Investment-linked policies — improving disclosure and transparency for customers

From Jan 1 next year, your insurer/takaful operator is obliged to keep you informed of your policy's sustainability at its current level of premium/contribution.

NEW guidelines for the sales and marketing of investment-linked insurance policies and takaful certificates (ILP) came into effect in two stages from July this year. We first saw the introduction of policy sustainability disclosure in July, as well as the requirement that premiums/contributions illustrated by insurers and takaful operators need to be expected to sustain policy coverage for the entire term of the contract. Come January 2020, additional changes will be implemented.

Illustrated return for generic funds

Illustrated return for generic funds	Prior to Jan 1, 2020		From Jan 1, 2020	
	X	Y*	X	Y
Equity	2%	9%	2%	5%
Managed	3%	8%	2%	5%
Bond	4%	7%	2%	5%

*Illustrated projections after 20 years reduce to 6 per cent for equities, 5.5 per cent for managed and 5 per cent for bond funds

Regular updates on your ILP

The concept of sustainability is simply to understand and manage the amount of regular premium/contribution required to maintain the protection you need for the length of time you desire. Changes in coverage levels, costs of insurance/Tabarru' and riders, exercising a premium/contribution holiday, as well as fluctuations in investment returns from ILP funds can alter the expected duration of coverage. Review your policy/certificate holder regularly to ensure your premium/contribution remains adequate to sustain your ILP plan.

Beginning January next year, insurers/takaful operators will be required to update policyholders/certificate holders at least once a year with regards to how long their ILP can be sustained at the current level of premium/contribution and to provide options to improve their policy's sustainability so that their protection can keep pace with their needs.

In addition, if you desire to change your scheduled premium/contribution, make partial withdrawal or otherwise alter your coverage, your insurer/takaful operator is obliged to inform you of the impact to your policy's sustainability prior to executing the requested changes. This will keep you well informed about how the changes to your policy/certificate will affect the duration of your coverage before making a final decision.

Changes to Marketing Material for ILP

From Jan 1, insurers/takaful operators will introduce a new standardised product illustration for prospective new buyers. Changes can be categorised into two main areas:

Simplified and expanded disclosure: Plain language explanations and disclosures will be uppermost on the product proposal. The new disclosures will cover the flexibility and investment risks you bear, highlight other types of products that may be better suited to your needs as well as explain how your premiums/contributions will be used to pay insurance/Tabarru', fund management and other charges.

Greater detail and straightforward explanations will also be highlighted to illustrate how charges and investment returns affect your ILP.

Illustrated investment rates of return

Currently, when you are considering to purchase ILP, you will receive a product illustration from your agent or bancassurance advisor that will show your premiums/contributions, charges, cash value and death benefits. The cash value and death benefits can vary year to year depending on the assumed investment rate of returns in the illustration. Prior to Jan 1, 2020, two investment returns scenarios are shown. The two scenarios are prescribed by regulation according to the generic type of investment fund or funds selected.

From July 1, 2019 insurers/takaful operators were required to set minimum premium/contribution levels that are expected to be sufficient to sustain the ILP for the full term of coverage. The level of required premium/contribution is determined using rates of returns not higher than the best estimates of the insurer/takaful operators. The product illustrations would then indicate to the prospective buyer how the policy/certificate would perform according to the return assumptions of the investment funds selected using the prescribed rates as illustrated in the table above (prior to Jan 1, 2020).

After Jan 1, the prescribed rates of returns for the two scenarios will change to 2 per cent and 5 per cent across the board, regardless of the underlying choice of investment funds. The change in requirement to the new lower rates is not meant to be a reflection of what level of returns you can expect, but will instead demonstrate how the ILP works under different investment scenarios. It is also currently consistent with other types of products in the market today, such as dividend paying participating policies.

Given the new standard rates for ILP product illustrations, more emphasis and importance should be given to the fund fact sheet and the historical performance of the particular funds selected. While past performance is no guarantee for future returns, it does provide the best available information on how the fund returns have compared to the general market. It can also provide insights into the fund's future performance, under similar economic and market conditions.

The new prescribed illustrated rates of return will not affect the minimum level of premium/contribution required for the proposed ILP plan. However, since the best estimates determined by the insurer/takaful operator for investment returns may be higher than the prescribed rates of 2 per cent and 5 per cent, the product illustration may show the level of premium proposed to be insufficient to sustain the policy/certificate for the entire term of coverage.

There is one notable exception to the new prescribed rates of return for ILP product illustration. In the case where an insurer/takaful operator guarantees all insurance or Tabarru' and rider charges in the proposed contract, the high return scenario for equity fund can be the average annual rate of return for the KLCI over the past 10 years. This rate will change every year.

Managing Your ILP

For new policies/certificates issued after January 2020 that include coverages with reviewable insurance/Tabarru' charges for riders – such as medical and health insurance/Takaful – insurers/Takaful operators are required to increase premiums/contributions to restore policy sustainability to the full term in the event the rider cost of insurance increases. Policyholders/Certificate holders will be informed of options for alternative actions such as reducing coverage, reducing the policy/certificate term of coverage or removing rider coverages altogether.

Going forward, investment-linked plans are expected to remain popular in the market. The flexible features and investment options are attractive to consumers. The guideline changes remind us that along with the flexibility comes the need to regularly review and update your ILP when required to ensure your valuable protection continues to meet your needs.

For more information, contact your insurance company/Takaful operator or authorised representative.

This article is brought to you by the Life Insurance Association of Malaysia (LIAM) and Malaysian Takaful Association (MTA).