment of policy owners/takaful participants.
- S** 18.3 A licensed person must promptly effect the payment of surrender values to a policy owner/takaful participant pending which the investment-linked policy/takaful certificate must remain in force.
- S** 18.4 A licensed person must ensure that any surrender charges levied for the cancellation of an investment-linked policy/takaful certificate reasonably reflects the expected expenses to be incurred up to the point of surrender. A licensed person must not profit from the surrender charge levied.

19. Free-look period

- S** 19.1 In accordance with paragraph 2(1) of Schedule 8 of the FSA and IFSA, a licensed person must allow a policy owner/takaful participant within 15 calendar days after the date of delivery of the investment-linked policy/takaful certificate (free-look period) to —
- (a) examine the terms and conditions of such policy/takaful certificate; and
 - (b) terminate such policy/takaful certificate.
- S** 19.2 In accordance with paragraph 2(1) of Schedule 8 of the FSA and IFSA, a licensed person must only deduct expenses which have been incurred for the medical examination of the life insured/person covered and refund to the policy owner/takaful participant the remaining premiums/ takaful contributions paid for the investment-linked policy/ takaful certificate which was returned within the 15-day free-look period including the following:
- (a) any unallocated premiums/takaful contributions;
 - (b) the value of units that have been allocated (if any) at the unit price at the next valuation date; and
 - (c) any insurance charges/*tabarru'*, and policy/takaful certificate fees that have been deducted.

PART E FEES/CHARGES AND EXPENSES**20. General conditions**

- S** 20.1 A licensed person must ensure that only expenses that are specifically identified and incurred for the management of an investment-linked fund are charged to the unit fund. These expenses are —
- (a) commissions and fees paid to brokers for carrying out the investments of the fund;
 - (b) tax and other duties charged on the fund by the Government and other authorities;
 - (c) fees and other expenses incurred by the auditor appointed for the fund;
 - (d) fees for the valuation of the fund's investment by independent valuers;
 - (e) custodian fee; and
 - (f) cost of hedging⁶.
- S** 20.2 A licensed person must not charge indirect expenses to the unit fund, such as general overheads of the licensed person. In addition, a licensed person must ensure that any rebates in respect of an investment-linked fund's transactions are credited to the fund. Such rebates include rebates on commissions and fees received from brokers.
- S** 20.3 A licensed person must adequately disclose the information on fees and charges borne by a policy owner/takaful participant in the sales and marketing materials, and in the investment-linked policy/takaful certificate documents, in compliance with **Part F** of this policy document.
- S** 20.4 A licensed person must give at least three months' written notice⁷ to all existing policy owners/takaful participants prior to effecting any upward revisions of existing fees and charges for an investment-linked policy/takaful certificate.

⁶ Licensed persons are required to describe their hedging strategy in the risk management section of the Fund Fact Sheet and explain their hedging strategy for the year, including the cost of hedging, in the fund performance report.

⁷ For medical and health riders, to follow the 30 days notification period as per the *Guidelines on Medical and Health Business (Revised)* issued on 26 August 2005 (BNM/RH/GL/003-20) and *Guidelines on Medical and Health Takaful Business* issued on 17 September 2007 (BNM/RH/GL/004-11).

- S** 20.5 With respect to paragraph 20.4, changes to fees and charges at the policy/takaful certificate level must only be implemented by the licensed person on the policy/takaful certificate anniversary date. However, where there are any downward revisions of fees and charges, a licensed person may apply these changes immediately.
- S** 20.6 A licensed person must notify the Bank in writing at least 7 calendar days prior to effecting any revisions to the existing fees and charges for an investment-linked policy/takaful certificate in accordance with the requirements set out in the *Introduction of New Products by Insurers and Takaful Operators* issued on 15 May 2015 (BNM/RH/STD 029-10) policy document. For the avoidance of doubt, this applies to both upward and downward revisions of existing fees and charges.

21. Fund management charge

- G** 21.1 A licensed person may be remunerated by way of an annual fund management charge (FMC) for rendering fund management services to policy owners/takaful participants of investment-linked products.
- S** 21.2 If a licensed person imposes an annual FMC on a policy owner/takaful participant, such annual FMC must be charged to the fund via the unit pricing method.
- S** 21.3 The licensed person must ensure that the annual FMC payable for the management of the investment-linked fund is commensurate with the investment strategy employed. The annual FMC must not exceed —
- (a) 1% of an investment-linked fund's NAV for a fund which invests fully in money-market instruments or fixed income securities; and
 - (b) 1.5% of the fund's NAV for other funds.

- S** 21.4 A licensed person must make adjustments to the unit price for accrued fund management fees according to the exact number of days that have elapsed since the previous unit pricing date.

22. Other charges

- S** 22.1 A licensed person must ensure that other charges in respect of an investment-linked policy/takaful certificate, including any service charge, top-up charge, switching charge, partial withdrawal charge, and surrender charge are reflective of the expenses incurred or expected to be incurred.
- S** 22.2 A licensed person must not profit from the other charges referred to in paragraph 22.1.
- S** 22.3 As a general principle, if a relevant expense has already been considered in one of the other charges imposed in respect of an investment-linked policy/takaful certificate, a licensed person must not charge again for the same expense under another category.
- S** 22.4 A licensed person must charge the cost of any compensation or ex-gratia payments in relation to an investment-linked policy/takaful certificate to the shareholders' fund of the licensed person. Examples of occurrences that lead to the cost of compensation or ex-gratia payments being incurred include, but are not limited to —
- (a) mis-selling;
 - (b) errors or delays in unit pricing;
 - (c) incorrect fees and charges levied to funds and policy owners/takaful participants;
 - (d) incorrect computations of NAV; and
 - (e) payment of claims for policy owners/takaful participants which are excluded from the insurance policy/takaful contract.

23. Commissions

- S** 23.1 A licensed person must comply with requirements relating to regular premium/takaful contribution in respect of investment-linked policy/takaful certificates as specified in **Appendix II** of this policy document.
- S** 23.2 A licensed person must ensure that any investment-linked policy/takaful certificate sold through bancassurance/bancatakaful is subject to the limits stipulated in the *Operating Cost Controls for Life Insurance and Family Takaful Business* policy document issued on 24 December 2019 (BNM/RH/PD 029-19).
- S** 23.3 A licensed person must not recoup commissions cost via deductions from the unit fund in any policy year where the premium allocation rate is below 100%.
- S** 23.4 Where a licensed person recoups commissions costs via deductions from the unit fund after the MAR has achieved 100%, the licensed person shall be subject to the following conditions:
- (a) charges deducted by a licensed person from the unit fund to recoup commissions costs must be fixed and non-reviewable; and
 - (b) a licensed person must have an upfront agreement with its intermediary on the amount and structure of commissions.

24. Agency Related Expenses (ARE)

- G** 24.1 A licensed person may incur payments of benefits in cash or in kind to agents, agency supervisors and agency managers. These payments of benefits referred to as ARE, include medical expenses, insurance/takaful schemes, contributions to retirement or gratuity schemes, and agency seminars or conferences.
- S** 24.2 All ARE must be consistent with the licensed person's remuneration policy approved by its board and aligned to the performance measures imposed on the licensed person's agency force including productivity and persistency.
- S** 24.3 A licensed person must ensure that ARE are only charged to —
- (a) its non-unit fund, in the case of a licensed insurer; and
 - (b) its shareholders' fund, in the case of a licensed takaful operator.
- S** 24.4 A licensed person must ensure that the agency supervisor or agency manager submits quarterly reports on its performance to the licensed person for purposes of monitoring.
- S** 24.5 A licensed person must maintain proper records and documentation of all ARE, which must be made readily available to the Bank upon request.

PART F DISCLOSURE**25. Disclosure requirements**

- S** 25.1 A licensed person must —
- (a) ensure any information provided to policy owners/takaful participants relating to any investment-linked products-
 - (i) is in line with the *Guidelines on Product Transparency and Disclosure* issued on 31 May 2013 (BNM/RH/GL 000-3); and
 - (ii) is adequate to facilitate comparisons and enable informed decisions by policy owners/takaful participants.Such disclosures must include, but are not limited to, the key product features, benefits and risks, fees and charges, and contractual rights and obligations of policy owners/takaful participants;
 - (b) not provide information on an investment-linked product that is inconsistent with the contents of its product documentation filed with the Bank;
 - (c) provide accurate and up-to-date information to policy owners/takaful participants on their investment-linked policy/takaful certificates; and
 - (d) provide sufficient information and narrative to policy owners/takaful participants on how the volatility associated with the different investment funds may impact expectations on sustainability.
- S** 25.2 A licensed person must ensure that any statement of opinion made in respect of an investment-linked product to policy owners/takaful participants must be reasonable, relevant, factual, suitably qualified, and verifiable.
- S** 25.3 A licensed person must, in respect of an investment-linked product —
- (a) immediately withdraw any information that becomes misleading following any change in circumstances; and
 - (b) immediately notify existing policy owners/takaful participants in writing of any change if the impact of such change on benefits to the existing policy owners/takaful participants is significant.

- S** 25.4 A licensed person must ensure that any statement regarding the performance of an investment-linked fund on its own, or in relation to other investment-linked funds, or other alternative investment vehicles, is relevant, factual-based and attributable to an independent source, with the date and source of the statement prominently disclosed.
- S** 25.5 A licensed person must ensure that a reference to the past investment performance of an investment-linked fund is supplemented by a clear warning statement that such past performance is not indicative of future performance and the performance of the fund is not guaranteed. The licensed person must ensure that the past performance figures are based on actual historical performance and not simulations, and are not unduly biased.
- G** 25.6 An example of unduly biased past performance figures is historical performance that is based only on a period of exceptionally favourable market conditions.
- S** 25.7 A licensed person must not market an investment-linked product such that it forms undue expectations by policy owners/takaful participants based on projected returns of the investment-linked fund(s). The licensed person must illustrate all investment-linked funds in line with the requirements on the hypothetical scenarios specified in paragraph 26 and the product illustrations in **Appendix IV** of this policy document, with the exception of investment-linked funds which invest in structured products or derivatives, where the licensed person must illustrate the potential gains and losses through numerical examples for the following hypothetical scenarios to enhance understanding by policy owners/takaful participants on the variability of the outcomes:
- (a) bull scenario (positive performance of underlying asset);
 - (b) flat scenario (0% performance of underlying assets, i.e. no movement in either direction); and
 - (c) bear scenario (negative performance of underlying assets) where an illustration of potential losses must be included.

- S** 25.8 For any investment-linked product which provides a guarantee (for example, a capital guaranteed product), a licensed person must ensure that any representation made to a policy owner/takaful participant is clearly communicated and not misleading. This includes information provided during the sales or marketing process and disclosures made in the marketing materials as well as investment-linked policy/takaful certificate documentation and the minimum particulars as required in **Appendix III** of this policy document.
- S** 25.9 At minimum, a licensed person must disclose the following information for any investment-linked product which provides a guarantee by a third party guarantor in accordance with the requirements in paragraph 14.4—
- (a) the name and credit rating of the guarantor;
 - (b) the material terms and scope of the guarantee; and
 - (c) appropriate caution with regard to counterparty risks associated with any guarantee, in particular with third party guarantors.
- S** 25.10 In the marketing of an investment-linked product, a licensed person must not represent the policy/takaful certificate to be similar to a ‘whole life’ policy/takaful certificate. Therefore, the licensed person must not use the term ‘whole life’ or specify the term of the investment-linked policy in a manner that may be construed as, or perceived to operate like a ‘whole life’ plan, in view that there is no guarantee on the level of coverage up to a reasonable old age.
- S** 25.11 A licensed insurer must not use any term for its investment-linked products or funds that may give rise to the perception that the product or fund is an Islamic or Shariah-compliant product or fund. In this regard, a licensed insurer must not use terms such as “Islamic”, “Shariah”, “Shariah-approved” and “Shariah-compliant”, or any other Arabic-references in the descriptions or names of any investment-linked products or funds that may cause confusion to prospective policy owners.
- S** 25.12 Where a licensed insurer makes references to “Shariah-approved securities” or “Islamic corporate debt securities” to describe the nature of investments of an

investment-linked fund, the licensed insurer must clarify in the relevant marketing materials that the investment-linked product itself is not a Shariah-compliant product.

- S** 25.13 Where a licensed person offers investment-linked products with an extension to coverage term feature, the licensed person must comply with additional disclosure requirements as set out in **Appendix IX**.
- S** 25.14 Given the varied commission structures in the industry, a licensed person must enhance the disclosure of commissions to facilitate policy owner's/takaful participant's understanding and enable them to make comparison between different investment-linked products as follows:
- (a) disclose the amount of commissions expected to be paid by the policy owner/takaful participant in respect of each investment-linked policy/takaful certificate year, in nominal (RM) figures and as a percentage of annual premium/ takaful contribution;
 - (b) disclose the total nominal amount of commissions expected to be paid over the duration of the policy/ takaful certificate and further express this as a percentage of total premiums/ takaful contributions payable over the duration of the policy/ takaful certificate;
 - (c) include a reminder to the policy owner/takaful participant to refer to the service guide to understand the services they should expect to receive for the commissions; and
 - (d) where relevant, to include an explanation that commissions from policy year 11 onwards would be deducted from the unit fund.
- G** 25.15 A licensed person may use electronic means to provide product disclosure information, including supplementary material and information on sustainability disclosures.
- S** 25.16 Where a licensed person chooses to adopt the method in paragraph 25.15, a licensed person must—

- (a) ensure that the electronic communications are delivered directly to the policy owners/takaful participants and reasonable mechanisms are put in place to ensure policy owners/takaful participants have received the communications from the licensed person; and
- (b) provide hard copies of the information upon request by a policy owner/takaful participant.

26. Product illustration

- S** 26.1 A licensed person must ensure the product illustration for its investment-linked policy/takaful certificate complies with **Appendix IV** of this policy document. In addition, a licensed takaful operator must ensure that the product illustration for an investment-linked takaful product meets the minimum content and other disclosure requirements specified in the *Guidelines on Family Takaful Products* issued on 16 October 2006 (BNM/RH/GL/004-9).
- S** 26.2 A licensed person must provide a copy of the product illustration, based on actual premium/takaful contribution rates subscribed, to the policy owner/takaful participant together with the investment-linked product policy document.

27. Fund Fact Sheet

- S** 27.1 A licensed person must provide to policy owners/takaful participants a separate Fund Fact Sheet for each of the licensed person's investment-linked funds containing the minimum information set out in **Appendix V** of this policy document.
- S** 27.2 A licensed person must provide to the policy owners/takaful participants the Fund Fact Sheet together with the product illustration at the point of sale of the investment-linked product.

28. Product literature

- G** 28.1 Product literature is additional material to the product illustration and Fund Fact Sheet, aimed at providing enhanced information to policy owners/takaful participants on the investment-linked products. Product literature includes all announcements, promotional materials, telemarketing scripts or advertisements, sales/marketing brochures in respect of an investment-linked product, or any other material provided before and at the point of sale/marketing.
- S** 28.2 A licensed person must ensure that the product literature is consistent with the information provided in its product illustration and Fund Fact Sheet. In addition, a licensed takaful operator must ensure that all product literature meets the minimum contents and other disclosure requirements specified in the *Guidelines on Family Takaful Product* issued on 16 October 2006 (BNM/RH/GL/003-14).
- S** 28.3 A licensed person must ensure that the following statement is prominently displayed in large bold fonts in all product literature for an investment-linked product:
- 'This is an [insurance or takaful]⁸ product that is tied to the performance of underlying assets, and is not a pure investment product such as unit trusts'.*

29. Statement to policy owners/takaful participants

- S** 29.1 A licensed person must —
- (a) provide a statement on the value of an investment-linked policy/takaful certificate, at least once a year, to each policy owner/takaful participant; and
 - (b) distribute to policy owners/takaful participants such statement within two months after the end of each financial year of the licensed person, or

⁸ As the case may be.
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where more frequent statements are provided, at the end of the financial reporting period.

- S** 29.2 A licensed person must ensure that the statement to each policy owner/takaful participant on the status of the investment-linked policy/takaful certificate includes, but not limited to the information stipulated in **Appendix VI** of this policy document.
- S** 29.3 A licensed person must report every transaction during the relevant reporting period referred to in paragraph 29.1, together with the date on which each of the transactions occurred, in the statement.

30. Fund performance report to policy owners/takaful participants

- S** 30.1 A licensed person must —
- (a) provide to each policy owner/takaful participant, at least once a year, a report on the performance of each investment-linked fund in which the policy owner/takaful participant has units; and
 - (b) distribute such fund performance report within four months from the end of each financial year of the licensed person, or where more frequent reports are provided, at the end of the reporting period. For closed-end funds, the licensed person may provide such report based on the investment-linked fund's financial year end.
- S** 30.2 A licensed person must ensure that the fund performance report to policy owners/takaful participants includes the following:
- (a) the licensed person's audited financial statements;
 - (b) notes to the licensed person's accounts; and
 - (c) the minimum information stipulated in **Appendix VII** of this policy document.

31. Publication of unit price

- S** 31.1 A licensed person must publish the latest NAV per unit of each of its investment-linked funds on its official website on a daily basis.
- S** 31.2 To ensure availability of information to the public without internet access, a licensed person must inform and provide avenues (including telephone hotlines) for policy owners/takaful participants to contact the licensed person to obtain the latest NAV of an investment-linked fund.
- S** 31.3 In addition to paragraph 31.2, a licensed person is required to:
- (a) inform all policy owners/takaful participants on the availability of the information on its official website; and
 - (b) provide access to the historical data of the NAV per unit of each of its investment-linked funds to policy owners/takaful participants when requested.

PART G INVESTMENT**32. General principles**

- S** 32.1 A licensed person must ensure that its investment-linked fund, including any such fund under an investment account platform, is invested in accordance with the licensed person's stated objectives at all times as disclosed in the Fund Fact Sheet and the investment-linked policy/takaful certificate. In particular, the licensed person must ensure that —
- (a) all investments are made in accordance with the objectives and investment policy of the relevant fund in relation to a particular security, class of securities, economic sector or market; and
 - (b) any performance benchmark used is aligned with the underlying investment strategy of the relevant fund.
- S** 32.2 In the case of a newly established investment-linked fund, a licensed person must ensure that the fund is fully invested in accordance with the fund's stated objectives, immediately after the initial offer period, subject to the following:
- (a) the initial offer period must not exceed two months; and
 - (b) in the event that the licensed person does not achieve the minimum required fund size, the licensed person must refund to policy owners/takaful participants all monies paid/contributed, with any interest/investment profits earned on any premiums/takaful contributions received during the offer period.

33. Investment limits

- S** 33.1 A licensed person must comply with the investment limits set out in **Appendix X** of this policy document at all times, based on the most current value of an investment-linked fund and its underlying investments.
- S** 33.2 In cases of appreciation or depreciation of the investments of an investment-linked fund due to fluctuations in the values of the fund's assets which result in holdings in excess of the limits set out in **Appendix X** of this policy document (stipulated limit), a 5% allowance in excess of the stipulated limit or restriction is permitted. Any rebalancing of investments necessary to rectify any excess exceeding the stipulated limit must be carried out by the licensed person within a period of 60 days.

PART H VALUATION OF ASSETS AND LIABILITIES**34. Valuation of assets**

- S** 34.1 A licensed person must comply with the applicable accounting standards issued by the Malaysian Accounting Standards Board (MASB) and requirements in the policy documents on *Financial Reporting* issued on 29 April 2022 (BNM/RH/STD 032-5) or *Financial Reporting for Takaful Operators* issued on 29 April 2022 (BNM/RH/STD 033-5), as well as other requirements applicable to the valuation of assets of investment-linked funds⁹.
- S** 34.2 In addition, a licensed takaful operator must comply with **Appendix XI** of this policy document.

35. Valuation of liabilities

- S** 35.1 For a licensed insurer, its appointed actuary must value the licensed insurer's non-unit liabilities of investment-linked policies in accordance with **Appendix VII - Valuation Basis for Life Insurance Liabilities** of the *Risk-Based Capital Framework for Insurers* issued on 17 December 2018 (BNM/RH/PD 032-12).
- S** 35.2 For a licensed takaful operator, its appointed actuary must value the licensed takaful operator's liabilities of investment-linked takaful certificates in accordance with the basis set out in the *Guidelines on Valuation Basis for Liabilities of Family Takaful Business* issued on 16 May 2012 (BNM/RH/GL004-20).
- S** 35.3 A licensed person must maintain a matched position in respect of its unit liabilities. The value of the unit liabilities must be taken by the licensed person as the NAV of the matched units at the valuation date.

⁹ For immovable property, licensed insurers must make appropriate adjustments where the market value of the assets changes significantly during the inter-valuation period.
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PART I MARKETING**36. Marketing**

- S** 36.1 A licensed person must ensure that only its agents and other intermediaries, who have passed the Certificate Examination in Investment-Linked Life Insurance (CEILLI) conducted by the Malaysian Insurance Institute or its equivalent, are allowed to market investment-linked products.

PART J APPENDICES**Appendix I Application to conduct investment-linked business**

1. Applications for approval to carry on investment-linked business, as specified in paragraph 8.2, must be submitted by a licensed person to the Bank together with a comprehensive business plan for carrying on such business that has been approved by its board.

2. The minimum information to be provided by a licensed person in the business plan must include the following:
 - (a) a clear description of the licensed person's governance structure with respect to the management of the investment-linked business, including lines of responsibility and reporting or oversight arrangements;
 - (b) confirmation that the licensed person has adequate resources to manage the business, including relevant internal experience and expertise to manage the investments of the funds, and the necessary infrastructure, system and capabilities such as IT support for fund accounting and unit valuation;
 - (c) description of the licensed person's risk management framework to ensure proper management of the investment-linked business, including compliance with existing laws and regulations; and
 - (d) an assessment of the expected impact of the investment-linked business on the licensed person's overall financial condition, risk profile and business strategy.

Appendix II Rules for regular premium/contribution investment-linked policy/takaful certificates

1. The SAM rule supports the objective to protect the value of an investment-linked policy/takaful certificate by ensuring a meaningful level of unit account value for a given amount of annual premiums¹⁰/annual takaful contributions¹³. The SAM rule is applied to segregate the premiums/takaful contributions into –
 - (a) the portion relating to insurance/takaful coverage, for which MAR as per paragraph 15.1 must apply; and
 - (b) the portion classified as top-up premiums/takaful contributions, for which MAR as per paragraph 15.4 must apply.

2. A licensed person must carry out the segregation set out in paragraph 1 of this Appendix in a manner that ensures that the size of the sum assured/participated in relation to paragraph 1(a) is no lower than the SAM set out in **Table 2**:

Age	SAM
1 to 16	60
17 to 25	55
26 to 35	50
36 to 45	35
46 to 55	25
56 above	15

Table 2

3. In carrying out the assessment as required in paragraph 2 of this Appendix, the licensed person must take into account all unit-deducting riders attached to the basic investment-linked policy/takaful certificate, as follows:

¹⁰ This includes relevant riders as described in paragraph 3 of **Appendix II**.
Issued on: 13 February 2023

- (a) for riders with the sum assured/participated payable on death, except accidental riders (Category 1 riders)¹¹, the full amount of the sum assured/participated and premiums/takaful contributions must be included in the assessment; and
- (b) for unit deducting riders without the sum assured/participated payable on death (Category 2 riders¹²), an adjustment must be made to the annual premiums/takaful contributions in the form of a deduction of a Notional annual Premium/Takaful Contribution amount, calculated in accordance with paragraph 4 of this Appendix.

For the avoidance of doubt, premium/takaful contribution-paying riders are not to be included in the assessment.

4. For Category 2 riders, the Notional annual Premium/Takaful Contribution must be calculated based on the following principles (level premium/takaful contribution approach):
 - (a) the present value of the allocated portion of the Notional Premium/Takaful Contribution is set to be equal to the present value of the cost of insurance/*tabarru*;
 - (b) the present value is calculated using a discount rate of 4%; and
 - (c) no decrement is to be used in the present value calculation.

¹¹ Examples of Category 1 riders include term riders and critical illness riders with additional sums assured or participated on death.

¹² Examples of Category 2 riders are critical illness riders with accelerated death benefits, hospital income riders, hospital and surgical riders, TPD riders, waiver of premium or contribution riders and accidental benefit riders.

5. In applying the requirements in paragraphs 1 to 4 of this Appendix, the formula for the assessment is as follows:

For insurers

$$\frac{\text{Total sum assured}}{(\text{Annual premiums} - \text{Notional annual Premium for Category 2 riders})}$$

For takaful operators

$$\frac{\text{Total sum participated}}{(\text{Annual contributions} - \text{Notional annual Takaful Contribution for Category 2 riders})}$$

6. Notwithstanding paragraph 3 of this Appendix, the licensed person must exercise judgement in considering the riders to be included in the assessment, to ensure that there are no distortions to the intended outcome of the SAM (e.g. dilution of the overall level of protection due to the inclusion of riders with a significantly high sum assured/participated relative to premiums/takaful contributions). This is to preserve the objective for policies/takaful certificates to have a meaningful level of unit account value for a given amount of total premiums/takaful contributions.
7. Where there is an excess amount of premiums/takaful contributions, which if taken into account in the formula in paragraph 5 would result in the size of the sum assured/participated relative to annual premiums/takaful contributions being lower than the SAM, that excess must be classified as a top-up premium/takaful contribution.

Appendix III Life insurance policy/family takaful certificate documentation

1. Licensed persons must ensure that the following additional minimum particulars are incorporated within the body of the life policy/family takaful certificate documentations:
 - (a) the nature of the benefits and how the benefits will be linked to the performance of the investment-linked funds that the policy owner/takaful participant has invested in. Where a fund is invested in structured products and derivatives (for yield enhancement purpose), a description of how the return or benefits are derived must be included;
 - (b) objectives and investment strategies of the investment-linked funds. The asset mix and conditions for departure from the fund's objectives (if any) must be clearly defined;
 - (c) allocation rates to purchase units in the investment-linked funds;
 - (d) types, amounts and methods of imposing the various charges applicable under the investment-linked policy/takaful certificate, including the maximum charges;
 - (e) methodologies used in calculating unit prices for the purpose of allocating, creating or cancelling units in investment-linked funds;
 - (f) availability of options to vary the level of death benefits and premium/takaful contributions, switch investment-linked funds, and take premium/takaful contribution holidays; and
 - (g) provisions that allow the licensed person to take the following actions that may become necessary due to a change in circumstances (as a means to protect or advance the interests of policy owners/takaful participants):
 - (i) close the fund to new money, or transfer the assets to a new fund which has similar investment objectives;
 - (ii) change the name of the fund;
 - (iii) split or combine existing units;
 - (iv) suspend unit pricing and policy/takaful certificate transactions if any of the exchanges in which the fund is invested is temporarily suspended for trading;

- (v) make any changes that may be required due to legislation and regulatory requirements; and
- (vi) refund monies contributed to a new unit fund after its initial offer period with interest due to the inability to achieve the minimum required fund size.

Appendix IV Product illustration

1. Licensed persons must ensure that product illustration is provided to a prospective policy owner/takaful participant at the point of sale or marketing of an investment-linked product and the product illustration —
 - (a) must contain information about the product, including details specific to the investment-linked policy/ takaful certificate for that product.
 - (b) for a rider to an investment-linked policy/takaful certificate, the product illustration must be as set out in **Appendix IV** of this policy document.

For products which invest in structured products or derivatives, the product illustration must be adapted to incorporate the requirements in paragraph 25.7 of this policy document.

2. A licensed person must ensure that product illustration complies with the format set out in **Appendix IV(a) for licensed insurers** and **Appendix IV(b) for licensed family takaful operators**, of this policy document, unless the licensed person determines that the prescribed format is inappropriate for a specific investment-linked policy/takaful certificate. In such an event, the licensed person must ensure that changes made to the prescribed format do not reduce the extent of the disclosure required under this Appendix. The licensed person must 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* issued on 15 May 2015 (BNM/RH/STD 029-10).
3. A licensed person must explain to the prospective policy owner/takaful participant that the product illustration is meant to illustrate the possible movements of cash flows of the investment-linked policy/takaful certificate and impact of fees and charges on cash values.

4. A licensed person must observe the following in its product illustration:
- (a) product illustration must not be printed in small font size;
 - (b) product illustration must not illustrate partial withdrawal;
 - (c) a single combined product illustration may be provided in the case where a policy owner/takaful participant has selected more than one generic fund;
 - (d) an explanation must be provided to clarify whether the death or maturity benefit of the investment-linked policy/takaful certificate is determined as the higher of the value of units or sum assured or participated, or the aggregate of the two;
 - (e) charges should be separated by three categories:
 - (i) insurance charge/*tabarru'*. For unit deducting riders, a clear distinction between the cost of insurance or takaful protection for the basic policy/takaful certificate and riders must be made;
 - (ii) fund management charge; and
 - (iii) other charges, which include the investment-linked policy/ takaful certificate fee, switching fees and other charges;
 - (f) the period of illustration must be up to the contractual coverage term of the investment-linked policy/takaful certificate, as required in paragraph 16 of this policy document to aid informed decision making by the prospective policy owner/takaful participant. The illustration must be presented as follows:
 - (i) yearly up to the 10th policy year;
 - (ii) at policy year 15; and
 - (iii) at ten-year intervals from policy year 20 and above until the end of the contractual coverage term;
 - (g) the illustration of basic plan and riders must be as follows:
 - (i) **Table 1 of Appendices IV(a) and IV(b)** of this policy document must illustrate possible movements of cash flows of only the basic policy/takaful certificate including the insurance charges/*tabarru'* for unit deducting riders;

- (ii) **Table 2 of Appendices IV(a) and IV(b)** of this policy document must provide a summary of costs and benefits of each rider that is attached to the basic policy/takaful certificate; and
 - (iii) where the policy owner/takaful participant attach unitised premium/takaful contribution-paying riders, the licensed person must ensure that the product illustration for the unitised premium/takaful contribution-paying rider complies with the format set out in **Table 1 of Appendices IV(a) and IV(b)**, where applicable; and
 - (h) for illustration of insurance charges/*tabarru'* for unit deducting rider (UDR), if there is space constraint to fit multiple unit deducting riders in one page, the licensed person may disclose the total insurance charges/*tabarru'* for all UDRs in the main table, and append individual UDR charges in a separate table.
5. The illustration in **Table 1 of Appendices IV(a) and IV(b)** of this policy document, respectively, must be based on two rates, denoted as 'Scenario X' and 'Scenario Y', on a gross basis¹³. These rates denote hypothetical rates of return of the underlying assets of the fund, and are to be used to better demonstrate to policy owner/takaful participants the interactions between the cash flows described on the summary page of product illustration, without giving rise to undue expectations. The rates are as follows:
- (a) for equity funds¹⁴ for policies/takaful certificates, of which all of the cost of insurance is guaranteed/*tabarru'* is fixed for the contractual term of the investment-linked policy/ takaful certificate, including those relating to riders to these policies/takaful certificates :
 - (i) X is 2%; and
 - (ii) Y is –

¹³ Refers to the returns of the underlying assets before deduction of tax and charges.

¹⁴ Equity funds refer to funds whose investment in equities is at least 80% of the fund's total NAV respectively.

- the 'immediate preceding 10-year average historical FTSE Bursa Malaysia KLCI returns'¹⁵ for the first 20 years and 5% thereafter; or
 - 5% ("fixed rate") throughout the contractual term until maturity; and
- (b) for all other types of funds, X and Y are 2% and 5%, respectively.
6. Licensed persons must ensure that riders to the investment-linked policy/takaful certificate are included in the product illustration. In any case, a clear distinction between the costs and benefits attached to each rider and basic plan must be shown to demonstrate the impact of the inclusion of riders on the cash value.
7. For the purposes of complying with the requirements under paragraphs 5 and 6 of this Appendix, a licensed person may switch between the immediate preceding 10-year average historical FTSE Bursa Malaysia KLCI returns and 5% ("fixed rate") and vice versa on 1 April of each calendar year. However, once determined, the licensed person must use the same method until 31 March of the next calendar year.

¹⁵ As determined by the Life Insurance Association of Malaysia and Malaysian Takaful Association
Issued on: 13 February 2023

Appendix IV(a) Product illustration (for licensed insurers)



Is investment-linked policy right for you? Are you aware of the costs, benefits and risks?

Name of insurer: [ABC Insurance Berhad]
 Product name: [XYZ Policy]
 Type of policy: [Regular premium investment-linked insurance]
 Ratio of fund(s) chosen: ___% in Fund 1 ___% in Fund 2

Client's name: [Mr. Customer]
 Gender: [Male / Female]
 Smoker: [Yes / No]
 Age: [Age of proposer]

Do you know that ...

Have you been advised of ...

Have you been told ...



It is flexible but you bear the investment risk?

It is an insurance product that is tied to the performance of the investment fund(s) which you selected

Benefits

- **Flexibility** to vary your premium amount or coverage if your financial needs change.
- **Choice of funds** depending on the level of risk you are comfortable with.

Risks

- You bear the **investment risk entirely** including poor returns.
- If your fund performs poorly or your insurer increases your charges –
 - You may lose your insurance cover; or
 - Your cash value may be adversely affected.
- You may need to increase your premiums or reduce the level of insurance protection to avoid losing your insurance cover.

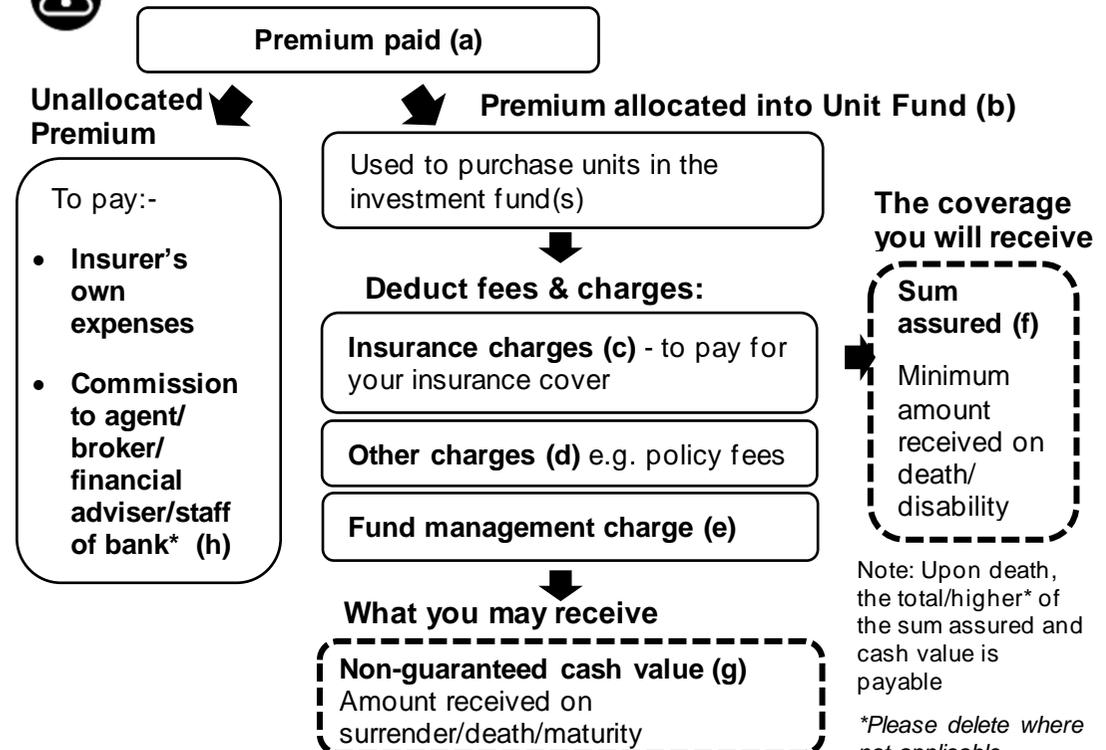


Other products that could better meet your needs?

- **Non-participating products:** The benefits and coverage period are guaranteed as long as you pay premiums.
- **Participating products:** In addition to receiving guaranteed benefits and having a guaranteed coverage period, you can share in the profits (non-guaranteed) of the participating life fund.



How your premiums will be used?



Fees and charges taken out of your investment fund(s) which reduce the amount available for investment:-

- [List of fees and charges, include but not limited to surrender charge, partial withdrawal charge, fund switching fee, and top-up charge]
- Commissions to intermediaries from policy year 11 onwards [if any]

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

- The premium amounts shown in column (a) are expected to be sufficient for your unit fund/cash values to support your insurance coverage for the full policy term. However, over time, your unit fund/cash values may be higher or lower than expected due to various factors, including volatility in investment returns. You will receive annual statements on the latest position of your unit fund/cash values.
 - We have chosen two examples of investment returns, i.e. 2% (Scenario X) and 5% (Scenario Y), to show you possible charges, unit fund/cash values and benefits. For actual past investment returns of the unit fund, please refer to the Fund Fact Sheet.
-  If your actual unit fund/cash values becomes lower than expected, you will be notified via your annual statement that your policy is no longer sustainable, and you will be advised on actions you may take to ensure continued insurance coverage for the full policy term, such as increasing your premium or reducing your insurance cover.

The amount you need to pay

You should only purchase the riders you need as the cost of the riders will be borne by you. Riders are optional

At maturity or upon early cancellation, you may receive this amount (amount is not guaranteed)

End of Policy Year	Premium Paid (RM) (a)	Allocated Premium (b)		Insurance Charges ¹ (RM) (c)						Other Charges ¹ (RM) (d)	Fund Management Charge (RM) (e)		Sum Assured (RM) (f)	Non-Guaranteed Cash Value (RM) (g)		Non-Guaranteed Death Benefits ² (RM)		Commission ³ (h)		
		RM	%	Basic policy	Unit-deducting rider(s)						Scenario X	Scenario Y		Scenario X	Scenario Y	Scenario X	Scenario Y	RM	%	
					1	2	3	4	5											6
1																				
2																				
3																				
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¹ The illustrated insurance and other charges are not guaranteed and may be varied from time to time by giving X month notice to policy owners, for example, charges for medical riders may increase due to rising medical costs.

² The death benefit payable is the total/higher* of the sum assured and cash value. [*Please delete where not applicable]

Where the non-guaranteed portion becomes zero/negative, it means that your unit fund is no longer able to pay for your insurance cover.



³ 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. From year 11 onwards, the portion of premium allocated for commission would be deducted from your unit fund. Please refer to the service guide for further details.

Table 2: Rider(s) (Optional)

1. A rider can provide additional protection or enhance existing benefits payable under your basic policy.
2. Riders can be in the form of:
 - (i) Unit-deducting, where the cost of the rider has been incorporated into the premiums for your basic policy. The rider is therefore funded by deducting charges from your unit fund; and
 - (ii) Premium-paying, where the cost of the rider has not been incorporated into the premiums for your basic policy. Separate premiums to fund the cost of the rider will be required.

Riders	Type	Premium Paid (RM)	Sum Assured (RM)	Coverage Period (years)
Rider 1	[e.g. unit deducting rider]	[Not applicable]		
Rider 2	[e.g. unit deducting rider]	[Not applicable]		
Rider 3	[e.g. unit deducting rider]	[Not applicable]		
Rider 4	[e.g. unit deducting rider]	[Not applicable]		
Rider 5	[e.g. unit deducting rider]	[Not applicable]		
Rider 6	[e.g. unit deducting rider]	[Not applicable]		
Rider 7	[e.g. premium-paying rider]			
Rider 8	[e.g. premium-paying rider]			
Rider 9	[e.g. premium-paying rider]			

Appendix IV(b) Product illustration (for licensed takaful operators)



Is investment-linked certificate right for you? Are you aware of the costs, benefits and risks?

Name of takaful operator: [ABC Takaful Berhad]
 Product name: [XYZ Certificate]
 Type of certificate: [Regular contribution investment-linked takaful]
 Ratio of fund(s) chosen: ___% in Fund 1 ___% in Fund 2

Client's name: [Mr. Customer]
 Gender: [Male / Female]
 Smoker: [Yes / No]
 Age: [Age of proposer]

Do you know that ... Have you been advised of ... Have you been told ...

It is flexible but you bear the investment risk?
 It is a takaful product that is tied to the performance of the investment fund(s) which you selected

Benefits

- **Flexibility** to vary your contribution amount or coverage if your financial needs change.
- **Choice of funds** depending on the level of risk you are comfortable with.

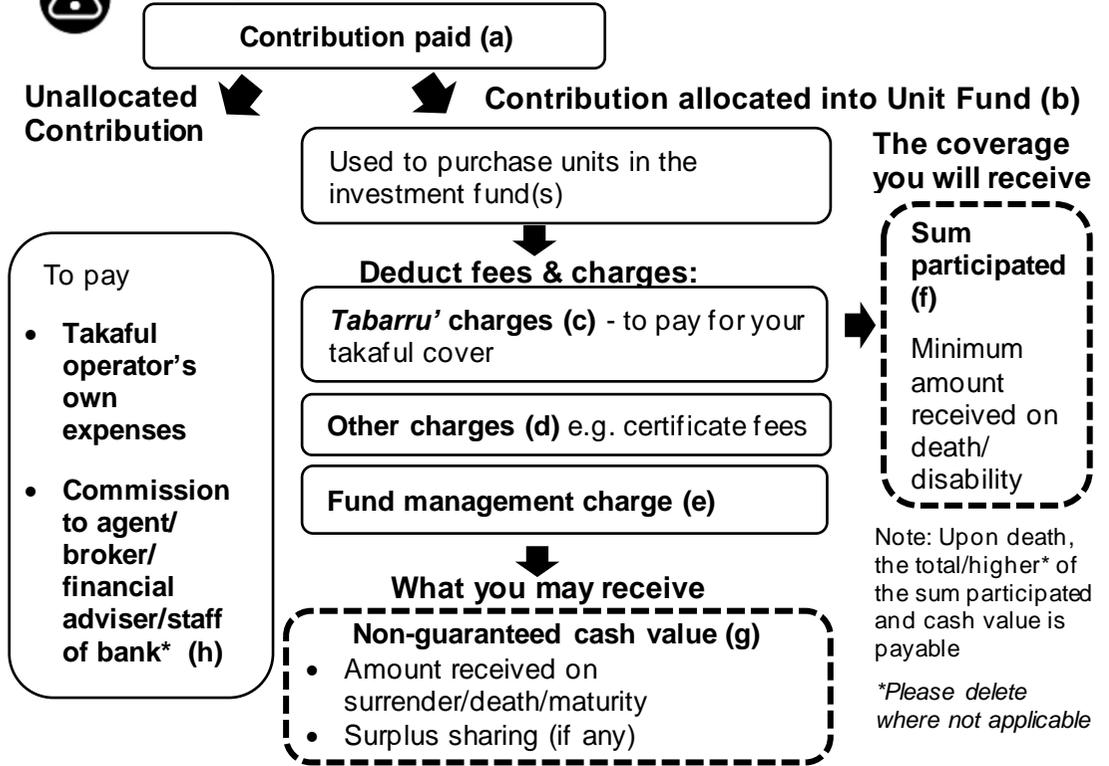
Risks

- You bear the **investment risk entirely** including poor returns.
- If your fund performs poorly or your takaful operator increases your charges –
 - You may lose your takaful cover; or
 - Your cash value may be adversely affected.
- You may need to increase your contributions or reduce the level of takaful protection to avoid losing your takaful cover.

Other products that could better meet your needs?

- **Family takaful products:** Investment management is decided by the takaful operator on behalf of the participants. The benefits and coverage period are similar to investment-linked certificate.

How your contributions will be used?



Fees and charges taken out of your investment fund(s) which reduce the amount available for investment:-

- [List of fees and charges, including but not limited to surrender charge, partial withdrawal charge, fund switching fee, and top-up charge]
- Commissions to intermediaries from policy year 11 onwards [if any]

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

- The contribution amounts shown in column (a) are expected to be sufficient for your unit fund/cash values to support your takaful coverage for the full certificate term. However, over time, your unit fund/cash values may be higher or lower than expected due to various factors, including volatility in investment returns. You will receive annual statements to update you on the latest position of your unit fund/cash values.
 - We have chosen two examples of investment returns, i.e. 2% (Scenario X) and 5% (Scenario Y), to show you possible charges, unit fund/cash values and benefits. For actual past investment returns of the unit fund, please refer to the Fund Fact Sheet.
-  If your actual unit fund/cash values becomes lower than expected, you will be notified via your annual statement that your certificate is no longer sustainable, and you will be advised on actions you may take to ensure continued coverage for the full takaful certificate term, such as increasing your contribution or reducing your takaful cover.

The amount you need to pay

You should only purchase the riders you need as the cost of the riders will be borne by you. Riders are optional

At maturity or upon early cancellation, you may receive this amount (amount is not guaranteed)

End of Certificate Year	Contribution Paid (RM) (a)	Allocated Contribution (b)		Tabarru' Charges ¹ (RM) (c)						Other Charges ¹ (RM) (d)	Fund Management Charge (RM) (e)		Sum Participated (RM) (f)	Non-Guaranteed Cash Value (RM) (g)		Non-Guaranteed Death Benefits ² (RM)		Commission (h)		
		RM	%	Basic certificate	Unit-deducting rider(s)						Scenario X	Scenario Y		Scenario X	Scenario Y	Scenario X	Scenario Y	RM	%	
					1	2	3	4	5											6
1																				
2																				
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¹ The illustrated *tabarru'* and other charges are not guaranteed and may be varied from time to time by giving X month notice to takaful participants , for example, charges for medical riders may increase due to rising medical costs.

² The death benefit payable is the total/higher* of the sum participated and cash value. [*Please delete where not applicable]

Where the non-guaranteed portion becomes zero/negative, it means that your unit fund is no longer able to pay for your takaful cover.



³ Amount received by the intermediary for the sale of this certificate and services that the intermediary will provide to you for the duration of your certificate. From year 11 onwards, the portion of contribution allocated for commission would be deducted from your unit fund. Please refer to the service guide for further details.

Table 2: Rider(s) (Optional)

1. A rider can provide additional protection or enhance existing benefits payable under your basic certificate.
2. Riders can be in the form of:
 - (i) Unit-deducting, where the cost of the rider has been incorporated into the contributions for your basic certificate. The rider is therefore funded by deducting charges from your unit fund; and
 - (ii) Contribution-paying, where the cost of the rider has not been incorporated into the contributions for your basic certificate. Separate contributions to fund the cost of the rider will be required.

Riders	Type	Contribution Paid (RM)	Sum Participated (RM)	Coverage Period (years)
Rider 1	[e.g. unit deducting rider]	[Not applicable]		
Rider 2	[e.g. unit deducting rider]	[Not applicable]		
Rider 3	[e.g. unit deducting rider]	[Not applicable]		
Rider 4	[e.g. unit deducting rider]	[Not applicable]		
Rider 5	[e.g. unit deducting rider]	[Not applicable]		
Rider 6	[e.g. unit deducting rider]	[Not applicable]		
Rider 7	[e.g. contribution-paying rider]			
Rider 8	[e.g. contribution-paying rider]			
Rider 9	[e.g. contribution-paying rider]			

Appendix V Minimum format for Fund Fact Sheet

Name of Fund	
Features of Fund	
Investment Objective	
Investment Strategy & Approach	<ul style="list-style-type: none"> ○ To include investment focus (i.e. equities, bonds, CIS, etc.) and techniques used (passive or active, top-down/bottom-up, quantitative/fundamental analysis/technical analysis, etc.) For investment-linked funds that invest in structured products and/or derivatives, to also explain how returns from such assets will be generated. Illustrations of gains and losses through numerical examples based on bull, flat and bear scenarios are allowed to give better understanding to the policy owner/takaful participant on the impact of different scenarios on the fund.
Asset Allocation	<ul style="list-style-type: none"> ○ Details on asset allocation, e.g. by type, by geographical region, etc.
Performance Benchmark	<ul style="list-style-type: none"> ○ Benchmark(s) used, including where to obtain further information on benchmark.
Fund Manager	<ul style="list-style-type: none"> ○ To clearly highlight if the fund manager is the licensed person itself or a third party appointed by the licensed person.
Fees & Charges	
Fund Management Charge	
Other Charges, if any	
Fund Performance	
<p>Notice: Past performance of the fund is not an indication of its future performance</p> <ul style="list-style-type: none"> • Actual returns of the immediately preceding ten years on a net basis (net of tax and charges), or since inception if shorter (warning statement: this is strictly the performance of the investment fund, and not the returns earned on the actual premiums/takaful contributions paid of the investment-linked product). The past performance shown must not exceed 10 years. • The investment returns must be calculated based on the unit price of the investment-linked fund and the formula must be consistent with that of the benchmark indices. • Any performance comparison of an investment-linked fund must be with that of a similar fund, in terms of investment objectives & focus and based on similar time frame of at least 12 months. For funds which have existed less than 12 months, the licensed person must not use the annualised monthly performance figures for such purposes. • The basis of calculation of past performance must also be disclosed. 	

Additional disclosure for specific funds	
<u>For funds that invest in derivatives contracts:</u>	
<ul style="list-style-type: none"> • A statement that the fund may be invested in financial derivatives. • Explanation of the purpose of such investments and how it can be achieved with a derivative strategy • Description of the derivative instruments used and expected participation rate (as precise as possible, since this will form investment-linked policy/ takaful certificate holders' reasonable expectation) • Maximum limit on derivative exposures (as a ratio to an investment-linked fund's NAV) • Any other material information that would help policy owner/takaful participant make an informed decision 	
<u>For funds that invests in collective investment schemes (CIS):</u>	
<ul style="list-style-type: none"> • The name and type of the CIS • The fund manager of the CIS and its rating, if available • The higher fee structure arising from the double layer fund management fees and other hidden charges. E.g. the investment-linked fund charges x% of fund management charge on top of the y% charged by the target fund CIS • Historical performance of the underlying CIS 	
Risks	
<ul style="list-style-type: none"> • Proper description of relevant risks of investing in the fund. Any special risks must be highlighted. <p><i>(Description of risks must be specific based on the nature of the investment and not merely generic descriptions. Listing of risks by order of priority is encouraged)</i></p> <p><i>Risk Management</i></p> <ul style="list-style-type: none"> • Brief description of risk management techniques (e.g. adoption of a defensive strategy which may be inconsistent with the stated strategy) in attempting to respond to adverse market, economic conditions or application of investment limits to achieve a diversified portfolio. • Brief description of any derivative contracts entered into for risk management purposes (e.g. cross currency swaps to manage currency risk). 	
Other Info	
<ul style="list-style-type: none"> • Target Market 	
<ul style="list-style-type: none"> • Basis & Frequency of Unit Valuation 	Description must include the method of recouping transaction costs of acquiring and disposing of assets as per paragraph 13.3.
<ul style="list-style-type: none"> • Exceptional Circumstances 	Description of any exceptional circumstances under which issuance or redemption of units may be suspended.

Appendix VI Statement to policy owners/takaful participants

1. The statement on the status to investment-linked policy/takaful certificates of a policy owner/takaful participant must at least contain the following information:
 - (a) number and value of units held at the end of the previous statement period;
 - (b) number and value of units purchased and sold during the statement period;
 - (c) number and value of units held at the end of the statement period;
 - (d) number and value of bonus units and dividends payable during the statement period;
 - (e) charges incurred during the statement period;
 - (f) total amount of premiums or takaful contributions received and allocated to buy units during the statement period;
 - (g) the death benefit and surrender value at the beginning of the statement period; and
 - (h) the death benefit and surrender value at the end of the statement period.

2. The statement must also include the communication of the outcome of the sustainability test as required in paragraph 16.6.

Appendix VII Fund Performance Report to policy owner/takaful participants

1. Licensed persons must provide the minimum information set out below in the fund performance report to policy owners/takaful participants of investment-linked policy/takaful certificates:
 - (a) summary of the audited financial statements of the fund. The minimum disclosure format for financial statements is set out in **Appendix VIII** of this policy document;
 - (b) description of the investment objectives of the fund, and asset allocation as at the reporting date;
 - (c) analysis on the fund performance of not less than five years, where applicable, on the net (of charges and tax) investment return of the fund;
 - (d) description on charges levied against the fund during the year;
 - (e) statement on any changes in the investment objectives, strategies, restrictions and limitations of the fund during the year. This includes explanations should the fund depart from its stated investment objectives and strategies;
 - (f) details of any distributions made and proposed during the period, and the effects in terms of the NAV per unit before and after the distributions;
 - (g) review of future prospects of the investments and proposed strategies of the fund;
 - (h) performance of relevant benchmark indices of the market in which the fund is invested;
 - (i) details of any soft commissions received by fund managers; and
 - (j) auditor's certification.

Appendix VIII Minimum disclosure format for financial statements in Fund Performance Report

A. Statement of Income and Expenditure

For financial year ended 31 December 20xx

	Fund 1	Fund 2*
Note	20xx	20xx-1
	RM	RM
<hr/>		
Net Investment Income		
Interest income or Income from investment		
Dividend income		
Others		
Profits on Disposal		
Securities		
Others		
Unrealised Capital Gain		
Other Income		
Total Income		
Policy Benefits		
Expenses		
Loss on Disposal		
Securities		
Others		
Other Outgo		
Total Outgo		
Excess of Income over Outgo		
Undistributed Income brought forward		
Amount Available for Distribution		
Undistributed Income carried forward		

* Please provide separate columns for all the investment-linked funds.

B. Statement of Assets and Liabilities

For financial year ended 31 December 20xx

	Fund 1	Fund 2*
Note	20xx	20xx-1
	RM	RM
Fixed Assets		
Investment Properties		
Loans/Financing		
Investments		
Malaysian Government papers / Government Islamic papers		
Malaysian Government guaranteed loans/financing		
Corporate/Debt securities		
Other investments		
Foreign Assets		
Cash & Deposits		
Other Assets		
Total Assets		
Total Liabilities		
Net Assets		
Value of Units		
Investment fluctuation reserves		
Undistributed income carried forward		
Net Asset Value Per Unit		

* Please provide separate columns for all the investment-linked funds.

Notes (for A and B)

1. Details on particular items of other income/outgo and assets should be given for each item that is larger than 10% of the total.
2. The definition of items is as per the *Guidance Notes for Completion of ICSS* in the *Garis Panduan Pengemukaan Penyata Statistik "Insurance Companies Statistical System (ICSS)"* issued on 11 December 2015 (JPS/8900/1/5) for life direct business or *Guidance Notes for Completion of TOSS* for family takaful business in the *Garis Panduan Pengemukaan Penyata Statistik "Takaful Operators Statistical System (TOSS)"* issued on 31 December 2015 (JPS/8900/1/5).

C. Statement of Changes in Net Asset Value

For financial year ended 31 December 20xx

	Fund 1	Fund 2*
Note	20xx	20xx-1
	RM	RM
Net asset value at the beginning of the period		
Net income for the period		
Changes in unrealised investment gains or losses		
Amounts received from units created		
Amounts paid for units cancelled		
Distributions to policy owner/takaful participant		
Net asset value at the end of the period		

* - Please provide separate columns for all the investment-linked funds.

D. Details of Investments

The composition of the investment portfolio (i.e. the list of individual securities) of the various investment-linked funds (by individual funds) as at the date of the financial report should be disclosed, grouped in the appropriate categories (e.g. sectoral, markets) showing for each category—

- (i) The quantity held;
- (ii) The cost of the investment;
- (iii) The market value of the investment; and
- (iv) The market value of each holding as a percentage of net asset value.

E. Comparative Performance Table

The table should cover the data for last five financial years, or if the fund has not been in existence during the whole of that period, over the whole of the period in which it has been in existence, showing for each financial year—

- (i) the composition of the fund according to industry sectors (e.g. financial, plantation, consumer products, etc.) and category of investments (equity, fixed income, derivatives, etc.);
- (ii) the total NAV;
- (iii) the number of units;
- (iv) the NAV per unit;

- (v) the highest NAV per unit during the financial year;
- (vi) the lowest NAV per unit during the financial year;
- (vii) the total annual return of the fund, expressed in terms of percentage, and the breakdown into capital growth and income distributions;
- (viii) average annual return measured over one-year, three-year and five-year periods; and
- (ix) the performance of relevant benchmark indices

Appendix IX Disclosure and conduct requirements for investment-linked products with extension to coverage term feature**A. Point of sale disclosure**

1. A licensed person must disclose the following in the Product Disclosure Sheet (PDS) and all other marketing materials:
 - (a) the features and mechanics of the extension to coverage term offered, and the consequences of this extension;
 - (b) the distinction between the initial coverage term and the additional coverage term provided by the extension;
 - (c) the distinction between the premium/takaful contribution for the initial coverage term and the expected premium/takaful contribution required to fund the extension, if any. This must be accompanied by an explanation of the non-guaranteed nature of the expected premiums/takaful contributions;
 - (d) the terms and conditions, including procedures, for exercising the option or finalising the automatic extension, (i.e. future action that the policy owners/takaful participants would need to take, and the consequences if no actions are taken by policy owners/takaful participants); and
 - (e) the re-underwriting requirements at the point of exercising the option, if any. This must include details on any consequences of re-underwriting (e.g. higher premiums/takaful contributions, or rejection of cover).

2. In relation to paragraph 1 of this Appendix, for investment-linked products with extended coverage based wholly on the sufficiency of the unit account value—
 - (a) a licensed person must clearly explain in plain language the features in the PDS and all other marketing materials; and
 - (b) where a limit that would impact the length of the potential extension (e.g. any extension provided would only be up to age 100) is imposed, the licensed person must:
 - (i) clearly disclose the limit in the PDS and all other marketing materials; and
 - (ii) provide information on the expected premiums/takaful contributions required to fund the extension up to the specified limit.

3. In relation to paragraphs 1(c) and 2(b)(ii) of this Appendix, a licensed person must ensure that all disclosures to the policy owners/takaful participants are clear and not misleading, in line with paragraph 16.11 of this policy document, which includes the licensed person ensuring that—
 - (a) the technical components of the communication and disclosures are not overly complex or are not overshadowed by other excessive details such that there is room for misrepresentation or misinterpretation;
 - (b) the limitations to the amount disclosed are clearly highlighted (e.g. expected premiums/takaful contributions have been calculated based on estimates of future outcomes);
 - (c) the potential for variations or deviations from the amount disclosed are clearly highlighted (e.g. if there are material or unexpected deviations of actual experience with the estimates); and
 - (d) the frequency¹⁶ at which the updated amount will be disclosed in the annual statement is clearly highlighted.

4. In relation to paragraph 1(c) of this Appendix, a licensed person may also provide information on the amount of premiums/takaful contributions necessary to sustain the coverage from the inception date until the end of the extended period (i.e. premiums/takaful contributions for pre-funding of the extension), as additional information.

5. In line with paragraph 4(f) of **Appendix IV**, a licensed person must ensure that the projection period of the product illustration in Table 1 of **Appendix IV(a)** and **(b)** of this policy document¹⁷ is limited to the contractual term of coverage agreed at the point of sale. The projection period must not include the extended periods relating to options which have not yet been exercised, or arising from automatic extensions. This includes situations where the licensed person provides the additional information described in paragraph 4 of this Appendix.

¹⁶ In line with paragraph 7(a) of this Appendix.

¹⁷ The period of illustration must be up to the maturity of the contractual term of the product.
Issued on: 13 February 2023

6. A licensed person must set out the details of the different product alternatives offering different coverage terms (e.g. investment-linked products with and without extension to coverage term feature, as well as other available alternatives) in a comparison table. This comparison table must be attached to the PDS and included in all other marketing materials. A licensed person must also include an explanation that the premiums/takaful contributions amount stated in the comparison table are based on sustainability projections and that the actual amount payable would be disclosed prior to the extension period or exercise of the option. An example of such comparison table is set out as follows, where X is the current age of the policy owner/takaful participant.

	Coverage Duration	Premiums/ takaful contributions payable
Alternative 1	Coverage up to age 60	RM2,000 payable from age X to age 60
Alternative 2	Coverage up to age 60 + automatic extension up to age 100	RM2,000 payable from age X to age 60 RM3,500 payable from age 61 to age 100
Alternative 3	Coverage up to age 100	RM2,700 payable from age X to age 100

B. Post-sale disclosure

7. A licensed person must disclose to policy owners/takaful participants the relevant information under paragraphs 1 to 3 of this Appendix—
- in the annual statement, at least once every five years; and
 - as part of the disclosure made prior to an event¹⁸ that will affect the sustainability of cover of an investment-linked policy/takaful certificate.

¹⁸ In line with paragraph 16.6(b) of this policy document, this refers to the point after which a policy owner/takaful participant has expressed an intention to take the following actions but before the action materialises. This includes, but is not limited to the following:

- when the policy owner/takaful participant makes one or more alterations to the investment-linked policy/takaful certificate; and
- when the policy owner/takaful participant exercises one or more options available (as part of the investment-linked product feature) to the investment-linked policy/takaful certificate.

8. In relation to paragraph 7 of this Appendix—
 - (a) where pre-funding of the extension is not in place, a licensed person must ensure that the expected premiums/takaful contributions for the extended period disclosed are calculated based on the licensed person's prevailing assumptions; and
 - (b) where a licensed person provides avenues for pre-funding of the extension period, the licensed person must disclose:
 - (i) the premiums/takaful contributions necessary to sustain the coverage from the annual statement date until the end of the initial coverage term; and
 - (ii) the premiums/takaful contributions necessary to sustain the coverage from the annual statement date until the end of the extended period.

9. In line with paragraph 16.7(c)(ii) of this policy document, in the event that an investment-linked product is no longer sustainable until the end of the initial coverage term, in recommending the amount of top-up premiums/takaful contributions needed to restore the sustainability of cover, a licensed person must disclose to policy owners/takaful participants the following information:
 - (a) where pre-funding of the extension is not in place, the amount of top-up premiums/takaful contributions needed to restore sustainability until the end of the initial coverage term. For completeness, the expected amount of premiums/takaful contributions for the extended period must also be disclosed; and
 - (b) where a licensed person provides avenues for pre-funding of the extension period, the amount of top-up premiums/takaful contributions needed to restore sustainability until the end of the initial coverage term, as well as the amount of top-up premiums/takaful contributions needed to restore sustainability until the end of the extended period.

10. In relation to paragraph 7(a) of this Appendix, where policy owners/takaful participants are allowed to exercise the option to extend coverage earlier than the maturity date of the initial coverage term, a licensed person must set out in a comparison table, the different updated expected premiums/takaful contributions at selected intervals of ages. The licensed person must provide a convenient channel for policy

owners/takaful participants to contact the licensed person should they wish to know the expected premiums/takaful contributions of a specific timing that is not available in the table, where applicable.

C. Disclosure prior to the extended period

Products which require the policy owner/takaful participant to exercise the option

11. In the event that the policy owner/takaful participant indicates the intention to exercise the option, a licensed person must—
- (a) carry out the sustainability test as required in paragraphs 16.2(b) and 16.5 of this policy document;
 - (b) disclose the following to the policy owner/takaful participant to allow such policy owner/takaful participant to make an informed decision:
 - (i) the outcome of the sustainability test, as required in paragraph 16.6(b) of this policy document. In this regard, the licensed person must provide the policy owner/takaful participant with information on the updated premium/takaful contribution amount, such that the investment-linked policy/ takaful certificate is expected to sustain its coverage from the point of exercising the option until the end of the extended period; and
 - (ii) a reminder on the features and mechanics of the option offered, as specified in paragraph 1 of this Appendix, demonstrating a clear distinction between the initial coverage term and the coverage term associated with the option; and
 - (c) ensure that the updated required premium/takaful contribution, referred to in paragraph 11(b)(i) of this Appendix, is effective on the next payment date upon receiving the policy owner/takaful participant's consent to exercise the option, in line with the policy owner/takaful participant's act of exercising the option.

Products with automatic extensions which require premium/takaful contribution payments during the extended period

12. A licensed person must request for the policy owner/takaful participant's agreement¹⁹, at least 90 days before the beginning of the extended period, on the finalised premium/takaful contribution amount required to be paid during the extended period. This must be accompanied by a disclosure of—
- (a) the details of the extension;
 - (b) the consequences of not paying the appropriate premium/takaful contribution amount²⁰, such as the coverage lapsing before the end of the extended period. This must include a warning that charges will continue to be deducted from the account if no explicit agreement is received;
 - (c) possible alternative actions, including but not limited to:
 - (i) terminating the coverage on the maturity date of the initial coverage term, and paying out the maturity benefit, including the remaining unit account value; or
 - (ii) possible adjustments to the investment-linked policy/ takaful certificate (e.g. paying lower premiums/takaful contributions for a shorter extension term, or to maintain the duration of extension with a reduced coverage amount); and
 - (d) contact information of licensed persons and its intermediaries in the event that there are queries, as well as to facilitate discussion with the licensed person or its intermediary on the possible alternative actions, where relevant.

¹⁹ Agreements must be verifiable and may be in the form of a physical or electronic document. However, the action taken by a policy owner/takaful participant to pay the higher premium/takaful contribution may be acknowledged as an explicit agreement, even if the policy owner/takaful participant does not sign the physical or electronic document.

²⁰ This includes policy owners/takaful participants who are on a premium/takaful contribution holiday and policy owners/takaful participants who continue to pay the prevailing premiums/takaful contributions amount.

13. In the event that a licensed person does not receive an explicit agreement from the policy owner/takaful participant on the new premium/takaful contribution amount, as required in paragraph 12 of this Appendix, the licensed person must:
- (a) continue to provide cover to the policy owner/takaful participant for as long as the unit account value remains sufficient to fund the cover. In this regard, the licensed person may deduct the corresponding charges from the unit account. For avoidance of doubt, a licensed person is not allowed to automatically charge higher premiums/takaful contributions; and
 - (b) send a reminder to the policy owner/takaful participant, within one month of the first payment during the extended period, containing the information under paragraphs 12(b), (c) and (d) of this Appendix.
14. In relation to paragraph 12 of this Appendix, where the policy owner/takaful participant has agreed to increase the premiums/takaful contributions to pre-fund the extended period, during the regular premium/takaful contribution reviews conducted by the licensed person, the disclosure may be in the form of a reminder instead of a request for an explicit agreement.

Products with automatic extensions which are wholly dependent on the outstanding value of the unit account (i.e. premium/takaful contribution payments are not required during the extended period)

15. A licensed person must request for the policy owner/takaful participant's agreement, at least 90 days before the beginning of the extended period, on whether the coverage should continue, or be terminated on the maturity date of the initial coverage term and the remaining unit account value paid out.
16. In the event that a licensed person does not receive explicit agreement from the policy owner/takaful participant, the licensed person must continue to provide cover, for as long as the unit account value remains sufficient to fund the cover.

D. Other Conduct Requirements

17. A licensed person must ensure that its staff, representatives and agents exercise due care, skill and diligence when dealing with financial consumers, in line with Principle 4 of the policy document on *Fair Treatment of Financial Consumers* issued on 6 November 2019 (BNM/RH/PD 028-103)²¹. For example, in the case of investment-linked products with extensions to coverage term feature, a licensed person must-
- (a) at point of sale, ensure that the comparisons between investment-linked products with and without extension to coverage term feature, as well as other available alternatives, are clearly explained to policy owners/takaful participants to ensure informed decision-making;
 - (b) periodically engage policy owners/takaful participants post sales (e.g. whenever the premiums/takaful contributions required to fund the extension are updated once in five years); and
 - (c) when obtaining any explicit agreements from policy owners/takaful participants, ensure that they sufficiently understand the key information in the written disclosure.
18. A licensed person must abide by the principles in the Guidelines on Product Transparency and Disclosure²² in their notifications and disclosures to policy owners/takaful participants, to ensure that information provided is fit for purpose and does not result in confusion.
19. Where a licensed person conducts welcome calls post-sales, the licensed person must have in place a mechanism to check that policy owners/takaful participants adequately understand the extension feature, and inform them of avenues to access additional information on this feature. If it is ascertained that the policy owner/takaful participant was not fully aware of the details of the extension feature, and wishes to cancel the investment-linked policy/ takaful certificate, the licensed person must refund any premiums/takaful contributions that have been paid by the policy owner/takaful participant.

²¹ Issued by the Bank on 6 November 2019.

²² Issued by the Bank on 31 May 2013.
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20. Whenever notifications or disclosures are sent to policy owners/takaful participants or when requesting for the policy owner/takaful participant's agreement, a licensed person must:
- (a) ensure that the information reaches the policy owners/takaful participants in a timely manner to aid decision-making;
 - (b) monitor if policy owners/takaful participants have received the notifications, disclosure or agreement request for contact made via electronic platforms (e.g. SMS, email, phone calls, mobile applications). Any attempts to contact policy owners/takaful participants must be made at least three times, regardless of the mode of communication;
 - (c) in the event of a failed delivery, exhaust all efforts to contact the policy owners/takaful participants by other means to send the notifications, disclosure or agreement request, including having servicing agents contact their respective policy owners/takaful participants; and
 - (d) include contact information of a convenient channel for the policy owners/takaful participants to contact the licensed person, in the event that there are queries, as well as to facilitate discussion with the licensed person or its intermediary, whichever relevant. The contact information must be prominently displayed.
21. In relation to paragraph 20 of this Appendix, a licensed person must ensure that the policy owners/takaful participants' contact details are up-to-date. In doing so, a licensed person must:
- (a) put in place procedures for collecting and updating contact details of the policy owners/takaful participants, both at the point of sale and on an on-going basis as part of policy servicing; and
 - (b) provide an avenue for policy owners/takaful participants to update their contact details.
22. In the event a licensed person decides to leverage fully on electronic platforms, the licensed person must have in place measures to address the risks of some policy owners/takaful participants not being able to access the electronic notification or disclosure (e.g. senior citizens, those with disabilities or who have no internet access).

Transitional arrangements

E. New business

23. For the purpose of complying with this Appendix, a licensed person may continue to sell existing investment-linked products with extension to coverage term feature until 22 September 2021, subject to the following requirements:
- (a) where existing investment-linked products do not fully comply with the point of sale disclosure requirements set out in section A of this Appendix, a licensed person must carry out the following follow-up actions, within 6 months of the sale, to ensure that policy owners/takaful participants understand the features of the extension:
- (i) issue reminder letters to policy owners/takaful participants on the details of the extension feature. The letter must contain at minimum the following:
- the features and mechanics of the extension to coverage term offered, and the consequences of this extension;
 - the distinction between the initial coverage term and the additional coverage term provided by the extension;
 - a qualitative description on the distinction between the premium/takaful contribution for the initial coverage term and the premium/takaful contribution required to fund the extension, if any. For avoidance of doubt, quantitative premium/takaful contribution amount need not be disclosed;
 - the terms and conditions, including procedures, for exercising the option or finalising the automatic extension, (i.e. future action that the policy owner/takaful participant would need to take and the consequences if no actions are taken by the policy owner/takaful participant);
 - the re-underwriting requirements at the point of exercising the option, if any. This should include details on any consequences of re-underwriting, (e.g. higher premiums/takaful contributions may be imposed or rejection of cover); and
 - clarification that policy owners/takaful participants may opt out at any time, at no additional cost, if they so wish, and the consequences of opting out (e.g. loss in opportunity for longer coverage); and

- (ii) conduct follow-up calls to ensure understanding and address any questions;
and
 - (b) disclose the premium/takaful contribution amounts that would be required to fund the extension, in the next annual statement cycle following the sale of the policy/certificate. The disclosure must be in line with the requirements in paragraph 8 of this Appendix
24. For avoidance of doubt, a licensed person must ensure compliance with the requirement in paragraph 5 of this Appendix, in line with paragraph 4(f) of **Appendix IV**.
25. In relation to paragraph 23 of this Appendix, a licensed person must not sell investment-linked products that require policy owners/takaful participants to opt in for the extension at the point of sale, effective 22 March 2021 in line with paragraph 14.8 of this policy document.

In-force policies/takaful certificates with extensions, sold prior to 22 March 2021

26. A licensed person must:
- (a) comply with the requirements set out in sections B to D of this Appendix, beginning 22 September 2021
 - (b) carry out the follow-up actions specified in paragraph 23(a)(i) and (ii) of this appendix by 22 September 2021, to ensure that policy owners/takaful participants understand the features of the extension; and
 - (c) disclose the premium/takaful contribution amounts that would be required to fund the extension, in the next annual statement cycle after 22 March 2021. The disclosure must be in line with the requirements in paragraph 8 of this Appendix.

Remedial actions

27. Where there is a substantiated case of mis-selling of in-force policies/takaful certificates or new business sold before 22 September 2021, a licensed person must provide appropriate remedies to the affected policy owners/takaful participants, including refunds.

Appendix X Investment limits

1. A licensed person must comply with the following limits for the investments of an investment-linked fund in accordance with the following limits, for both Malaysian and foreign assets:

Counterparty limit

- (a) the value of a fund's investments in equity of any single issuer must not exceed 10% of the fund's NAV;
- (b) the total value of a fund's investments in securities, OTC derivatives (other than for the purpose of hedging) and structured products of any single issuer/group of related issuers must not exceed 25% of the fund's NAV;

Asset Limit

- (c) the total value of a fund's investments in all unlisted securities must not exceed 10% of the fund's NAV;
- (d) the total value of a fund's investments in all structured products must not exceed 15% of the fund's NAV;
- (e) the total value of a fund's investments in all CIS must not exceed 10% of the fund's NAV; and

Limit on class of securities by a single issuer

- (f) notwithstanding paragraphs 1(a) to (e) of this Appendix, a fund's investments in any class of securities of any single issuer must not exceed 10% of the total value of that class of security, except for securities issued/guaranteed by the Federal Government of Malaysia and Bank Negara Malaysia.

2. Notwithstanding paragraph 1 of this Appendix, the following limit waivers for specific funds are allowed:

- (a) the investment limits applicable for a fund which aims to track or replicate an index fully may increase to not more than the weightage of the investee company's share in the benchmark index. Weightings may be based on either component securities, or a representative sample of the underlying benchmark index;

- (b) for a feeder fund²³ and fund-of-funds²⁴, the 10% asset limit for CIS is waived; and
 - (c) the asset and counterparty limits for exposure to structured products are waived if —
 - (i) the fund is to be offered as capital guaranteed products, as stipulated in paragraph 14.3; or
 - (ii) the counterparty which is a financial institution licensed outside Malaysia, have a minimum AA rating, accorded by internationally recognised rating agencies, and the structured product must carry a guarantee by the counterparty to return the original principal/capital.
3. A fund may participate in any derivatives contract subject to the requirements stipulated in **Appendix XII** of this policy document.
4. The total value of a licensed person's investments in foreign assets must be in compliance with Notice 3 of the Foreign Exchange Administration rules.
5. For funds that invest in other types of CIS, the licensed person must ensure that —
- (a) the CIS is not to be invested in any investment or transaction that is prohibited by the Bank in this policy document;
 - (b) the CIS is not itself be invested in a fund-of-funds or feeder fund; and
 - (c) the CIS is approved by the Securities Commission of Malaysia or registered/approved/authorised by a home authority in the case of a foreign CIS.
6. A licensed person may request for limits higher than what is stipulated in paragraph 1 of this Appendix for fixed income security during the initial period where the total fund size is still small. The request by the licensed person must be supported by a proper plan and timeline on, among others, the measures

²³ A Feeder Fund is one which invests all its assets in a single CIS.

²⁴ A Fund-of-Funds is one which invests all its assets in other CIS.

to be put in place during and after the initial period to manage any risks (including concentration risk) that could arise from the flexibility given.

7. Any injection of seed money by a licensed person to assist in the start-up of an investment-linked fund should be made from its shareholders' fund. A licensed person must assess and manage the risk arising from the provision of seed money to its investment-linked funds. The provision of seed money should not jeopardise the shareholder's ability to support the needs of its other insurance or takaful funds. As seed money should not be a permanent feature in a licensed person's investment portfolio, a licensed person must have a clear exit strategy for the seed money provided. Such a strategy should ensure that the withdrawal of seed money injected does not adversely affect the interest of policy owners/takaful participants.
8. A licensed takaful operator must identify a relevant Shariah contract for providing the seed money from its shareholders' fund. In this regard, the licensed takaful operator must, at minimum, ensure the following:
 - (a) terms and conditions on injection of seed money are in line with Shariah requirements; and
 - (b) necessary process and procedures are in place to facilitate the injection of seed money.
9. A licensed person must ensure that the injection of seed money must not exceed the following limits:
 - (a) 10% of Total Capital Available for a licensed insurer. Any amount of seed money injected above this limit must be excluded from the capital available; and
 - (b) 10% of shareholders' fund assets for a licensed takaful operator.

Appendix XI Valuation of assets for investment-linked takaful funds

1. A licensed takaful operator must ensure that the assets of an investment-linked takaful fund are valued at market value on a daily basis.
2. The licensed takaful operator must ensure that the values for the following assets are not in excess of the fair value:
 - (a) unlisted securities; and
 - (b) listed securities that have been suspended from trading by any stock exchange for 14 or more consecutive trading days as at the date for which the value is to be determined.

The basis and techniques to be used in determining the fair value of the above assets should be disclosed to and verified by the external auditor. For Islamic debt instruments which have no active market, licensed takaful operators or their independent valuers may use widely accepted valuation techniques that have been demonstrated to provide reliable estimates of the price.

Appendix XII Use of derivatives

1. A licensed person is permitted to use derivatives for the purpose of hedging of the risk exposures of an investment-linked fund, subject to the requirements stipulated in the Revised Guidelines on Derivatives for Insurers issued on 21 March 2009 (BNM/RH/GL 003-26).
2. The licensed person is permitted to use derivatives for the purpose of yield enhancement with the prior written approval of the Bank.
3. A licensed person must submit an application to the Bank to engage in derivatives for the purpose of yield enhancement as per paragraph 2 of this Appendix, prior to the sale of the investment-linked product. The application must include the following information:
 - (a) the rationale for the licensed person's choice of derivative instruments (vis-à-vis the design of the investment-linked product in terms of how the elected derivative instruments would support the investment strategies underlying the product);
 - (b) the credit rating of the counterparty involved;
 - (c) explanation on the types and nature of risks the fund will be exposed to and how these risks are mitigated; and
 - (d) a description of the licensed person's internal risk management system and capability to support the effective management of associated risks.
4. A licensed takaful operator must ensure that the derivative activities undertaken are in compliance with Shariah principles at all times and the derivatives structure shall be based on approved Shariah principles. These include *'urbun* (deposit), *hamish jiddiyah* (security deposit) and *wa'd* (undertaking) with appropriate adaptations of the principles.