

# Managing and Sustaining Your Investment Linked Life Insurance Policy / Family Takaful Certificate

**L**ife insurance or family takaful should play a very important part in every Malaysian's financial planning. More than just paying a benefit to your loved ones after your demise, today's policies/takaful certificates could cover a wide variety of financial protection needs. Medical insurance/takaful, critical illness protection and accident cover are just a few of the supplementary benefits that are often bundled together within your life insurance/family takaful plan.

Today's modern policies/takaful plans are more complex than in the olden days when you could simply pay your premiums/contributions every year and file your policy/certificate away until it may be needed by your beneficiaries.



A case in point is a type of policy/certificate commonly referred to as Investment Linked Policy or ILPs. ILPs are sold by insurers/takaful operators and are the most popular life insurance/family takaful product purchased in Malaysia today. If you own or are considering to purchase an ILP, you need to understand that your policy/certificate and its assorted coverages need to be reviewed periodically to ensure it is still meeting your needs and that the premium/contributions you are paying remains adequate to cover you for the desired length of time you require. A bit more about that later, for now let's review the basics of how ILPs work.

**WHAT IS AN INVESTMENT LINKED LIFE INSURANCE POLICY/FAMILY TAKAFUL CERTIFICATE?**

ILPs are more flexible and transparent than the older and more traditional forms of protection. ILPs have unique features:

**KEY FEATURES OF INVESTMENT-LINKED POLICIES/CERTIFICATES**

- The amount you pay (premiums/contributions) are flexible and can be increased, decreased or skipped

(premium/contribution holiday).

- Benefits can be adjusted up or down.
- A portion of the premium/contribution of your policy/certificate can be invested in various funds offered by the insurer/takaful operator.
- You, the policyholder/certificate holder, decides on the choice of funds depending on your risk appetite.
- With ILPs, you bear all the investment risk and potential reward. In other words, your cash value is not guaranteed and it can go up or down depending on the fund performance. This may affect your benefits/protection coverage.

To further understand how an Investment Linked policy/takaful certificate works, see Diagram 1 below:

**HOW AN INVESTMENT-LINKED POLICY/CERTIFICATE WORKS:**

- A portion of the premium/contribution you pay is invested in the investment fund of

your choice

- This investment fund is used to pay for insurance/tabarru' charges and other charges
- Your ILP will stay in effect, providing you with the expected protection you signed up for, as long as the investment fund is sufficient to pay for the insurance/ tabarru' charges deducted from the fund each month.

At the point in time when you first purchase your ILP, you would have received what is referred to as a Product Illustration/Sales Illustration" or PI/SI. The PI/SI illustrates how your ILP works year by year (similar to the Diagram 1 below) in numerical form. It shows the premiums/contributions you are expected to pay, the insurance charges/tabarru' charges, the amount of death benefit payable to your beneficiary and the accumulated amount in your investment fund.

What you need to remember is that the calculations in the PI/SI are based on hypothetical illustration rates for the investment returns of the funds you have chosen and the charges of

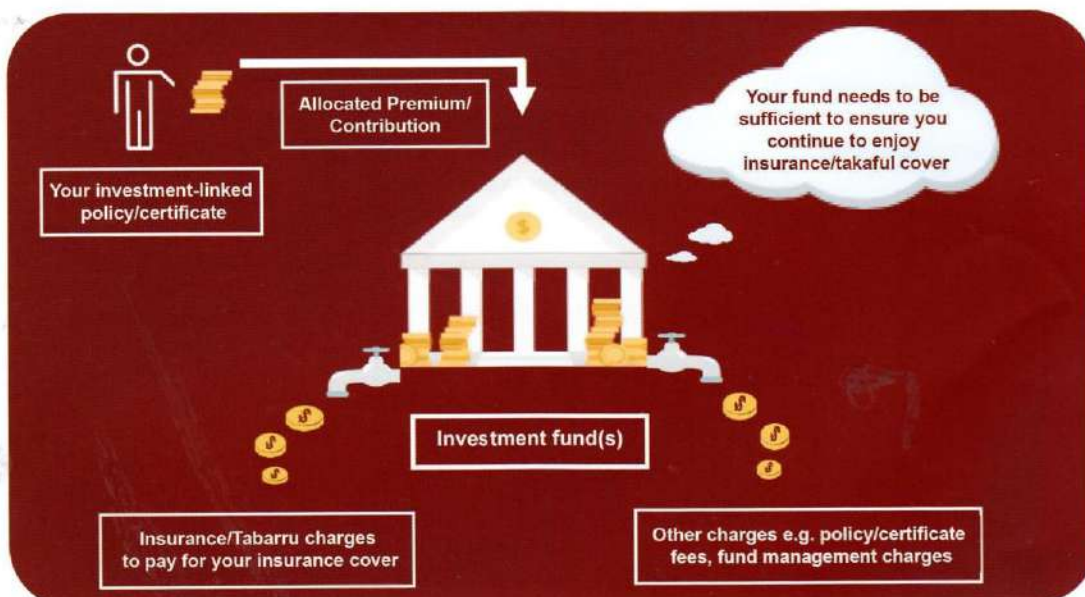


Diagram 1



## What could reduce your fund value\*?



✓ **Not paying premiums/contributions when it is due<sup>1</sup>**



✓ **Choosing not to increase premiums/contributions when increasing protection cover (e.g. adding riders)<sup>1</sup>**



✓ **Poor investment return**



✓ **Choosing not to increase premiums/contributions or perform top up when the insurer/takaful operator increases insurance/tabarru' charges and other charges**



✓ **Making partial withdrawals from the fund**

\* Disclaimer: Some of these information and options may not apply to you. For information and options specific to your policy/certificate, please contact your agent, bancassurance/bancatakaful representative or insurer/takaful operator for more details.

<sup>1</sup> Not applicable to single premium policy/single contribution certificate.

the various benefits under your ILP. Actual charges and investment returns can vary throughout the duration of the policy/certificate. Since returns and charges can vary, your investment fund balance can vary as well.

For your ILP to stay in effect, you always have to maintain enough balance in your investment account to pay for the ongoing insurance/ tabarru' charges. This will drive the need for periodic review of your ILP.

### WHAT COULD REDUCE YOUR ILP FUND VALUE AND AFFECT YOUR POLICY/ CERTIFICATE'S SUSTAINABILITY?

Let's look at the key factors affecting your policy/certificate's sustainability in more detail:

#### A. INVESTMENT RETURNS ON YOUR FUNDS

Each insurer/takaful operator issuing ILP policies/certificates will offer you the choice of one or more investment funds for which to allocate your premiums/contributions. Each investment fund will have its respective stated investment objectives and levels of risk and reward. Typically, the fund will comprise of a range of stocks, bonds, money market or a combination of all three. Some funds will offer investments only in Malaysia while others may include regional or even global investments. You are advised to select the investment fund

that suits your risk appetite.

Funds can also be differentiated by the level of risks and potential rewards. An example would be two different bond funds with the first investing in government securities and the second investing in higher yielding but riskier corporate bonds. The higher yielding corporate bonds may offer the potential of higher returns but also come with higher risks.

The actual investment returns in your investment fund are important. The premium/contribution you pay and the actual returns on your investment fund greatly determine how long your ILP will stay in effect.

- (i) If the fund consistently performs better than expected, your ILP may have a higher account value and stay in effect for a longer period.
- (ii) If returns consistently underperform the expected returns, then your account value can be expected to be less and your ILP policy will stay in effect for a shorter period. This is one of the reasons why all ILP PIs/SIs are required to show both high and low investment return scenarios, to illustrate how

the policy/certificate performs under differing investment return scenarios.

The key thing to remember with your ILP investment fund is that the actual returns are certain to vary from the returns illustrated in the PI/SI. Inevitably, there will be periods for which any fund will outperform or underperform. Depending on market conditions, your fund could experience negative returns in a particular policy/certificate year. With an ILP, you bear the full investment risk and enjoy the rewards resulting from your fund performance.

#### B. PREMIUM/CONTRIBUTION PAYMENTS

At the inception of your ILP policy/certificate, you are asked to pay a single premium/contribution or regular premiums/regular contributions. The PI/SI illustrates, given the level of your premium/contribution payment, how many years the policy/certificate can be expected to stay in effect under different investment return scenarios. The key thing to remember with your premium/contribution payment is that they are flexible. After the policy/certificate inception, you can increase, decrease or even take premium/certificate holidays:

- (i) Increasing your premiums/contributions will add more account value.

- (ii) Decreasing or skipping premium/contribution payments can reduce your account value and your policy/certificate may not stay in effect as long as you might desire.

**C. INSURANCE/TABARRU' CHARGES**

You can see from Diagram 1 that the insurance/tabarru' charges for your insurance/takaful protection (providing the death benefit and any optional coverage chosen such as medical insurance/takaful and critical illness) are deducted every month from your account value of investment funds. These insurance/takaful charges are expected to get higher as you get older and have been priced that way from inception.

The insurance/tabarru' charges of certain optional coverages, which are "reviewable charges" such as medical and surgical reimbursements, may increase to a greater degree when compared to the original expected insurance/tabarru' charges. This will occur if the actual rate of medical claims is consistently higher than what was expected when you bought the policy/certificate. If your ILP has coverage with "reviewable charges", for example, medical and surgical coverage attached, you should review your coverage periodically to ensure that the level of premium/contribution you pay can support the current and future expected insurance/tabarru' charges. Please contact your agent, Bancassurance/Bancatakaful representative or insurer/takaful operator for more details.

**HOW DO I KNOW HOW LONG MY ILP COVERAGE CAN BE SUSTAINED?**

In an effort to assist ILP policyholders/certificate holders to better manage and understand their ILPs, insurers will be providing both additional disclosure at point of purchase as well as annual updates on the sustainability of their respective policies/certificates.



**ILPs are sold by insurers/takaful operators and are the most popular life insurance/family takaful product purchased in Malaysia today. If you own or are considering to purchase an ILP, you need to understand that your policy/certificate and its assorted coverages need to be reviewed periodically to ensure it is still meeting your needs and that the premium/contributions you are paying remains adequate to cover you for the desired length of time you require.**

This exercise will begin from July 1st this year with the distribution of educational material on what is "sustainability", factors that affect sustainability and options you may have to improve the sustainability of your ILP.

This will be followed by individual disclosure starting 1st January 2020, where every ILP policyholder/certificate holder will receive an annual update stating how long their ILP policy/certificate is expected to be in effect at the current premium/contribution levels and insurance charges.

As an interim measure, from 1st July 2019 until 1st January 2020, existing policyholders/certificate holders will receive notifications if there is a risk that their policy/certificate may lapse within one year.

**WHAT CAN I DO IF MY ILP CANNOT BE SUSTAINED AS LONG AS I NEED IT TO BE?**

If, when reviewing your ILP coverage, you find that your protection is not likely to be sustained for as long a period as you feel you need, you have several options:

- (i) You can increase the amount of your planned premium/contribution. Simply ask your agent, bancassurance/bancatakaful representative or insurer/

takaful operator to calculate the amount of premium/contribution required that would be expected to sustain your policy/certificate for the length of coverage desired.

- (ii) You can pay an additional top-up premium/contribution. This is an ad-hoc additional payment that you can make anytime that will increase your ILP fund value and prolong the period your policy can be sustained. Check with your agent, bancassurance/bancatakaful representative or insurer about the specific policy/certificate provisions governing top-up payments for your policy/certificate.
- (iii) You can reduce your sum assured/sum covered and/or reduce or remove supplemental coverages (riders).

**SUMMARY**

The flexibility and transparency, as well as the ability to direct where your premiums are invested are all desirable features. However, with the flexibility comes the need to regularly review your policy/certificate to ensure that the level and duration of the coverages you need are expected to be supported by the amount of premium/contribution you pay.