

## PUBLIC FEEDBACK STATEMENT

### Policy Document on Bancassurance/Bancatakaful: Summary of Key Feedback Received from Public Consultation and BNM's Responses

In August 2021, Bank Negara Malaysia (the Bank) issued an exposure draft on Bancassurance/Bancatakaful for public consultation. The Bank wishes to record its appreciation to the financial service providers (FSPs) and other parties for providing valuable insights and feedback that have in turn assisted the Bank in finalising the requirements in the policy document. Following the issuance of the Policy Document on Bancassurance/Bancatakaful (PD), this supplementary feedback statement is intended to summarise the key feedback received and the Bank's corresponding responses to provide greater insights on the Bank's policy and supervisory expectations.

No	Requirements	Feedback received	Responses
1.	Risk management or compliance and internal auditor functions to play a role in reviewing and monitoring the effectiveness of internal policies, procedures, and controls with respect to persistency rates.	<p>Majority of FSPs were agreeable to this requirement. In responding to the specific question posed with respect to this<sup>1</sup>, the feedback received showed majority of FSPs uses all three control functions i.e. risk management, compliance <u>and</u> internal audit.</p> <p>The feedback also indicated that it is common for internal audit to carry out this function as it is currently being practiced now by a majority of respondents.</p> <p>However, where internal audit is not utilised to carry out this function, the feedback indicated that either one or a combination of several functions are utilised instead. These include the use of:</p>	<p>To ensure robust control and oversight of risk with sufficient independent assurance in carrying out this function, the Bank will maintain the proposed requirement that risk management or compliance and internal audit function are to play a role in reviewing and monitoring the effectiveness of internal policies, procedures and controls in relation to bancassurance/bancatakaful persistency rate.</p> <p>In addition, the Bank welcomed the fact that majority of FSPs used all three control functions with respect to this. As such, to ensure continuity in this regard, a guidance for the avoidance of doubt is also provided specifying that FSPs may use all 3 control functions to carry out this role i.e. risk management, compliance and internal audit.</p>

<sup>1</sup> Which functions in the FSP (risk management, compliance, internal audit or all three) are responsible for monitoring compliance to the internal policies and procedures with respect to persistency rates?

## PUBLIC FEEDBACK STATEMENT

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		<ul style="list-style-type: none"> <li>a) Risk management only,</li> <li>b) Risk management &amp; Compliance,</li> <li>c) Joint committees between ITOs and bank partners, comprising of members such as CEOs, sales compliance and distribution teams, client services etc.</li> </ul>	
2.	<p>The review of internal policies, procedures and controls in relation to bancassurance/bancatakaful persistency rates must be carried out at least once in every two years.</p>	<p>Feedback received showed majority of FSPs were agreeable to the minimum 2 years frequency for the review. The feedback indicates that the proposed frequency of review is suitable as it enables FSPs to monitor persistency up to the 2<sup>nd</sup> policy year and allows sufficient time to adopt policies and procedures to correct any persistency issues after the first year.</p> <p>However, some FSPs were of the view that the frequency of review should be dependent on the FSPs' risk profile assessment, i.e. frequency can be higher in cases of complex products and higher risk segments, or if persistency falls below a certain threshold.</p>	<p>The Bank reaffirmed its stance on the suitability of the minimum biennial frequency for the said review, which does infer the need for more frequent reviews for FSPs that have higher risk profiles.</p> <p>For avoidance of doubt, the Bank has provided additional guidance to illustrate higher risk profile circumstances which may warrant a more frequent review period. Therefore, the guidance provides that the review may be carried out more frequently where FSP's bancassurance/bancatakaful business is exposed to higher risk of mis-selling such as when more complex products are being sold or when products are being sold to vulnerable consumers particularly those who are identified as high-risk segments.</p>
3.	<p>Proposed definition of "high-risk segments" refers to segments of consumers which are more susceptible to the risk of harm or mis-selling such as individuals earning a monthly income of up to RM5,000, first time buying an</p>	<p>The feedback received on the definition of "high-risk segments" invited varied responses: some FSPs agreed with the proposal, while others disagreed with the RM5,000 individual income threshold proposed. On the latter, these FSPs had proposed for the use of household income instead of individual income, a broader</p>	<p>The Bank deliberated at length on the definition of "high-risk segments" taking into consideration the feedback received as well as the approach that should be taken in light of the upcoming issuance of the Exposure Draft on Fair Treatment of Vulnerable Consumers i.e. which defines "Vulnerable Consumers".</p>

## PUBLIC FEEDBACK STATEMENT

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	insurance/investment product, students, or retirees;	<p>definition i.e. B40, or for the individual income threshold to be capped at RM3,000 instead.</p> <p>In addition, FSPs had also proposed for the inclusion of other categories of individuals to be considered as high-risk segments, such as:</p> <ul style="list-style-type: none"> <li>a) senior citizens/the elderly,</li> <li>b) individuals with low/no literacy or education,</li> <li>c) housewives,</li> <li>d) first time buyers to apply to only savings/takaful products or only investment-linked plans.</li> <li>e) individuals with cognitive impairment,</li> <li>f) non-income earners,</li> <li>g) for criteria to be based on specific product, and</li> <li>h) have multiple criteria to be met for individual to be considered part of the high-risk segment.</li> </ul>	<p>The Bank was of the view that the individual income threshold of RM5,000 and below is appropriate as it has been found that this segment is more susceptible to economic shocks (please refer to the Box Article: “Indebted to Debt: An Assessment of Debt Levels and Financial Buffers of Households”, in Bank Negara Malaysia’s Financial Stability and Payment Systems Report 2017<sup>2</sup> for further details). In addition, the Bank viewed individual income as a better indicator than household income, which does not take into account factors such as the number of dependents.</p> <p>As such, the Bank has retained the proposed definition of “high-risk segments” and have also included the definition of “Vulnerable Consumers” as defined in the Exposure Draft on Fair Treatment of Vulnerable Consumers, to better reflect the universe of consumer segments that would benefit from additional safeguards as specified in the final Policy Document on Bancassurance/Bancatakaful.</p>
4.	FSPs must have 100% successful follow-up calls by an independent party e.g. a staff independent of the sales staff, If insurance savings products are sold to consumer segments that are	FSPs expressed concern and disagreement on conducting 100% successful follow-up calls for their high-risk customers as they viewed a 100% success rate is not feasible given that customers are unlikely to pick up calls due to fear of scams. This feedback was supplemented with suggestions such as:	<p>The Bank acknowledges that FSPs will face difficulties in obtaining 100% success rate in their follow-up calls to customers and is cognizant of the current scam climate. As such, the Bank has refined the requirement which requires FSPs to instead:</p> <ul style="list-style-type: none"> <li>a) notify and obtain customer acknowledgement about the purchase of the insurance/takaful</li> </ul>

<sup>2</sup> <https://www.bnm.gov.my/documents/20124/826852/FSPSR+BA1+-+Indebted+to+Debt+An+Assessment+of+Debt+Levels+and+Financial+Buffers+of+Households.pdf>

## PUBLIC FEEDBACK STATEMENT

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	more susceptible to risk of harm/mis-selling.	<ul style="list-style-type: none"> <li>a) to provide clarity on when to conduct such communications,</li> <li>b) to allow for 100% attempted calls followed by safeguards to ensure customers are reached out to, and</li> <li>c) to allow flexibility in the mode of communication to customers.</li> </ul>	<p>savings product(s) through any appropriate means of communication;</p> <ul style="list-style-type: none"> <li>b) to perform at least 3 non-consecutive follow-up call attempts if no acknowledgement of understanding is received from a customer arising from the notification; and</li> <li>c) ensure the process is made easy, immediate and convenient for the customer if the customer has decided to withdraw or discontinue their policy/certificate.</li> </ul> <p>This requirement is also supplemented with a guidance that FSPs must have in place measures to address the risks of certain groups of high-risk segments and/or vulnerable consumers who may not be able to access the electronic notification or disclosure sent via platforms such as SMS, emails or social messaging applications (e.g. senior citizens, those with disabilities or those who have no internet access).</p>
5.	FSPs shall prominently display the annualised returns for insurance/takaful savings products in all of its marketing materials such as product disclosure sheet, sales illustration or brochures, which contain illustrations of some type of returns.	The feedback received on this proposed requirement were mixed. Some respondents felt annualised returns (AR) was sufficient and a suitable indicator to promote more informed and realistic understanding on the actual returns. While other respondents felt AR was an unsuitable indicator as emphasis on AR may push FSPs to prioritise savings over protection element to be able to illustrate higher AR. Respondents also suggested for other indicators to be used instead such as:	<p>This proposed requirement is intended to address risk of mis-selling arising from illustration of benefits that may give false impressions of high returns to consumers. By improving disclosures on returns as well as possible downside risks, consumers are better able to make informed decisions on purchase of insurance/takaful products.</p> <p>For example, annualised returns would be a meaningful indicator for bancassurance/bancatakaful consumers to compare the savings element of an insurance/takaful savings products against that of</p>

## PUBLIC FEEDBACK STATEMENT

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		<p>a) Annualized returns based on different investment and risk,  b) Average rates of return of other FSPs investments and fixed deposits,  c) Historical performance against historical industry's performance (prepared by independent body/industry representative)  d) Internal rate of return  e) Historical returns/actual average performance of underlying assets</p> <p>Nevertheless, the feedback from FSPs did demonstrate that majority of FSPs are able to incorporate the disclosure of annualised returns in their marketing materials.</p>	<p>other products offered by the banking institution (e.g. deposit products) in order to make informed decisions for themselves.</p> <p>As such, the Bank maintained the requirement to disclose annualised returns in all marketing materials that contain illustrations/indications of returns but with the following enhancements:</p> <p>a) The annualised returns shall apply to insurance/takaful products with guaranteed pay-out features such as guaranteed survival benefits during the policy term or guaranteed maturity benefits. This has considered the existing requirements on specific illustration formats for non-guaranteed pay-out features for products such as Investment-Link, Universal Life and Participating products e.g. the 2% and 5% scenario which are indications of returns at fund level</p> <p>b) Further specifications with regards to the disclosure of guaranteed pay-out benefits to reduce risks of giving a false impression of high returns to customers as specified in Paragraphs 10.7 - 10.9 of the Policy Document. Appendix I provides a non-exhaustive list illustrating examples of permitted and non permitted disclosure practices</p> <p>c) A statement to remind consumers of the protection elements of insurance/takaful products alongside illustration of annualised return, to encourage the bancassurance/bancatakaful consumers to</p>

## PUBLIC FEEDBACK STATEMENT

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			<p>give due consideration to the benefits of the protection components when making a comparison, as per the following:</p> <p><i>“The premiums/contributions you pay contribute to both the savings and protection elements of the product, e.g. death benefits. If you are looking for financial products with savings element, you may wish to compare returns of this policy/certificate with the effective returns of other investment alternatives.”</i></p>
6.	<p>In ensuring marketing names used for life insurance/family takaful products are not misleading to consumers, FSPs shall use the word “insurance or takaful”, whichever is applicable, in its marketing name (e.g. ABC Wealth Insurance, XYZ Wealth Takaful) <b>or</b> prominently state below the marketing name that “This is an insurance or takaful product”, whichever is applicable, for all non-credit life insurance/family takaful products offered under the bancassurance/bancatakaful arrangement.</p>	<p>Some FSPs requested for flexibility to not reflect changes in the name of the product (marketing name)/additional statement due to existing practices as prescribed by the Bank’s Guidelines on Product Transparency and Disclosure<sup>3</sup>.</p> <p>Some FSPs also requested for further clarity on the placement of the statement “This is an insurance/takaful product” in marketing materials – whether it would suffice for this to appear once or should it be recurring throughout i.e. wherever the marketing name is mentioned in the materials.</p>	<p>The Bank wishes to reiterate the importance of having unambiguous marketing names and clear disclosure to consumers to ensure their full understanding of the insurance/takaful products that they purchased.</p> <p>This is particularly important as common complaints received by the Bank for insurance/takaful products sold via the bancassurance/bancatakaful channel centre on consumers not being aware that they had purchased an insurance/takaful product, with some assuming they had purchased a deposit product with free insurance coverage.</p> <p>Hence, the Bank has maintained the requirement that FSPs shall use the word “insurance/takaful” in the marketing name or prominently state below the marketing name that “This is an insurance product”. Clarifications on the frequency and placement of the</p>

<sup>3</sup> Schedule III, Appendix II - Product Disclosure Sheet Samples requires the name of FSP, and a prominent statement regarding the long-term financial commitment of insurance policies.

## PUBLIC FEEDBACK STATEMENT

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			statement can be found in the Frequently Asked Questions (FAQ) of the Policy Document on Bancassurance/Bancatakaful.
7.	The Policy Document on Bancassurance/Bancatakaful (PD) to be effective 6 months upon issuance.	<p>Some FSPs agreed with the 6 months period proposed, premised on the following:-</p> <ul style="list-style-type: none"> <li>a) no major differences between the exposure draft and final PD;</li> <li>b) enhancements would be on policies and procedures rather than systems; and</li> <li>c) provided that there is an avenue for FSPs to seek extensions.</li> </ul> <p>Other FSPs proposed that the effective date should be extended to 12 months post-issuance of the PD. Justifications given for the extension include:</p> <ul style="list-style-type: none"> <li>a) Retrospective changes to the marketing materials for current selling plans;</li> <li>b) System enhancements;</li> <li>c) Ensure staff qualifications and trainings;</li> <li>d) Review and implement delineation of accountabilities and persistency monitoring; and</li> <li>e) The need for board &amp; senior management approval.</li> </ul>	The Bank has maintained the effective date as 6 months upon issuance of the PD as extensions would further delay the timely implementation of requirements that are meant to protect against poor consumer outcomes.
8.	Board and senior management are to be jointly accountable to ensure bancassurance/bancatakaful	Some FSPs opined that to hold the Board accountable on poor consumer outcomes may not be justifiable as the definition can be very wide with many interpretations and	The Bank has maintained the requirement as is and will not be prescriptive in this regard.

**PUBLIC FEEDBACK STATEMENT**

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	products marketed and sold and bancassurance/bancatakaful arrangements entered do not result in poor consumer outcomes.	requested that the Bank cite some minimum expectations on what is construed as poor outcomes.	<p>The Bank wishes to highlight that the Board is responsible for setting the right tone from the top to ensure reasonable standards of fair dealing<sup>4</sup>, including approving relevant policies to achieve fair treatment of financial consumers outcomes, as specified in the Policy Document on Fair Treatment of Financial Consumers (FTFC)<sup>5</sup>.</p> <p>Examples of poor consumer outcomes are provided under the FAQ for the FTFC<sup>6</sup> (please refer to item No.2 under the FAQ for FTFC).</p>

**BANK NEGARA MALAYSIA**  
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<sup>4</sup> Paragraph 10.2 of the FTFC

<sup>5</sup> Paragraph 10.2(c) of the FTFC

<sup>6</sup> Examples of poor consumer outcomes, amongst others, include the recommendation and sale of financial products:

- (i) which are not suited to the financial circumstances of financial consumers;
- (ii) that do not deliver what financial consumers were led to believe or expect; and/or
- (iii) which leads to financial consumers making bad financial decisions or choices due to poor disclosure of the financial product risks, charges, features and/or exemptions.