

Resolution 5/2006

The latest revised Resolution 5/2006 was introduced with effect from 21 March 2007. This Resolution superseded Resolution No: 6/96 - Rule on Replacement of Policies dated 1 December 1998.

Preamble

1. JPI 2/2005 on Replacement of Life Insurance Policies shall apply to all replacement of policies between two insurers.
2. LIAM Resolution 5/2006 shall apply to all replacement of policies between two insurers arising from the movement of agents.

Resolution 5/2006 : Rule on Replacement of Life Insurance Policies

1. An agent and/or agency leader shall not receive any compensation if he/she replaces the policy of his/her previous insurer with a policy from his/her new insurer.
2. Pursuant to JPI:2/2005 on "Replacement of Life Insurance Policies" issued by Bank Negara Malaysia, replacement of policies is defined as follows:

Any transaction involving the purchase of a life insurance policy is construed as a replacement of policy, if within 12 months before or after a new policy is effected, an existing life insurance policy has been:-

- a) lapsed, surrendered, partially surrendered or forfeited;
- b) changed or modified into paid-up insurance policy, continued as extended term insurance or *automatic premium loan (APL), or under another form of non-forfeiture benefits, dividend accumulations, dividend cash values or other cash values; or
- c) changed or **modified so as to effect a reduction in the amount of premiums paid arising from the reduction of sums insured and/or rider or removal of rider, or in the period of time the existing life insurance will continue to be in force.

(Note : * Refers to an existing life insurance policy which has been on APL for a period of 6 months consecutively.

**Modification of an existing life insurance policy refers to a policy in which there is a reduction of more than 25% of the premiums.)

3. In instances where an agent or agency leader has been, or is involved in the replacement of a policy or policies from one company to another, the insurer shall be required to undertake the following action:

Cease payment of all commissions, including overriding commissions and bonuses on all policies replaced and re-booked in the new company and if any payment has been made, the new company shall claw back all payments made.

4. The insurer may also exercise one or more of the following disciplinary actions:
 - i) Deferment of promotion for one year together with a warning letter after five instances of replacement of policies;
 - ii) Demotion and a warning letter after 10 instances of replacement of policies;
 - iii) Termination (after 15 instances of replacement of policies).

An agent who has been terminated under 4iii) shall be placed under the Referred Listing of LIAM.

5. Any member company involved in any instances of replacement of policies that fail to enforce the actions as stated in (3) & (4) would be fined.

The quantum of fine shall be up to a multiple of 10 times the premiums of each new policy that has replaced an existing policy, subject to a maximum of RM200,000.

6. Any member company having knowledge that the new policy taken up by its policyholder is the result of an act of replacement by an agent or agency leader shall be required to write to the policyholder concerned advising him of the disadvantages of replacing his policy.

The member company concerned must then make a full refund of the premiums on the new policy to the policyholder upon request.

7. The previous insurer must then reinstate the policy upon payment of premiums due (which has lapsed) to its original form, without evidence of insurability or health examination under the following conditions:-
 - i) if a policyholder purchases a new policy and subsequently cancels an existing policy within 12 months from the date of purchase of the new

- policy, the application for reinstatement must be made within 6 months from the date of cancellation of the existing policy; and
- ii) if a policyholder cancels an existing policy and subsequently purchases a new policy within 12 months from the date of cancellation of the existing policy, the application for reinstatement must be made within 12 months from the date of cancellation of the existing policy and the policyholder must terminate the new policy that he had purchased subsequent to the cancellation of the existing policy.
8. Each member company shall ensure that this resolution is or shall be part of all agency contracts with any of its agents or agency leaders to ensure strict enforcement of this resolution.