

## **GUIDELINES ON PERMISSIBLE LIFE INSURANCE BUSINESS WITH HIGH NET-WORTH MALAYSIAN INDIVIDUALS**

### **1.0 Introduction**

- 1.1 Labuan life insurers licensed under the Labuan Financial Services and Securities Act 2010 (LFSSA) are allowed to sell life insurance policies including investment-linked insurance denominated in foreign currency (life insurance business) to high net-worth Malaysian individuals.
- 1.2 The issuance of this Guidelines is aimed to consolidate the requirements pertaining to permissible Malaysian life insurance business into a single reference document so as to provide better clarity.

### **2.0 Definition**

- 2.1 For the purpose of this Guidelines, a high net-worth Malaysian individual is defined as follows:
  - (i) For single premium life policy, a Malaysian resident who spends not less than the equivalent of RM20,000 in any foreign currency on such policy in Labuan; and
  - (ii) For annual premium life policy, a Malaysian resident who spends not less than the equivalent of RM15,000 in any foreign currency on such policy in Labuan.

### **3.0 Applicability**

- 3.1 The Guidelines is applicable to all Labuan life insurers and insurance brokers dealing with high net-worth Malaysian individuals for life policies denominated in foreign currency.

### **4.0 Legal Provision**

- 4.1 The Guidelines is issued pursuant to Section 4A of the Labuan Financial Services Authority Act 1996 (LFSAA) to clarify the requirements on the offering of the life insurance policies by Labuan life insurers to high net-worth Malaysian individuals.
- 4.2 Any person who fails to comply with the Guidelines is guilty of an offence punishable under Section 36B and 36G of the LFSAA.

## **5.0 Effective Date**

- 5.1 This Guidelines shall come into force with immediate effect and would remain effective and applicable unless amended or revoked.
- 5.2 With the issuance of this Guidelines, the following Guidelines/circulars are superseded:
- (i) The Guideline on High Net-Worth Malaysians for Offshore Insurance Purpose dated 18 December 1997;
  - (ii) Marketing Channels for Direct Insurance of Permitted Malaysian Risks (Circular no.: 2000/1/INS) dated 7 December 2000
  - (iii) The Guidelines on High Net-Worth Malaysian for Offshore Insurance Purposes (Circular No.:16/2002/LIIA/ALTC) dated 23 April 2002;
  - (iv) Purchase of Investment-Linked Products by Malaysian Residents from Licensed Offshore Life Insurers in Labuan (Circular No.:27/2003/ALL) dated 11 April 2003;
  - (v) Sales of Investment-Linked Products by Offshore Life Insurers in the Labuan IOFC (Circular No.:57/2004/ALL) dated 2 August 2004;
  - (vi) Liberalisation of the Foreign Exchange Administration Rules (Circular No.:72/2005/ALL) dated 12 April 2005;
  - (vii) Sales of Investment-Linked Policies to High Net-Worth Malaysian Individuals (Circular No.:92/2007/LIIA/ALTC) dated 21 November 2007; and
  - (viii) Use of Onshore Licensed Institutions as Distribution Channel by Labuan Insurance Companies (Circular no.: 101/2009/LIIA/ALTC) dated 18 June 2009.

## **6.0 Eligibility Criteria**

- 6.1 A Labuan life insurer is required to comply with the following eligibility criteria in order to underwrite the permitted Malaysian life insurance business:
- (i) licensed under the LFSSA to carry on life insurance business;
  - (ii) establish a presence in Labuan or Malaysia pursuant to section 103(1)(e) of LFSSA and the Guideline on Co-location of Labuan Insurance and Takaful Licensee; and
  - (iii) be a member of the Malaysian Insurance Institute (MII).
- 6.2 The high net-worth Malaysian individuals shall comply with the Foreign Exchange Administration rules issued by Central Bank of Malaysia (BNM) with regard to the purchase of investment-linked products offered by Labuan life insurers.

- 6.3 Notwithstanding the above, Labuan FSA reserves the right to withdraw the approval to access the Malaysian insurance market at any time should the Labuan life insurers fail to comply with any of the regulatory or operating requirements set within this Guidelines and any other requirements as may be required by Labuan FSA from time to time.

## 7.0 Marketing and Distribution Channels

- 7.1 Labuan life insurers are allowed to utilise the following marketing and distribution channels to sell life insurance policies denominated in foreign currency (life insurance policies) to high net-worth Malaysian individuals:

(i) **Marketing or Co-located Offices**

Labuan life insurers are allowed to sell life insurance policies to high net-worth Malaysian individuals through their marketing or co-located offices in Malaysia.

(ii) **Labuan Insurance Brokers**

Labuan insurance brokers licensed under the LFSSA are allowed to market life insurance policies of Labuan life insurers licensed under the LFSSA to high net-worth Malaysian individuals.

(iii) **Tie-up with Malaysian banking institution**

a) Labuan life insurers are allowed to have tie-up with one Malaysian banking institution licensed under the Financial Services Act 2013 (FSA 2013) subject to the requirements as per **Appendix I**.

b) Pursuant to section 29 of the FSA 2013, the banking institution concerned is required to obtain prior written approval from BNM before entering into such arrangement with Labuan life insurer.

(iv) **Engagement of licensed financial advisers and insurance brokers**

a) Labuan life insurers are allowed to engage financial advisers and insurance brokers licensed under the FSA 2013 to sell life insurance policies to high net-worth Malaysian resident individuals.

b) However, a financial adviser and an insurance broker are not allowed to be tied to any particular Labuan life insurer and the maximum commission to be paid by a Labuan life insurer to a financial adviser and insurance broker shall not exceed the limit imposed on Malaysian insurers for similar insurance products. Details of the commission allowable for financial advisers and insurance brokers are attached in **Appendices II** and **III**, respectively.

## 7.2 Conditions for using Malaysian distribution channels

- (i) The employees of the Malaysian distribution channels engaged in sales or servicing, of the Labuan life insurers' products shall be on a full time basis and possess the minimum insurance qualifications as life agents registered with Life Insurance Association of Malaysia.
- (ii) In addition, the employees of the Malaysian distribution channels engaged in sales or servicing of investment-linked products are also required to pass the Examination in Investment-Linked Life Insurance conducted by the MII.
- (iii) Any contract between a Labuan life insurer and a Malaysian banking institution/financial adviser/insurance broker shall include a provision for the flexibility for changes in the event of any revision to the current policy and commission limits.

7.3 Labuan life insurers are not allowed to utilise the Malaysian agency force or appoint agents in Malaysia to market their products to high net-worth Malaysian individuals.

## 8.0 Prudential and disclosure requirement for Foreign-currency denominated (FX) education and investment-linked policies

8.1 Labuan life insurers that solicit investment-linked policies with high net-worth Malaysian individuals are subjected to the prudential and disclosure requirements set out by BNM as follows:

- (i) Separate funds shall be established for FX policies within the ordinary life and investment-linked funds as applicable.
- (ii) Liabilities and underlying assets shall be currency-matched for each product line offered. Where products are offered in more than one currency, the assets should be matched to the predominant currency(ies).
- (iii) Investment strategies supporting the FX funds shall be consistent with the general prudential principles of diversification, liquidity and dealings with creditworthy counter-parties.
- (iv) Adequate disclosures shall be provided to policy holders in the marketing materials to draw attention to the foreign investment exposures underlying the policies. This should include information on the nature of foreign investments (including details on the jurisdiction, investment instruments and sectors/industries in which the funds will be invested) and a description of the major investment risks faced by policy holders.<sup>1</sup>

<sup>1</sup> E.g. Policy holders of a fund that have investments in an investment-linked UK FTSE tracker fund will be subject to movements in both the RM-Pound Sterling exchange rate as well as values of the shares composing the FTSE 100 Index.

## 9.0 Reporting Requirement

9.1 Labuan life insurers transacting with Malaysian high net-worth individuals are required to submit to the Industry Reporting Unit of Labuan FSA, the following:

- (i) Periodical reporting on the total number of life policies transacted with high net-worth Malaysian individuals, the amount assured and the premium submitted via the Statistical Management System; and
- (ii) Other statistical information as may be required by Labuan FSA from time to time.

9.2 In addition, the Labuan life insurers are required to provide the Foreign Exchange Administration of BNM with a monthly reporting as per the format attached in **Appendix IV**.

## 10.0 Enquiry

10.1 Any enquiries or clarification may be directed to the following contact details:

Telephone no. : 087 591 200  
Fascimile no. : 087 453 422 / 422 300  
E-mail : bpu@labuanfsa.gov.my (Business Policy unit)

**Labuan Financial Services Authority**

13 December 2017 (updated)

## Requirements on Bancassurance Arrangement between Labuan Life Insurers and Malaysian banking Institutions for Sales of Permitted Insurance Products to High Net-Worth Residents

### 1.0 Limits on Commission – Regular/Annual Premium Life Policies

- 1.1. The maximum percentages of commission payable to Malaysian banking institutions for selling life policies (applicable to both basic policies and riders<sup>2</sup>) with premium terms of 20 years or more shall be as follows:

		<b>Protection products</b>	<b>Savings<sup>3</sup> products</b>
(i)	Maximum total commission	80%	65%
(ii)	Maximum first year commission	30%	20%
(iii)	Maximum renewal commissions	10%	5%
(iv)	Minimum commission payment period	6 years	10 years

- 1.2. The commission levels as stipulated in items 1.1(i) and 1.1(ii) shall be pro-rated accordingly for a policy with premium paying term of less than 20 years, but the maximum renewal commission shall be maintained. The commission payment period for policies with a term of less than 20 years shall be the minimum commission period as stipulated in 1.1(iv) or premium payment period, whichever is shorter. An illustration of the adjusted commission structure for policies with a term of less than 20 years is shown in **Attachment I**.

<sup>2</sup> The maximum commission allowed for riders will depend on the product type of the rider, and not that of the basic policy. Therefore, a basic protection policy sold with a savings rider will be subject to the different commission structures stipulated for protection and savings products in respect of the basic policy and rider respectively.

<sup>3</sup> Saving products refer to life insurance products which provide benefits on survival to maturity or during the policy term (this exclude payments of surrender benefits), and shall include investment-linked and annuity policies.

- 1.3. Labuan life insurers are allowed to pay production and persistency bonus on an individual policy basis over and above the maximum commission limits specified in paragraph 1.1, subject to the following:
  - (i) Production bonus shall not exceed 5% of the aggregate first year premium; and
  - (ii) Persistency bonus shall not exceed 10% of the second and third policy year premium respectively.
- 1.4 Malaysian banking institutions may be paid an aggregate production bonus subject to qualifying production limits to be established under the incentive scheme of the Labuan life insurer.
- 1.5 Malaysian banking institutions may be paid persistency bonus on an individual policy basis as follows:
  - (i) The maximum of 10% second policy year premium will be payable to banking institutions which achieve a first year persistence rate of 90%; and
  - (ii) The maximum of 10% of third policy year premium will be payable to banking institutions which achieve a second year persistency rate of 80%.

**2.0 Limits on Commission – Single Premium Life Insurance Policies (including yearly renewable policies)**

2.1 Commission payable on single premium policies or yearly renewable policies shall not exceed the following limits:

		<b>Protection products</b>	<b>Savings products</b>
(i)	Investment-linked products (including top-ups)	-	3.75%
(ii)	Other life insurance products	10%	10%

2.2 Labuan life insurers may spread the payment of commissions for single premium policies over more than one policy year provided that the total commission does not exceed the above limits.

### 3.0 Marketing Cost

- 3.1 Labuan life insurers may contribute to expenses relating to the promotion of bancassurance by their bancassurance partners. Such expenses will not form part of the commission limits stipulated in item 1.1 and 2.1.

### 4.0 Disclosure of Commission and Charges/Expenses

- 4.1 The following disclosures shall be made to consumers in respect of savings products (applicable to both basic policies and riders) sold via bancassurance so as to allow consumers to make informed decision about insurance products:
- (i) Commission borne by policyholders, including the unallocated premium charge for investment-linked product, expressed both in terms of the aggregate amount and as a percentage of premiums payable for each policy year; and
  - (ii) Other charges/expenses which are not included in the premium (e.g. policy fees, withdrawal charges and management fees for investment-linked policies).
- 4.2 In disclosing the above information, only the net charges/expenses borne by the policyholders are required to be disclosed. Accordingly, disclosures are not required for commissions that may be rebated by the bancassurance partner to policyholders or charges/expenses absorbed by the Labuan life insurer or bancassurance partner.
- 4.3 In the case of products which combine insurance and banking elements, the insurance element should be unbundled, and the commissions and charges/expenses shall be disclosed in accordance with the requirements in paragraph 4.1 above.
- 4.4 The disclosures shall be included in the relevant sales brochures and/or any other marketing material relating to a specific product. Such documents are to be made available in Bahasa Malaysia and in other language upon request. Labuan life insurers must ensure that the staff of its bancassurance partner provides to the prospective policyholders a copy of the brochure/material carrying the disclosures, and advise the prospective policyholders on its contents before concluding the sale of a bancassurance product.
- 4.5 The disclosures must be based on the premium subscribed by the policyholders, actual commissions to be paid and actual charges of the policy. The format of disclosure of commission and charges/expenses borne by policyholders is provided in **Attachment II**. In the case of investment-linked insurance products, Labuan life insurers are required to illustrate the period based on the allocation period or the commission payment period, whichever is shorter.



- 4.6 In addition to disclosure of basic commission, Labuan life insurers are required to disclose to prospective policyholders that sales agents may be entitled to production and persistency bonus during the first three years of the policy provided that the agents meet with the qualifying criteria set by the company.

## **5.0 Minimum Training Requirement**

- 5.1 Any staff of the bancassurance partners involved in the marketing of insurance products is required to comply with the same minimum entry and continuous professional development programme requirements, as well as the code of conduct and ethics, applicable to insurance agents registered with the Life Insurance Association of Malaysia.

**Illustration of Pro-rated Commission Structure for Life Insurance Policies  
with a Term of Less Than 20 Years**

	Protection Production			Savings Products		
	15-year policies	10-year policies	5-year policies	15-year policies	10-year policies	5-year policies
Maximum total commissions	60.0%	40.0%	20.0%	48.8%	32.5%	16.3%
Maximum 1 <sup>st</sup> year commission	22.5%	15.0%	7.5%	15.0%	10.0%	5.0%
Maximum renewal commission	7.5%	5.0%	2.5%	3.8%	2.5%	1.3%

**Note:** The commission figures illustrated is actual basis, i.e. undiscounted.

**Format of Minimum Disclosure of Commission and Charges/Expenses****(a) Non Investment-linked Products Sold Through Bancassurance****(i) Commissions**

Policy Year	Commission borne by you and paid from your premium	
	Proportion of Premium Deduction for Commission (%)	Actual Amount (USD)
1	10	500
2	5	250
3	5	250
4	5	250
5	2	100
6		
7		
8		
9		
10		

The above illustration assumes a non investment-linked product with a 10-year term and an annual premium of USD5,000.

**(ii) Additional charges/expenses not factored into the cost of the premium**

Please identify the nature of charge together with an explanatory note on amount and purpose for the charge.

***Example***

**Policy Fee:** A policy fee is charged to cover some of the administration costs of setting up and maintaining your policy. The policy fee is set out in the following table:

Premium Payment Frequency	Policy Fee (per premium payment)
Monthly	USD w
Quarterly	USD x
Half-yearly	USD y
Annually	USD z

The higher the frequency of premium payment, the higher will be the aggregate policy fee charges as higher administrative cost is involved in maintaining your policy.

**(b) Regular Premium Investment-Linked Products Sold Through Bancassurance**

Name of product : Safe and Sound Invest Plan

Type of product : Regular premium Whole Life Investment-linked plan

Annual premium : USD5,000

Policy Year	Premium Paid (USD)	Actual Allocated Premium to Policyholder <i>(portion of premium to be utilized to purchase units of investment)</i>		Commissions paid (RM) <i>(a portion of unallocated premium)</i>	Total Unallocated Premium Charge <i>(total premium to be utilized for payment of commission and other expenses<sup>4</sup>)</i>	
		Proportion of premium paid (%)	Actual amount (USD)		Proportion of premium paid (%)	Actual amount (USD)
1	5000	40	2000	1000	60	3000
2	5000	50	2500	188	50	2500
3	5000	85	4250	113	15	750
4	5000	90	4500	38	10	500
5	5000	95	4750	0	5	250
Total	25000	72	18000	1339	28	7000

\*This illustration is based on a 5-year allocation period

ξ The allocated premium portion is used to purchase units of investment. If you were to surrender your policy on the 5<sup>th</sup> year, you will receive your investment proceeds based on the USD18,000 premium invested after deduction of charges and not on the total premium paid of USD25,000. However, you will benefit from having a life coverage as part of the charges deducted is used to provide you with a life protection plan during the period of the policy.

ξ Examples of these charges include policy fee, spread and risk charges that need to be deducted from the allocated premium before units of investment can be purchased. The charges are stipulated in the sales illustration and policy contract.

ξ You are advised to read and understand the sales illustration and policy contract of the investment-linked product that you are purchasing, particularly the structure of the plan, the benefits provided, the premium rates and all charges associated with the product.

<sup>4</sup> Operating expenses of an insurance company including office expenses, marketing and distribution costs

## Acknowledgement

I hereby acknowledge that the disclosure of commission and charge/expenses for this product has been provided to me and that features of the investment-linked product, including the allocation rates, commissions and expenses, have been satisfactory explained to me.

_____	_____	_____	_____
Name of policyholder	NRIC no.	Signature	Date

**Commission Limit for Financial Advisers**

<b>Policy Year</b>	<b>Traditional Insurance Products (%)</b>	<b>Investment-linked Products (%)</b>
1	65	40
2	35 + 5 <sup>1</sup>	40
3	21 + 5 <sup>1</sup>	25
4	20	Balance of 55% is split between the years according to company's discretion
5	10	
6	10	
<b>Total</b>	<b>161 + 10</b>	<b>160</b>

<sup>1</sup> Persistency bonus

**Commission Limit for Insurance Brokers**

<b>Policy Year</b>	<b>Traditional Insurance Products (%)</b>	<b>Investment-linked Products (%)</b>
1	35 + 5 <sup>1</sup>	40
2	25 + 5 <sup>2</sup>	40
3	15 + 5 <sup>2</sup>	25
4	15	Balance of 55% is split between the years according to company's discretion
5	10	
6	10	
<b>Total</b>	<b>110 + 15</b>	<b>160</b>

<sup>1</sup> Production bonus

<sup>2</sup> Persistency bonus

Pengarah  
 Jabatan Pentadbiran Pertukaran Asing  
 Bank Negara Malaysia  
 Jalan Dato' Onn  
 50480 Kuala Lumpur  
 Fax 26943991

**Monthly Reporting on Purchase of Investment-linked Products  
 by Malaysian Resident Individuals Currently Employed Outside Malaysia  
 for the month of \_\_\_\_\_, (Year)**

Name of Licensed Labuan Life Insurer \_\_\_\_\_

Country*	No. of investors	New investment for reporting month	Amount divested for reporting month	Outstanding amount as at end of reporting month	Amount repatriated to Malaysia

\*Country where the Malaysian is currently employed.

Name of authorised officer : \_\_\_\_\_

Signature : \_\_\_\_\_

Designation : \_\_\_\_\_

Telephone No. : \_\_\_\_\_

Facsimile No. : \_\_\_\_\_

Email : \_\_\_\_\_