

## **Response to feedback received from the Exposure Draft on Medical and Health Insurance/Takaful Business**

### *Introduction*

Bank Negara Malaysia (the Bank) today issued the policy document on Medical and Health Insurance/Takaful Business for licensed insurers and takaful operators (licensed ITOs). This policy document incorporates feedback received from 53 respondents during the consultation period following the publication of the exposure draft on 30 December 2022.

The respondents were broadly supportive of the proposed requirements in the exposure draft, and the feedback and suggestions received have been incorporated in the policy document. To provide further clarity, the Bank issues the following clarification on the feedback received on the key requirements in the policy document.

**Bank Negara Malaysia**  
**29 February 2024**

## A. Product design

### 1. Applicability of minimum co-payment amount

#### Feedback received

Respondents generally agreed with the introduction of a minimum co-payment amount. Some respondents suggested setting a higher minimum amount to effectively nudge positive consumption behaviour to reduce “buffet syndrome<sup>1</sup>” while others have suggested a lower minimum amount to account for affordability considerations.

Respondents also sought clarification on the application of the minimum co-payment amount (e.g. whether the requirement is applied retrospectively or prospectively, and whether medical reimbursement products without a co-payment feature can continue to be sold, including riders to waive the co-payment amount).

#### The Bank’s response

- 1.1 After careful consideration, the Bank will maintain the minimum co-payment requirement of co-insurance/co-takaful of 5% of total claimable expenses (after deductible) and/or RM500 deductible per policy/takaful certificate year for new individual medical reimbursement insurance/takaful product. This decision takes into consideration the experience of existing co-payment products in the market and income levels of Malaysians, while balancing it against prevailing economic conditions and the intended objective of the co-payment requirement. Experiences of other countries’ which have implemented co-payment requirement was also a factor in the Bank’s decision.
- 1.2 A licensed ITO will no longer be permitted to design any new individual medical reimbursement insurance/takaful products without a co-payment feature or to offer any add-ons to reduce or fully waive the co-payment portion. This means that licensed ITOs must include a co-payment feature to any new individual medical reimbursement insurance/takaful products that it will introduce into the market effective 1 June 2024, where the co-payment amount shall be no less than the minimum amount set out in paragraph 9.4(a) of the policy document. For the purposes of this requirement, any revisions to benefits and limits, including via rider add-ons, of any existing product, is deemed to be material and hence, meets the definition of new product under the Policy Document on Introduction of New Products by Insurers and Takaful Operators issued on 15 May 2015.
- 1.3 A licensed ITO must also have and offer at least one co-payment product with the minimum co-payment level by 1 September 2024 unless otherwise specified by the Bank. In the event a licensed ITO does not have any on-shelf individual medical reimbursement insurance/takaful product with the minimum co-payment amount, the licensed ITO must design a new individual medical reimbursement insurance/takaful product that meets the minimum amount.

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<sup>1</sup> A situation where individuals seek to maximise the value of premiums paid/contributions made. Hence, the higher likelihood to utilise medical services with little incentive to consider the associated costs.

- 1.4 Existing on-shelf individual medical reimbursement insurance/takaful products can continue to be sold until the licensed ITO decides to withdraw them from the market.

## **B. Business conduct and disclosure**

### **2. Disclosure requirements: Revised product disclosure sheet**

#### **Feedback received**

Some respondents raised concerns that the 2 ½ pages requirement in the revised product disclosure sheet (PDS) will be impractical and insufficient to provide sufficient details to consumers.

Respondents also highlighted concerns that the disclosure of industry average claims ratio may not fully illustrate the concept of risk pooling and results in potential confusion among consumers. In addition, such disclosure may adversely impact individual licensed ITO's commercial viability as it is seen as disclosing sensitive individual business information.

#### **The Bank's response**

- 2.1 The revised PDS for individual medical reimbursement insurance/takaful products is designed to serve as a reference document for consumers and it contains essential information about the product. This includes key product/plan benefits, sum insured/covered, and fees and charges. The revised PDS is intentionally limited to 2 ½ A4 pages to ensure that the document is concise to promote easy reading and to facilitate consumers' decision-making process in reviewing the product.
- 2.2 Licensed ITOs may supplement the revised PDS with other relevant sales and marketing materials (e.g., brochure). These materials can be accessed by consumers either through a QR code shown on the revised PDS or printed documents. This will enable consumers to have further information about the individual medical reimbursement insurance/takaful product being sold. As the revised PDS format is standardised across the industry, consumers will be able to compare the products offered by different licensed ITOs more easily.
- 2.3 The flow of the revised PDS is deliberately designed to be a step-by-step guide on what consumers should be mindful of when purchasing medical reimbursement insurance/takaful products as well as the underlying concepts of such products. In this regard, Step 1 seeks to enhance consumers' understanding on the risk-pooling concept. The claims ratio in Step 3 is expressed as the average amount allocated to pay claims to demonstrate that the levels of premium/takaful contribution is dependent on expected claims payout and may need to be reviewed periodically to ensure long term sustainability. Further, the average claims ratio to be disclosed is an industry-level figure to manage sensitive individual business information. The Bank expects respective licensed ITOs to also manage consumers' understanding on the concept of risk-pooling and how premiums/takaful contributions are utilised.
- 2.4 The requirements on the revised PDS will apply to all individual medical reimbursement insurance/takaful products effective 1 January 2025.

### 3. Needs-based assessment requirements

#### Feedback received

Some respondents provided feedback that the list of minimum information that must be obtained from consumers may not be practical and does not necessarily provide further insights to aid in the product recommendation process. There were also suggestions for the Bank to consider excluding certain MHIT products from the needs-based assessment requirement such as *Perlindungan Tenang*, group MHIT and MHIT products designed for foreign workers.

In addition, licensed ITOs sought further clarification as to whether the Bank will be setting a standard on the use of appropriate online tools for consumers to conduct self-assessment on product suitability.

- 3.1 After consideration, the Bank maintains its decision on the list of minimum information that must be obtained from consumers as this is important for licensed ITOs and/or its intermediaries to determine products that are suitable for consumers based on their needs. The list of information obtained will also help determine how best to narrow the consumer's protection gap and how much customers can afford to pay for the recommended coverage.
- 3.2 In obtaining the minimum information, licensed ITOs and/or its intermediaries shall be guided by paragraph 14.6 of the policy document on Fair Treatment of Financial Consumers. Should a consumer choose not to provide all the information requested, the licensed ITO and/or its intermediaries shall caution the consumer that withholding relevant information could hinder them from making a suitable product recommendation.
- 3.3 With regards to the applicability of the needs-based assessment requirement, the Bank will not be requiring the list of minimum information to be obtained from customers purchasing group MHIT products and MHIT products approved under the policy document on *Perlindungan Tenang*. The requirement continues to apply to other MHIT products.
- 3.4 On the use of appropriate online tools, the Bank wishes to inform that the Bank will not prescribe any standardised tool. Where relevant, the requirements in paragraph 14.4 and 14.5 of the policy document shall be read together with paragraph 9.1 of the policy document on Direct Distribution Channels for Pure Protection Products for licensed insurers carrying life insurance business and licensed takaful operators carrying family takaful operator business. This requirement shall also extend to licensed insurers carrying on general insurance business and licensed takaful operators carrying on general takaful business.

### 4. Prohibition on concluding sales through telemarketing channel

#### Feedback received

Respondents raised concerns on the prohibition on concluding sales through the telemarketing channel and highlighted that the telemarketing channel is an effective and convenient tool to offer simple MHIT products. Such prohibition would result in the removal convenient access to such products and would also result in higher operational cost. In this regard, respondents had requested for the Bank to

reconsider the prohibition, especially for simple MHIT products and if proper sales practices and robust monitoring mechanisms are in place.

### **The Bank's response**

- 4.1 The thematic review undertaken by the Bank has revealed significant areas for improvement in licensed ITOs' sales practices through the telemarketing channel. These areas include improving product explanations to consumers and enhancing oversight over telemarketers to minimise the risk of offering inaccurate and incomplete information to consumers when concluding a sale. It was also observed that while telemarketing channels remain the main distribution channel for simple MHIT products (i.e., critical illness and hospitalisation income products) for some licensed ITOs, persistency rates of these products were much lower as compared to other distribution channels.
- 4.2 The Bank recognises the value of telemarketing channels to ensure insurance/takaful access, especially when face-to-face interactions are limited. In this regard, the Bank will not prohibit licensed ITOs from marketing MHIT products through telemarketing channels. However, telemarketers will not be permitted to conclude a sale and potential customers will need to be redirected to a qualified sales representative who will conduct a proper needs-based analysis before concluding the sale, as per paragraph 15.2 of the policy document.
- 4.3 Ensuring proper conduct of needs-based assessment is critical to ensure suitable MHIT products that meet the needs of customers are sold. In view that more detailed customer information is needed to facilitate meaningful suitability and affordability assessments, direct engagements, including virtual engagements through video calls, with a qualified sales representative is more befitting for this purpose. The Bank views that it is inappropriate to use telemarketing channels to do so given the expected level of conduct and rigour. Telemarketers' focus will now be on marketing and providing adequate information about the MHIT products. As such, customers would be able to make well-informed decisions with their needs in mind as the sales would now be thoughtfully concluded.
- 4.4 The same expectation to conduct a thorough needs-based assessment on simple MHIT products applies as customers still need to understand the features of the MHIT product and consider their individual needs. Hence, permitting simple MHIT products to continue to be sold via telemarketing channels will not meet the Bank's expectation of proper conduct of needs-based assessment. With the issuance of this policy document, the prohibition on concluding sales through telemarketing channels will apply to all MHIT products only.