Asian Institute of Insurance
(Formerly known as Malaysian Insurance Institute)

CERTIFICATE EXAMINATION IN INVESTMENT-LINKED LIFE INSURANCE (CEILLI)

8th edition

Aii Certificate Series

Certificate Examination in Investment-Linked Life Insurance (CEILLI)

8th Edition

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APPRECIATION

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Certificate Examination in Investment-Linked Life Insurance (CEILLI)

8th Edition

BRIEF CONTENTS

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Asian Institute of Insurance (Aii) is the foremost professional organisation for insurance professionals, dedicated to upholding the highest standards of professionalism, ethical conduct, and expertise within the insurance industry.

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THE DEVELOPMENT TEAM

Asian Institute of Insurance would like to thank the following organisations and people for their invaluable contribution, support, and assistance rendered in making the publication of this new edition possible.

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PREFACE

WELCOME TO YOUR CERTIFICATE EXAMINATION IN INVESTMENT-LINKED LIFE INSURANCE (CEILLI) STUDY TEXT

The 8th edition of the Certificate Examination in Investment-Linked Life Insurance (CEILLI) has been designed to facilitate a more effective, accessible, and engaging learning experience for insurance sales intermediaries. This updated edition employs a streamlined approach that carefully balances in-depth coverage with ease of comprehension.

Throughout your academic journey in pursuit of the Certificate Examination in Investment-Linked Life Insurance (CEILLI), you will develop a sound knowledge and comprehension of the fundamental facets of Investment-Linked Life Insurance products. This encompassing understanding spans through product mechanisms, distinctive features, advantages, investment components, and the essential regulatory frameworks governing the Investment-Linked business.

Upon the successful completion of the CEILLI, sales intermediaries will have honed their expertise in effectively promoting Investment-Linked Life Insurance products to their clientele. They will be well-equipped to guide customers in making informed decisions in this area.

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CHAPTER 1 INTRODUCTION TO INVESTMENT–LINKED LIFE INSURANCE

1.1 INTRODUCTION

Investment-linked insurance was first introduced in Malaysia in December 1999 as an additional option to traditional life insurance policies. Investment-Linked insurance are essentially insurance policies that offer both protection and investment opportunities, commonly known as Investment-Linked Product (ILP). They are structured in a way that allows policyholders to invest a portion of their premiums into various funds, with the potential to earn returns based on the performance of those funds. The funds are managed by the insurer's own internal professional fund managers or outsourced fund managers/houses, and the policyholder assumes the investment risk.

In some countries, investment-linked life insurance is known as unit-linked life insurance. In the USA, it is called variable life insurance.

ILPs quickly gained popularity in Malaysia, particularly among young, affluent individuals who were seeking investment opportunities that also offered core insurance protection needs.

During the popularity of ILPs in the early 2000s, there were also concerns raised over the high fees and charges associated with some ILPs, as well as the relatively lack of transparency around the management of the funds. In response, the Malaysian government introduced regulations to govern the sale and marketing of ILPs, and to provide greater protection for policyholders. The Investment-Linked Guideline by Bank Negara Malaysia , Reference BNM/RH/PD 029-36 was issued on 13 February 2023 (https://www.bnm.gov.my/documents/20124/948107/PD-Investment-Linked-Business-2023.pdf) covers substantial requirements around the disclosure of fees and charges, the provision of product illustrations, the valuation of fund assets and many more provisions of which the relevant requirements have been included in this handbook to equip the agents and sales intermediaries with the essential knowledge to promote investment-linked products professionally.

Despite these regulatory changes, ILPs continue to be a popular choice for Malaysian consumers, particularly those who are looking for a combination of protection and investment opportunities. Today, ILPs are offered by most insurers in Malaysia, and the market continues to evolve and adapt to changing consumer needs and preferences.

The insurance industry in Malaysia has experienced steady growth in the last 30 years, partly due to the introduction of investment-linked insurance and its increasing popularity and demand. More insurance companies are moving away from selling their traditional whole life and endowment plans and have included many investment-linked plans in their portfolios also in response to Bank Negara Malaysia Risk-Based Capital Framework. This is a positive move indicating that Malaysians are becoming more discerning and want to have better control of the amount of coverage and types of investment funds they select. Investment-linked insurance policies allow them to do this.

The Life Insurance Association of Malaysia’s (LIAM) statistics reveal that the product mix, sum insured and total in-force premium for investment-linked insurance had grown substantially between 2013 and 2023. This is shown in the 3 tables below.

Table 1-1 ***Individual Life New Business Total Premium***

	RM Million		Mix %	
Type	**2013**	**2023**	**2013**	**2023**
Traditional	2,235	2,080	41	25
Investment-Linked	3,258	6,170	59	75

Table 1-2 ***Individual Life Sum Assured***

	RM Million		
Type	**2013**	**2023**	**Mix (%)**
Traditional	361,371	309,763	-14
Investment-Linked	284,679	984,377	246

Table 1-3 ***Individual Life Total In-Force Premium***

	RM Million		
Type	**2013**	**2023**	**Mix (%)**
Traditional	16,424	16,106	-2
Investment-Linked	9,529	29,726	212

Source : LIAM Annual Reports

Investment-linked policy owners can choose the amount of coverage they need with their selected annual premium. They can select the minimum sum assured as set by the relevant regulator based on age at the time of policy inception or opt for higher coverage amount if more protection is needed. At the same time, they may accrue returns on their contributions in the form of long-term savings.

1.2 FACTORS CONTRIBUTING TO THE POPULARITY OF INVESTMENT-LINKED INSURANCE IN MALAYSIA

ILPs have become the mainstream insurance products in the Malaysian insurance industry due to several factors:

- **Growing Demand**
  As Malaysians experience increasing wealth and financial literacy, many are seeking not only insurance coverage but also investment opportunities. Investment-Linked Policies (ILPs) offer a convenient solution that addresses both needs. By focusing on providing insurance protection and treating investment as a secondary benefit, ILPs can help Malaysians secure their financial future and potentially grow their wealth over time.

- **Flexibility**
  ILPs offer flexibility in terms of investment options, with policyholders able to choose from a range of investment funds with different risk profiles and objectives. This flexibility allows policyholders to customize their policies to meet their individual investment goals.

- **Potential for Higher Returns**
  ILPs have the potential to generate higher returns than traditional insurance policies, as the premiums paid by policyholders are invested in the financial market. This potential for higher returns is attractive to investors who are looking to grow their wealth over the long term.

- **Evolving Regulations**
  The central bank, Bank Negara Malaysia (BNM), has introduced guidelines and requirements to ensure that ILPs are transparent, fair, and provide adequate protection to policyholders. These regulations have helped to enhance the credibility and trustworthiness of ILPs in Malaysia, making them a more attractive option for consumers.

Overall, the combination of growing demand, flexibility, potential for higher returns, and evolving regulations has helped to establish ILPs as a main product in the Malaysian insurance industry. With more insurers offering ILPs and consumers becoming increasingly aware of the benefits of these products, it is likely that they will continue to play a significant role in the Malaysian insurance market for years to come.

1.3 ADVANTAGES OF INVESTMENT-LINKED INSURANCE PRODUCTS FOR CONSUMERS

Investment-linked insurance (ILP) products offer several advantages to consumers, including:

- **Life Insurance Coverage**
  Like traditional insurance policies, ILP products provide life insurance coverage, which can provide financial protection to the policyholder and their beneficiaries in the event of death or disability.

- **Investment Opportunities**
  ILP products offer policyholders the opportunity to invest their premiums in a range of investment funds, such as equity, bond, or mixed funds. This allows policyholders to potentially earn higher returns on their investment, compared to traditional insurance policies, over the long term.

- **Flexibility**
  ILP products offer flexibility in terms of investment options, allowing policyholders to choose investment funds that match their risk profile and investment goals. Policyholders can also adjust their investments over time to reflect changing market conditions or personal circumstances.

- **Tax Benefits**
  In Malaysia, contributions made to ILP policies are eligible for tax relief, which can help to reduce the policyholder's tax liability.

- **Estate Planning**
  ILP products can also be used as a tool for estate planning, as the investment component of the policy can be passed down to beneficiaries tax-free in the event of the policyholder's death.

- **Customization**
  Investment-Linked Products (ILPs) offer significant flexibility, allowing policyholders to tailor their coverage and investment choices to match their individual needs and preferences. Moreover, riders can be added to ILPs, providing comprehensive protection, creating an all-in-one policy solution. Overall, ILPs represent a compelling blend of life insurance and investment opportunities, making them an ideal choice for those seeking to safeguard their financial future while simultaneously building their wealth over the long term.

1.3.1 TAX RELIEF ON ILPS

In Malaysia, income tax relief is provided to individuals for life insurance premium payments, which encourages people to obtain insurance coverage for themselves and their families. The following were the individual income tax reliefs applicable for insurance payment (in reference to the source information for Year of Assessment 2023 from the https://www.hasil.gov.my/ website as at November 2023).

FIGURE 1-1 ***Insurance Premium Tax Relief - Category and Limit***

Tax Relief Category	Amount (MYR)	Applicable to
Life Insurance & EPF	Up to 7,000	Taxpayer
• EPF contribution	Up to 4,000	Taxpayer
• Life Insurance	Up to 3,000	Taxpayer
Education & Medical Insurance	Up to 3,000	Taxpayer, spouse, and children
PRS & Deferred Annuity	Up to 3,000	Taxpayer

REVIEW QUESTIONS

1	*What are the factors that have contributed to the popularity of the investment-linked insurance in Malaysia?* *I. Young individuals who are just starting to explore insurance options* *II. Consumers prefer traditional insurance products for stable coverage* *III. Flexibility in terms of investment options* *IV. Potential higher returns than traditional insurance policies*
	a. I and II b. II and III c. III and IV d. I and IV

2	*Which of the following is the correct description of an investment-linked life policy?*
	a. A participating policy offering lifetime coverage b. A capital guaranteed policy c. An endowment policy which provides minimum returns d. A policy offering protection and investment opportunities

3	*An investment-linked life insurance is also known as the following in some parts of the world?* *I. Mutual fund-linked insurance* *II. Unit-linked life insurance* *III. Variable life insurance* *IV. Universal life insurance*
	a. I, II, III and IV b. I, II and III c. II, III and IV d. II and III

4	*Investment-linked funds are managed by:* *I. The insurer's own professional manager in its internal investment department* *II. Fund managers/fund houses appointed by the insurer through outsourcing* *III. Outsourcing to the funds of unit trust companies since investment-linked funds are similar to unit trust funds* *IV. The insurer's board of directors who can make special decisions on the types of investment vehicles to offer to policy owners*
	a. I and II b. II and III c. II and IV d. All the above

5	*What are the key advantages of Investment-Linked Product for consumers?* *I. ILP provides life insurance coverage* *II. ILP offers investment opportunities with flexibility of investment funds selection* *III. ILP can be customized to suit the policyholder's individual needs, level of coverage and investment funds options* *IV. ILP can also be used as a tool for estate planning, investment value of the policy can be passed down to beneficiaries tax-free in the event of the policyholder's death*
	a. I and II b. II and III c. III and IV d. All the above

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CHAPTER 2 MECHANISMS AND FEATURES OF REGULAR PREMIUM INVESTMENT-LINKED LIFE INSURANCE

2.1 INTRODUCTION

Investment-linked products (ILPs) are a unique type of insurance product that allows policy owners/takaful participants to invest their premiums/takaful contributions in investment-linked funds offered by the insurer. These investments are then used to fund the policy owner's/takaful participant's insurance/takaful protection and other fees and charges related to the investment-linked policy/takaful certificate.

ILPs provide flexibilities to policy owners/takaful participants, including switching between investment funds based on their risk appetite and financial needs, topping up investments, making partial withdrawals, taking premium/takaful contribution holidays, and varying their insurance/takaful coverage as their protection needs or financial circumstances change.

However, policy owners/takaful participants also bear both the upside and downside of the investment risks, and the persistence of their ILPs can be affected by investment risks and the flexibilities accorded to such products. Therefore, licensed insurers must maintain high standards of governance in the management of their investment-linked business and uphold high conduct and transparency standards in the sales, marketing, and disclosure of information relating to investment-linked products.

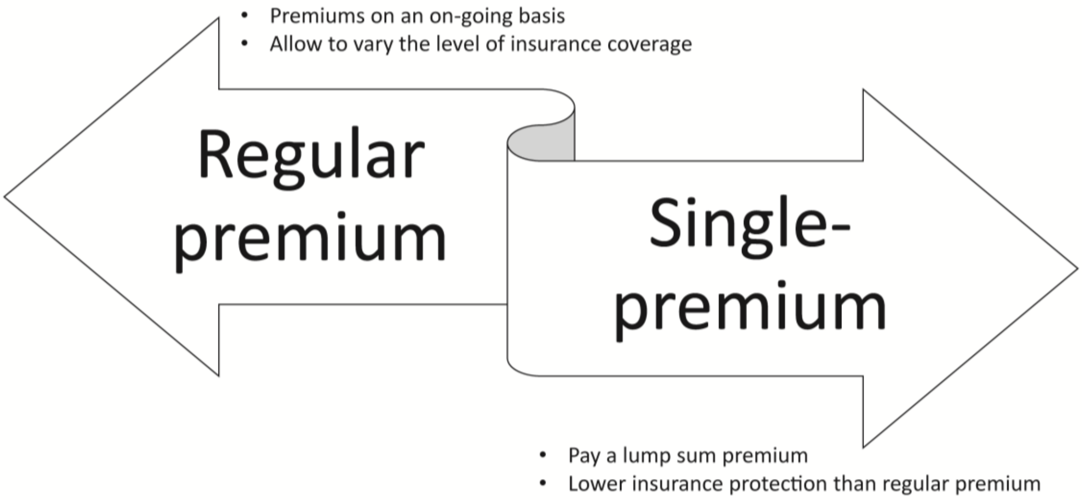
2.1.1 TYPES OF ILPS

ILPs can be classified into two types: regular premium ILPs and single-premium ILPs. Regular premium ILPs require the policyholder to pay premiums on an ongoing basis (Monthly, Quarterly, Half-yearly, Yearly). These policies may allow policyholders to vary the level of insurance coverage they need, depending on their changing needs and circumstances.

On the other hand, single-premium ILPs require the policyholder to pay a lump sum premium to buy units in an ILP fund. Generally single-premium ILPs provide lower multiple insurance protection than regular premium ILPs, thus offering a higher proportion for investment. These policies may be suitable for policyholders who have a lump sum of money to invest and are looking for a longer-term investment opportunity.

It is crucial to recognize that although ILPs present the possibility of increased investment returns, they also carry higher risks compared to traditional life insurance policies. Policyholders need to be ready to take on the investment risks and acknowledge that their investments' value may vary over time. Before deciding to invest in ILPs, it is essential to thoroughly evaluate the potential risks and advantages.

FIGURE 2-1 ***Types of ILPs***



After understanding this chapter, candidates will understand that the primary focus of the design for regular premium investment-linked insurance is protection, with the investment element as the secondary focus.

2.1.2 PRICING AND DEALING OF UNITS

Dual pricing and single pricing are two different methods of pricing investment-linked products in Malaysia at different times.

Here are the main differences between dual pricing and single pricing:

Dual Pricing
Involves two separate prices for each unit of an investment-linked fund: • the bid price and • the offer price, which is normally a 5% difference
Bid price is the price at which the insurance provider buys back units of the investment-linked fund from the policy owner or takaful participant. **Offer price** is the price at which the insurance provider sells units of the investment-linked fund to the policy owner or takaful participant. **Withdrawal** = no. of unit withdrawn **x** bid price

Single Pricing

Involves a single price for each unit of an investment-linked fund.

Single price is calculated based on the Net Asset Value of the investment-linked fund, plus any applicable fees and charges.

Policy owners or takaful participants buy and sell units of the investment-linked fund at the same single price.

Withdrawal = no. of unit withdrawn **x** unit price

Table 2-1 ***Summary* of *Account Types***

Account Type	Purpose	Deductions
Allocated	✓ Buying units in vehicles earmarked by the various funds offered by the insurer	✓ Monthly cost of insurance (COI) ✓ Annual fund management fee (0.5% to 1.5% of the accrued value in the fund depending on the type of fund), ✓ Monthly policy fee (usually RM6-RM8)
Unallocated	✓ Meet agency commissions ✓ Other management-related expenses	✓ None

The insurance industry in Malaysia adopted dual pricing for investment-linked policies (ILPs) from 1999 to 2005. This approach involved different prices for buying and selling units of the same ILP fund, with initial charges or fees that could be waived or discounted as part of marketing campaigns.

The industry transitioned to using the single pricing method for new policies from 2006 onwards to improve transparency in marketing ILPs. The single pricing approach ensures that the same price applies to both buying and selling units of a given ILP fund, making it easier for consumers to understand and compare ILP offerings.

2.1.3 THE LONG TERM HORIZON

A long term horizon for investment typically refers to holding an investment for several years, often 10 years or more. It allows investors to ride out short-term market fluctuations and benefit from the compounded growth of their investments over time. A long-term investment horizon is particularly important for investment vehicles such as equities, mutual funds, and investment-linked policies, which tend to have higher volatility in the short term but offer the potential for higher returns over the long run. By investing for the long term, investors can benefit from the power of compounding and potentially earn higher returns than they would by holding cash or short-term investments. It is important to note that a long-term horizon does not guarantee a profit, and investors should carefully consider their investment goals, risk tolerance, and time horizon before making investment decisions.

Policy owners are encouraged to adopt the long-term view to leverage the cumulative effect both from the protection and investment perspectives. The overall protection amount in the form of death benefit increases over the years as the original sum assured is coupled with the cumulative account value. Regarding the investment, the account value over the years rises gently as part of the premiums is unallocated in the initial years. In the longer run, the Dollar Cost Averaging phenomenon creates a positive impact on the cumulative effect on the account value.

Let us remember that each investment-linked fund comprises a spread of assets. Just to prove the point, let us look at the local benchmark index chart over 20 years below.

FIGURE 2-2 ***20 Years FTSE Bursa Saham KLCI Index***

The graph which represents the overall performance of stocks, shows a fluctuating trend over the years, ending higher 20 years later. Imagine that 20 years ago policyholders had placed the allocated premium in an equity index fund that tracks this index i.e., invested in the stocks represented by the index. If policyholders had held on to their investment for 20 years, and then they decided to withdraw, the value of their capital investment in the fund would have appreciated much without them putting extra premium into the fund along the way.

2.1.4 DOLLAR COST AVERAGING

Dollar Cost Averaging is an investment strategy in which an investor invests a fixed amount of money at regular intervals over a period, regardless of the current market conditions. This strategy aims to reduce the impact of market volatility on the investment by spreading the purchase of units over a longer period.

With dollar-cost averaging, the investor buys more units when the price is low and fewer units when the price is high. Over time, this can result in a lower average cost per unit than if the investor had made a lump-sum investment at a single point in time.

The idea behind dollar-cost averaging is to take advantage of market fluctuations and to accumulate units in a fund over time. This investment strategy can be particularly beneficial for investors who do not have a large sum of money to invest all at once, or who are hesitant to invest a lump sum at a single point in time due to market volatility.

Unit prices will rise and fall with market fluctuations; however, the continued payment of premiums will bolster the averaging effect. When prices go down, a policy owner will be able to acquire more units at lower prices. Dollar Cost Averaging is the practice of investing a fixed or set amount on a regular basis, over a determined period regardless of the unit prices. When prices go up, the units acquired at lower prices will appreciate in value. Dollar Cost Averaging means leveraging price fluctuations. The diagram below illustrates this based on the assumption that the same amount of money is fully invested each year.

Invest Constant RM Amount at Equal Interval Over the Long Period of Time

Dollar Cost Averaging (DCA)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Allocated Premium/Investment	RM 100.00	RM 100.00	RM 100.00	RM 100.00	RM 100.00	RM 500.00
Value/Unit	RM 1.00	RM 0.50	RM 0.25	RM 0.40	RM 0.80	
Unit Purchased	100.00	200.00	400.00	250.00	125.00	1,075.00

Number of Accumulative units	= 1,075
Total Value	= 1,075 **x** RM 0.80 per unit = RM860
Total Investment for 5 years	= RM 500
Gain	= RM 360
Compounded annual return	= 18.66%

You can see that even though the value per unit fluctuated over the 5-year period, the compounded annual return recorded a strong positive of 18.66%. This positive return was possible because investments were made every year regardless of the unit value.

2.1.5 SPREAD-OUT RISK AMONG VARIED ASSETS

Investment-linked policies (ILPs) are insurance policies that offer both insurance coverage and investment opportunities. One of the main advantages of investing in an ILP is the ability to spread out risk among varied assets. This means that your money is invested in a variety of different assets, such as stocks, bonds, and other securities, which helps to reduce the overall risk of your investment.

By spreading your investment across different assets, you can diversify your portfolio and reduce your exposure to any one asset class. For example, if you were to invest all your money in one stock, you would be exposed to the risk of that stock underperforming. However, if you were to invest in a variety of different stocks, as well as other assets, the risk of underperformance would be spread out among your entire portfolio.

Furthermore, spreading out risk among varied assets can help to minimize the impact of market volatility on your investment. This is because the performance of different asset classes can be affected differently by changes in the market, so by investing in a variety of different assets, you can reduce the impact of market fluctuations on your investment.

Overall, spreading out risk among varied assets is an important aspect of investing in ILPs. It allows you to diversify your portfolio and minimize risk, while still having the potential for good returns. It is important to work with a licensed insurance advisor to determine the right ILP investment strategy for your individual financial goals and risk tolerance.

If the assets selected by the fund manager are sound and the fund manager exercises prudence, the fund price should appreciate in the long run despite fluctuations.

2.2 PRODUCT DESIGN

2.2.1 GENERAL CONDITIONS

NAME AND DESIGN

It is important for the name and design of an investment-linked product to reflect its underlying investment strategy and inherent volatility. The product must also be clearly stated as an investment-linked product to avoid any misrepresentation as a pure investment plan.

OPTION & GUARANTEES

If options and guarantees are provided for an investment-linked product, these features must be clearly disclosed to facilitate understanding of the product. For capital guaranteed products, the guarantor must be a licensed bank, investment bank, or Islamic bank for takaful operators. It is to be noted that 'capital protected ' or 'capital preserved' products are not capable of being construed as 'capital guaranteed' products.

RIDERS

Riders can also be designed for investment-linked products in the form of unit deducting or premium/contribution-paying riders.

Refer to *FIGURE 3-2 Excerpt Sample of a Product Illustration* for how the units are deducted for riders.

EXTENSION TO COVERAGE TERM

For the coverage term extension feature, policy owners/takaful participants must either explicitly opt in for an extension or have an extension automatically invoked by the insurers after the point of sale. No additional benefits or incentives that may unduly influence the decision to extend the coverage term should be offered. Insurers and insurance advisors are to provide appropriate advice to policy owners/takaful participants on the management of the extension of coverage term at the point of sales and thereafter.

PREMIUM HOLIDAY OR TAKAFUL CONTRIBUTION HOLIDAY

In situations where a policy owner/takaful participant has opted for a premium or takaful contribution holiday, certain actions are mandated by the guideline:

(a) Insurers must explicitly obtain the written consent of the policy owner/takaful participant before deducting any charges for riders from the unit fund, where applicable.
(b) If the premium/takaful contribution holiday occurs during any commission payment period, the insurer must ensure that the deduction for premium/takaful contribution-paying riders is computed net of commissions.

Furthermore, it is essential to understand that during the premium holiday period, certain protections, such as the Premium Paying Rider (PPR), might be reduced or temporarily suspended, depending on the policy's terms and conditions.

Maintaining transparency and clear communication of these stipulations is vital to uphold the trust and understanding between the licensed entities and the policy owners/takaful participants.

2.2.2 MINIMUM REGULAR PREMIUM

Bank Negara Malaysia's guidelines on investment-linked insurance do not specify a minimum premium amount, as this is left to the discretion of the insurers.

In practice, the minimum annual premium for investment-linked insurance policies in Malaysia typically ranges from RM1,200 to RM1,800, depending on the specific product and the marketing strategy of the insurer. Insurers may offer policies with different premium amounts and payment frequencies to cater to the varying needs of customers.

It is worth noting that while there is no minimum premium amount set by Bank Negara Malaysia, insurers are required to ensure that policyholders are adequately protected and that the fees and charges associated with the policy are disclosed in a transparent manner. This ensures that policyholders are fully informed about the cost and benefits of their investment-linked policy, regardless of the premium amount.

2.2.3 ALLOCATED & UNALLOCATED PREMIUM

The money received by the insurer as regular premium (RP) (either monthly, quarterly, semi-annual, or annual mode) is allocated to two accounts – Allocated Premium Account and Unallocated Premium Account.

The allocated premium account is the special account for buying units in vehicles earmarked by the various funds offered by the insurer. In addition, the monthly cost of insurance (COI), the annual fund management fee (varying between 0.5% to 1.5% of the accrued[1] value in the fund, depending on the type of fund), the monthly policy fee (usually about RM6-RM8) is deducted from this account while the value of the invested units called account value continues to accrue in the policy as premiums are paid.

The unallocated premium goes to the insurer to meet agency commissions and other management-related expenses.

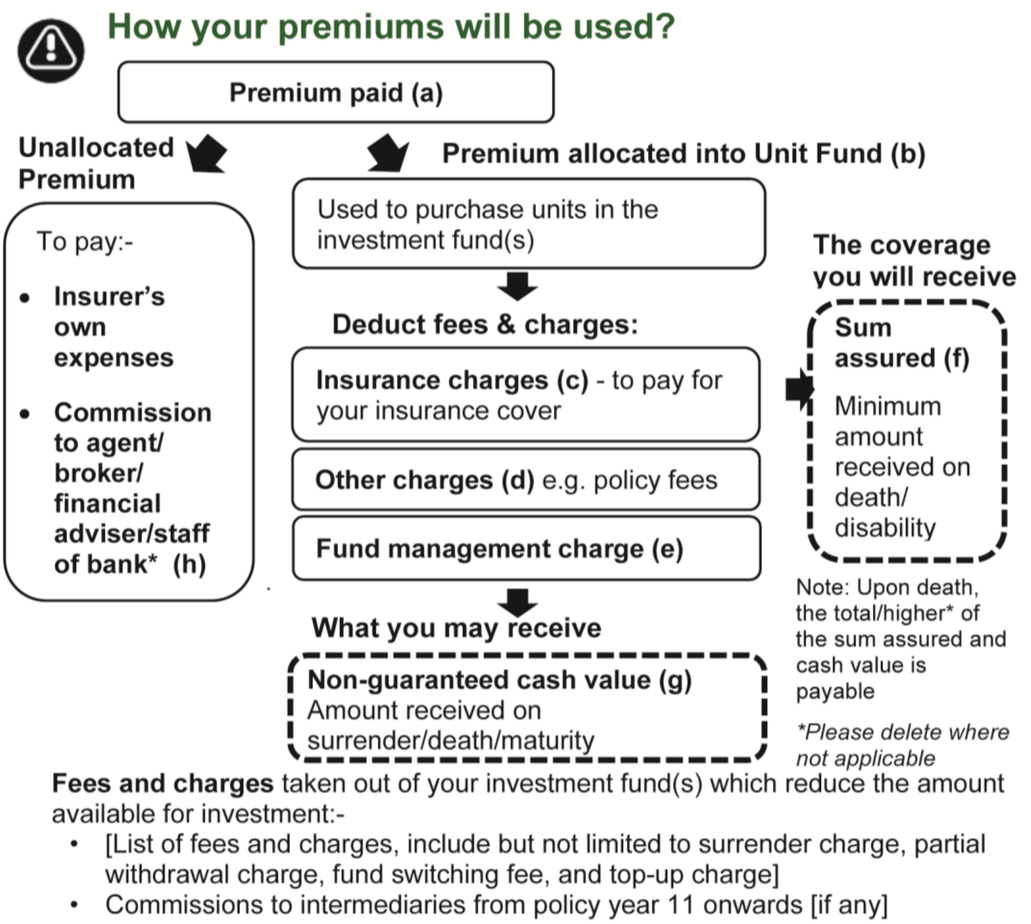
These management expenses can include operational costs, administrative overheads, salaries, marketing and promotional costs, regulatory compliance expenses, technology upgrades, and other operational expenditures integral to the insurer's day-to-day functioning.

[1] In the context of ILPs, the accrued value represents the current worth of the invested units in the policy.

The proportion of the premium that is allocated and unallocated may vary depending on the specific ILP and the insurer offering it. Generally, regular premium ILPs tend to have a higher proportion of the premium allocated to insurance protection, other fees, and charges, while single-premium ILPs tend to have a higher proportion allocated to investment funds.

It is important for policyholders to understand the allocation of premiums in their ILP and the associated fees and charges, as this can have an impact on the overall returns, performance, and sustainability of the policy.

FIGURE 2-3 ***How your premiums will be used?***[2]



Source : Investment-linked Business (BNM/RH/PD 029-36)
Issued on: 13 February 2023

2.2.4 MINIMUM ALLOCATION RATE (MAR)

"Minimum Allocation Rate" or "MAR" refers to the minimum proportion of premiums/takaful contributions payable by policy owner/takaful participant that is allocated in the unit fund(s) of choice before the deduction of any charges.

[2] These management expenses can include operational costs, administrative overheads, salaries, marketing and promotional costs, regulatory compliance expenses, technology upgrades, and other operational expenditures integral to the insurer's day-to-day functioning.

Table 2-2 *Minimum Allocation Rate (MAR)*

Year of Premium Payment or Takaful Contribution	MAR (Percentage of Annual Premiums or Takaful Contributions)
1 to 3	60
4 to 6	80
7 to 10	95
11 onwards	100

Table 2-3 *Type of Policy/Rider/Contribution*

Type of Policy/Rider/Contribution	Premium/Takaful Contribution Term	Minimum Allocation to Unit Fund
Investment-linked policy/takaful certificates	< 3 Years	95%
Unitised riders	< 3 Years	95%
Top-up premiums/takaful contributions		95%
Additional premiums/takaful contributions related to increases in cost of insurance/tabarru'		95%

Source : Investment-linked Business (BNM/RH/PD 029-36)
Issued on: 13 February 2023

2.2.5 SUM ASSURED MULTIPLE RULE (SAM)

The Sum Assured Multiple (SAM) rule imposed by Bank Negara Malaysia is used to determine:

(i) the minimum amount of sum assured that must be provided for a given amount of premium/takaful contributions or

(ii) the maximum amount of premium/takaful contributions that can be classified as the portion relating to a given amount of sum assured. Any excess premium/takaful contributions must be classified as top-up premiums/takaful contributions.

It stipulates the minimum multiple factors, depending on the age range of the life assured at the time of policy inception to help to protect the value of investment-linked policies/takaful certificates.

The premiums/takaful contributions are divided into two parts; one for the insurance/takaful coverage and the other for top-up premiums/takaful contributions.

The table below shows the SAM factors for the different age ranges.

Table 2-4 SAM Factors for the Different Age Ranges

Age	SAM Factor
1 - 16	60
17 - 25	55
26 – 35	50
36 - 45	35
46 - 55	25
>= 56	15

Source : Investment-linked Business (BNM/RH/PD 029-36)
Issued on: 13 February 2023

Regular top up premium is excluded from the multiple factors for calculating the minimum sum assured.

In simple terms, the SAM rule specifies minimum cover that must be provided, measured as a multiple of annual premium. The SAM factor for the youngest age range (1-16) is 60 while for the oldest age range (56 and above), it is 15.

Let us say a 56-year-old wants to insure himself by paying RM5,000 premium a year. He will have to be covered for at least RM75,000 (5,000 **x** 15).

For the same premium amount covering the life of a minor who is 16 years old, the minimum coverage is RM300,000 (5,000 **x** 60).

The SAM rule is applied to segregate premiums/takaful contributions into portions related to insurance/takaful coverage and classified as top-up premiums/takaful contributions.

Unit-deducting riders (UDR) must be considered when carrying out the assessment.

The Notional annual Premium/Takaful Contribution for Category 2 riders must be calculated based on level premium/takaful contribution approach.

Table 2-5 ***Category and Rider***

Category	Rider Examples
Category 1	Term riders and critical illness riders with additional sums assured or participated on death
Category 2	Critical illness riders with accelerated death benefits, hospital income riders, hospital, and surgical rides, TPD riders, waiver of premium or contribution riders, and accidental benefit riders

Example

The formula for the assessment:

Category 1 Rider: The Rider full amount of Sum Assured is to be included in the numerator.

For example, if a person aged 30 plans to cover Basic coverage RM300,000 and Critical Illness RM300,000 (enhanced critical illness coverage that pays a separate sum upon the detection of a dread disease), the total SA is RM600,000.

Based on the SAM factor of 50 for a 30-year-old, the maximum annual premium will be RM12,000 (600,0000 divided by 50).

The Basic Formula:
Annual Premium/Takaful contributions = Total SA / SAM Factor

Category 2 Rider: The notional premium/takaful contribution is to be deducted.

As the formula for notional premium is complex, it is best for agents to rely on the product illustration system of the insurer to identify the amount.

Just to illustrate, let us say a young working person aged 24 has decided to set aside RM3,600 a year for a basic plan with a hospital and surgical rider that pays only hospitalisation bills.

Let us assume that the notional premium for the rider is RM200.

The Basic Formula:

SAM = Total SA / (Annual premiums/takaful contributions - Notional annual premium/takaful contributions for category 2 riders)

The minimum SA for the basic coverage will be:
3,400 (minus 200 Notional Premium) ***x*** *55 (the multiple factors for this age),*
which will then be RM RM187,000.

No extra regular premium is involved in a Unit-deducting rider (UDR) but it entails the additional COI charge for the rider to be deducted from the investment account value of the policy owner, based on the same premium.

Agency commissions are payable from PPRs (PPR is Premium Paying Rider), but not from UDRs.

With the benefit of policy owners in mind, the trend of insurers is shifting to UDRs for new rider products design.

DEATH BENEFITS

Table 2-6 *Minimum Death Benefits by Types of Policies*

Types of Policies	Minimum Death Benefits
Single Premium Policies	RM5,000 or 105% of the entire premium paid at inception (whichever is higher) for older ages and substandard lives
Single Premium Policies	RM5,000 or 125% of the entire premium paid at inception (whichever is higher) for young ages and standard lives
Regular Premium Policies	RM5,000 or the prevailing multiple of annual premiums, whichever is higher
Prevailing Multiple	SAM factors specified by the Bank
Top-Up Premiums	Not subject to minimum death benefits
Segregation of Premiums	Not allowed for single premium policies

Excess amounts of premiums/takaful contributions that would result in the size of the sum assured/participated being lower than the SAM must be classified as a top-up premium/takaful contribution.

2.2.6 FREE-LOOK PERIOD

Similar to traditional policies, it is important to understand the concept of the free-look period when selling investment-linked policies (ILPs)/takaful certificates. The free look period is a specified number of days during which a policy owner/takaful participant can review their ILP and decide if he/she wants to keep such policy or cancel it.

The free look period for ILPs is 15 calendar days from the date of delivery of the policy. Some insurers practice a 15-day free-look period from the date of policy receipt by policy owners. During this period, policyholders can review the terms and conditions of their policy documents and other relevant information, and make an informed decision about whether they want to continue with the policy or not. If the policyholder decides to cancel the policy during this period, they will receive a full refund of the premiums paid.

It is important to note that during the free look period, no charges or fees will be imposed on the policyholder. This includes any administration fees, premium allocation charges, and fund management fees. However, any applicable market value reduction, refund will be lower than the premium paid.

If the policy owner decides to cancel the policy within the 15-day free look period, the licensed insurer must only deduct expenses incurred for the medical examination of the life insured/person covered. The insurer must refund the remaining premium paid for the investment linked policy, which includes:

(a) any unallocated premiums/takaful contributions;
(b) the policy account value at the next valuation date; and
(c) any insurance charges and policy/takaful certificate fees that have been deducted.

Table 2-7 ***Summary Conditions of Refunds***

Refund Components	**Description**
Unallocated Premiums	Any premiums that have not been allocated for investment
Policy Account Value	Value at the next valuation date
Insurance Charges & Policy Fees	Any deducted insurance charges and policy fees
Deductions	
Medical Examination Expenses	Expenses incurred for the life insured's/person covered's medical examination

As an insurance advisor, it is your responsibility to inform your clients about the free look period and its benefits. Encourage your clients to review their policy documents thoroughly during this period and address any questions or concerns they may have. By doing so, you can help your clients make an informed decision about their ILP and build trust and confidence in your services as an agent.

2.2.7 REGULAR AND AD HOC TOP-UP PREMIUM

In addition to the basic regular premium (RP), top-ups (TUs) of premium are also allowed. The purpose of TU is to enhance the accumulation of units. After deducting an upfront charge of about 5% from each TU, the rest is put into the fund(s) selected by the policy owner.

Most insurers allow TU of a certain minimum amount on a regular basis together with the basic RP. The total amount is incorporated into the premium. In other words, regular TU is to be paid together with the basic RP at each due date.

Ad hoc TU is paid at any time, and not on a due date. No limit to the amount and frequency is imposed. Ad hoc TU may be needed to keep a policy in force when the account value gets depleted due to the high COI at later ages of the policy owner or due to substantial withdrawals made along the way. Insurers have the discretion to set the minimum amount for ad hoc TU.

2.2.8 PREMIUM HOLIDAY

A premium holiday is a temporary break from paying premiums on an insurance policy or takaful certificate. During this period, the policy owner or takaful participant can skip paying premiums without the policy or certificate lapsing. However, the policy or certificate remains in force, and the coverage provided by it is still effective. Premium holidays are usually offered as an option for policy owners or takaful participants who face financial difficulties or temporary cash flow problems. It is important to note that premium holidays may result in a decrease in the value of the investment, or the amount of coverage provided by the policy or certificate.

Written consent of the policy owner/takaful participant must be obtained before deducting any charges for riders from the unit fund, where applicable.

The deduction for premium/takaful contribution-paying riders is computed net of commissions if the premium/takaful contribution holiday occurs during any commission payment period.

These requirements must be met by the insurer to ensure fair treatment to policy owners/takaful participants.

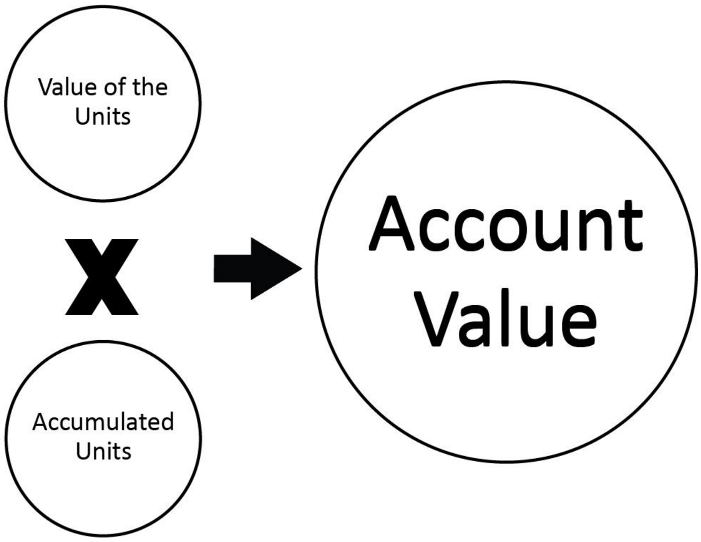
2.2.9 THE ACCOUNT VALUE AND SURRENDER VALUE

This is the projected value of units at any point in time that one may receive if one decides to surrender the policy and it is net of tax and all applicable charges.

The value of the policy depends on 2 factors:

- the value of each of the units, and
- the number of units the policy has accumulated to date

FIGURE 2-4 ***The Account Value***



The value of the policy should rise over a long period as the number of units increase with every premium invested, and with the increase in value of each unit assuming the fund's investment increase in value. However, the value of the policy can decrease if the fund's investments fall in value.

The account value also determines the surrender value of the policy. The surrender value is the amount that the policy owner will receive if they choose to surrender the policy before the end of the policy term. The surrender value is typically the account value minus any applicable surrender charges or fees.

Policy owners should keep track of their account value and regularly review the performance of their investment-linked funds to ensure that they are meeting their investment goals. They should also consult with their insurance advisor to determine if any changes to their investment strategy are necessary to achieve their financial objectives.

2.2.10 PARTIAL WITHDRAWAL, SURRENDER AND CHARGE

Policy owners may make a partial withdrawal from their accrued account value when they need the money. Most insurers do not limit the frequency of withdrawal or the maximum amount per withdrawal if the remaining account value is not below a certain minimum (e.g., RM1,000). A minimum amount per withdrawal is normally imposed, say RM1,000. The policy owner should bear in mind that a high depletion of account value due to withdrawals may cause the balance to be insufficient to meet the higher COI at an older age although premiums may continue to be paid. The policy owner should make ad hoc TU for replenishing the units and the account value.

Total surrender is allowed without restrictions.

Insurers may impose an early withdrawal or surrender charge, depending on the number of years a policy has been kept in force before the cut-off point when the charge is not applicable. For example, if the cut-off point for policy surrender is the 6th policy year, a policy owner who wants to cease his policy and cash in the account value at the 7th year or later will not be subjected to the surrender charge. Likewise, an insurer may impose a charge for early partial withdrawal, say within 2 years. The discretion lies with an insurer as to whether to impose such a charge, in line with its marketing strategy and product structure.

The rationale behind these surrender charges is to mitigate the administrative and operational costs incurred by the insurer during the early years of the policy. Additionally, these charges act as a deterrent to early termination, ensuring a longer-term commitment from the policy owner, which is essential for maintaining the viability and stability of insurance products.

2.2.11 FUND SWITCHING FEE

Fund switching refers to the process of transferring investment units from one fund to another within an investment-linked policy/takaful certificate. Life insurance companies that offer investment-linked policies typically provide a switching facility that allows policy owners to switch part or all their investment from one fund to another. Switching practices may vary, and insurers may offer free switching, free switching for a limited number of switches within a given period (usually a year) or charge a fee for each switch.

The switching facility can be very useful for financial planning purposes, allowing policy owners to change the asset allocation of their investment between funds as their investment needs change over time. For example, a policy owner who is an aggressive investor may initially invest 100% of their allocated premiums in an equity fund in their 30s, but gradually 30% in an equity fund and 70% in a bond fund as they reach retirement age. Insurers must ensure that the switching facility is clearly disclosed to policy owners, including any limitations or restrictions that may apply. The switching fee, if any, must be reflective of the expenses incurred or expected to be incurred by the insurer, and must not be excessive or unreasonable.

Example

A policy owner's investment allocation changes over time

Policy Owner's Age	Investment Allocation
30s	100% Equity Fund
40s	70% Equity Fund, 30% Bond Fund
50s	50% Equity Fund, 50% Bond Fund
> 60s	30% Equity Fund, 70% Bond Fund

2.2.12 DEATH BENEFIT MECHANISM

The death benefit (DB) in investment-linked policies (ILPs) can have various structures based on the policy terms. Here is an explanation of the two types mentioned:

SUM ASSURED PLUS ACCOUNT VALUE

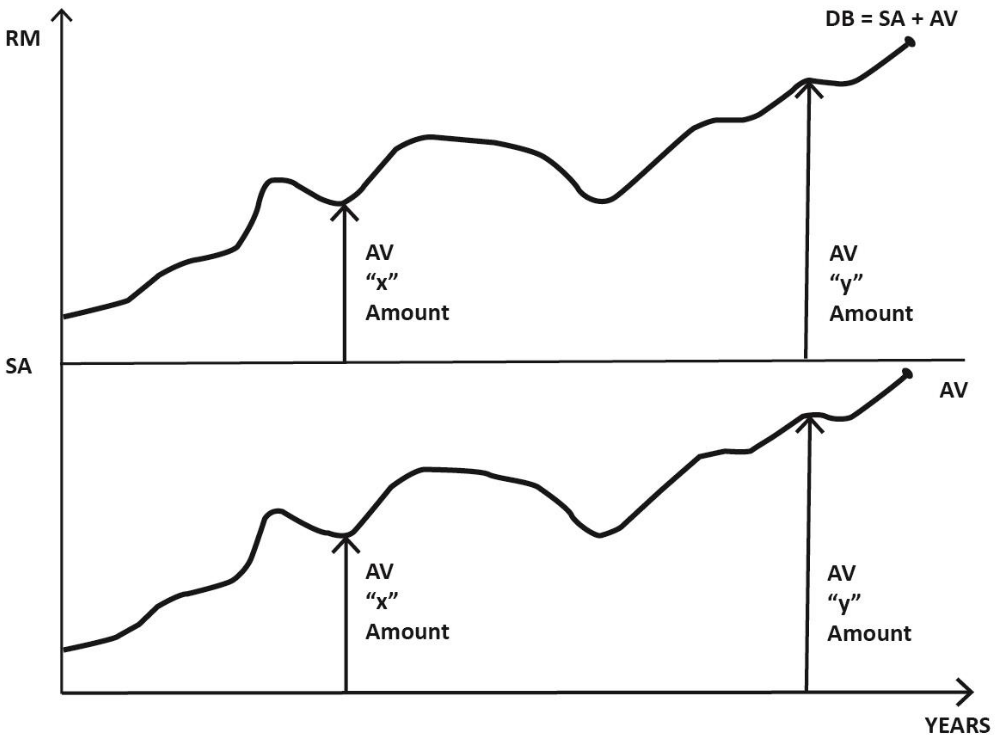
In this type of ILP, the death benefit (DB) is the combination of the basic sum assured (SA) and the account value (which represents the value of the investments linked to the policy). This means:

The DB = Basic SA + Account Value.

If all premiums are paid timely and the policy is in forced, the death benefit should always be at least the basic sum assured.

This provides a minimum guaranteed benefit (the basic SA) alongside the potential upside of the account value.

FIGURE 2-5 ***Death Benefit Mechanism for BSA + Account Value***



HIGHER OF ACCOUNT VALUE OR BASIC SUM ASSURED

In this arrangement:

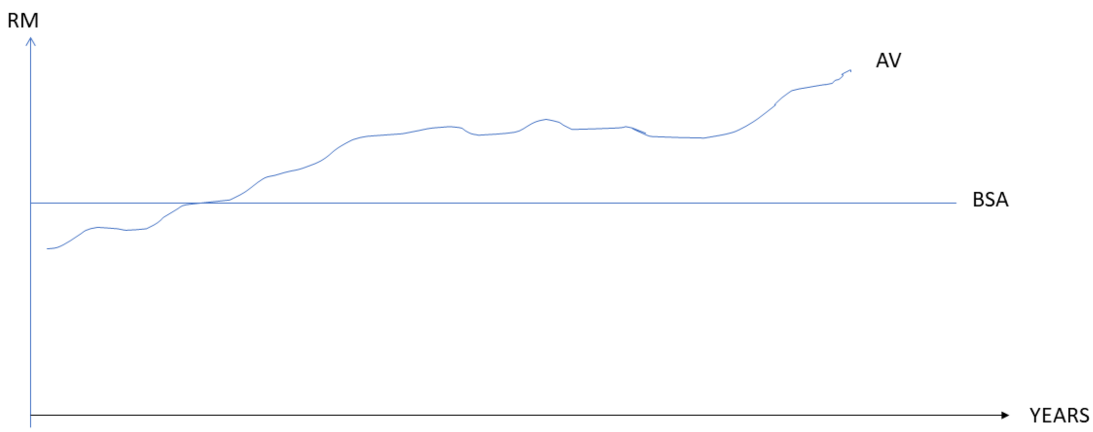
The DB is the greater value between the account value and the basic sum assured.

This means if the investments linked to the policy perform well and the account value exceeds the basic SA, then the beneficiary would receive a death benefit equal to the account value.

Conversely, if the account value drops below the basic SA, the beneficiary is still assured of receiving at least the basic sum assured upon the policyholder's death.

Both types offer a form of protection to the policyholder and their beneficiaries, ensuring that there is a guaranteed minimum payout (the basic SA) in case of the policyholder's death. The choice between them depends on the policyholder's risk appetite, financial objectives, and preference for guaranteed benefits versus potential investment upside.

FIGURE 2-6 ***Death Benefit Mechanism for Higher of Account Value or BSA***

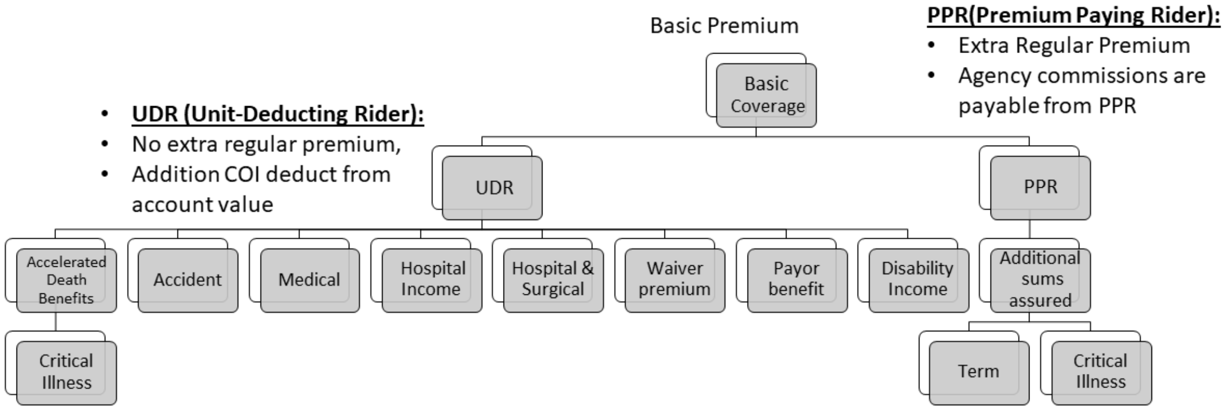


2.2.13 OPTIONAL RIDERS

RIDER(S) (OPTIONAL)

1. A rider can provide additional protection or enhance existing benefits payable under your basic policy.
2. Riders can be in the form of:
   (i) Unit-Deducting Rider (UDR), where the cost of the rider has been incorporated into the premiums for your basic policy. The rider is therefore funded by deducting charges from your unit fund; and
   (ii) Premium paying rider (PPR), where the cost of the rider has not been incorporated into the premiums for your basic policy. Separate premiums to fund the cost of the rider will be required.

FIGURE 2-7 *UDR vs PPR*



2.2.14 NO-LAPSE GUARANTEE PERIOD

This is a product feature as practised by all, if not most, life insurers in Malaysia. This feature ensures that the policy will not lapse in the first few years, even if the account value is insufficient to cover the cost of insurance (COI) and other necessary charges, provided certain conditions are met:

- The regular premium has been paid without fail;
- No premium holiday has been effected;
- No changes have been made to the policy, including any partial withdrawal from the account value.

Under this no-lapse guarantee, any unpaid COI and monthly administrative/service charges will be deducted from the account value contributed by all future premiums and top-up premiums (TUs), if any, until fully repaid.

It is important to note that the no-lapse guarantee is only applicable for the first few years. After this period, if the account value is still insufficient to cover the COI and other management charges, the policy will lapse unless a top-up premium is made along with the regular premium to make up for the unpaid COI and charges.

Table 2-8 *No-Lapse Guarantee Consequences*

	Description
During First Few Years	Unpaid COI and charges deducted from future premiums and TUs until fully repaid
After First Few Years	Policy will lapse unless TU premium is made along with regular premium to cover unpaid COI and charges

2.2.15 MANAGEMENT OF SUSTAINABILITY OF COVER

The insurer must regularly check and ensure that the investment-linked policies can sustain coverage until the end of its term. They will need to communicate the results of these checks to the policy owners, provide clear information about any charges, and recommend actions if there are changes to the policy. This helps the policy owners stay informed, vary the policies if need to and make better decisions about their policies.

FIGURE 2-8 ***Summary of Pertinent Requirements on the Management of Sustainability of Cover***

#	Description
1	Insurer must ensure premiums can sustain coverage until the end of the term
2	Insurer must regularly check if the policy can continue providing coverage until the end of its term
3	Insurer must perform these checks at least annually and when policy changes are made
4	Insurer must use accurate, up-to-date information for these checks
5	Insurer must inform policyholders about the results of these checks
6	Policyholders will receive information on expected coverage sustainability and recommended actions
7	Insurer must address any increases in charges and provide alternative actions for policyholders
8	Insurer must ensure clear and non-misleading communication with policyholders
9	Upon request, insurer may provide additional information on future cash flow projections

2.3 FEES/CHARGES AND EXPENSES

2.3.1 GENERAL CONDITIONS

To ensure transparency, protect policyholders, and regulate the fees and charges associated with investment-linked policies and takaful certificates:

- Only specific expenses incurred for managing the investment-linked fund can be charged to the unit fund.
- Indirect expenses, such as general overheads, must not be charged to the unit fund, and rebates must be credited to the fund.
- Insurers must disclose the information on fees and charges borne by policy owner/takaful participant in the sales and marketing materials and policy/takaful certificate documents.
- Three months' written notice must be given to existing policyholders prior to effecting upward revisions of fees and charges.
- Changes to fees and charges must be implemented on the policy/takaful certificate anniversary date, while downward revisions can be applied immediately.
- Must notify Bank Negara Malaysia in writing at least seven calendar days before effecting any revisions to fees and charges.

2.3.2 FUND MANAGEMENT CHARGE

Insurers may be remunerated an annual fund management charge (FMC) for managing the investment-linked funds for policy owners/takaful participants. If they do charge an annual FMC, it must be charged to the fund using the unit pricing method. The annual FMC charge must commensurate with the investment strategy used and cannot exceed 1% of NAV for funds invested only in money-market instruments or fixed income securities, or 1.5% of NAV for other funds.

Table 2-9 ***Types of Funds***

Types of Funds	Maximum Annual FMC
Money-Market Instruments or Fixed Income Securities	1% of NAV
Other Funds	1.5% of NAV

2.3.3 OTHER CHARGES

Insurers must ensure that other charges, such as administrative/service charges, top-up charges, switching charges, partial withdrawal charges, and surrender charges, are reflective of the expenses incurred or expected to be incurred. They must not profit from these charges and should not charge for the same expense under multiple categories. Any compensation or ex-gratia payments related to investment-linked policies/takaful certificates must be charged to the insurer's shareholders' fund. Examples of events that could lead to these costs include mis-selling, errors in unit pricing, incorrect fees and charges, incorrect Net Asset Value computations, and payment of claims which are excluded from the insurance policy/takaful contract.

Table 2-10 ***Summary Description of Other Charges***

Charge	Description	Basis for Charge	Source of Payment
Administrative / Service Charges	Fee for administering the investment-linked policy/Takaful certificate	Reflective of expenses incurred or expected to be incurred	Policy owner/Takaful participant
Top-up Charge	Fee for increasing investment amount in the policy/Takaful certificate	Reflective of expenses incurred or expected to be incurred	Policy owner/Takaful participant
Switching Charge	Fee for switching investment between funds within the policy/Takaful certificate	Reflective of expenses incurred or expected to be incurred	Policy owner/Takaful participant
Partial Withdrawal Charge	Fee for withdrawing a portion of the investment amount before maturity	Reflective of expenses incurred or expected to be incurred	Policy owner/Takaful participant
Surrender Charge	Fee for terminating the policy/Takaful certificate before maturity	Reflective of expenses incurred or expected to be incurred	Policy owner/Takaful participant
Compensation/ Ex-Gratia Payments	Owners/Takaful participants due to events such as mis-selling or errors in unit pricing	Cost of compensation or ex-gratia payments	Shareholders' fund

2.3.4 COMMISSIONS

Insurers must comply with requirements relating to regular premium/takaful contribution for investment-linked policies/takaful certificates.

When selling investment-linked policies/takaful certificates through bancassurance/bancatakaful, the insurer must ensure that the commissions paid are subject to the limits stipulated in the Operating Cost Controls for Life Insurance and Family Takaful Business policy document.

Insurers must not recoup commission costs by deducting them from the unit fund in any policy year where the premium allocation rate is below 100%.

If the premium allocation rate is at or above 100%, the insurer may recoup commission costs via deductions from the unit fund, subject to certain conditions. The charges deducted must be fixed and non-reviewable, and the insurer must have an upfront agreement with its Distributions' Sales Representative on the amount and structure of commissions.

2.3.5 AGENCY RELATED EXPENSES (ARE)

Insurers may incur payments of benefits in cash or in kind to agents, agency supervisors, and agency managers. These payments of benefits, referred to as Agency Related Expenses (ARE), include medical expenses, insurance/takaful schemes, contributions to retirement or gratuity schemes, and agency seminars or conferences.

All ARE must be consistent with the insurer's remuneration policy approved by its board and aligned with the performance measures imposed on the insurer's agency force, including productivity and persistence. The insurer must ensure that ARE are only charged to its non-unit fund.

The insurer must ensure that the agency supervisor or agency manager submits quarterly reports on its performance to the insurer for monitoring purposes. The insurer must maintain proper records and documentation of all ARE, which must be made readily available to the Bank Negara Malaysia upon request.

REVIEW QUESTIONS

1	*Which of the following statements correctly describes single-premium investment-linked policies (ILPs) as compared to regular premium ILPs?*
	a. Single-premium ILPs require the policyholder to make regular, ongoing premium payments. b. Single-premium ILPs generally allocate a higher proportion of funds to insurance protection than regular premium ILPs. c. Single-premium ILPs involve a one-time lump sum payment and typically offer a higher proportion of funds for investment. d. Single-premium ILPs allow policyholders to adjust their insurance coverage level as their financial needs change over time.

2	*Which of the following statements correctly describes the dual pricing method for investment-linked policies in Malaysia?*
	a. Dual pricing uses a single calculated price but applies different transaction fees for buying and selling units. b. Dual pricing involves two separate prices for each unit: a bid price for buying back units and an offer price for selling units, typically with a 5% difference. c. Dual pricing allows insurers to calculate unit prices based on the Net Asset Value (NAV) but includes an additional cost for each transaction. d. Dual pricing was adopted by the insurance industry in Malaysia starting in 2006 to enhance transparency.

3	*A 30-year-old female has budgeted RM3,000 per year for a basic regular premium investment-linked plan, which includes a Unit-Deducting Hospitalization Rider. Based on the SAM rule, how would you calculate the minimum sum assured required for her basic plan?*
	a. (RM3,000 - Notional Premium for Rider) × 50 b. (RM3,000 + Notional Premium for Rider) × 50 c. (RM3,000 - Notional Premium for Rider) × 60 d. (RM3,000 + Notional Premium for Rider) × 60

4	*In an investment-linked policy, what is the main purpose of the allocated premium?*
	a. To cover the insurer's administrative and management costs b. To pay commissions to agents and other distribution costs c. To guarantee a minimum return on investment for the policyholder d. To buy units in the investment funds selected by the policyholder

5	*If a policyholder cancels an investment-linked policy during the free-look period, what will they typically receive as a refund?*
	a. The full premium paid, with no deductions b. The policy account value at the next valuation date, with no additional refunds c. The full premium paid, subject to a deduction for any expenses incurred for medical examinations d. Only the allocated premium amount, with the unallocated premium retained by the insurer

6	*What is a key advantage of using Dollar Cost Averaging (DCA) in an investment-linked policy?*
	a. It minimizes the need for further premium payments in the future b. It guarantees a profit over the investment period by buying at low prices c. It ensures a fixed rate of return regardless of market conditions d. It helps reduce the impact of market volatility by spreading investments over time

7	*Based on the general conditions for the design of investment-linked products, which of the following statements are correct?* *I. The name and design of an investment-linked product must clearly indicate it is an investment-linked product* *II. Capital-guaranteed products must be backed by a licensed bank, investment bank, or Islamic bank* *III. Investment-linked products must provide options and guarantees that ensure minimum returns* *IV. Riders can be added to the policy and may involve unit deductions or require separate premium payments*
	a. I and II only b. I, II, and IV only c. II, III, and IV only d. I, III, and IV only

8	*Which statements below describe 'spread-out risk among varied assets' correctly* *I. Money is invested in a variety of different assets, such as stocks, bonds, and other securities, which helps to reduce the overall risk of your investment.* *II. As long as the assets selected by the fund manager are sound and the fund manager exercises prudence, the fund price will definitely appreciate in the long run despite fluctuations* *III. Spreading investment across different assets, helps to diversify an investor's portfolio and reduce the exposure to any one asset class* *IV. Spreading out risk among varied assets can help to minimize the impact of market volatility on the investment*
	a. I and II b. I, II and III c. I, III and IV d. II, III and IV

9	*Which of the following statement(s) regarding Minimum Allocation Rate or "MAR " are correct?* *I. MAR is the average proportion of premiums/takaful contributions payable by policy owner/takaful participant that is allocated in the unit fund(s) of choice before the deduction of any charges* *II. MAR is the minimum proportion of premiums/takaful contributions payable by policy owner/takaful participant that is allocated in the unit fund(s) of choice before the deduction of any charges* *III. The prevailing MAR prescribed by Bank Negara Malaysia for Year 1 to Year 3 premium payment/takaful contribution is 60%* *IV. The prevailing MAR prescribed by Bank Negara Malaysia for Year 7 to Year 10 premium payment/takaful contribution is 100%*
	a. I and II b. II and III c. I, III and IV d. II and IV

10	*Which of the following statement(s) regarding fund management charge (FMC) are correct?* *I. FMC is remuneration to insurers for managing the investment-linked funds for policy owners/takaful participants* *II. FMC is being charged to the fund using the unit single pricing method only* *III. FMC commensurates with the investment strategy used and cannot exceed 1% of NAV for funds invested only in money-market instruments or fixed income securities, or 1.5% of NAV for other funds* *IV. Single pricing approach ensures that the same price applies to both buying and selling units of a given ILP fund*
	a. I and II b. I, II and III c. II, III and IV d. I, III and IV

3

CHAPTER 3 DISCLOSURE REQUIREMENT

3.1 INTRODUCTION

As an agent, it is crucial to understand and adhere to the disclosure requirements when promoting investment-linked products to clients. Here are the key responsibilities and duties you must fulfil as an agent:

Table 3-1 *Agent's Duty*

Agent's Duty	Description
Provide Accurate and Transparent Information	Share key product features, benefits, risks, fees charges and contractual rights and obligations; ensure transparency and informed decision-making
Offer Reasonable and Verifiable Opinions	Base opinions on facts and evidence; suitable qualify statements
Communicate Changes Promptly	Withdraw misleading information; notify clients of significant changes
Present Factual Performance Statements	Use independent sources for performance data; prominently disclose data and source
Warn Clients about Past Performance	Include a cautionary statement on past performance; emphasize that there is no guarantee on future performance
Avoid Undue Expectations	Do not market products based on projected returns; follow requirements for product illustrations
Clearly Communicate Guarantees	Accurately represent guarantees; avoid misleading clients
Disclose Third-Party Guarantee Information	Share the name, credit rating, material terms, scope of guarantee, and counterparty risks
Proper Representation of Product Types	Avoid using terms like "whole life" or implying Shariah compliance; accurately portray product design
Comply with Additional Disclosure Requirements	Follow specific disclosure requirements for extension to coverage term feature
Enhance Commission Disclosures	Provide clear information on commissions; enable comparison between different investment-linked products
Utilize Electronic Means for Product Disclosure	Ensure clients receive information directly; provide hard copies upon request

By fulfilling these responsibilities and duties, you can maintain a high level of transparency and professionalism, which will ultimately enhance trust and confidence from your clients for your services.

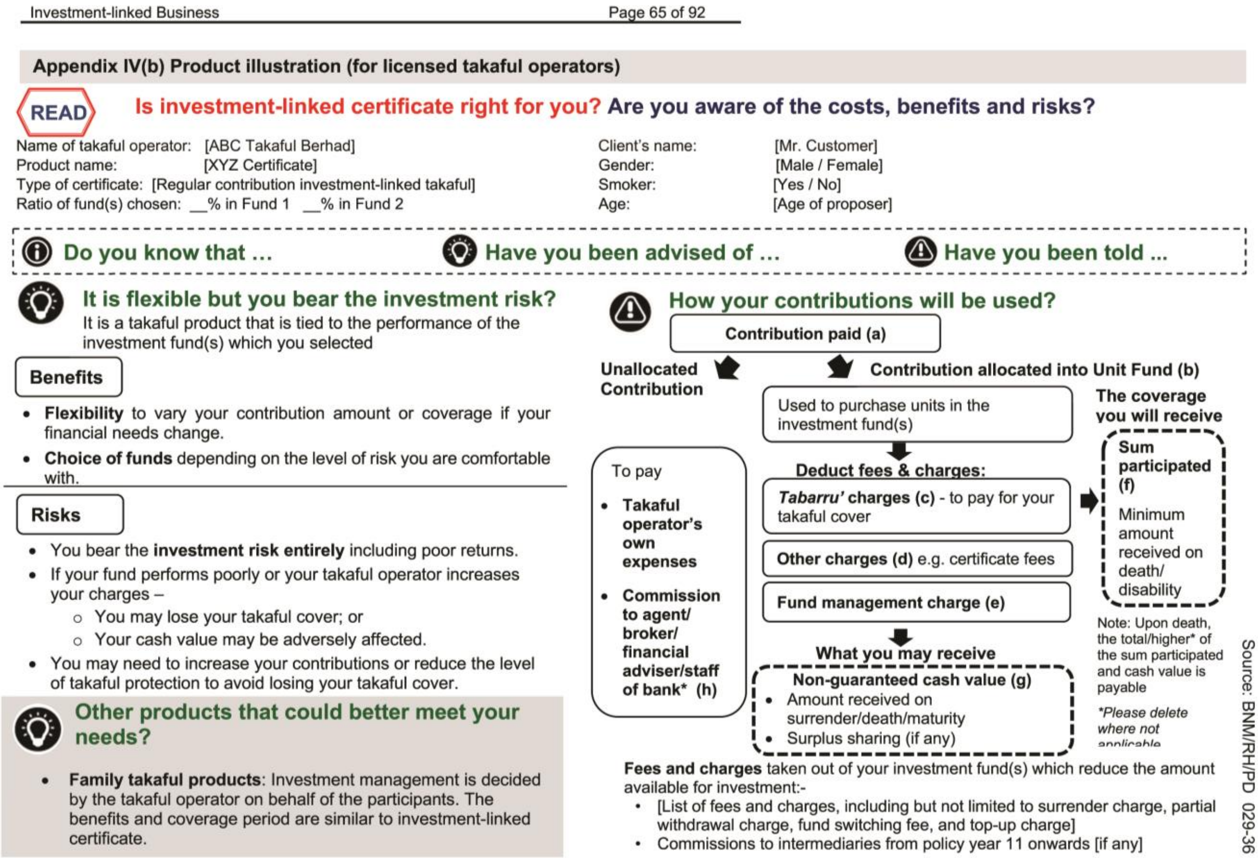
3.2 PRODUCT ILLUSTRATION

A product illustration (also refer as Sales Illustration) is an educational tool that shows a prospective or new insurance policyholder how a specific basic or rider insurance products work includes the essential but not limiting to product name, term, features, benefits, premium, cash value over time (depending on type of products), projected returns and product disclosure sheet. Refer to the detailed Product Illustration Format for complete understanding.

As an agent, it is essential to understand and follow the requirements for product illustrations when promoting investment-linked policies/takaful certificates to clients. Here are the key responsibilities you must fulfil as an agent regarding product illustrations:

- Refer to the insurer's approved product illustration for investment-linked/takaful certificates and explain to potential policyholders at the point of sales.
- Clarify to potential policyholders that product illustration is meant to illustrate the possible movements of cash flows of the investment-linked policy/takaful certificate and the impact of fees and charges on cash values.
- Provide a copy of the product illustration, based on the actual premium/takaful contribution rates subscribed, to the policy owners/takaful participants together with the investment-linked product policy document.
- The product illustration in an investment-linked policy/takaful certificate is based on two rates, Scenario X and Scenario Y, which represent hypothetical rates of return.
- The rates vary depending on the type of fund. For equity funds, Scenario X is 2% and Scenario Y is either the historical FTSE Bursa Malaysia KLCI returns for the first 20 years and 5% thereafter, or a fixed rate of 5% throughout the term.
- For other funds, both Scenario X and Scenario Y are 2% and 5% respectively.
- The prescribed rates are intended to illustrate hypothetical scenarios to policy owners on the potential impact of different hypothetical investments on their account values.

FIGURE 3-1 ***Product Illustration Format***[3]



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Appendix IV(b) Product illustration (for licensed takaful operators)

READ **Is investment-linked certificate right for you? Are you aware of the costs, benefits and risks?**

Name of takaful operator: [ABC Takaful Berhad]
Product name: [XYZ Certificate]
Type of certificate: [Regular contribution investment-linked takaful]
Ratio of fund(s) chosen: __% in Fund 1 __% in Fund 2

Client's name: [Mr. Customer]
Gender: [Male / Female]
Smoker: [Yes / No]
Age: [Age of proposer]

Do you know that … **Have you been advised of …** **Have you been told ...**

It is flexible but you bear the investment risk?
It is a takaful product that is tied to the performance of the investment fund(s) which you selected

Benefits

- **Flexibility** to vary your contribution amount or coverage if your financial needs change.
- **Choice of funds** depending on the level of risk you are comfortable with.

Risks

- You bear the **investment risk entirely** including poor returns.
- If your fund performs poorly or your takaful operator increases your charges –
  - You may lose your takaful cover; or
  - Your cash value may be adversely affected.
- You may need to increase your contributions or reduce the level of takaful protection to avoid losing your takaful cover.

Other products that could better meet your needs?

- **Family takaful products**: Investment management is decided by the takaful operator on behalf of the participants. The benefits and coverage period are similar to investment-linked certificate.

How your contributions will be used?

Fees and charges taken out of your investment fund(s) which reduce the amount available for investment:-

- [List of fees and charges, including but not limited to surrender charge, partial withdrawal charge, fund switching fee, and top-up charge]
- Commissions to intermediaries from policy year 11 onwards [if any]

Source: BNM/RH/PD 029-36

[3] Although not required by Bank Negara Malaysia's Investment-Linked Guideline, some insurers practice showing the number of days for the 'Notice Period for Revision in Insurance Charge' in the additional column in Table 2: Rider(s) (Optional).

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Table 1: XYZ Certificate (For illustration purposes only. This may not be the benefits that you will receive)

- The contribution amounts shown in column (a) are expected to be sufficient for your unit fund/cash values to support your takaful coverage for the full certificate term. However, over time, your unit fund/cash values may be higher or lower than expected due to various factors, including volatility in investment returns. You will receive annual statements to update you on the latest position of your unit fund/cash values.
- We have chosen two examples of investment returns, i.e. 2% (Scenario X) and 5% (Scenario Y), to show you possible charges, unit fund/cash values and benefits. For actual past investment returns of the unit fund, please refer to the Fund Fact Sheet.

If your actual unit fund/cash values becomes lower than expected, you will be notified via your annual statement that your certificate is no longer sustainable, and you will be advised on actions you may take to ensure continued coverage for the full takaful certificate term, such as increasing your contribution or reducing your takaful cover.

The amount you need to pay

You should only purchase the riders you need as the cost of the riders will be borne by you. Riders are optional

At maturity or upon early cancellation, you may receive this amount (amount is not guaranteed)

End of Certificate Year	Contribution Paid (RM) (a)	Allocated Contribution (b)		*Tabarru'* Charges[1] (RM) (c)							Other Charges[1] (RM) (d)	Fund Management Charge (RM) (e)		Sum Participated (RM) (f)	Non-Guaranteed Cash Value (RM) (g)		Non-Guaranteed Death Benefits[2] (RM)		Commission (h)	
		RM	%	Basic certificate	Unit-deducting rider(s) 1	2	3	4	5	6		Scenario X	Scenario Y		Scenario X	Scenario Y	Scenario X	Scenario Y	RM	%
1																				
2																				
3																				
4																				
5																				
6																				
7																				
8																				
9																				
10																				
15																				
20																				
30																				
40																				
t**																				
																		Total		

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[1] The illustrated *tabarru'* and other charges are not guaranteed and may be varied from time to time by giving X month notice to takaful participants , for example, charges for medical riders may increase due to rising medical costs.

[2] The death benefit payable is the total/higher* of the sum participated and cash value. *[*Please delete where not applicable]*
Where the non-guaranteed portion becomes zero/negative, it means that your unit fund is no longer able to pay for your takaful cover.

[3] Amount received by the intermediary for the sale of this certificate and services that the intermediary will provide to you for the duration of your certificate. From year 11 onwards, the portion of contribution allocated for commission would be deducted from your unit fund. Please refer to the service guide for further details.

Table 2: Rider(s) (Optional)

1. A rider can provide additional protection or enhance existing benefits payable under your basic certificate.
2. Riders can be in the form of:
   (i) Unit-deducting, where the cost of the rider has been incorporated into the contributions for your basic certificate. The rider is therefore funded by deducting charges from your unit fund; and
   (ii) Contribution-paying, where the cost of the rider has not been incorporated into the contributions for your basic certificate. Separate contributions to fund the cost of the rider will be required.

Riders	Type	Contribution Paid (RM)	Sum Participated (RM)	Coverage Period (years)
Rider 1	[e.g. unit deducting rider]	[Not applicable]		
Rider 2	[e.g. unit deducting rider]	[Not applicable]		
Rider 3	[e.g. unit deducting rider]	[Not applicable]		
Rider 4	[e.g. unit deducting rider]	[Not applicable]		
Rider 5	[e.g. unit deducting rider]	[Not applicable]		
Rider 6	[e.g. unit deducting rider]	[Not applicable]		
Rider 7	[e.g. contribution-paying rider]			
Rider 8	[e.g. contribution-paying rider]			
Rider 9	[e.g. contribution-paying rider]			

Source : Investment-linked Business (BNM/RH/PD 029-36)
Issued on: 13 February 2023

FIGURE 3-2 ***Excerpt Sample of a Product Illustration***

Sample

Product Name	: 0123 Investment Linked Policy	Premium Mode	: Monthly
		Premium Payment Term	: 70

Life Assured's Details

Name	: MR Business Man
Gender	: Male
Smoker	: No
Age Next Birthday	: 30
Occupation Class	: 1

Plan	Coverage Period (Years)	Benefit Amount (RM)	Annualised Premium (RM)	Monthly Premium (RM)
Basic Plan: Insurance Premium	70	100,000	2,700.00	225.00
Unit deduction rider(s):				
U01 IL Hospital Benefit	50	100	0.00	0.00
U02 IL Critial illness	69	100,000	0.00	0.00
U03 IL Premium Waiver	69	2,700	0.00	0.00
U04 Medical card-150	70	150	0.00	0.00
Total^ (RM)			**2,700.00**	**225.00**

All premium payable by a Business Organization other than XXX Life Assurance (Malaysia) Berhad, are subject to the prevailing government service tax.

^The total premium shown above is for premium payment term up to age 70 years next birthday. Kindly refer to the premium table below for the amount of premiums to be paid subsequently.

* Please refer to the Product Disclosure Sheet for the benefits.

The estimated total premium that you have to pay for all policy years are shown in the table below.

Age Next Birthday at End of Policy Year	Estimated Total Premium
	Monthly
Up to 70	RM225.00
71 to 75	RM735.00
76 to 80	RM1,605.00
81 to 85	RM2,125.00
86 to 90	RM2,795.00
91 to 95	RM3,555.00
96 to 100	RM4,555.00

Based on the estimated total premium shown above, the policy may sustain for:

- **70 years up to your age 100 years next birthday under Company's best estimate investment returns;**
- **36 years up to your age 66 years next birthday under projected investment returns of Y%; and**
- **32 years up to your age 62 years next birthday under projected investment returns of X%.**

You may consider single premium top-ups, increasing your regular premium or reducing your coverage to enhance the sustainability of the policy.

Please note that these outcomes are based on the assumed investment returns, premiums paid and charges. The benefits may vary, and subject to No-Lapse Guarantee, the policy may lapse earlier depending on the actual investment returns and volatility of the chosen investment funds, premiums paid and charges. In the event that the actual sustainability of the policy is reduced due to revision of insurance charges, the Company may vary the premium and any regular investment top-ups on the policy anniversary by giving 3 months' notice to policy owners.

READ Is investment-linked policy right for you? Are you aware of the costs, benefits and risks?

Name of Insurer: XXX Life Assurance (Malaysia) Berhad
Product Name: Investment-Linked Policy
Type of Policy: Regular premium investment-linked insurance
Ratio of Fund(s) Chosen: Please refer to the following page

Client's Name: MR Business man Male
Gender: No
Smoker:
Age Next Birthday: 30

Do you know that … **Have you been advised of ...** **Have you been told ...**

It is flexible but you bear the investment risk?

It is an insurance product that is tied to the performance of the investment fund(s) which you selected

Benefits

- **Flexibility** to vary your premium amount or coverage if your financial needs change.
- **Choice of funds** depending on the level of risk you are comfortable with.

Risks

- You bear the **investment risk entirely** including poor returns.
- If your fund performs poorly or your insurer increases your charges -
  - You may lose your insurance cover; or
  - Your total investment value may be adversely affected.
- You may need to increase your premiums or reduce the level of insurance protection to avoid losing your insurance cover.

Other products that could better meet your needs?

- **Non-participating products:** The benefits and coverage period are guaranteed as long as you pay premiums.
- **Participating products:** In addition to receiving guaranteed benefits and having a guaranteed coverage period, you can share in the profits (non-guaranteed) of the participating life fund.

How your premiums will be used?

Premium paid (a)

Unallocated Premium

To pay:-
- **Insurer's own expenses**
- **Commission to agent/ financial adviser (h)**

Premium allocated into Unit Fund (b)

Used to purchase units in the investment fund(s)

Deduct fees & charges:

Insurance charges (c) - to pay for your insurance cover

Other charges (d) e.g. policy fees

Fund management charge (e)

The coverage you will receive

Sum assured (f)
Minimum amount received on death/ total and permanent disability

Note: Upon death, the total of the sum assured and total investment value is payable

What you may receive:

Non-guaranteed total investment value (g)
Amount received on surrender/death/maturity

Fees and charges taken out of your investment fund(s) which reduce the amount available for investment:-

- There are no other fees and charges other than (c), (d) and (e).

Investment Strategy Selected : My Choice
Investment Horizon : 70 Years

Policy Year		Ratio of Fund(s) Chosen											
From	To	F1 Balanced Fund	F2 Fixed Income Fund	F3 Progressive Fund	F4 Dana Income	F5 US Fund	F6 UK Fund	F7 AU Fund	F8 Enhanced Equity Fund	F9 Dana Equity	F10 Very Dynamic Fund	F11 Small Mid Cap Fund	F12 ASEAN Fund
1	70	100%											

Sample

Table 1: Investment Link Policy (0123) (For illustration purposes only. This may not be the benefits that you will receive)

- The premium amounts shown in column (a) are expected to be sufficient for your unit fund/total investment value to support your insurance coverage for the full policy term. However, over time, your unit fund/total investment value may be higher or lower than expected due to various factors, including volatility in investment returns. You will receive annual statements on the latest position of your unit fund/total investment value.
- We have chosen two examples of investment returns, i.e. 2% (Scenario X) and 5% (Scenario Y), to show you possible charges, unit fund/total investment value and benefits. For actual past investment returns of the unit fund, please refer to the Fund Fact Sheet.

If your actual unit fund/total investment value becomes lower than expected, you will be notified via your annual statement that your policy is no longer sustainable, and you will be advised on actions you may take to ensure continued insurance coverage for the full policy term, such as increasing your premium or reducing your insurance cover.

The amount you need to pay

You should only purchase the riders you need as the cost of the riders will be borne by you. Riders are optional

At maturity or upon early cancellation, you may receive this amount (amount is not guaranteed)

End of Policy Year	Age at End of Policy Year	Premium Paid (RM) (a)	Allocated Premium (b)		Insurance Charges[1] (RM) (c)		Other Charges[1] (RM) (d)	Fund Management Charge (RM) (e)		Sum Assured (RM) (f)	Non-Guaranteed Total Investment Value (RM) (g)		Non-Guaranteed Death Benefits[2] (RM)		Commission[3] (h)	
			RM	%	Basic Policy	Unit-deducting rider(s)		Scenario X	Scenario Y		Scenario X	Scenario Y	Scenario X	Scenario Y	RM	%
1	31	2,700.00	1,620.00	60.00	121	922	72	3	3	100,000	506	514	100,506	100,514	1,215.00	45.00
2	32	2,700.00	1,620.00	60.00	121	931	72	10	10	101,000	1,006	1,036	102,006	102,036	1,215.00	45.00
3	33	2,700.00	1,620.00	60.00	121	938	72	17	17	102,000	1,502	1,567	103,502	103,567	540.00	20.00
4	34	2,700.00	2,160.00	80.00	121	947	72	28	29	103,000	2,532	2,655	105,532	105,655	540.00	20.00
5	35	2,700.00	2,160.00	80.00	121	956	72	42	43	104,000	3,557	3,769	107,557	107,769	405.00	15.00
6	36	2,700.00	2,160.00	80.00	121	963	72	56	59	105,000	4,579	4,912	109,579	109,912	405.00	15.00
7	37	2,700.00	2,565.00	95.00	121	1,016	72	73	77	106,000	5,959	6,449	111,959	112,449	0.00	0.00
8	38	2,700.00	2,565.00	95.00	130	1,029	72	92	98	107,000	7,322	8,012	114,322	115,012	0.00	0.00
9	39	2,700.00	2,700.00	100.00	140	1,046	72	112	120	108,000	8,800	9,736	116,800	117,736	0.00	0.00
10	40	2,700.00	2,700.00	100.00	150	1,064	72	132	143	109,000	10,257	11,486	119,257	120,486	0.00	0.00
15	45	2,700.00	2,700.00	100.00	246	1,398	72	217	254	114,000	16,215	19,617	130,215	133,617	0.00	0.00
20	50	2,700.00	2,700.00	100.00	436	1,856	72	267	345	119,000	19,489	26,127	138,489	145,127	0.00	0.00
30	60	2,700.00	2,700.00	100.00	1,139	3,821	72	118	301	129,000	7,473	21,629	136,473	150,629	0.00	0.00
40	70	0.00	0.00	0.00	0	0	0	0	0	0	0	0	0	0	0.00	0.00
50	80	0.00	0.00	0.00	0	0	0	0	0	0	0	0	0	0	0.00	0.00
60	90	0.00	0.00	0.00	0	0	0	0	0	0	0	0	0	0	0.00	0.00
70	100	0.00	0.00	0.00	0	0	0	0	0	0	0	0	0	0	0.00	0.00
														Total	4,320.00	4.44

[1]The illustrated insurance and other charges are not guaranteed and may be varied from time to time, for example, charges for medical riders may increase due to rising medical costs. The basic policy's insurance and other charges may be varied by giving 3 months' notice to policy owners. Please refer to Table 2 for the notice period for revision of insurance charges of the respective riders.

[2]The death benefit payable is the total of the sum assured and total investment value.

Where the non-guaranteed total investment value becomes zero, it means that your unit fund is no longer able to pay for your insurance cover. Under such circumstances, the premium and commission shall cease.

[3]Amount received by the intermediary for the sale of this policy and services that the intermediary will provide to you for the duration of your policy. Please refer to the service guide for further details.

Your insurance charges will increase as you get older. In the later years, it is possible for your insurance charges to be higher than your premium paid. The above illustration shows that your insurance charges are higher than your premium paid starting from age 52, where your total investment value may eventually be depleted.

3.3 FUND FACT SHEET

A fund fact sheet is an overview of a fund including the fund's investment objective, risk level, costs, past performance, and holdings details. Refer to the format below for complete understanding.

Agents are responsible to provide to their clients a Fund Fact Sheet for each of the investment-linked funds offered by insurers together with product illustration at the point of sales of investment-linked products.

Figure 3-3 *Minimum Format for Fund Fact Sheet*

Source: BNM/RH/PD 029-36

Investment-linked Business

Appendix V Minimum format for Fund Fact Sheet

Name of Fund	
Features of Fund	
Investment Objective	
Investment Strategy & Approach	○ To include investment focus (i.e. equities, bonds, CIS, etc.) and techniques used (passive or active, top-down/bottom-up, quantitative/fundamental analysis/technical analysis, etc.) For investment-linked funds that invest in structured products and/or derivatives, to also explain how returns from such assets will be generated. Illustrations of gains and losses through numerical examples based on bull, flat and bear scenarios are allowed to give better understanding to the policy owner/takaful participant on the impact of different scenarios on the fund.
Asset Allocation	○ Details on asset allocation, e.g. by type, by geographical region, etc.
Performance Benchmark	○ Benchmark(s) used, including where to obtain further information on benchmark.
Fund Manager	○ To clearly highlight if the fund manager is the licensed person itself or a third party appointed by the licensed person.
Fees & Charges	
Fund Management Charge	
Other Charges, if any	
Fund Performance	

Notice: Past performance of the fund is not an indication of its future performance

- Actual returns of the immediately preceding ten years on a net basis (net of tax and charges), or since inception if shorter (warning statement: this is strictly the performance of the investment fund, and not the returns earned on the actual premiums/takaful contributions paid of the investment-linked product). The past performance shown must not exceed 10 years.
- The investment returns must be calculated based on the unit price of the investment-linked fund and the formula must be consistent with that of the benchmark indices.
- Any performance comparison of an investment-linked fund must be with that of a similar fund, in terms of investment objectives & focus and based on similar time frame of at least 12 months. For funds which have existed less than 12 months, the licensed person must not use the annualised monthly performance figures for such purposes.
- The basis of calculation of past performance must also be disclosed.

Issued on: 13 February 2023

Additional disclosure for specific funds

For funds that invest in derivatives contracts:

- A statement that the fund may be invested in financial derivatives.
- Explanation of the purpose of such investments and how it can be achieved with a derivative strategy
- Description of the derivative instruments used and expected participation rate (as precise as possible, since this will form investment-linked policy/ takaful certificate holders' reasonable expectation)
- Maximum limit on derivative exposures (as a ratio to an investment-linked fund's NAV)
- Any other material information that would help policy owner/takaful participant make an informed decision

For funds that invests in collective investment schemes (CIS):

- The name and type of the CIS
- The fund manager of the CIS and its rating, if available
- The higher fee structure arising from the double layer fund management fees and other hidden charges. E.g. the investment-linked fund charges x% of fund management charge on top of the y% charged by the target fund CIS
- Historical performance of the underlying CIS

Risks

- Proper description of relevant risks of investing in the fund. Any special risks must be highlighted.

(Description of risks must be specific based on the nature of the investment and not merely generic descriptions. Listing of risks by order of priority is encouraged)

Risk Management

- Brief description of risk management techniques (e.g. adoption of a defensive strategy which may be inconsistent with the stated strategy) in attempting to respond to adverse market, economic conditions or application of investment limits to achieve a diversified portfolio.
- Brief description of any derivative contracts entered into for risk management purposes (e.g. cross currency swaps to manage currency risk).

Other Info	
• Target Market	
• Basis & Frequency of Unit Valuation	Description must include the method of recouping transaction costs of acquiring and disposing of assets as per paragraph 13.3.
• Exceptional Circumstances	Description of any exceptional circumstances under which issuance or redemption of units may be suspended.

Source: Investment-linked Business (BNM/RH/PD 029-36)
Issued on: 13 February 2023

FIGURE 3-4 ***Sample of Fund Fact Sheet***

BALANCED FUND

Sample of Fund Fact Sheet

Features of Fund	
Inception Date	03 January 2000
Investment Objective	A fund which invests in a mixture of equities (ranging from 40% to 60%) and fixed income securities. This fund seeks to provide medium to long-term capital appreciation, with a moderate level of volatility.
Investment Strategy & Approach	This fund shall be actively managed, investing in a mixture of Malaysian equities and fixed income securities with good fundamentals and growth potential. The fund aims to provide stable long term return. The fund uses top-down approach by adopting a disciplined macroeconomic framework to identify major turning points in global financial markets to determine long term assets allocation decisions. The fund also uses bottom-up approach in stock/bond selection process which relies on qualitative and quantitative factors which are, but not limited to, financial position, valuation, company or industry risks and prospects.
Asset Allocation	Equities: 40% - 60% Fixed Income Securities: 40% - 60%
Performance Benchmark	50% 12 month Conventional Fixed Deposit – Maybank + 50% FTSE Bursa Malaysia 100 Index (FBM100) *Source: Bloomberg*
Fund Manager	xxx Life Assurance (Malaysia) Berhad
Fees & Charges	
Fund Management Charge	1.0% p.a. on net asset value
Other Charges	Nil

Fund Performance										
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Balanced Fund	8.52%	22.03%	2.84%	7.53%	0.07%	17.45%	-9.02%	5.21%	5.35%	-2.48%
Benchmark	6.41%	7.33%	-1.48%	0.32%	0.44%	7.88%	-3.00%	0.21%	3.36%	-1.11%
Basis of Calculation of Past Performance	$\frac{Unit\ Price_t - Unit\ Price_{t-1}}{Unit\ Price_{t-1}}$									

Notice: Actual return is based on net basis (net of tax and charges). Past performance of the fund is not an indication of its future performance. This is strictly the performance of the fund, and not the returns earned on the actual premiums paid for the investment-linked insurance plan.

Risks	
Risks	Investment in the fund may subject to the following non-exhaustive list of risks: • Market Risk • Liquidity Risk • Credit Risk • Interest Rate Risk Please refer to Description of Risk for more details of the risks.
Risk Management	Risk is managed through the following: 1. Active management in response to market and economic conditions and 2. Portfolio diversification by investing in numerous stocks across different industries.
Other Info	
Target Market	This fund is suitable for investors with a medium-risk appetite and a medium to long-term investment horizon.
Basis & Frequency of Unit Valuation	The unit price is calculated daily, based on the value of the fund's underlying assets which is net of expenses and divided by total number of units.
Exceptional Circumstances	The Company reserves the right to defer cancellation or purchase of units in the fund for a period not exceeding 6 months, under circumstance it considers exceptional, which shall include the following circumstances: 1. Any period on which any asset forming part of the fund for the time being is listed or dealt in is closed (other than for ordinary holidays) or during which trading is restricted or suspended; or 2. The existence of any state of affairs which, in the opinion of the Company might seriously prejudice your interests in the investment of the similar fund; or 3. Any breakdown in the means of communication normally employed in determining the price of a unit of the fund or when for any reason the prices of any of such units in the fund cannot be promptly and accurately ascertained; or 4. Any period when trading of units in the fund is suspended subject to any order or direction of the relevant authorities; or 5. Any period when the business operations of the Company in relation to the operation of the fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riots, strikes or acts of God.

DESCRIPTION OF RISKS

Market Risk
Market risk refers to the risk of loss due to changes in underlying market risk factors such as, amongst others, interest rates movement, natural disaster, political turmoil. The fund performance may be susceptible to fluctuations due to economic factors, as well as market sentiments, and may vary depending on the outcome of one or more market factors.

Liquidity Risk
Liquidity risk refers to the risk of loss when the fund is unable to meet their obligations at the reasonable cost or at any time. It also refers to the risk that the equities or assets cannot be traded quickly enough to prevent a loss.

Credit Risk
Credit risk refers to the risk of loss when the issuer of a security fails to make timely payments of interest or principal repayment on the maturity date.

Inflation Risk
Inflation risk refers to the risk of loss when the fund may not generate income at a rate that keeps pace with inflation.

Currency Risk
Currency risk refers to the risk of adverse movement in the currency exchange rates that may result in the policyholder receiving lower return.

Interest Rate Risk
Interest rate risk refers to the risk of loss on interest-bearing assets, such as government bonds and corporate bonds when the interest rate fluctuates. In general, when interest rate rises, the value of bond will fall.

DISCLAIMER

The fund fact sheets presented by XXX Life Assurance (Malaysia) Berhad ("the Company") are to be used as an information source only.

The risks disclosed should not be considered as an exhaustive list of the risks, which potential policyholders should consider before investing in the fund. Potential policyholders should be aware that an investment in the fund may be exposed to other risks of exceptional nature from time to time.

Please read and understand the contents of the fund fact sheet before investing. The fund fact sheet should be read in conjunction with the product brochure, Product Disclosure Sheet, sales illustration, and policy contract.

There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Potential policyholders should consider the fees and charges involved.

Some of the data contained herein have been extracted from the following source: FTSE International Limited ("FTSE"). FTSE is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices or underlying data. No further distribution of FTSE data is permitted without FTSE's express written consent.

If there is any discrepancy between the English and Bahasa Malaysia versions of this fund fact sheet, the English version shall prevail.

PRODUCT LITERATURE

Product literature is additional material to product illustration and Fund Fact Sheets to enhance information to potential clients including announcement, promotional materials , advertisements, sales/marketing brochures being provided before or at point of sales.

As an agent promoting investment-linked products, it's important to understand your role in handling product literature. Here are the essential duties you must focus on:

- Adhere to insurer's approved product literature: Present insurer's approved product literature which information aligns with the product illustration and Fund Fact Sheet to prospective clients. This helps maintain accuracy and clarity for your clients.
- Highlight the product nature: Clearly communicate to your clients that the investment-linked product is an insurance or takaful product that is tied to the performance of underlying assets, rather than a pure investment product like unit trusts. This helps set accurate expectations for clients regarding the product's nature and potential outcomes.

3.4 STATEMENT TO POLICY OWNERS/TAKAFUL PARTICIPANTS

It is an annual statement from the insurer to its policy owners/takaful participants on the status of their investment-linked policy/takaful certificate , showing all transactions or charges during the period from the insurer details as per key summary in statement below.

As an agent, it is essential to understand your role in providing clients with accurate and timely information about their investment-linked policy/ takaful certificate. Here are the important duties related to annual statements:

- Inform clients about annual statements:
  Ensure your clients are aware that they will receive a statement on the value of their investment-linked policy or takaful certificate at least once a year from the insurer.

- Emphasize the statement's timeliness:
  Communicate to your clients that the statement will be distributed within two months after the end of each financial year of the licensed person or at the end of the financial reporting period, if more frequent statements are provided.

- Clarify the statement's content:
  Make sure your clients understand that the statement will include essential information about the status of their investment-linked policy/ takaful certificate and also the outcome of the sustainability test as required.

FIGURE 3-5 Key Information in the Statement

No.	Information
(a)	Number and value of units held at the end of the previous statement period
(b)	Number and value of units purchased and sold during the statement period
(c)	Number and value of units held at the end of the statement period
(d)	Number and value of bonus units and dividends payable during the statement period
(e)	Charges incurred during the statement period
(f)	Total amount of premiums or takaful contributions received and allocated to buy units during the statement period
(g)	The death benefit and surrender value at the beginning of the statement period
(h)	The death benefit and surrender value at the end of the statement period
(i)	Outcome of the sustainability test

3.5 FUND PERFORMANCE REPORT TO POLICY OWNERS/TAKAFUL PARTICIPANTS

Insurers must provide policyholders of investment-linked policies with a fund performance report annually. The report includes the following information:

- Summary of the audited financial statements of the fund;
- Investment objectives and asset allocation as at the reporting date;
- Analysis on the fund performance of not less than five years, where applicable;
- Description of charges levied against the fund during the year;
- Statement on any changes in the investment objectives, strategies, restrictions, and limitations of the fund during the year;
- Details of any distributions made and proposed during the period;
- Review of prospects of the investments and proposed strategies of the fund;
- Performance of relevant benchmark indices of the market in which the fund is invested;
- Details of any soft commissions received by fund managers; and auditor's certification.

As an agent, your duties related to the fund performance report for policy owners/takaful participants include:

- Inform policy owners/takaful participants that they will receive the fund performance report at least once a year.
- Assist policy owners/takaful participants in understanding the essential information in the fund performance report.
- Address any questions or concerns that policy owners/takaful participants may have regarding the fund performance report.
- Help policy owners/takaful participants make informed decisions based on the information provided in the fund performance report.

FIGURE 3-6 ***Fund Performance Report Format***

Source: BNM/RH/PD 029-36

Investment-linked Business

Appendix VIII **Minimum disclosure format for financial statements in Fund Performance Report**

A. Statement of Income and Expenditure

For financial year ended 31 December 20xx

	Note	Fund 1 20xx RM	Fund 2* 20xx-1 RM
Net Investment Income			
Interest income or Income from investment			
Dividend income			
Others			
Profits on Disposal			
Securities			
Others			
Unrealised Capital Gain			
Other Income			
Total Income			
Policy Benefits			
Expenses			
Loss on Disposal			
Securities			
Others			
Other Outgo			
Total Outgo			
Excess of Income over Outgo			
Undistributed Income brought forward			
Amount Available for Distribution			
Undistributed Income carried forward			

* Please provide separate columns for all the investment-linked funds.

Issued on: 13 February 2023

Investment-linked Business

B. Statement of Assets and Liabilities

For financial year ended 31 December 20xx

	Note	Fund 1	Fund 2*
		20xx RM	20xx-1 RM
Fixed Assets			
Investment Properties			
Loans/Financing			
Investments			
Malaysian Government papers / Government Islamic papers			
Malaysian Government guaranteed loans/financing			
Corporate/Debt securities			
Other investments			
Foreign Assets			
Cash & Deposits			
Other Assets			
Total Assets			
Total Liabilities			
Net Assets			
Value of Units			
Investment fluctuation reserves			
Undistributed income carried forward			
Net Asset Value Per Unit			

* Please provide separate columns for all the investment-linked funds.

Notes (for A and B)

1. Details on particular items of other income/outgo and assets should be given for each item that is larger than 10% of the total.
2. The definition of items is as per the *Guidance Notes for Completion of ICSS* in the *Garis Panduan Pengemukaan Penyata Statistik "Insurance Companies Statistical System (ICSS)"* issued on 11 December 2015 (JPS/8900/1/5) for life direct business or *Guidance Notes for Completion of TOSS* for family takaful business in the *Garis Panduan Pengemukaan Penyata Statistik "Takaful Operators Statistical System (TOSS)"* issued on 31 December 2015 (JPS/8900/1/5).

Issued on: 13 February 2023

C. Statement of Changes in Net Asset Value

For financial year ended 31 December 20xx

	Note	Fund 1	Fund 2*
		20xx	20xx-1
		RM	RM
Net asset value at the beginning of the period			
Net income for the period			
Changes in unrealised investment gains or losses			
Amounts received from units created			
Amounts paid for units cancelled			
Distributions to policy owner/takaful participant			
Net asset value at the end of the period			

* - Please provide separate columns for all the investment-linked funds.

D. Details of Investments

The composition of the investment portfolio (i.e. the list of individual securities) of the various investment-linked funds (by individual funds) as at the date of the financial report should be disclosed, grouped in the appropriate categories (e.g. sectoral, markets) showing for each category—

(i) The quantity held;

(ii) The cost of the investment;

(iii) The market value of the investment; and

(iv) The market value of each holding as a percentage of net asset value.

E. Comparative Performance Table

The table should cover the data for last five financial years, or if the fund has not been in existence during the whole of that period, over the whole of the period in which it has been in existence, showing for each financial year—

(i) the composition of the fund according to industry sectors (e.g. financial, plantation, consumer products, etc.) and category of investments (equity, fixed income, derivatives, etc.);

(ii) the total NAV;

(iii) the number of units;

(iv) the NAV per unit;

(v) the highest NAV per unit during the financial year;

(vi) the lowest NAV per unit during the financial year;

(vii) the total annual return of the fund, expressed in terms of percentage, and the breakdown into capital growth and income distributions;

(viii) average annual return measured over one-year, three-year and five-year periods; and

(ix) the performance of relevant benchmark indices

Source: Investment-linked Business (BNM/RH/PD 029-36) - Issued on: 13 February 2023

3.6 PUBLICATION OF UNIT PRICE

As an agent, your duties related to the publication of unit price include:

- Inform policy owners/takaful participants on the availability of daily publication of the latest Net Asset Value (NAV) per unit of each investment-linked fund on the insurer's official website.
- Assist policy owners/takaful participants in accessing the latest NAV per unit and guiding them on how to use alternative methods (such as telephone hotlines) if they do not have internet access.
- Help policy owners/takaful participants to access historical data of the NAV per unit for each investment-linked fund upon request.

3.7 DISCLOSURE AND CONDUCT REQUIREMENTS FOR INVESTMENT-LINKED PRODUCTS WITH EXTENSION TO COVERAGE TERM FEATURE

Investment-Linked Products with extension to coverage term feature briefly refers to Investment-Linked Plans which will be automatically extended at the end of initial coverage period, recurring usually every 5 or 10 years until age 100 without going through underwriting.

Here are the key point of sale and post-sale disclosure and conduct requirements mainly for the insurers for investment-linked products with extension to coverage term feature, condensed for agent knowledge:

POINT OF SALE DISCLOSURE

- Disclose features and mechanics of coverage extension, distinctions between initial and extended terms, premium/takaful contribution required to fund the extension, procedures for exercising the option or finalizing the automatic extension, and re-underwriting requirements.
- For products with extended coverage based on unit account value sufficiency, explain features clearly in plain language and disclose limits that may impact the extension length.
- Ensure that all disclosures to policy owners/takaful participants are clear, not misleading, and highlight limitations and potential variations.

Additional information on pre-funding of the extension may be provided.

- Provide a comparison table detailing different product alternatives, attach it to the PDS, and include it in marketing materials. Explain that the premiums/takaful contributions in the table are based on sustainability projections, and the actual amount payable would be disclosed prior to the extension period or exercise of the option.

Agents are to familiarize themselves with these requirements, as they play an essential role in providing accurate information and maintaining transparency with policy owners/takaful participants.

POST-SALE DISCLOSURE REQUIREMENTS

- Disclose relevant information to policy owners/takaful participants in the annual statement at least once every five years and prior to an event that will affect the sustainability of cover.
- For products without pre-funding of the extension, disclose the expected premiums/takaful contributions for the extended period based on prevailing assumptions.
- For products with pre-funding of the extension, disclose both the premiums/takaful contributions necessary to sustain coverage until the end of the initial term and until the end of the extended period.
- When recommending the amount of top-up premiums/takaful contributions needed to restore the sustainability of cover, disclose the amount needed for both the initial and extended periods, depending on whether pre-funding of the extension is in place or not.
- If policy owners/takaful participants can exercise the option to extend coverage earlier than the initial term's maturity date, provide a comparison table with updated expected premiums/takaful contributions at selected intervals of ages.

Make sure to adhere to these post-sale disclosure requirements to maintain transparency and keep policy owners/takaful participants informed about their investment-linked products.

SUMMARY

1. Products which require the policy owner/takaful participant to exercise the option.

Table 3-2 ***Summary of Actions and Requirements***

No.	Action	Requirement
1	Carry out the sustainability test	Required for exercising the option
2	Disclose the following: a) Outcome of the sustainability test, including updated premium/Takaful contribution amount b) Reminder on the features and mechanics of the option	Make an informed decision Demonstrate distinction between coverage terms
3	Ensure updated premium/Takaful contribution is effective on the next payment data	After receiving consent to exercise the option

2. Products with automatic extensions which require premium/takaful contribution payments during the extended period.

Table 3-3 ***Summary of Actions and Requirements***

No.	Action	Requirement
1	Request policy owner/Takaful participant's agreement on finalized premium/Takaful contribution amount	At least 90 days before the beginning of the extended period
2	Disclose the following: a) Details of the extension	
	b) Consequences of not paying the appropriate premium/Takaful contribution amount	Coverage lapsing and continuing charges
	c) Possible alternative actions: i. Terminate coverage and pay out maturity benefit	
	ii. Adjust investment-linked policy/Takaful certificate	E.g., Lower premiums for shorter term
	d) Contact information for queries and discussions	Licensed persons and intermediaries
3	If no explicit agreement is received, continue to provide cover, and send a reminder	As long as unit account value is sufficient
4	If policy owner/takaful participant agrees to increase contributions, disclose in the form of a reminder	During regular premium/Takaful contribution reviews

3. Products with automatic extensions which are wholly dependent on the outstanding value of the unit account (i.e., premium/takaful contribution payments are not required during the extended period).

Table 3-4 ***Summary of Actions and Requirements***

No.	Action	Requirement
1	Request policy owner/Takaful participant’s agreement on continuing or terminating coverage	At least 90 days before the beginning of the extended period
2	If no explicit agreement is received, continue to provide cover	As long as unit account value remains sufficient

REVIEW QUESTIONS

1 *What is the essential knowledge about Product Illustration that agents should know?*

- I. *It is an educational tool that shows a prospective or new insurance policyholder the essential information of an insurance product including product name, term, features, benefits, premium, cash value over time projected returns and product disclosure sheet*
- II. *Agents must refer to insurer's approved product illustration for investment-linked/takaful certificates and explain to potential policyholder at the point of sales*
- III. *Product illustration is meant to illustrate the possible movements of cash flows of the investment-linked policy/takaful certificate and the impact of fees and charges on cash values*
- IV. *Copy of the Product illustration based on the actual premium/takaful contribution rates subscribed need not be included together in the policy document as part of a binding document*

a. I and II
b. II and III
c. I, II and III
d. II, III and IV

2 *What does the Scenario X and Scenario Y rates for non-equity funds represent in a product illustration?*

a. Represent the hypothetical rate of returns at 2% (denoted as X for low scenario) and 5% (denoted as Y for high scenario) for policy owners on the potential impact of different hypothetical investments on their account values
b. Represent the best scenario to illustrate the rate of returns for all funds
c. 2% (denoted as X for low scenario) and 5% (denoted as Y for high scenario) for all funds
d. Represent the 2 projected rate of returns for the fixed income funds

3 *Which statements described correctly a product literature provided by insurers?*

- I. *It is additional material to product illustration and Fund Fact Sheet to enhance information to potential clients*
- II. *It includes announcement, promotional materials, advertisements, sales/marketing brochures being provided before or at point of sales*
- III. *It is to be provided by the agents to prospective policyholder before or at point of sales*
- IV. *Agents may refer to their own designed product brochures to explain to prospective policyholders during point of sales*

a. I and II
b. II and III
c. III and IV
d. I, II and III

4	*What are the agent's duties in relation to the fund performance report for policy owners/takaful participants include:* *I. Inform policy owners/takaful participants that they will receive the fund performance report at least once a year* *II. Assist policy owners/takaful participants in understanding the essential information in the fund performance report* *III. Address any questions or concerns that policy owners/takaful participants may have regarding the fund performance report* *IV. Help policy owners/takaful participants make informed decisions based on the information provided in the fund performance report*
	a. All of the above b. I, II and III c. II, III and IV d. I, III and IV

5	*What is a fund fact sheet?*
	a. It is an annual statement from the insurer to its policy owners/takaful participants on the status of their investment-linked policy/takaful certificate, showing all transactions or charges during the period from the insurer details b. It is an overview of a fund including the fund's investment objective, risk level, costs, past performance, and holdings details c. It is a fund performance report which is required to be sent to policyholder annually d. It is an analysis of the fund performance and report on the changes in the investment objectives, strategies, restrictions, and limitations of the fund during the year

6	*As an agent, your duties related to the publication of unit price include:* *I. Inform policy owners/takaful participants on the availability of daily publication of the latest Net Asset Value (NAV) per unit of each investment-linked fund on the insurer's official website* *II. Assist policy owners/takaful participants in accessing the latest NAV per unit and guiding them on how to use alternative methods (such as telephone hotlines) if they do not have internet access* *III. Help policy owners/takaful participants to access historical data of the NAV per unit for each investment-linked fund upon request* *IV. Recommend prospective policyholders to decide when to switch funds*
	a. II and III b. I, II and III c. III and IV d. I and IV

7	*Which statement best describes Investment-Linked Products with extension to coverage term feature?*
	a. It refers to Investment-Linked Plans which will be automatically extended at the end of initial coverage period, recurring usually every 5 or 10 years until age 100 without going through underwriting b. It refers to Investment-Linked Plans which will be automatically extended in the middle of initial coverage period, recurring usually every 5 or 10 years until age 100 without going through underwriting c. It refers to Investment-Linked Plans which will be automatically extended at the end of initial coverage period, recurring usually every 5 or 10 years until age 100 subject to underwriting d. It refers to Investment-Linked Plans which will be automatically extended at the end of initial coverage period, recurring usually every 5 or 10 years until age 100 subject to only medical underwriting

8	*What are some of the key points of sale and post-sale disclosure and conduct requirements (mainly for the insurers) for investment-linked products with extension to coverage term feature?* *I. Explain features clearly in plain language and disclose limits that may impact the extension length* *II. Ensure that all disclosures to policy owners/takaful participants are clear, not misleading, and highlight limitations and potential variations* *III. Disclose features and mechanics of coverage extension, distinctions between initial and extended terms, premium/takaful contribution required to fund the extension, procedures for exercising the option or finalizing the automatic extension, and re-underwriting requirements* *IV. Disclose the amount needed for both the initial and extended periods, depending on whether pre-funding of the extension is in place or not*
	a. I and II b. II and III c. II, III and IV d. I, II, III and IV

9	*Choose the following statements which are TRUE.* I. *Product Literature - Agents are to communicate clearly to their prospective policyholder that the investment-linked product is an insurance or takaful product that is tied to the performance of underlying assets, rather than a pure investment product like unit trusts* II. *Fund Fact Sheet - Agents are responsible to provide to their clients a Fund Fact Sheet for each of the investment-linked funds offered by insurers together with product illustration at the point of sales of investment-linked products* III. *Product Illustration - Agents are to provide a copy of the product illustration, based on the actual premium/takaful contribution rates subscribed, to the policy owners/takaful participants together with the investment-linked product policy document* IV. *Product Literature - Agents are to present the insurer's approved product literature which information aligns with the product illustration and Fund Fact Sheet to prospective policyholders*
	a. I and II b. II and III c. II, III and IV d. I, II, III and IV

10	*What are some of the key disclosure requirements that agents need to understand and adhere to when promoting investment-linked products to clients?* I. *Provide accurate and transparent information* II. *Offer reasonable and verifiable opinions* III. *Present factual performance statement and avoid undue expectations* IV. *Clearly communicate guarantees and disclose third-party guarantee information*
	a. II, III and IV b. I, II and III c. All of the above d. I, III and IV

4

CHAPTER 4 MECHANISM AND FEATURES OF SINGLE PREMIUM INVESTMENT-LINKED LIFE INSURANCE

4.1 INTRODUCTION

Single premium investment-linked (SP-IL) life insurance shares many similarities with regular premium investment-linked (RP-IL) life insurance in terms of sum assured (SA), death benefit (DB) mechanisms, allocated premium/unallocated premium ratio, cost of insurance (COI) deduction mechanisms, and the objective for purchasing the product.

However, there is a key difference between the two: while RP-IL policies require periodic premium payments throughout the policy term, SP-IL policies require a one-time lump sum payment upfront. This single premium is then invested in various investment funds chosen by the policyholder, which are linked to the policy.

Both SP-IL and RP-IL life insurance policies provide life insurance coverage, with the death benefit typically being a combination of the sum assured and the current value of the investment units. The investment component in both types of policies allows policyholders to potentially earn returns based on the performance of the chosen investment funds, although these returns are not guaranteed and can fluctuate depending on market conditions.

This plan is an insurance product that is tied to the performance of the underlying assets and is not a pure investment product such as unit trusts.

4.2 OBJECTIVE

The priorities for policy owners of regular premium investment-linked (RP-IL) policies and single premium investment-linked (SP-IL) life insurance policies can be different.

For RP-IL policy owners, the primary objective is typically protection, with a focus on ensuring that their dependents are financially secure in the event of their death or any other specified event. The investment component of the policy serves as an added benefit, offering the potential for policyholders to grow their wealth over time.

On the other hand, policy owners of SP-IL life insurance policies may prioritize investment first and protection second. These policy owners often have a lump sum to invest and are seeking an investment vehicle that also provides a certain level of life insurance coverage. Their primary aim is to maximize the returns on their investment while still benefiting from the protection component offered by the policy.

In summary, while both RP-IL and SP-IL life insurance policies offer a combination of protection and investment, the priorities of policy owners may differ. RP-IL policy owners generally focus on protection, whereas SP-IL policy owners prioritize investment with protection as a secondary concern.

4.3 MINIMUM BASIC SINGLE PREMIUM

The minimum basic single premium (SP) for single premium investment-linked (SP-IL) life insurance policies is determined by individual insurers. The range for the minimum SP can vary between insurance companies, with the current range being approximately RM5,000 to RM20,000.

Each insurer sets the minimum SP based on their product offerings, target market, and risk appetite. Policyholders should carefully consider their investment goals and financial situation when selecting an insurance provider and a suitable policy. It is always a good idea to compare the options offered by different insurers to find the most appropriate policy for your needs.

4.4 ONE-TIME UNALLOCATED PREMIUM CHARGE

For the SP-IL model, the unallocated premium charge or upfront charge is a one-time payment, which is different from the RP-IL model where the unallocated portion is spread over the first 10 years in reducing ratios.

Typically, the upfront charge should not exceed 5%. Any top-up premiums will also bear the same charge. As a result, the minimum of 95% will be used to purchase units in the chosen fund(s).

4.5 SUM ASSURED FORMULA

The basic sum assured (BSA) for single premium investment-linked (SP-IL) life insurance policies is typically set at 125% of the single premium (SP) paid. For example, if the SP is RM10,000, the BSA would be RM12,500.

However, Bank Negara Malaysia allows insurers the discretion to lower the BSA to RM5,000 or 105% of the SP, whichever is higher, for older age groups and substandard lives.

This flexibility allows insurance companies to adjust their offerings to accommodate different risk profiles and cater to a wider range of customers, including those who may have more difficulty obtaining coverage due to their age or health conditions.

It is essential for policyholders to understand the terms and conditions of their specific policy(ies), including the BSA and any adjustments that may apply based on their age, or health status.

4.6 DEATH BENEFIT FORMULA

Any top-up premiums (TUs) are excluded from the basic sum assured (BSA) formula, as these additional remittances are intended for investment purposes only.

The BSA is calculated as 125% of the single premium paid, or a minimum of 105% of the single premium or RM5,000 (whichever is higher) for older age groups and substandard lives.

Once the account value exceeds the BSA, the death benefit (DB) will be the account value, with the formula being either the BSA or the account value, whichever is higher.

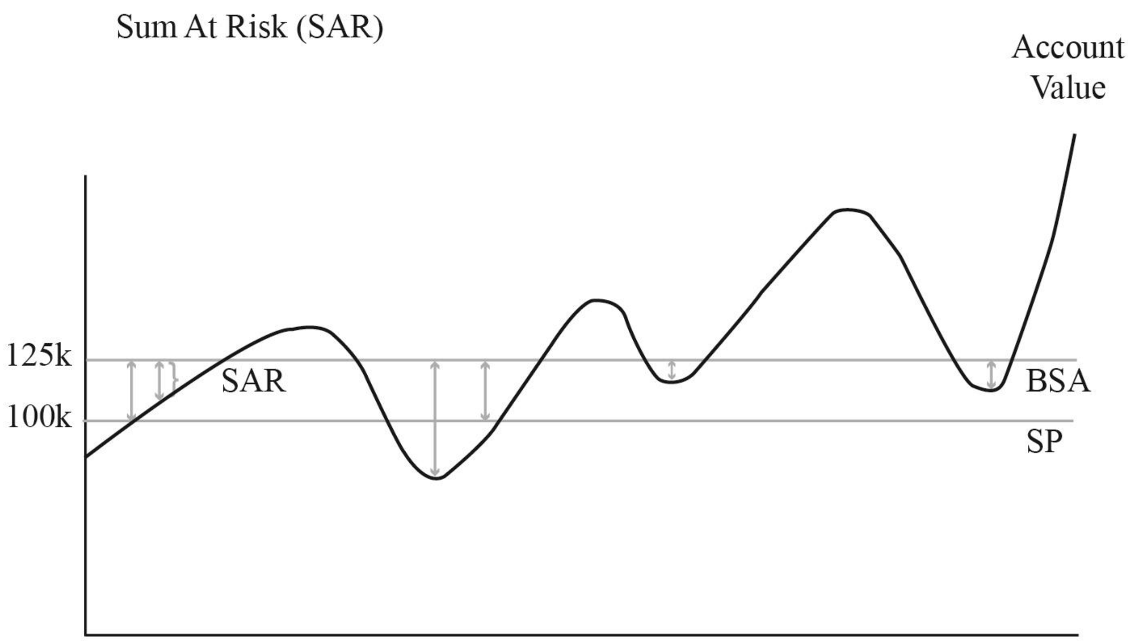
4.7 COST OF INSURANCE DEDUCTION & SUM AT RISK MECHANISM

The minimum protection amount is the basic sum assured (BSA). If the account value exceeds the BSA, the death benefit (DB) will be equal to the account value. Therefore, the formula for calculating the DB is either the BSA or account value, whichever is higher.

During the initial years, the account value is expected to be below the BSA, and the cost of insurance (COI) will be deducted. However, the COI deduction is not for the full BSA but to cover the shortfall between the account value and the BSA, which is called the Sum at Risk (SAR). As the account value increases (depending on the performance of the fund selected), the COI will reduce, and when it reaches or exceeds the BSA, the COI will stop. If the account value drops below the BSA again, the COI deduction will resume.

The SAR mechanism is illustrated in a table & graph, which demonstrates the gradual reduction of COI as the account value increases and the eventual cessation of COI when it reaches or exceeds the BSA.

FIGURE 4-1 ***Sum at Risk (SAR)***



Here is an example table that shows how the cost of insurance (COI) deduction decreases as the account value increases:

Example

Cost of insurance (COI) deduction

Account Value	Basic Sum Assured	Sum at Risk	COI Deduction	Death Benefit
RM9,000	RM10,000	RM1,000	RM100	RM10,000
RM10,000	RM10,000	RM0	RM0	RM10,000
RM12,000	RM10,000	RM0	RM0	RM12,000
RM8,000	RM10,000	RM2,000	RM200	RM10,000

As you can see, when the account value is lower than the BSA, there is a sum at risk and the COI deduction is based on the difference between the account value and the BSA.

As the account value increases and eventually equals or exceeds the BSA, the COI deduction decreases to zero.

If the account value drops again below the BSA, the COI deduction will resume based on the sum at risk.

SUMMARY

Table 4-1 *Summary*

Information	Details
Account Value Exceeding BSA	Once the account value exceeds the BSA, the DB will be the account value
COI Deduction	Deduction of COI is not for the full BSA, but to cover the shortfall between the account value and the SA. The shortfall difference is called the Sum at Risk (SAR)
Reduction of COI	As the account value progressively increases, the COI reduces
Ceasing of COI	When the account value reaches or exceeds the BSA amount, the COI will cease
Resuming of COI Reduction	If the value drops again below the BSA, the COI deduction will resume
Factors affecting account value	The performance of the fund selected by the policy owner and market conditions determine how long the account value will take to increase over the BSA
Market Downturn	If there is a market downturn after policy inception, the account value may decrease or take a longer time to accumulate, thus prolonging the SAR
Ad Hoc Top-Ups	Policy owners are encouraged to make ad hoc top-ups to increase the account value, and not reply solely on the one-time single premium payment

4.8 COMPARISON TABLE BETWEEN REGULAR AND SINGLE PREMIUM INVESTMENT-LINKED POLICIES

Here is a comparison table between regular and single premium investment-linked policies:

Table 4-2 ***Comparison Between Regular and Single Premium Investment-linked Policies***

Feature	Regular Premium, RP	Single Premium, SP
Premium	Paid periodically (E.g, Monthly, Yearly)	Paid as a lump sum
Unallocated Premium Charge	Spans over the first 10 years in reducing ratios	One-time payment
Minimum Allocation Rate	Varies subject to MAR	Minimum of 95% according to MAR
Sum Assured	Based on policyholder's needs and underwriting assessment	105% - 125% of single premium
Top-Up Premiums	Allowed and subject to unallocated premium charge	Allowed and subject to same charge as initial premium
Protection	BSA formula applied throughout the policy term	BSA formula applied only until account value exceeds BSA; thereafter, DB based on account value
COI Deduction	For full BSA	For shortfall between account value and SA (Sum at Risk)
Account Value Growth	Depends on regular premium payment & also fund performance	Depends on fund performance and market conditions
Ad-Hoc Top-Ups	Encouraged to perform ad-hoc top up to maintain the policy sustainability when there is a necessary.	Encouraged to increase account value

REVIEW QUESTIONS

1	*In single premium investment-linked (SP-IL) life insurance, how are premium payments made?*
	a. Periodic payments throughout the policy term b. One-time lump sum payment upfront c. Payments spread over the first 10 years d. No premium payments required

2	*What is the primary objective for policy owners of regular premium investment-linked (RP-IL) policies?*
	a. Maximize investment returns b. Obtain life insurance coverage c. Secure financial protection for dependents d. Accumulate wealth over time

3	*What is the minimum basic single premium (SP) for SP-IL life insurance policies typically based on?*
	a. The policyholder's age and health status b. The target market of the insurance company c. The performance of the chosen investment funds d. The discretion of individual insurers

4	*Which component of SP-IL policies is a one-time payment and typically should not exceed 5%?*
	a. Sum assured b. Upfront charge c. Cost of insurance deduction d. Minimum protection amount

5	*What does the basic sum assured (BSA) represent in SP-IL policies?*
	a. The current value of investment units b. The minimum protection amounts c. The total premium paid d. The sum of allocated and unallocated premiums

6	*The upfront charge for a single premium investment-linked (SP-IL) policy is 4% of the single premium paid. If the single premium is RM15,000, what is the amount of the upfront charge?*
	a. RM 600 b. RM 1,500 c. RM 4,000 d. RM 5,000

7	*What is the purpose of the cost of insurance (COI) deduction in SP-IL policies?*
	a. To cover the investment management fees b. To increase the sum assured over time c. To reduce the risk of investment losses d. To cover the shortfall between account value and sum assured

8	*When does the COI deduction cease in SP-IL policies?*
	a. When the account value reaches or exceeds the BSA b. After a specific number of years c. When the investment funds perform well d. When the policyholder requests it to stop

9	*How does the COI deduction change as the account value increases in SP-IL policies?*
	a. It remains constant regardless of the account value b. It increases proportionally with the account value c. It decreases gradually as the account value increases d. It fluctuates based on market conditions

10	*A policyholder's SP-IL policy has an account value of RM9,500 and a basic sum assured (BSA) of RM10,000. The cost of insurance (COI) deduction is RM150. What is the sum at risk (SAR) in this scenario?*
	a. RM500 b. RM1,000 c. RM9,350 d. RM10,000

5

CHAPTER 5 CONSIDERATIONS FOR PURCHASING AN INVESTMENT-LINKED POLICY

5.1 INTRODUCTION

An investment-linked insurance plan offers policy owners both life insurance coverage and investment opportunities. The premiums paid for these plans are partially invested in specific investment funds of the policy owner's choice. It is important for policy owners to carefully consider the benefits and risks of this type of insurance policy, just as they would for any other financial instrument.

5.2 BENEFITS

5.2.1 POOLING AND DIVERSIFICATION

An investment-linked insurance plan is a life insurance plan that combines protection and investment. Premiums paid provide not only life insurance cover, but a part of the premiums are also invested in specific investment funds of the policy owner’s choice.

Like unit trust funds, investment-linked funds offer the policy owner access to a “pooled” and diversified portfolio of investments. The funds normally consist of a wide range of equity assets and fixed income securities.

On their own, individual policy owners with a small sum of money are unable to construct such a diversified portfolio. A well-diversified fund has better risk characteristics than a less diversified one.

5.2.2 FLEXIBILITY

Investment-linked products have simple product design with a clear structure that caters separately for insurance protection (charge-based) and investment (unit-driven).

A policy owner may change the level of his premium or protection if it is within the minimum Sum Assured Multiple (SAM) guidelines, vary the type of coverage, take a premium holiday, make premium top-ups, make partial withdrawal, and apply for fund switching.

Traditional with-profit life insurance products are sum assured driven and they are very relatively inflexible with regards to allowing major changes in product features.

For example, a change of plan from a whole life insurance policy to an endowment policy involves complicated calculations; a traditional life insurance policy does not allow policy owners the option of choice of investment portfolio.

5.2.3 EXPERTISE

Investment-linked funds are managed by professional fund managers who have the investment expertise to invest the fund to achieve high returns over the long term in accordance with the investment objectives. This is beneficial for policy owners who may not have the necessary knowledge or expertise to make informed investment decisions.

By investing in these funds, policy owners can gain exposure to a diversified portfolio of assets that they may not have been able to access on their own. This is particularly advantageous for those with smaller amounts of money to invest, as they can benefit from the pooling and diversification of assets within the fund.

5.2.4 ACCESS

Investment-linked policies allow policy owners to access well-diversified investment funds that are managed by professional investment managers. These managers have the expertise and experience to invest the fund in accordance with the investment objectives, aiming for high returns over the long term. This provides policy owners with a convenient way to invest in financial markets without requiring them to have in-depth knowledge of investment.

5.2.5 ADMINISTRATION

Policy owners are relieved of the day-to-day administration of their investments, which can be a complicated and time-consuming affair. They just have to keep track of their investment through the unit statements provided regularly by the insurance company and the unit prices published on the insurer's website.

5.2.6 TRANSPARENCY

Investment-linked insurance promotes full transparency relating to official sales materials presented at the point of sale. The product illustration script of any insurer in Malaysia contains great details, including a proposal summary that outlines the name of the basic plan, names of riders, coverage amounts, and overall premium, as well as descriptions of the benefits for the basic plan and riders.

Other pertinent details include a statement specifying that the cost of insurance (COI) will be levied monthly and deducted from the fund up to the maximum tenure if the policy is maintained, and a list with descriptions of excluded risks from the cover provided by both basic and/or riders.

Agents and other sales intermediaries must understand well the official point-of-sale materials in order to effectively handle queries raised by their prospective clients.

Policy owners are also informed that premium holidays will be applied whenever a due premium is not received, provided the account value remains sufficient to cover the COI and other necessary charges.

Investment returns are based on assumed rates of return for the high and low scenarios for the selected fund(s), and a special advisory highlights the option to maximise the investment element by paying the minimum basic annual premium and the balance as a regular top-up.

Table 5-1 ***Itemized breakdown of the table for ease of reading and understanding***
• Annual premium fund(s) and coverages
• Selected fund/s and selected proportion ratio (if more than one fund)
• Allocated premium and unallocated premium according to policy years
• Basic sum assured
• Cost of insurance (COI) amount for the basic sum assured and riders according to policy years
• Other charges according to policy years
• Annual fund management fee based on projected cumulative account value
• Projected cumulative account value
• Projected cumulative death benefit amount
• Commission amount for each year
• Assumed rates of return of the various available funds in accordance with the high and low scenarios
• Actual historical performance of various funds over a minimum of 10 years

The Product Disclosure Sheet (PDS) segment includes a list of important question and answers for the attention of the prospective policy owner, and there is a requirement for the intended policy owner to sign as confirmation that they have received and understood the contents of the Product Illustration and PDS, as well as for the soliciting agent/sales intermediary to provide their signature to confirm that they have presented the documents and explained the non-guaranteed elements in the sales illustration. All these details ensure that policy owners are fully informed and understand the nature of their investment-linked insurance policy.

FIGURE 5-1 ***Sample of Product Disclosure Sheet***

Mr Biz Man Sample **Product Disclosure Sheet**

Note: Please read this Product Disclosure Sheet before you decide to take up Investment Link Policy. Be sure to also read the general terms and conditions.

Name of Financial Service Provider	:XXX Life Assurance (Malaysia) Berhad (90050) ("the Company")
Name of Product	:Investment Link Policy (1234)
Date	:04/10/2023

1. **What is this product about?**

   Investment Link Policy (1234) is an investment-linked insurance plan ("ILP") that offers a combination of insurance protection and investment up to age 100 years next birthday. This plan provides you benefits in the event of death or Total Permanent Disability ("TPD").

   It also comes with an additional 1% sum assured of the basic sum assured for each completed policy year, up to a maximum of 40%, at no additional cost, which will be payable in the event of death or TPD, subject to the terms and conditions stated in the policy contract.

   The value of the ILP depends on the price of the underlying units, which in turn depends on the performance of your chosen fund.

2. **What are the covers / benefits provided?**

   The basic sum assured for this plan is RM100,000.

Basic Plan Benefit	
1) Death Benefit	Basic sum assured + additional sum assured + total investment value, if any
2) TPD Benefit	If TPD occurs prior to the policy anniversary on which the life assured attains age 75 years next birthday, the Company will advance the basic sum assured and additional sum assured as follows: • the basic sum assured and additional sum assured not exceeding RM10,000,000 shall be paid in 3 annual instalments with the first being a lump sum of the basic sum assured and additional sum assured or RM2,000,000, whichever is lesser, and • the balance of the basic sum assured and additional sum assured (if any) will be payable in two equal annual instalments. The maximum TPD Benefit payable under this and all insurance policies (including riders) on the same life assured, is RM10,000,000 per life (excluding group policies).
3) No-Lapse Guarantee	The basic policy and its attaching riders (if any) will not lapse within the first three policy years if the total investment value is less than or equal to zero on the monthly deduction date of the policy fee and insurance charge, provided that • all regular premiums of the policy due prior to such monthly deduction date have been paid on each premium due date or during the grace period; and • there has not been any withdrawal of any units prior to such monthly deduction date.
4) Maturity Benefit	Total investment value (if any) less any indebtedness.

Hospitalisation and Surgical Benefits	
IL Hospitalisation Benefits Rider	
Hospitalisation benefit (due to illness or accidental injury) for each day of admission in: • hospital room and board • Intensive Care Unit ("ICU")	 RM100 per day RM200 per day Subject to a maximum of 150 days in a policy year and an overall lifetime limit of 500 days.
Maximum coverage	Up to age 80 years next birthday

Mr Biz Man **Product Disclosure Sheet**

Medical card 150	
Insured Benefits	Reimbursement of Reasonable and Customary Charges which is consistent with those usually charged to a ward or room and board accommodation which is approximate to and within the daily limit of the amount stated in Hospital Room and Board benefit under the plan insured.
1) Deductible Amount (Per disability)	RM 300 The Company shall reimburse the balance of the eligible expenses incurred under item 2 to 15, which are in excess of the Deductible Amount.
2) Hospital Room and Board (Limit per day, no limit on the number of days)	RM150
3) Intensive Care Unit (Subject to a maximum of 200 days per policy year)	As charged.
4) Increase to the Hospital Room and Board Limit	10% of the Hospital Room and Board limit every 3 policy years; up to a cumulative total of 100% Hospital Room and Board limit.
5) Hospital Supplies and Services	As charged.
6) Surgical Fees	
7) Operating Theatre	
8) Anaesthetist Fees	
9) In Hospital Physician Visit (2 visits per day)	
10) Pre-Hospital Diagnostic Tests (Within 90 days before hospitalisation)	
11) Pre-Hospital Specialist Consultation, Treatment, Prescribed Medicines and Second Medical Opinion (Within 90 days before hospitalisation)	
12) Post-Hospitalisation Treatment (Within 90 days after hospital discharge)	
13) Organ Transplant	
14) Ambulance Fees	
15) Day Surgery	
16) Post-Hospitalisation Home Nursing Care (Within 200 days after discharge, subject to a maximum of 200 days per lifetime)	As charged, up to RM8,000 per disability.
17) Post-Hospitalisation Chiropractor, Speech Therapist or Occupational Therapist (Within 200 days after discharge, subject to a maximum of 10 follow up visits per disability)	Not Applicable.
18) Post-Hospitalisation Traditional Chinese Medicine Practitioner (Within 200 days after discharge, subject to a maximum of 10 follow up visits per disability)	Not Applicable.
19) Medical Appliances a. Pacemaker and implantable cardio-defibrillator b. Other items - Prosthetic devices such as hearing aid and artificial limbs	Not Applicable.
20) Outpatient Cancer Treatment (including consultation, examination tests and prescribed take home drugs)	As charged.
21) Outpatient Kidney Dialysis Treatment (including consultation, examination tests and prescribed take home drugs)	
22) Outpatient Treatment for Dengue Fever and Zika Virus	
23) Emergency Accidental Outpatient Treatment (Subject to a maximum of 30 days from the date of accident)	
24) Outpatient Imaging (MRI/PET) (Subject to a maximum of 30 days from the date of MRI/PET)	Up to RM5,000 per policy year.

Mr Biz Man **Product Disclosure Sheet**

25) Daily-Cash Allowance at Malaysian Government Hospital (Per day, subject to a maximum of 120 days per policy year)	RM50
26) Intraocular Lens	Maximum of RM8,000 per lifetime.
27) Medical Report	As charged, up to a maximum of RM200 per admission for inpatient treatment or per disability for outpatient treatment.
28) Overall Annual Limit for item 2 to 27	RM1,000,000
29) Overall Lifetime Limit for item 2 to 27	No limit.
30) Accidental Death Benefit	RM10,000
31) Supreme Assist (Emergency Medical Assistance Services)	In accordance with the benefit provisions in Supreme Assist agreement.
32) Car Assistance Programme	In accordance with the benefit provisions in Car Assistance Programme agreement.
Maximum coverage	Up to age 100 years next birthday

Covered Event Benefits	
IL Critical Illness Benefit Rider	
Covered Event Benefit	RM100,000 The benefit will be payable in one lump sum upon occurrence of any one of the Covered Events (except for Angioplasty and other invasive treatments for coronary artery disease, whereby the claim payout is 10% of the rider sum assured, subject to a maximum of RM25,000 per life). Upon the claim of this rider, the basic sum assured will be reduced by the amount paid. After the claim on Angioplasty and other invasive treatments for coronary artery disease, the rider sum assured will be reduced accordingly. In addition, the claim on other Covered Events will still be allowed, subject to the balance amount of the rider sum assured.
Maximum coverage	Up to age 99 years next birthday

Waiver and Payer Benefits	
IL Premium Waiver Extra Rider	
Premiums to be waived upon TPD or occurrence of any one of the Covered Events (except for Angioplasty and other invasive treatments for coronary artery disease)	RM2,700 per year Note: After the premium has been waived under this rider, the premium amount waived will remain unchanged. As such, in the event of any upward revision of the insurance charges of basic plan or any riders, or reduction of actual sustainability of the policy, you may be required to perform regular premium top-ups or single premium top-ups to cover the difference in the premium amount waived and the revised premium for better sustainability of your policy.
Maximum coverage	Up to age 99 years next birthday

Note: The above benefits are subject to the terms and conditions stated in the policy contract.

Fund(s) chosen:

Policy Year		**Balanced Fund**	**Fixed Income Fund**	**Equity Fund**
From	**To**			
1	65	20%		80%
66	66	20%	20%	60%
67	67	20%	40%	40%
68	68	20%	60%	20%
69	69	20%	80%	
70	70	10%	90%	

Reminder: Please read the fund fact sheet which includes the objectives of the investment-linked fund. It is important to select a plan or a combination of funds that suit your financial goals and risk profile.

Mr Biz Man **Product Disclosure Sheet**

3. **How much premium do I have to pay?**
   - The estimated total premium that you have to pay are shown in the table below:

Age Next Birthday at End of Policy Year	Estimated Total Premium Monthly
Up to 70	RM225.00
71 to 75	RM735.00
76 to 80	RM1,605.00
81 to 85	RM2,125.00
86 to 90	RM2,795.00
91 to 95	RM3,555.00
96 to 100	RM4,555.00

   - Premium payment term: 70 years or upon termination, whichever occurs first.

   Notes:

   (a) The total premium that you have to pay and the policy terms may vary depending on the underwriting requirements of the Company.

   (b) The Company allocates a portion of the premium to purchase units in the investment-linked fund(s) that you have chosen. Any unallocated amount will be used to pay commissions to intermediary and other expenses of the Company. You are advised to refer to the allocation rates given in the sales illustration.

   (c) In the event the actual sustainability of your policy is reduced due to revision of insurance charges, the Company may vary the premiums on the policy anniversary by giving 3 months' advance notice to you.

   (d) The estimated total premium above is based on the following assumptions:
   - You continue to pay your current and new premiums when it is due, and there is no partial / early withdrawals in the future;
   - The insurance charges and policy fees are based on current level as at the illustration date. However, your insurance charges will increase according to your attained age next birthday and may result in higher deduction of units from the total investment value as compared to your allocated premium during your policy in force period;
   - The payment of premium is not a guarantee of sustainability as the value of the unit funds may fall below the amounts of premiums paid depending on the performance of the underlying assets;
   - There is no changes to your policy coverage such as addition or removal of rider(s) and/or the sum assured.

4. **What are the fees and charges that I have to pay?**
   - The insurance charges are deducted monthly from the value of your units. The insurance charge will increase as you grow older. Details of insurance charges and other charges for the ILP are given in the sales illustration.
   - The insurance charges are non-guaranteed and may be varied from time to time. The Company reserves the right to revise the insurance charges on policy anniversary, where the revision (if any) will aim to reflect our claim experience, cost of medical treatment, advancement in medical technology, or other justified circumstances. Such changes will be applicable to all policy regardless of the individual claim experience.
   - The prevailing government service tax will be added to the premium quoted in question 3 above, where the premium is paid by a business organisation other than the Company.

5. **What are some of the key terms and conditions that I should be aware of?**
   - Importance of disclosure - You must disclose all material facts such as medical condition, and state your age correctly.
   - Free-look period - You may cancel your ILP by returning the policy within 15 days after the policy has been received by you. The Company will refund to you the unallocated premiums, the value of the units that have been allocated (if any) at unit price at the next valuation date and any insurance charge and policy fee that have been deducted less any medical fee incurred.
   - Total investment value - The total investment value of the ILP depends on the performance of the investment-linked fund(s) selected. The higher the level of insurance coverage selected, the more units will be absorbed to pay for the insurance charges and the fewer units will remain to accumulate total investment value under your policy.
   - Grace period - A grace period of 30 days from each premium due date is given for you to pay the subsequent premiums.
   - Policy lapse - Subject to No-Lapse Guarantee, the ILP will lapse when the value of investment units is insufficient to pay for the insurance and other charges.
   - Claims procedure - Please visit greateasternlife.com/my for further information on the Company's claims procedure.
   - Waiting period - The eligibility for benefits under the policy will only start after the waiting period below from the risk effective date.

Plan Name	Conditions	Waiting Period
IL Hospitalisation Benefits Rider	Hospitalisation benefit	30 days
Medical Card	Insured benefit due to illness	30 days
	Specified illness	120 days
IL Critical Illness Benefit Rider	1) Cancer 2) Coronary Artery By-Pass Surgery 3) Heart Attack 4) Serious Coronary Artery Disease	60 days

Mr Biz Man **Product Disclosure Sheet**

	5) Angioplasty and other invasive treatments for coronary artery disease	
	All other Covered Events	30 days
IL Premium Waiver Extra Rider	1) Cancer 2) Coronary Artery By-Pass Surgery 3) Heart Attack 4) Serious Coronary Artery Disease	60 days
	All other Covered Events	30 days

Note: This list is non-exhaustive. Please refer to the policy contract for the terms and conditions under this plan.

6. **What are the major exclusions under this plan?**

Basic Plan
• Death during the first policy year from the risk commencement date or the date of any reinstatement, whichever is later, as a result of suicide, while sane or insane. • TPD that has existed prior to the risk commencement date or the date of any reinstatement, whichever is later. • TPD caused directly or indirectly by self-inflicted injuries, while sane or insane. • TPD caused by bodily injury sustained as a result of parachuting or skydiving, or engaging in aerial flights other than as a crew member or as a fare-paying passenger of a licensed commercial airline operating on a regular scheduled route. • TPD resulted from the life assured committing, attempting or provoking an assault or a felony or from any violation of law by life assured. • TPD resulted from the life assured driving a motor vehicle without possessing a valid driving license. This exclusion will not apply if the life assured has an expired license but is not disqualified from holding or obtaining such driving license under any laws, by-laws or regulations. • TPD resulted from war, whether declared or undeclared.

IL Hospitalisation Benefits Rider
• Suicide, attempted suicide or intentionally self-inflicted injuries, while sane or insane. • War or any act of war, declared or undeclared, criminal or terrorist activities, active duty in any armed forces, direct participation in strikes, riots and civil commotion or insurrection. • From the life assured engaging in commando or bomb disposal duties/ training. • Engaging in aerial flights other than as a crew member or as a fare-paying passenger of a licensed commercial airline operating on a regular scheduled route. • As a result of the life assured committing, attempting or provoking an assault or a felony, or from any violation or attempted violation of law by the life assured or resistance to arrest. • While under the influence of alcohol or drugs unless taken as prescribed by a physician. • Sickness or injury arising from racing of any kind (except for foot racing), hazardous sports or activities that involve speed, height, high level of physical exertion, highly specialized gear or spectacular stunts such as but not limited to bungee jumping, parachuting, scuba-diving, sky-diving, water skiing, underwater activities requiring breathing apparatus, winter sports, Professional Sports and illegal activities. For the avoidance of doubt, "Professional Sports" means engaging in any physical activity in a professional capacity or where the life assured would or could earn income or remuneration from engaging in such activity. • Alcoholism, depression, illegal drugs, intoxication, venereal disease and its sequelae, pregnancy, child birth (including surgical delivery), miscarriage, abortion and prenatal or postnatal care and surgical, mechanical or chemical contraceptive methods of birth control or treatment pertaining to infertility, Erectile dysfunction and tests or treatment related to impotence or sterilisation. • Pre-existing Illness. • Psychotic, mental or nervous disorders, (including any neuroses and their physiological or psychosomatic manifestations). • Any treatment or test in connection with AIDS or the presence of any Human Immuno-deficiency Virus infection and all sexually transmitted diseases. • Hospitalisation primarily for investigatory purposes, diagnosis, x-ray examination, general physical or medical examinations, not incidental to treatment or diagnosis of a covered disability or any treatment which is not medically necessary and any preventive treatments, preventive medicines or examinations carried out by a physician, and treatments specifically for weight reduction or gain. • Ionising radiation or contamination by radioactivity from any nuclear fuel or nuclear waste from process of nuclear fission or from any nuclear weapons material.

Medical Card 150
• Pre-existing illness. • Specified illnesses occurring within the waiting period of 120 days. • Any medical or physical conditions arising within the waiting period except for injury. • Plastic/ cosmetic surgery, circumcision, eye examination, glasses, and refraction or surgical correction of nearsightedness (Radial Keratotomy or Lasik) and the use or acquisition of external prosthetic appliances or devices (except for pacemakers, implantable cardio-defibrillator, prosthetic devices such as hearing aid and artificial limbs as provided under Medical Appliances, if applicable) and prescriptions thereof.

Mr Biz Man **Product Disclosure Sheet**

- Dental conditions including dental treatment or oral surgery, except as necessitated by injury to sound natural teeth occurring in any policy year and performed by dentist.
- Private nursing (except as provided under Post-Hospitalisation Home Nursing Care), rest cures or sanitaria care, illegal drugs, intoxication, sterilisation, venereal disease and its sequelae, AIDS (Acquired Immune Deficiency Syndrome) or ARC (AIDS Related Complex) and HIV related diseases, and any communicable diseases which require quarantine by law except for COVID-19 disease for life assured who is fully vaccinated or ineligible unvaccinated.
- Any treatment or surgical operation for congenital conditions or deformities including hereditary conditions.
- Pregnancy, child birth (including surgical delivery), miscarriage, abortion and prenatal or postnatal care and surgical, mechanical or chemical contraceptive methods of birth control or treatment pertaining to infertility. Erectile dysfunction and tests or treatment related to impotence or sterilisation.
- Hospitalisation primarily for investigatory purposes, diagnosis, x-ray examination, general physical or medical examinations, not incidental to treatment or diagnosis of a covered disability or any treatment which is not medically necessary and any preventive treatments, preventive medicines or examinations carried out by a physician, and treatments specifically for weight reduction or gain.
- Suicide, attempted suicide or intentionally self-inflicted injury, while sane or insane.
- War or any act of war, declared or undeclared, criminal or terrorist activities, active duty in any armed forces, direct participation in strikes, riots and civil commotion or insurrection.
- Ionising radiation or contamination by radioactivity from any nuclear fuel or nuclear waste from process of nuclear fission or from any nuclear weapons material.
- Expenses incurred for donation of any body organ by the life assured and the cost of acquisition of any body organ donated to the life assured including all costs incurred by the donor during organ transplant and its complications.
- Investigation and treatment of sleep and snoring disorders, hormone replacement therapy, and alternative therapy such as treatment, medical service or supplies, including but not limited to chiropractic services, acupuncture, acupressure, reflexology, bone setting, herbalist treatment, massage or aroma therapy or other alternative treatment (except as provided under Post-Hospitalisation Chiropractor, Speech Therapist or Occupational Therapist or Post-Hospitalisation Traditional Chinese Medicine Practitioner, if applicable).
- Care or treatment for which payment is not required or to the extent which is payable by any other insurance or indemnity covering the life assured and disabilities arising out of duties of employment or profession that is covered under a Workman's Compensation Insurance Contract.
- Psychotic, mental or nervous disorders, (including any neuroses and their physiological or psychosomatic manifestations).
- Costs/ expenses of services of a non-medical nature, such as television, telephones, telex services, radios or similar facilities, admission kit/ pack, any government tax that may be imposed by the hospital and other ineligible non-medical items.
- Sickness or injury arising from racing of any kind (except for foot racing), hazardous sports such as but not limited to sky-diving, water skiing, underwater activities requiring breathing apparatus, winter sports, professional sports and illegal activities.
- Private flying other than as a fare-paying passenger in any commercial scheduled airlines licensed to carry passengers over established routes.
- Expenses incurred for sex change.
- Any outpatient treatment not related to inpatient treatment, except as provided under the medical plan.
- Charges which are not Reasonable and Customary Charges, or any surgery or treatment which is not medically necessary, or charges in excess of Reasonable and Customary Charges, or charges which are incurred for hospitalisation, pre-hospitalisation and/ or post-hospitalisation after the expiry date.

IL Critical Illness Benefit Rider

- Pre-existing illness.
- Covered Event caused directly or indirectly by self-inflicted injuries, while sane or insane.
- Covered Event resulted from the life assured committing, attempting or provoking an assault or a felony or from any violation of law by life assured.
- Covered Event resulted from war, whether declared or undeclared.

IL Premium Waiver Extra Rider

- TPD or Covered Event that has existed prior to or on the risk effective date.
- TPD or Covered Event caused directly or indirectly by self-inflicted injuries, while sane or insane.
- TPD or Covered Event resulted from the life assured committing, attempting or provoking an assault or a felony or from any violation of law by life assured.
- TPD or Covered Event resulted from war, whether declared or undeclared.
- TPD caused by bodily injury sustained as a result of parachuting or sky diving or engaging in aerial flights other than as a crew member or as a fare-paying passenger of a licensed commercial airline operating on a regular scheduled route.

Note: This list is non-exhaustive. Please refer to the policy contract for the full list of exclusions under this

plan. 7. **Can I cancel my plan?**

Mr Biz Man **Product Disclosure Sheet**

Buying a regular premium ILP is a long-term financial commitment. It is not advisable to hold this plan for a short period of time in view of the high initial costs. However, you may cancel your ILP or any attaching rider(s) by giving written notice to the Company. If you find the fund(s) that you have chosen is no longer appropriate, you have the flexibility to switch fund(s).

8. **What do I need to do if there are changes to my / my nominee(s) contact details?**
   It is important that you inform us of any change in your / your nominee(s) contact details to ensure all correspondences reach you / your nominee(s) in a timely manner.

9. **Where can I get further information?**
   Should you require additional information about investment-linked insurance and medical and health insurance, please refer to www.mycoverage.my.

   If you have any enquiries, please contact us at:

   XXX LIFE ASSURANCE (MALAYSIA) BERHAD (90050)
   (Licensed under the Financial Services Act 2013 and is regulated by Bank Negara Malaysia)

Head Office	: xxx Jalan xxx 00000 Kuala Lumpur.
Tel	:
Fax	:
Customer Service Careline	:
E-mail	: customer-service@xxxlife.com

10. **Are there any other similar types of plan available?**
    You may check with your intermediary or contact the Company directly for other similar types of plans currently available.

IMPORTANT NOTE:
THIS IS AN INSURANCE PRODUCT THAT IS TIED TO THE PERFORMANCE OF THE UNDERLYING ASSETS, AND IS NOT A PURE INVESTMENT PRODUCT SUCH AS UNIT TRUSTS. YOU MUST EVALUATE YOUR OPTIONS CAREFULLY AND SATISFY YOURSELF THAT THE INVESTMENT-LINKED INSURANCE PLAN CHOSEN MEET YOUR RISK APPETITE, AND THAT YOU CAN AFFORD THE PREMIUM THROUGHOUT THE POLICY DURATION. TO INCREASE INVESTMENT VALUE AT ANY TIME, IT IS ADVISABLE THAT YOU PAY THE ADDITIONAL PREMIUMS AS 'TOP UPS'. RETURN ON AN INVESTMENT-LINKED FUND IS NOT GUARANTEED. YOU ARE ENCOURAGED TO APPOINT A NOMINEE(S) AND ENSURE THAT YOUR NOMINEE(S) IS AWARE OF THE PLAN THAT YOU HAVE PURCHASED. YOU SHOULD READ AND UNDERSTAND YOUR INSURANCE POLICY AND DISCUSS WITH YOUR INTERMEDIARY OR CONTACT THE COMPANY DIRECTLY FOR MORE INFORMATION.

PROTECTION BY PERBADANAN INSURANS DEPOSIT MALAYSIA ("PIDM") ON BENEFITS PAYABLE FROM THE UNIT PORTION OF THIS POLICY/PRODUCT IS SUBJECT TO LIMITATIONS. Please refer to PIDM's TIPS Brochure or contact the Company or PIDM (visit www.pidm.gov.my).

For information on how we process your personal data and your rights over your personal data, kindly refer to our Personal Data Protection Notice posted at greateasternlife.com, or obtain a copy from our Customer Service Officers.

If there is any discrepancy between the English and Bahasa Malaysia versions of this document, the English version shall prevail.

The information provided in this disclosure sheet is valid as at 04/10/2023.

5.3 RISKS AND UNCERTAINTIES

5.3.1 INVESTMENT FLUCTUATIONS

A regular premium investment-linked (RP-IL) plan offers both death and disability benefits based on the sum assured and the value of units. The sum assured is guaranteed, but the value of units is not, as it is tied to the investment performance of the underlying assets. The primary focus of a RP-IL plan is protection, with investment being the secondary focus.

During volatile stock market conditions, the account and maturity values of an investment-linked life insurance policy invested in an equity fund will experience fluctuations. These policies are more suitable for individuals who can tolerate short-term volatility in their investments, as they may provide higher long-term returns compared to traditional whole life products.

However, for policyholders who are risk-averse and desire high protection alongside guaranteed cash and maturity values, a traditional non-participating life insurance product might be a more suitable choice. This type of policy will better align with their needs and risk tolerance.

5.3.2 CHARGES

Indeed, the fees associated with an investment-linked life insurance policy, such as administration fee, insurance charge (or cost of insurance, COI), and fund management fees are typically not guaranteed. Insurers reserve the right to review and adjust these charges, subject to giving 3 months written notice to policyholders.

While the insurance charge or COI tends to increase yearly based on the policyholder's attained age, insurers in Malaysia have not been known to frequently or unnecessarily revise their fund management fees and nominal policy fee. This is a positive aspect for policyholders, as it provides some level of stability in the fees associated with their investment-linked policies.

However, it is crucial for policyholders to be aware of the potential for changes in these fees and to understand how they might impact the overall performance of their investment-linked insurance policy. Review policy documents regularly and staying informed about any changes to fees can help policyholders make better decisions about their insurance coverage and investments.

For medical and health riders, to follow the 30 days notification period as per the *Guidelines on Medical and Health Business (Revised)* issued on 26 August 2005 (BNM/RH/GL/003-20) and *Guidelines on Medical and Health Takaful Business* issued on 17 September 2007 (BNM/RH/GL/004-11).

5.4 REGULAR PREMIUM INVESTMENT-LINKED PLANS VS WHOLE LIFE PARTICIPATING PLANS

Indeed, regular premium investment-linked plans and whole life participating plans are often compared due to their long-term focus and the presence of investment elements apart from the basic sum assured. However, their business models differ significantly. Here's a comparison of the two types of plans:

Table 5-2 ***Comparison Between ILPs with WL***

Features	**Regular Premium Investment-Linked Plans (RP-IL)**	**Whole Life Participating Plans**
Investment Component	Directly linked to chosen investment funds	Managed by insurer's participating fund
Investment Risk	Borne by policyholder	Shared with insurer
Investment Returns	Volatile and not guaranteed	Stable and includes guaranteed bonuses
Death Benefit	i. Sum assured + value of units ii. The Higher value between Sum Assured and the Value of Units	Sum assured + accrued bonuses
Charges and Fees	Administration fee, insurance charge (COI), and fund management fee (not guaranteed)	Embedded within premium, relatively more stable
Flexibility	High (investment funds, sum assured, premium payments)	Limited (managed by insurer, rigid policy terms)
Risk Profile	Higher risk tolerance, potential for higher long-term returns	Lower risk tolerance, more stable and guaranteed returns
Protection Period	Typically, up to a specific age or for a set term	Lifelong protection
Cash Value	Depends on the performance of the underlying investment funds	Accumulates over time through bonuses
Surrender Value	Value of units at the time of surrender	Sum of guaranteed cash value and accrued bonuses
Adding Riders for UDR/PPR	i. COI can deduct from account value, may not need to top up premium ii. Extra Premium is needed for Premium Payment Rider	Extra Premium is needed
Top-up Premium	Typically allowed, subject to terms and conditions	Not applicable
Loan	Not applicable	Usually available after the policy has built up sufficient cash value
Premium Holidays	May be allowed, subject to terms and conditions	May be allowed through automatic premium loans or paid-up status
Tax Relief	Same tax relief	Same tax relief

Table 5-3 ***Comparison of Partial Withdrawal and its Impact***

Features	**Investment-Linked Policy (ILP)**	**Whole Life Participating Plan**
Partial Withdrawals	Typically allowed, may reduce death benefit, and might have charges	Not traditionally allowed; might facilitate policy loans against the cash value instead
Impact on Death Benefit	Often reduced by the amount of the partial withdrawal	Reduced by any outstanding policy loans or surrendered portion.
Flexibility	Generally high; direct withdrawals possible	Lower; indirect access to cash through loans or surrendering portions
Charges on Access to Cash	Possible withdrawal charges	Possible policy loan interest or surrender charges
Dividend/Cash Bonus Utilization	Not applicable	Can be taken as cash, used to buy additional insurance, or left to accumulate
Investment Risk	Borne primarily by policyholder	Borne primarily by insurer; more stable returns
Impact on Future Benefits	Possible reduction in death benefit and maturity value	Potential reduction in death benefit, cash value, and dividends

REVIEW QUESTIONS

1	*What is one of the benefits of an investment-linked insurance plan?*
	a. Provides only life insurance coverage b. Offers guaranteed investment returns c. Allows policyholders to access pooled and diversified investment funds d. Provides flexibility in changing coverage types

2	*Which component of an investment-linked insurance plan is managed by professional fund managers?*
	a. Policy fees b. Insurance charges c. Sum assured d. Investment funds

3	*What is a key advantage of investment-linked policies in terms of expertise?*
	a. Policyholders have full control over investment decisions b. Policyholders have access to professional fund managers' investment expertise c. Policyholders can customize their own investment portfolios d. Policyholders can switch between investment funds at any time

4	*During volatile stock market conditions, the account and maturity values of an investment-linked life insurance policy invested in an equity fund:*
	a. Remain stable b. Experience fluctuations c. Provide guaranteed returns d. Align with traditional whole life products

5	*Which statement is true on the benefit of accessibility to investment-linked policy owners?*
	a. Access to knowledge and advice of fund managers on the recommended shares to purchase b. Access to well-diversified investment funds that are managed by professional and experience investment managers c. Access to invest directly in the stock market d. Access to expert investment advice and tips

6	*The benefits of an investment-linked policy are:* *I. It provides access to a diversified investment portfolio. Thus, it has better risk characteristics than a non-diversified portfolio* *II. It offers flexibility* *III. Fixed nominal charges are levied on the policy* *IV. The life insurer insulates the policy owner against market risks*
	a. I and II b. II and IV c. I and III d. I, II, III and IV

7	*When an investment-linked policy reaches maturity, the maturity value will be*
	a. the basic sum assured and the account value b. the account value c. the account value plus terminal/ maturity bonus d. the basic sum assured and the account value plus terminal/maturity bonus

8	*What are two similarities between a regular premium investment-linked plan and a whole life participating plan?* *I. Both plans provide lifetime coverage up to a maximum age of 100* *II. Both plans allow the addition of riders without additional premium* *III. Both are entitled to the same income tax relief treatment for premiums paid* *IV. The minimum age for an individual to apply on own life, and not as juvenile application arrangement is age 16 for both products*
	a. I and II b. II and III c. I and III d. All of the above

9	*In an investment-linked life insurance policy, the value of units is tied to the performance of:*
	a. Guaranteed cash values b. Traditional whole life products c. The underlying assets d. Fixed insurance charges

10	*The fees associated with an investment-linked life insurance policy, such as policy fee, insurance charge, and fund management fees:*
	a. Are guaranteed and fixed b. Are subject to frequent revisions c. Remain stable throughout the policy term d. Can be adjusted with prior notice to policyholders

6

CHAPTER 6 INVESTMENT CONSIDERATIONS

6.1 INTRODUCTION

Customers' growing interest in investing over the years has led to a greater need for sound and appropriate advice. The main aim of this chapter is to provide agents and sale intermediaries with the basic knowledge of investing. As many clients are unable to conduct in-depth investment research and analysis on their own, agents and sales intermediaries have a professional obligation to educate them on the basic principles of prudent investment to help them make well-informed purchase decisions.

Before deciding to invest in an investment-linked fund(s), it is crucial to understand the following key considerations:

- **Investment Objectives**
  Understanding the client's financial goals such as creating an emergency fund, building a retirement fund, or saving for children's education fund is essential in determining the most appropriate investment strategy.

- **Availability of Funds**
  Assess the client's financial resources and consider factors such as income, savings, and outstanding debts. This helps determine the amount of money available for investing.

- **Risk or Security**
  Evaluate the client's risk tolerance, considering their age, financial situation, and investment experience. It is essential to recommend investments fund(s) that align with the client's risk appetite.

- **Investment Horizon**
  Identify the time frame that the clients expect to achieve their investment objectives. Short-term, medium term, and long-term goals require different investment strategies and products.

- **Accessibility of Funds**
  Discuss the client's need for liquidity and the ease with which they can access their invested funds. Some investments may have lock-in periods or penalties for early withdrawal.

- **Taxation Treatment**
  Inform the client about the tax implications of their investments, as different investment products may be subject to varying tax treatments. This can impact on the overall returns on their investments.

By addressing these key considerations, agents can provide clients with a solid foundation for making informed decisions about their investment-linked insurance policies. This, in turn, helps clients achieve their financial goals while managing their risks effectively.

6.2 INVESTMENT OBJECTIVES

The objectives for investing savings are continually increasing.

All investment vehicles can be categorised according to three fundamental characteristics:
- Secured
- Income
- Growth

SECURED

No investment is completely safe and secure, but government-issued bonds, sukuk (Islamic bonds), Treasury bills, or fixed deposit accounts offer relative safety. These instruments provide conservative returns, which at best, help create a hedge against inflation.

INCOME

Safer investments typically yield the lowest income, like fixed deposit accounts in banks. Clients seeking a steady income stream must accept a risk-return trade-off versus investing in higher-risk portfolios.

GROWTH

Investors seeking growth often invest in growth-based investments like common stocks, commodities, and other share-based investments. The objective is to realise capital gains and hold the stocks long-term to derive returns from growth. Growth investments are considered speculative due to their unpredictable future returns.

Besides the three basic objectives, investors may have secondary, more specific objectives, such as:

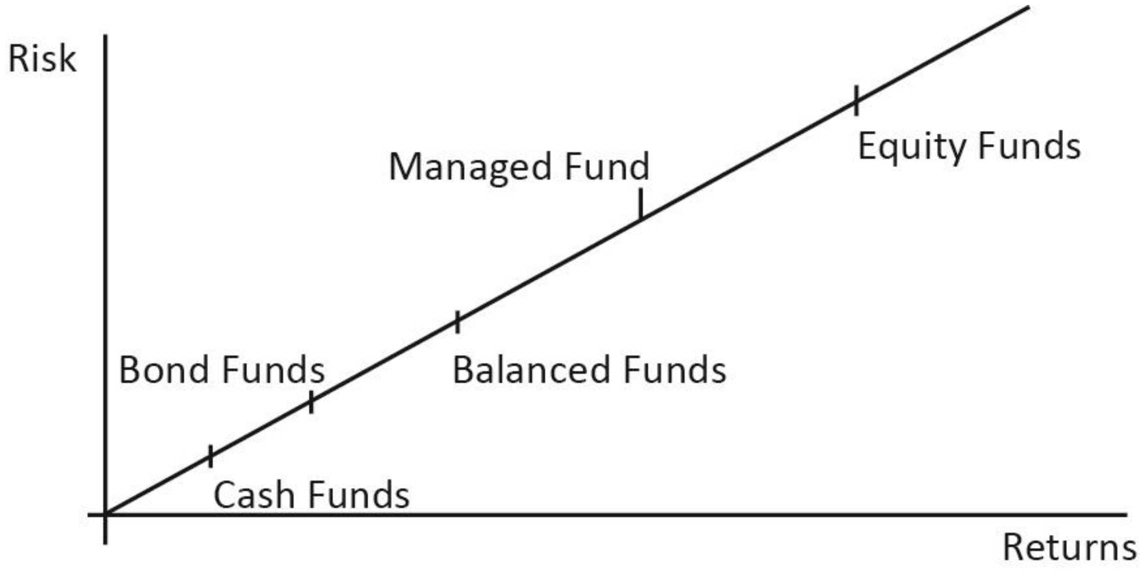
- Ensuring a comfortable standard of living
- Providing funds for dependents
- Providing funds for children's education and upbringing
- Improving financial position
- Hedging inflation
- Debt cancellation
- Retirement income
- Achieving financial freedom
- Funds for necessary estate administration expenses

Agents and sales intermediaries are to help their clients to prioritise the objectives, understand the risk factors, client's risk profile and choose income-producing or growth-weighted instruments to meet the investment objectives.

WHAT IS RISK-RETURN TRADE-OFF?

It is an investment principle that indicates that the higher the risk, the higher the potential return to compensate for the additional risk taken.

FIGURE 6-1 ***Risk-Return Tradeoff***



6.3 FUNDS AVAILABLE

Drawing up a personal budget is crucial for determining available funds for investment, as it helps individuals take control of their spending and find money to save and invest for various goals. Before making investment decisions, clients should conduct a cash flow and net worth analysis to ensure they have sufficient funds to commit to their chosen investment. Here, we provide a simple method for each:

- **Cash Flow Analysis**
  A cash flow analysis helps clients determine their income and expenses, revealing how much money is available for investing. Positive net cash flow indicates surplus funds available for investing, while negative net cash flow suggests a need to cut expenses or increase income before considering investments.

FIGURE 6-2 ***Sample of Cash Flow Analysis***

No	Income (A)	RM	Expenditure (B)	RM
1	Salary	5,000.00	Rental/Housing Loan Payments	1,000.00
2	Rental	500	Groceries and Utilities	750
3	Commissions	1,000.00	Childcare/Parents' allowance	500
4	Others	1,000.00	Education Expenses	250
5			Loans (Car, Credit Cards, etc.)	2,000.00
6			Insurance Premiums	500
7			Savings	500
8			Misc.	1,000.00
	TOTAL	7,500.00		6,500.00

- **Net Worth Analysis**
  A net worth analysis helps clients understand their financial position by calculating the difference between assets and liabilities.

A positive net worth indicates that the client has more assets than liabilities, which is generally a good financial position. A negative net worth suggests the need to reduce liabilities or increase assets before considering investments.

By conducting both cash flow and net worth analysis, clients can gain a clear understanding of their financial situation and make informed investment decisions, ensuring they can fulfil the financial obligations associated with their chosen investment plans.

6.4 RISK PROFILING

Risk profiling is an essential step for the clients to complete before purchasing an investment-linked plan with fund(s) selection that aligns with the client's financial goals and risk tolerance. By understanding the client's risk profile, agents and sales intermediaries can help them make informed decisions in constructing a well-balanced investment-linked fund portfolio that considers their age, income, family situation, financial goals, and investment experience.

Here are the key factors to consider when conducting a risk profiling exercise:

- **Age**
  Younger investors generally have a longer investment horizon and therefore can afford to take more risks, while older investors nearing retirement may prefer a more conservative approach to preserve their wealth.

- **Income and financial stability**
  A steady and high income may allow investors to take on more risks, as they have a better buffer to cushion potential losses. On the other hand, investors with less stable income or low earnings may need to be more cautious in their investment choices.

- **Family situation**
  Investors with dependents or significant financial commitments may need to be more conservative in their investments to ensure the well-being of their family.

- **Current financial position**
  Assessing a client's current financial situation, including assets, liabilities, and net worth, can help determine the level of risk they can comfortably assume.

- **Investment experience and knowledge**
  Clients with more investment experience and knowledge might be more comfortable taking on risk and making complex investment decisions. In contrast, less experienced investors may prefer simpler, lower-risk investment options.

- **Risk tolerance and investment disposition**
  Some clients are inherently more risk-averse, while others are more comfortable with the potential ups and downs of investing.

NOTES

Based on the results of a common profiling test, generally there are 5 main risk profiles corresponding to different investing styles as follows:

- Very Conservative
- Conservative
- Balanced
- Aggressive
- Very Aggressive

Understanding a client's attitude toward risk and willingness to assume risk is essential in tailoring investment advice to their preferences.

By conducting a thorough risk profiling exercise, agents can create a tailored investment plan that matches the client's individual needs and preferences. This will ultimately help clients make well-informed decisions and achieve their financial goals while taking appropriate levels of investment risk.

6.5 INVESTMENT HORIZON

The investment horizon can be defined as the length of time a sum of money is expected to be invested or an investor expects to hold a security or a portfolio. An individual’s investment horizon depends on how much money will be needed, and when.

The investment horizon is used to determine the investor’s income needs and desired risk exposure, which is then used to aid in investment selection.

An individual's investment horizon plays a crucial role to avoid investment mismatch. Knowing the investment horizon will allow insurance advisors to help select the right mix of assets and risk levels to achieve their financial goals. Here are some key points related to investment horizon:

- **Risk tolerance**
  As a general rule, the shorter the investment horizon, the less risk an investor should be accepting. This is because a shorter time frame leaves less room for recovery in case of market downturns or investment losses. Conversely, a longer investment horizon allows for greater risk-taking, as investors have more time to recover from potential losses.

- **Asset allocation**
  The investment horizon impacts the allocation of assets in a portfolio. For instance, investors with shorter horizons may prioritise capital preservation and lean towards fixed-income assets or more conservative investments. While those with longer horizons can allocate a higher proportion of their portfolio to equities or other higher-risk investments that offer potential for growth over time.

- **Liquidity needs**
  Investor's investment horizon also considers their cash flow or liquidity needs. Short-term investors may require more liquid assets to meet their financial obligations, while long-term investors can afford to hold fewer liquid investments, as they do not need immediate access to their funds.

- **Income generation**
  Depending on the investment horizon, an investor's focus may shift between income generation and capital appreciation. Investors with shorter horizons might prioritise investment fund(s) that provide regular income (e.g., dividends or interest payments), while those with longer horizons can focus on investment fund(s) that offer potential for capital growth.

- **Rebalancing and adjustments**
  As investors' investment horizon changes over time, they may need to reassess their investment fund portfolio and adjust to align with their evolving goals and risk tolerance. Regular portfolio reviews and rebalancing exercise through fund switching can help ensure that the investment strategy remains suitable for the investor's prevailing circumstances.

In summary, understanding individuals' investment horizon is essential in developing a tailored investment strategy that aligns with their financial goals, risk tolerance, and time frame. This approach helps maximise the chances of achieving the desired financial outcomes while minimising potential risks.

6.6 ACCESSIBILITY OF FUNDS

Accessibility of funds in investment-linked insurance refers to how easy it is for policy owners to access their investment-linked funds when they need them. This can vary depending on the specific policy and investment-linked fund selected by the policy owner.

Here are some key points to consider regarding accessibility of funds in investment-linked insurance product:

- Some policies may allow for partial withdrawals of funds subject to minimum balance in account value while others may only allow for full surrender of the policy to access the funds.

- The time it takes to process a withdrawal or surrender request can also vary, with some policies having longer processing time than others.

- There may be penalties or fees associated with accessing funds before a certain amount of time has elapsed or before a certain amount of premiums have been paid.

- Some investment-linked funds may have restrictions on when and how often withdrawals can be made or may have specific requirements for the amount that can be withdrawn at any given time.

- It is important for policy owners to understand the accessibility of funds before investing in an investment-linked insurance policy, and to choose a policy and investment-linked fund that meet their specific needs and goals.

Table 6-1 ***Key Summary***

Considerations	Description
Accessibility of Funds	Clients would want their funds to be accessible when they need them. Short-term investments are preferred for clients who need their money in a short period of time, while long-term investments are suitable for those who have longer time horizons
Cost of Penalty for Early Exit	Clients should be aware of the cost or penalty they must pay if they exit an investment early. This information will help them make informed decisions regarding their investments
Cost of Investment	Agents should be transparent and upfront about the exact amount of money needed to set up the investment account and its associated costs. This information will help clients make informed decisions and prevent any surprises or hidden fees

6.7 TAXATION TREATMENT

When considering different types of investments, it is essential for clients to understand the tax implications associated with each option. Tax treatment can significantly impact on the overall returns on an investment and should be factored into the decision-making process. Here are some related common types of investments and their general tax treatment:

- **Investment-linked insurance**
    - As mentioned, investment-linked insurance plans typically enjoy the same tax treatment as traditional insurance plans.
    - Premiums paid for life insurance policies may be tax-deductible (depending on the jurisdiction and individual circumstances).
    - Proceeds from a life insurance policy, such as death benefits, are usually not subject to income tax for the trust nominees.

- **Bonds**
    - Interest income from bonds is generally subject to income tax.
    - Some government related bonds may be exempt from corporate tax.

- **Mutual funds and Unit Trusts**
    - Earnings from mutual funds or unit trusts may be subject to capital gains tax or income tax, depending on the nature of the returns (capital gains or dividends/interest income).

It is important for clients to consult with a tax professional to understand the specific tax implications associated with their chosen investments. The tax treatment of each investment can vary based on the jurisdiction and individual circumstances, so it is crucial to consider these factors when making investment decisions.

6.8 INVESTMENT-LINKED FUND(S) PERFORMANCE

It is important to understand that the performance of an investment can be influenced by a wide range of factors. Some of the key factors to consider when evaluating an investment include:

1. **Economic and Market Factors**
   The overall economic conditions, market trends, and financial stability of the country can have a significant impact on the performance of investment-linked funds.

2. **Fund Management Team**
   The competencies and capabilities of the fund management team and how the investment-linked has performed during different market conditions.

3. **Fund Costs**
   The fee and charges imposed such as management fees, administrative fees and other expenses which could reduce the overall investment returns.

4. **Historical Performance**
   Examining the past performance of the investment-linked funds can provide insights into how it performs against the fund's stated objectives mandate in the past, although past performance is not always indicative of future returns.

5. **Investment Strategy**
   Understanding the fund's stated objectives will help investors assess the potential risks and rewards associated with the investment.

6. **The Type of Investment Vehicle**
   Different investment vehicles can be affected differently by changes in market conditions or investor sentiment.

7. **Fund Life Cycle**
   Investment-linked funds may go through different stages, such as the launch, growth, maturity, or decline phase. Considering the life cycle stage can help assess their performance and alignment with investment objectives.

8. **Diversification**
   The degree of diversification within the investment-linked funds' portfolios can impact their risk profile and potential returns. A well-diversified fund can help mitigate risks associated with individual investments.

By considering these factors and conducting thorough research, the policyholder can gain a better understanding of investment-linked funds' performance potential and make informed decisions aligned with their investment goals and risk appetite.

Other factors (non-exhaustive) which may affect investment performance include:

- **The country's economic, regulatory, and political factors**
  The overall economic environment, government regulations, and political stability can all have a significant impact on the performance of an investment.

- **Regional and global economic factors**
  The performance of an investment can be affected by regional and global economic trends, such as inflation, interest rates, and trade policies.

- **The competencies and capabilities of the management team, with good governance**
  A strong management team with the necessary skills and experience can play a crucial role in the success of an investment.

- **The invested company's level of costs**
  The cost structure of a company, including fixed and variable costs, can have a significant impact on its profitability and, in turn, the performance of an investment.

- **Past performance of the investment**
  Examining the historical performance of an investment can provide insight into how it might perform in the future, though past performance is not always indicative of future results.

- **The history of the invested company**
  Understanding the background and track record of the company in which you are investing can help you assess the potential risks and rewards associated with the investment.

- **The life cycle of the investment**
  Different investments may perform differently depending on where they are in their life cycle (e.g., start-up, growth, maturity, or decline). Considering the life cycle stage of an investment can help you make more informed decisions.

Changing trends with considerations of Environmental, Social, and Governance (ESG) may influence demand and supply dynamics.

By taking these factors into account, you can make more informed decisions when choosing investments and better understand the potential risks and rewards associated with each option.

REVIEW QUESTIONS

1	*What are the key considerations before investing in an investment-linked fund(s)?*
	a. Investment objectives, risk tolerance, and taxation treatment b. Accessibility of funds, investment horizon, and risk profiling c. Funds available, investment performance, and risk-return tradeoff d. Income generation, growth objectives, and safety of investments

2	*Which of the following investment objectives focuses on steady income streams?*
	a. Secured b. Income c. Growth d. Security

3	*What does risk profiling involve?*
	a. Assessing the client's financial resources b. Determining the investment horizon c. Analyzing the tax implications of investments d. Understanding the client's risk tolerance and preferences

4	*How does the investment horizon influence the level of risk an investor should be willing to accept?*
	a. Longer investment horizons allow for greater risk-taking b. Shorter investment horizons require higher risk tolerance c. Investment horizon has no impact on risk tolerance d. Risk tolerance is solely determined by the client's age

5	*What is the purpose of conducting cash flow and net worth analysis?*
	a. To evaluate the performance of investment-linked funds b. To determine the accessibility of funds in investment-linked insurance c. To assess the client's financial situation and available funds for investing d. To understand the tax implications associated with different investment options

6	*How does taxation treatment affect the overall returns on an investment?*
	a. It has no impact on investment returns b. It can significantly reduce investment returns c. It increases investment returns d. It only affects specific types of investments

7	*What is the relationship between risk and potential return in the risk-return tradeoff?*
	a. Higher risk is associated with higher potential return b. Higher risk leads to lower potential return c. Risk and potential return are unrelated d. Lower risk is associated with higher potential return

8	*What are the main risk profiles corresponding to different investing styles?*
	a. Very Conservative, Conservative, Balanced, Aggressive and Very Aggressive b. Conservative, Aggressive, and Very Aggressive c. Conservative, Balanced, and Very Aggressive d. Very Conservative, Conservative, and Balanced

9	*Which of the following factors are important to consider when conducting a risk profiling exercise for investment-linked plans?* *I. Age, income, and financial stability* *II. Family situation and current financial position* *III. Investment experience and knowledge* *IV. Risk tolerance and investment disposition*
	a. I and II b. I and III c. I, II and III d. All of the above

10	*Why is understanding an individual's investment horizon important?*
	a. It determines the accessibility of funds in investment-linked insurance b. It helps determine the level of risk an investor can comfortably assume c. It impacts the taxation treatment of investments d. It influences the historical performance of investment-linked funds

7

CHAPTER 7 TYPES OF INVESTMENT VEHICLES IN INVESTMENT-LINKED FUNDS AND POTENTIAL RISKS

7.1 INTRODUCTION

There are general principles guidelines that Insurance companies should comply with to manage investment-linked insurance policies responsibly and transparently. Here is a breakdown of the key points:

- Insurance companies must invest the funds from the policy according to the stated objectives, which are provided in the Fund Fact Sheet. This ensures that the investments align with the policyholder's expectations.

- If the insurance company uses a performance benchmark, it should be consistent with the investment strategy of the fund. This helps policyholders understand how the fund is expected to perform compared to its benchmark.

- For new investment-linked funds, the insurance company must ensure the funds are invested as per mandate according to the stated objectives right after the initial offer period. The initial offer period cannot exceed two months.

- If the insurance company cannot achieve the minimum required fund size during the initial offer period, they must refund all the money paid by policyholders, including any interest or investment profits earned during that period.

In summary, these guidelines ensure that insurance companies manage investment-linked policies transparently and in the best interests of policyholders. By following these guidelines, insurance agents can help maintain trust and confidence with their clients, ensuring that investments are managed responsibly and in accordance with policyholders' expectations.

7.2 COMMON TYPES OF INVESTMENT VEHICLES

In Malaysia, investment-linked insurance policies (ILPs) typically invest in a range of investment vehicles to meet the varying risk appetites and objectives of policyholders. Some common types of investment vehicles for ILPs in Malaysia include:

7.2.1 EQUITIES (STOCKS)

Investing in equities involves buying and selling shares of publicly traded companies. This type of investment aims to achieve capital growth through the capital appreciation and dividend income.

Pros:

i. **Capital Appreciation**
One of the main advantages of investing in equities is the potential for capital appreciation. As a company grows and becomes more profitable, its stock price may increase to reflect the increase in company value, providing investors with capital gains.

ii. **Dividend Income**
Some companies pay out a portion of their profits to shareholders in the form of dividends. This can provide a steady stream of income for investors, in addition to any capital appreciation.

iii. **Diversification**
A diversified equity portfolio can provide diversification benefits for investors, as policyholders' monies are invested in a wide range of companies and sectors. This can help to spread risk and potentially enhance returns.

iv. **Liquidity**
Shares of publicly traded companies are generally relatively easier to buy and sell on stock exchanges, providing liquidity for investors. This means that investors can quickly convert their shares into cash if needed.

v. **Ownership**
By investing in equities, investors become part-owners of the company, which may grant them voting rights on important company decisions to safeguard the value of their investments.

Cons:

i. **Volatility**
Equities can be subject to price fluctuations, which can result in significant gains or losses for investors. This volatility can be attributed to factors such as company performance, market conditions, and broader economic factors.

ii. **Risk of Loss**
Investing in equities carries the higher risk of losing the entire investment if the company performs poorly or goes bankrupt, compared to bonds. This is because investments in bonds typically require repayment of principal at maturity (subject to credit risk) and get paid ahead of equities in the event of liquidation.

iii. **Emotional Stress**
The volatility and risk associated with equities can cause emotional stress for some investors, as they watch the value of their investment rise and fall.

iv. **Management Risk**
The performance of a company's stock price is often closely tied to the decisions made by its management team. Poor management decisions or unethical behaviour can have a more pronounced negative impact on the company's stock price than bonds.

v. **Market Risk**
Equities are subject to market risk, where broader market factors can impact the performance of individual stocks. For example, an economic recession or geopolitical event can negatively impact stock prices across the board, even for well-performing companies.

In summary, investing in equities can offer attractive returns and income potential, but it also comes with inherent risks and volatility. It is crucial for investors to understand these factors and carefully consider their risk tolerance before investing in equities.

7.2.2 FIXED-INCOME SECURITIES

Fixed-income securities, such as government and corporate bonds, provide regular interest income and have lower risk compared to equities. The principal amount is typically returned to the investor upon maturity.

Pros

i. **Regular Income**
Fixed-income securities provide a steady stream of income in the form of interest payments, which can be attractive to investors who seek a reliable source of income.

ii. **Lower Risk**
Compared to equities, fixed-income securities typically have a lower risk of losing money. This is because the issuer of the security is obligated to make interest payments and return the principal amount upon maturity. Bondholders will also get paid ahead of shareholders in the event of liquidation.

iii. **Diversification**
Investing in fixed-income securities can help in terms of portfolio diversification as fixed-income securities have a different risk and return profile than equities.

iv. **Predictability**
The interest payments on fixed-income securities are usually predictable than dividend income from equities. This can help investors plan their cash flows accordingly.

v. **Liquidity**
Liquidity for fixed income securities varies according to the credit strength of the issuer. Stronger corporate credits (i.e., corporate bonds) can be easily bought and sold in the market, providing investors with liquidity. Therefore, bonds issued by the government often has better liquidity than bonds issued by corporations.

Cons

i. **Lower Returns**
Fixed-income securities typically provide lower returns compared to equities or other higher-risk investments. This means that investors may miss out on potential higher gains from other investments.

ii. **Interest Rate Risk**
Fixed-income securities are sensitive to changes in interest rates. If interest rates rise, the value of fixed-income securities may decrease, and vice versa.

iii. **Credit Risk**
Fixed-income securities are subject to credit risk, which is the risk that the issuer may default on their payments. This risk is higher for lower-rated bonds or bonds issued by companies with weaker financial positions.

iv. **Inflation Risk**
The returns on fixed-income securities may not keep pace with inflation, which can erode the purchasing power of an investor's returns over time.

v. **Limited Upside Potential**
Unlike equities, fixed-income securities generally have limited potential for capital appreciation.

GOVERNMENT BOND

In Malaysia, government bonds are issued by the Malaysian Government to finance the country's fiscal needs and development projects. These bonds are low-risk investments because they are backed by the Malaysian Government, which has a strong credit rating.

a. **Malaysian Government Securities (MGS)**
One of the primary government bonds in Malaysia is the Malaysian Government Securities (MGS). MGS are medium to long-term bonds issued by the Malaysian Government with fixed coupon rates and various maturity periods, usually ranging from 3 to 30 years.

b. **Malaysian Treasury Bills (MTBs)**
MTBs are short-term debt instruments with maturities of one year or less. They are issued at a discount and redeemed at face value upon maturity, with the difference between the purchase price and the face value representing the investor's return.

Table 7-1 ***Malaysian Treasury Bills (MTBs) Benefits and Risks***

Considerations	Description
Low risk (Backed by Malaysian Government)	Interest rate risk
Regular income (Coupon payments)	Currency risk (For foreigners)
Diversification	
Liquidity	
Suitable for conservative investors	

CORPORATE BOND

A corporate bond is a type of debt security issued by a corporation to raise funds from the debt capital market for various purposes, such as financing ongoing operations, expansion projects, or refinancing existing debt. Investors who purchase corporate bonds are essentially lending money to the issuing corporation. In return, the corporation promises to pay regular interest (also known as coupon payments) to the bondholders at a predetermined rate and interval, and to return the principal amount (face value) upon the bond's maturity date.

Corporate bonds typically offer higher yields compared to government bonds due to the higher credit risk associated with them. The creditworthiness of the issuing corporation, the bond's maturity, and prevailing market interest rates will influence the bond's yield. Investors should carefully assess the financial health of the issuing corporation and the potential risks associated with corporate bonds before investing in them.

Table 7-2 ***Corporate Bonds Benefits and Risks***

Considerations	Description
Regular income (Coupon payments)	Credit risk
Diversification	Interest rate risk
Higher yield compared to Government bonds	Liquidity risk
Variety of maturity periods	Currency risk (for foreigners)
Supports companies’ growth	

7.2.3 MONEY MARKET INSTRUMENTS

Money market instruments such as term deposits, treasury bills and commercial papers provide liquidity and can be used as a short-term investment option. These money market instruments offer a relatively lower risk and return compared to equities and fixed income.

Pros:

i. **Low Risk**
Money market instruments are considered low-risk investments because they have a low probability of default. This is because they are issued for a shorter tenure with a more visible repayment outlook.

ii. **Stability**
Money market instruments provide a stable source of income with minimal fluctuations in value.

iii. **Liquidity**
Money market instruments are highly liquid and can be easily bought and sold in the market.

iv. **Diversification**
Investing in money market instruments can help diversify a portfolio and reduce overall risk.

v. **Predictability**
The interest payments on money market instruments are typically predictable and can help investors plan their cash flows.

Cons:

i. **Low Returns**
Money market instruments typically offer lower returns compared to other higher-risk investments.

ii. **Inflation Risk**
The returns on money market instruments may not keep pace with inflation, which can erode the purchasing power of an investor's returns over time.

iii. **Interest Rate Risk**
Money market instruments are sensitive to changes in interest rates. If interest rates rise, the value of these securities may decrease, and vice versa.

iv. **Limited Upside Potential**
Money market instruments generally have limited potential for capital appreciation.

v. **Market Risk**
The value of money market instruments can be affected by changes in the overall market conditions or investor sentiment.

7.2.4 MUTUAL FUNDS (UNIT TRUSTS)

Mutual funds pool the money of multiple investors and invest in a diversified portfolio of securities. They can invest in equities, bonds, money market instruments, or a combination of these asset classes. Mutual funds are managed by professional fund managers who make investment decisions on behalf of the investors.

Comparison table that summarizes the differences between life insurance and unit trust management.

Table 7-3 ***Differences Between Life Insurance and Unit Trust Management***

Aspect	Life Insurance	Unit Trust Management
Purpose	Primarily provides financial protection	Primarily focused on helping investors grow their wealth
Risk	Premiums are generally invested into portfolio that carries lower investment risk	Carries higher investment risk, depending on client's risk appetite and market fluctuations
Investment Vehicle	Generally, not considered an investment vehicle	A type of investment vehicle that pools the money of multiple investors and invests in a diversified portfolio of securities
Investment Management	Managed by the insurance company	Managed by asset management company who make investors decisions on behalf of investors
Liquidity	Generally, less liquid than unit trust	Generally, highly liquid
Tax Treatment	Depending on the jurisdiction, life insurance may offer tax benefits such as tax-free death benefit or tax deferred growth	Depending on the jurisdiction, returns may be subjected to capital gain tax
Trustee	Insurance company may act as trustee or independent trustee may be used	Independent trustee typically holds the assets of the trust on behalf of the investors and ensure that the trust is being managed in accordance with its stated objective and the interest of the investors

Pros:

i. **Diversification**
Mutual funds invest in a diversified portfolio of securities, which can help reduce the overall risk of the portfolio and provide exposure to a range of asset classes.

ii. **Professional Management**
Mutual funds are managed by professional fund managers who have the expertise and resources to make informed investment decisions on behalf of the investors.

iii. **Affordability**
Mutual funds allow investors to participate in the market with a relatively small amount of money. This can help make investing more accessible to a broader range of investors.

iv. **Liquidity**
Mutual fund shares can be easily bought and sold (redeemed), providing investors with liquidity.

v. **Convenience**
Mutual funds offer a convenient way for investors to invest in a diversified portfolio of securities without having to manage the investments themselves.

Cons:

i. **Fees**
Mutual funds charge fees, including management fees, administrative fees, and other expenses, which can reduce the returns of the investment.

ii. **Lack of Control**
Investing in a mutual fund means giving up control over the investment decisions to the fund manager, who may not have the same portfolio management strategy as the investor.

iii. **Market Risk**
Mutual funds are subject to market risk, which means that the value of the investment can be affected by changes in the overall market conditions or investor sentiment.

iv. **Performance Risk**
The performance of the mutual fund can be affected by the quality of the investment decisions made by the fund manager.

v. **Tax Implications**
Depending on the jurisdiction, mutual fund distributions may be subject to capital gains tax, which can reduce the after-tax returns of the investment.

Similarities and differences between Single Premium Investment-linked Life Policies and the Unit Trust

Table 7-4 ***Similarities and Differences Between Single Premium Investment-Linked Life Policies and the Unit Trust***

Aspect	Single Premium Investment-Linked Life Policies	Unit Trust
Purpose	Combines investment and insurance protection	Typically used for investment purposes only
Investment Vehicle	Life insurance policy	Collective investment vehicle
Risk	Investment and insurance risk	Investment risk
Liquidity	May have minimum investment term and penalties for early withdrawals	Highly liquid
Tax Treatment	Depending on tax jurisdiction, may offer tax benefits in the form of tax-free withdrawals or death benefits	Depending on tax jurisdiction, returns may be subject to capital gains tax
Insurance Charge	Deducted from investment account	N/A
Top-Up	Possible	Possible

Fund Validation	Daily	Daily
Cost of Insurance	Deducted from investment account	N/A
Policy Fee	Deducted from investment account	N/A
Fund Switching	Allowed	Allowed
Sales Charge	May incur charges, varies by policy	May incur charges, varies by fund
Trustees	Insurance company acts as trustee	Independent trustees may be used, trustee charges may apply
Fund Management Fee	Charged by the insurance company	Charged by the fund management company
EPF Withdrawal	Not allowed	Possible, subject to EPF guidelines

7.2.5 EXCHANGE-TRADED FUNDS (ETFS)

ETFs are investment funds that trade on stock exchanges and typically track a specific index, such as a stock or bond index. They offer diversification and can provide exposure to various sectors, asset classes, and markets.

Pros:

i. **Diversification**
ETFs can provide instant diversification as they usually track a basket of securities, allowing investors to spread risk across various assets, sectors, or markets.

ii. **Cost Efficiency**
ETFs generally have lower expense ratios compared to actively managed funds, as they follow a passive investment strategy. This can result in lower costs for investors.

iii. **Liquidity**
ETFs trade on stock exchanges like individual stocks, making them highly liquid investments. Investors can easily buy and sell ETFs throughout the trading day.

iv. **Transparency**
ETFs are required to disclose their holdings daily, providing investors with transparency and allowing them to make informed investment decisions.

v. **Flexibility**
ETFs can be used in various investment strategies, such as hedging, income generation, or portfolio diversification. They also provide access to different asset classes, including stocks, bonds, commodities, and real estate.

Cons:

i. **Tracking Error**
While ETFs aim to track the performance of an index, they may not always replicate it perfectly. This tracking error can result in the ETF's performance differing from that of the underlying index.

ii. **Management Fees**
Although ETFs typically have lower fees than actively managed funds, they still charge management fees, which can eat into returns over time.

iii. **Limited Active Management**
Since ETFs are passively managed, they do not provide the potential for outperformance that active managers may offer in certain market conditions.

iv. **Market Risk**
Like other investments, ETFs are subject to market risk. Broader market factors can impact the performance of the ETF and the underlying securities it holds.

v. **Trading Costs**
While ETFs are generally cost-efficient, investors may still incur trading costs, such as brokerage fees and bid-ask spreads, when buying or selling ETFs on the stock exchange.

In summary, ETFs offer investors a convenient and cost-effective way to diversify their investment portfolios and gain exposure to various asset classes. However, they are not without risks and costs, and investors should carefully consider these factors before investing in ETFs.

7.2.6 REAL ESTATE INVESTMENT TRUSTS (REITS)

REITs are companies that own and manage income-generating real estate properties. By investing in REITs, investors can gain exposure to the property market and earn income through dividends.

Pros:

i. **Diversification**
REITs provide investors with exposure to the property market, adding another layer of diversification to their investment portfolios.

ii. **Income Generation**
REITs typically distribute a significant portion of their income to shareholders in the form of dividends, providing investors with a steady income stream.

iii. **Liquidity**
Unlike direct investments in real estate, which can be illiquid, REITs are traded on stock exchanges and offer better liquidity for investors.

iv. **Professional Management**
REITs are managed by professionals with expertise in the real estate sector, potentially improving the performance and efficiency of the properties held in the trust.

v. **Access to Large-Scale Properties**
REITs can invest in large commercial properties that may be out of reach for individual investors, such as shopping malls, office buildings, and industrial parks.

Cons:

i. **Market Risk**
REITs are subject to market risks, including fluctuations in property values, interest rates, and economic conditions, which can impact the performance of the trust.

ii. **Management Fees**
REITs charge management fees, which can reduce the overall returns for investors.

iii. **Limited Capital Growth**
Since REITs are required to distribute most of their income as dividends, they may have limited resources for reinvestment and capital growth.

iv. **Interest Rate Sensitivity**
REITs can be sensitive to interest rate changes, as higher interest rates can increase borrowing costs and negatively impact the performance of the trust.

v. **Concentration Risk**
Some REITs may have exposure to specific property types or geographic regions, which can increase concentration risk and make the REIT more susceptible to downturns in those specific markets.

In summary, REITs offer investors an opportunity to diversify their portfolios, and gain exposure to the property market. However, investors should be aware of the potential risks and costs associated with investing in REITs and consider them when making investment decisions.

7.2.7 SUKUK (ISLAMIC)

Sukuk are Shariah-compliant fixed-income securities that adhere to Islamic finance principles. They offer a way for Muslim investors to invest in fixed-income instruments without violating their religious beliefs.

Pros:

i. **Ethical Investing**

Sukuk adhere to Islamic finance principles, making them suitable for investors seeking ethical investments in line with their religious beliefs.

ii. **Diversification**
Sukuk provides investors with exposure to the Shariah-compliant fixed-income securities, adding diversification to their investment portfolios.

iii. **Stable Income**
Sukuk often provide regular income through profit-sharing or lease payments arrangements, providing investors with a steady income stream.

iv. **Lower Risk**
Compared to equities, sukuk are typically lower-risk investments, as they have a more predictable income stream.

v. **Growing Market**
The sukuk market has experienced growth and gained better acceptance among investors and issuers in recent years, providing investors with increased opportunities and improved secondary market liquidity.

Cons:

i. **Limited Availability**
Sukuk issuance may be limited in certain markets, which can restrict investment options for investors seeking Shariah-compliant fixed-income securities.

ii. **Liquidity Risk**
The secondary market for sukuk can be less liquid than conventional bonds, which may make it more challenging for investors to buy or sell sukuk when desired.

iii. **Currency Risk**
Some sukuk are denominated in foreign currencies, exposing investors to currency risk when converting their returns into their home currency.

iv. **Credit Risk**
As with any fixed-income investment, sukuk are subject to credit risk, where the issuer may default on their payment obligations.

v. **Regulatory Risk**
Changes in regulations and standards governing Islamic finance and sukuk issuance could potentially impact the sukuk market, affecting the performance of the sukuk.

In summary, sukuk offers Muslim investors an opportunity to invest in fixed-income instruments that align with their religious beliefs while providing diversification and income generation. However, investors should be aware of potential risks, such as limited availability, liquidity risk, and credit risk, and consider them when making investment decisions.

7.2.8 CASH & DEPOSITS

Cash and deposits refer to holding money in the form of physical cash or keeping funds in a checking or savings account at a financial institution, such as a bank. These types of accounts are considered low-risk and highly liquid, meaning the funds can be easily accessed whenever needed.

A **savings account** is a type of deposit account that allows individuals to deposit money and earn interest on their deposits. The interest rates on savings accounts are typically lower than those of other investment options, but they provide a safe and secure place to park money while still earning a small return.

Key features of cash, deposits, and savings accounts include:

i. **Safety**
Cash and deposits in savings accounts are generally considered to be very safe. Deposits placed with banks are often insured by government agencies up to a certain amount, providing a level of protection for depositors.

ii. **Liquidity**
Cash, deposits, and savings accounts are highly liquid, allowing individuals to access their funds easily and quickly whenever needed.

iii. **Low Returns**
The interest rates on savings accounts are typically lower than other investment options, reflecting their lower risk profile.

iv. **No Capital Appreciation**
Unlike investments such as stocks or real estate, cash and deposits do not experience capital appreciation. The value of cash holdings may be eroded over time due to inflation.

v. **Easy to Use**
Cash and deposit accounts are easy to manage and use for day-to-day transactions. Most banks provide online and mobile banking services, making it convenient for account holders to monitor their balances, transfer funds, and make payments.

In summary, cash, and deposits, including savings accounts, offer safety and liquidity but generally provide lower returns compared to other investment options. They are suitable for maintaining an emergency fund, short-term savings, or for individuals with a low tolerance for risk.

7.2.9 CAPITAL GUARANTEED FUNDS

Capital guaranteed funds are a type of investment product that aims to protect the initial capital invested by the investor while still providing a potential return on investment. The primary goal of these funds is to ensure that investors do not lose their principal amount, even in unfavourable market conditions. Capital guaranteed funds are often suitable for conservative investors or those with a low risk tolerance.

Pros:

i. **Capital Protection**
The primary advantage of capital guaranteed funds is that they ensure the investor's initial capital is protected, regardless of market fluctuations.

ii. **Potential Returns**
While the focus is on capital preservation, these funds still provide the opportunity to earn returns, often by investing in a mix of assets.

iii. **Reduced Risk**
Capital guaranteed funds are designed to minimize risk, making them suitable for conservative investors or those seeking to preserve their capital in volatile markets.

iv. **Diversification**
These funds may invest in a diversified portfolio of assets, such as bonds, stocks, or money market instruments, providing exposure to various sectors and asset classes.

Cons:

i. **Lower Returns**
Since the primary objective of capital guaranteed funds is to preserve capital, the potential returns are generally lower compared to more aggressive investment options.

ii. **Fees and Charges**
Capital guaranteed funds may have higher fees and charges compared to other investment products due to the complex strategies used to structure capital protection.

iii. **Limited Growth**
Investors seeking significant capital appreciation may find that capital guaranteed funds do not meet their long-term investment objectives.

iv. **Lock-In Periods**
Some capital guaranteed funds may have lock-in periods for which investments cannot be sold or redeemed or otherwise, subject to early withdrawal penalties

In summary, capital guaranteed funds offer a lower-risk investment option that prioritizes the protection of the investor's initial capital. While they may provide lower returns compared to other investments, they are an attractive choice for conservative investors seeking to preserve their principal amount.

7.2.10 SUMMARY TABLE OF THE DIFFERENT INVESTMENT VEHICLES FOR AN INVESTMENT-LINKED INSURANCE FUND

Table 7-5 ***Different Investment Vehicles for an Investment-Linked Insurance Fund***

Investment Vehicle	Risk Level	Potential Returns	Diversification (Single Investment)	Fees
Equities (Stocks)	High	High	No	Medium-High
Fixed Income Securities	Low-Medium	Low-Medium	No	Low-Medium
Money Market Instruments	Low	Low	No	Low
Mutual Funds (Unit Trusts)	Medium	Medium	Yes	Medium-High
Exchange-traded Funds (ETF)	Medium	Medium	Yes	Low-Medium
Real Estate Investment Trust (REIT)	High	High	Yes	Medium-High
Sukuk (Islamic)	Low-Medium	Low-Medium	No	Low-Medium
Cash & Deposit	Low	No/Low	No	Low
Capital Guaranteed Funds	Low-Medium	Low-Medium	Yes	Medium-High

It is important to note that the availability and specific details of these investment vehicles may vary depending on the insurance company and the investment-linked policy being offered. Before investing in an ILP, it is crucial to understand the underlying investment options and their associated risks to make an informed decision.

REVIEW QUESTIONS

1	*Why do guidelines require insurance companies to invest funds from an investment-linked insurance policy according to the objectives in the Fund Fact Sheet?*
	a. To provide the insurer flexibility in managing the funds across multiple products b. To ensure the investments align with policyholders' expectations c. To allow the insurer to maximize returns for policyholders over time d. To reduce administrative costs for the insurer

2	*What action must an insurance company take if it cannot achieve minimum required fund size during the initial offer period?*
	a. Continue the offer period until the minimum fund size is met b. Refund all policyholder payments with any interest or investment profits earned c. Adjust the fund's investment strategy to attract more investors d. Reduce the minimum fund size to avoid refunding policyholder payments

3	*Compared to government bond funds, corporate bond funds have*
	a. lower yields and lower risks b. higher yields and higher risks c. more or less similar yield and risk ratios d. a longer tenure

4	*Which of the following is a primary advantage of investing in money market instruments?*
	a. Protection against inflation risk b. High potential for capital appreciation c. Higher returns compared to equities and fixed income d. Stability with minimal fluctuations in value

5	*Which of the following is a key benefit of investing in Real Estate Investment Trusts (REITs)?*
	a. High capital growth through reinvestment of income b. Diversification through exposure to the property market c. Immunity from interest rate fluctuations d. Minimal management fees compared to other investments

6	*Which of the following accurately describes the similarities and differences between unit trusts and single premium investment-linked plans?* *I. Both unit trusts and single premium investment-linked plans have a similar investment approach* *II. Unit trusts do not include life insurance protection, whereas single premium investment-linked plans do* *III. Only single premium investment-linked plans impose insurance costs and policy fees due to the life protection element* *IV. A trustee is required for unit trusts, but this is not mandatory for single premium investment-linked plans*
	a. I, II and IV b. I, II, and III c. II, III and IV d. I and III

7	*What are the advantages of investing in equities?* *I. Potential to achieve capital growth through the capital appreciation and steady stream of dividend income* *II. Provide diversification benefits as policyholders' monies are invested in a wide range of companies and sectors* *III. Provide liquidity to investors as investors can quickly convert their shares into cash if needed* *IV. Provide geographical exposure thus able to average market risk*
	a. I and II b. I, II and III c. III and IV d. II, III and IV

8	*What are the characteristics of fixed-income securities?* *I. They comprise of government and corporate bonds* *II. They provide regular stream of interest income* *III. They have lower risk compared to equities* *IV. The interest payments are usually predictable than dividend income from equities*
	a. I and II b. II and III c. II, III and IV d. All of the above

9	*Please rank the sequence of the risk and return of the following investment vehicles from lower to higher.*
	a. Money Market Instruments, Fixed-Income Securities, Equities b. Equities, Fixed-Income Securities, Money Market Instruments c. Money Market Instruments, Equities and Fixed-Income Securities d. Fixed-Income Securities, Money Market Instruments, Equities

8

CHAPTER 8 COMMON TYPES OF INVESTMENT-LINKED FUNDS, POTENTIAL RISKS & FUND MANAGEMENT

8.1 INTRODUCTION

Investment-linked plans also involve investing a portion of policy owners' money in funds managed by professional fund managers. The investment mechanisms and features, as well as the main fund categories offered by investment-linked products, are like those of unit trust schemes.

Like unit trust schemes, investment-linked plans offer various types of funds, such as equity funds, fixed income funds, balanced funds, and Shariah-compliant funds, among others. Policy owners can choose to invest in one or more funds based on their investment objectives, risk tolerance, and financial goals.

Investment-linked plans differ from traditional life insurance plans in that they allow policy owners to link their insurance coverage to investment options. A portion of the policy owner's premiums is used to pay for life insurance coverage, while the rest is invested in the chosen funds.

The value of an investment-linked plan is directly linked to the performance of the funds selected by the policy owner. The policy owner assumes the investment risk, and the returns from the investment are not guaranteed. The value of the policy may fluctuate based on the performance of the selected funds.

It is important to review the terms and fees associated with any investment-linked plan before investing and consult with an agent or sales intermediaries to determine the best investment strategy based on investment objectives, risk tolerance, and financial goals.

Investment in the fund may subject to the following non-exhaustive list of risks.

8.1.1 DESCRIPTION OF RISKS

MARKET RISKS

Market risk refers to the risk of loss due to changes in underlying market risk factors such as, amongst others, interest rates movement, equity risk, currency risk, and commodity risk. The fund performance may be susceptible to fluctuations due to economic factors, as well as market sentiments, and may vary depending on the outcome of one or more market factors.

LIQUIDITY RISK

Liquidity risk refers to the risk of loss when the fund is unable to meet their obligations at the reasonable cost or at any time. It also refers to the risk that the investment cannot be traded quickly enough to prevent a loss.

CREDIT RISK

Credit risk refers to the risk of loss when the issuer of a security fails to make timely payments of interest or principal when payment is due.

INFLATION RISK

Inflation risk refers to the risk of loss when the fund did not generate income at a rate that keeps pace with inflation.

CURRENCY RISK

Currency risk refers to the risk of adverse movement in the currency exchange rates that result in the policyholder receiving lower return.

INTEREST RATE RISK

Interest rate risk refers to the risk of loss on the value of interest rate sensitive instruments, such as government bonds and corporate bonds when the interest rate fluctuates. In general, when interest rates rise, the value of bonds will fall.

8.2 CASH AND MONEY MARKETS FUNDS

Cash and money market funds are types of Investment Linked Funds (ILFs) that invest in short-term, low-risk debt securities such as term deposits, government bonds, treasury bills, and commercial paper. These funds are designed to provide policy owners with a low-risk investment option that offers higher returns than a traditional savings account.

Cash and money market funds can be further categorized into two types:

i. **Money Market Funds**
These funds invest primarily in short-term debt securities with a maturity of less than one year and are considered low-risk investments that provide policy owners with a steady stream of income through interest payments.

ii. **Cash Funds**
These funds invest in short-term debt securities and term deposits with a maturity of less than three months and are considered ultra-short-term investments that offer a high level of liquidity.

Cash and money market funds are suitable for policy owners who have a short investment horizon and want to minimize their exposure to market volatility. They are also ideal for those who want to park their excess cash reserves in a low-risk investment option that offers better returns than a traditional savings account.

8.3 FIXED INCOME FUNDS

Fixed income funds are a type of Investment Linked Fund (ILF) that invests primarily in fixed-income securities such as bonds, treasury bills, and other debt securities. These funds are considered low-risk, low-reward investments that provide policy owners with a steady stream of income through interest payments.

Fixed income funds are ideal for policy owners who prioritize capital preservation and income generation over high returns. They are also suitable for those who are risk-averse and want to minimize their exposure to volatile stock markets.

Fixed income funds can be further categorized based on the type of fixed-income securities they invest in, such as government bonds and corporate bonds. Each type of fixed income fund has its own level of risk and potential returns based on the credit quality and maturity of the underlying securities.

Policy owners can also choose between actively managed and passively managed fixed income funds. Actively managed funds have a fund manager who makes investment decisions based on market conditions and economic trends. In contrast, passively managed funds track a market index and require minimal portfolio management, resulting in lower fees.

8.4 EQUITY FUNDS

Equity funds are a type of Investment Linked Fund (ILF) that invest primarily in stocks and other equity-related instruments. These funds are considered high-risk, high-reward investments that provide investors with significant potential returns over the long term.

Equity funds can be further categorized based on the type of stocks they invest in, such as large-cap, mid-cap, or small-cap stocks. Each type of equity fund has its own level of risk and potential returns based on the market conditions and growth potential of the underlying stocks.

Policy owners can also choose between actively managed and passively managed equity funds. Actively managed funds have a fund manager who makes investment decisions based on market conditions and economic trends. In contrast, passively managed funds track a market index, such as the FTSE Bursa Malaysia KLCI, and require minimal management, resulting in lower fees.

Equity funds are suitable for policy owners who have a long investment horizon and are willing to accept higher risk for the potential of higher returns. They are also ideal for those who want to diversify their investment portfolio and take advantage of the growth potential of the stock market.

8.5 BALANCED FUNDS

Balanced funds are a type of managed investment fund that seek to provide policy owners with a balanced portfolio of different asset classes, such as equities, bonds, and cash. The fund manager will aim to invest in a mix of these asset classes to provide a balance between capital growth and income generation, with the goal of achieving a steady return over the long term.

Balanced funds are designed to appeal to policy owners who want a diversified investment portfolio but do not want to manage their own asset allocation.

The mix of asset classes can vary between different balanced funds based on fund mandate, with some funds investing primarily in equities and others investing more heavily in fixed-income securities.

Balanced funds may be suitable for policy owners who have a moderate risk tolerance and are looking for a well-diversified investment that provides a balance between capital growth and income. However, it is important for policy owners to carefully review the specific terms and conditions of any balanced fund they are considering, including the fees and expenses associated with the fund and the track record of the fund manager.

8.6 SPECIALISED FUNDS

Specialized funds are a type of managed investment fund that focus on a specific sector, theme, region, or asset class. These funds are designed with specific themes, sectors, or regions in mind, with the objective of capitalizing on growth opportunities and generating desired returns.

Examples of specialised funds include those focused on environmental, social and governance (ESG), technology, or specific geographical regions such as ASEAN, Asia Pacific, or emerging markets. These funds can provide policy owners with targeted exposure to specific market sectors or investment themes that may not be available through traditional balanced or equity funds.

However, it is important to note that specialised funds can carry higher risk due to their narrow focus and may be subject to greater volatility. Policy owners should carefully consider their investment goals and risk tolerance when considering specialized funds, as well as the fees and expenses associated with the fund and the track record of the fund manager. Additionally, specialised funds may not be suitable for all policy owners. It may be best used as a complement to a diversified investment portfolio rather than as a standalone investment.

8.7 PROPERTY FUNDS AND REITS

Property funds and Real Estate Investment Trusts (REITs) are both types of property-linked investment vehicles that allow policy owners to gain exposure to the real estate market.

Property funds are funds that invest primarily in property-related assets such as real estate properties, property development companies, and property management firms. These funds may also invest in other property-related investments such as mortgage-backed securities and asset-backed securities. Property funds can be actively or passively managed and may have different investment objectives such as income-generating or growth-oriented funds.

REITs, on the other hand, are a type of property-linked investment trust that invests primarily in income-generating real estate properties such as shopping centres, office buildings, and apartment complexes. REITs are publicly traded on stock exchanges, and investors can buy and sell shares like other stocks. REITs are traded on Bursa Malaysia like equities.

REITs typically distribute at least 90% of their taxable income to investors in the form of dividends, making them a popular option for income-oriented investors.

Both property funds and REITs offer policy owners exposure to the real estate market, but they have some differences. Property funds can invest in a wider range of property-related assets, whereas REITs invest primarily in income-generating real estate properties. Additionally, property funds may have different investment objectives and strategies compared to REITs.

8.8 SHARIAH-COMPLIANT FUNDS

Shariah-compliant funds are a type of specialized fund that follow Islamic finance principles and are compliant with Shariah law. These funds invest in securities that are screened via screening methodologies accepted by Shariah scholars to ensure they comply with Islamic principles. Activities that are generally considered non-compliant include gambling, alcohol, tobacco, and pornography, as well as avoiding conventional interest-based financial services.

Shariah compliant funds are designed to appeal to policy owners who want to invest in accordance with their religious beliefs and values, while still seeking to generate returns on their investment. These funds can invest in a variety of asset classes, including equities, bonds, and real estate, and may be actively managed by a professional fund manager.

In addition to meeting specific investment criteria, Shariah-compliant funds may also have specific requirements for how they are managed and administered. For example, these funds may have a Shariah advisory board that oversees investment decisions and ensures compliance with Islamic finance principles.

Policy owners should carefully review the specific terms and conditions of any Shariah-compliant fund they are considering, including the fees and expenses associated with the fund and the track record of the fund manager. Additionally, it is important to note that Shariah-compliant funds may not be suitable for all policy owners and may be subject to the same risks as other investment funds.

8.9 INDEX FUNDS

Index funds are a type of passive investment fund that seek to replicate the performance of a specific market index, such as the S&P 500 or the FTSE 100. Instead of actively managing a portfolio of securities, index funds invest in the same securities as the underlying index and in the same proportion as they are represented in the index.

Index funds are designed to provide policy owners with exposure to a broad market segment, such as a specific stock market or bond market, while offering low costs and relatively lower risk. Because they do not require active management, index funds typically have lower fees and expenses than actively managed funds while providing policy owners with a diversified portfolio of securities.

One of the main advantages of index funds is that they offer a passive investment strategy that can help policy owners achieve long-term investment goals. Additionally, index funds can be a useful tool for policy owners who want to minimize risk by diversifying their portfolio across a broad range of securities.

However, it is important to note that index funds may not be suitable for all policy owners and may not provide the potential for returns as high as actively managed funds that take on relatively more risk. Additionally, while index funds are designed to track the performance of a specific index, they may not perfectly replicate the index due to factors such as tracking error as well as fees and expenses. Policy owners should carefully consider their investment goals and risk tolerance when considering index funds, as well as the fees and expenses associated with the fund and the track record of the fund manager.

8.10 GLOBAL FUNDS

Global funds are a type of investment fund that invest in securities around the world, including developed and emerging markets. These funds offer policy owners the opportunity to gain exposure to a diverse range of economies and industries across the globe.

Global funds can invest in a variety of asset classes, including equities, bonds, and alternative investments such as real estate or commodities. These funds are managed by professional fund managers who make investment decisions based on the fund's investment objectives and the prevailing market conditions.

One of the key advantages of global funds is their potential to provide investors with a diversified portfolio of securities from different geographic regions and industries. This can help reduce overall investment risk and provide exposure to growth opportunities in different parts of the world. Additionally, global funds can be used to complement a domestic investment portfolio and provide exposure to international markets.

However, global funds may also carry risks associated with investing in different currencies, political instability in some regions, and other macroeconomic factors that can impact global markets. Policy owners should carefully consider their investment goals and risk tolerance when considering global funds, as well as the fees and expenses associated with the fund and the track record of the fund manager.

8.11 RISKS VS RETURNS OF INVESTMENT-LINKED FUNDS

Investment-linked funds (ILFs) are a type of investment that combines insurance coverage and investment opportunities. These funds may offer policy owners the potential for higher returns but also come with risks. Here are some of the key risks and returns associated with investment-linked funds.

Returns:

- **Potential for Higher Returns**
  Investment-linked funds may invest in a wide range of assets, including equities, fixed income securities, and alternative investments, which offer the potential for higher returns than traditional insurance products or savings plans.

- **Flexibility**
  Policy owners can choose from a range of investment options and can switch between funds if their investment objectives or risk tolerance change.

- **Tax Benefits**
  Depending on the jurisdiction, investment-linked funds may offer tax benefits such as death benefits to trust nominees or tax-free withdrawals.

Risks:

- **Market Risk**
  This is the risk that the value of the fund may fluctuate due to changes in market conditions, such as economic, political, or other events. Market risk is associated with the possibility that the value of the fund may decrease due to a decline in the prices of the assets held by the fund.

- **Liquidity Risk**
  This is the risk that a policy owner may not be able to buy or sell their investment in the fund at the desired time or price, due to a lack of market liquidity or other reasons. Liquidity risk is associated with the possibility that the fund may have difficulty meeting investor redemptions, leading to delays or restrictions on withdrawals.

- **Credit Risk**
  This is the risk that the fund may experience losses due to the failure of an issuer of the securities held by the fund meeting its interest or principal payments obligations. Credit risk is associated with the possibility of default by the issuer or a downgrade in the credit rating of the securities held by the fund.

- **Interest Rate Risk**
  This is the risk that the value of the fund may be affected by changes in interest rates. Interest rate risk is associated with the possibility that changes in interest rates may affect the value of fixed-income securities held by the fund.

- **Management Risk**
  The performance of an ILF depends on the investment decisions made by the fund manager. Poor investment decisions may lead to underperformance or losses.

8.12 INVESTMENT STRATEGY BY FUND MANAGERS

Investment-linked fund managers in Malaysia typically use a variety of investment strategies and approaches to manage their funds. Here are some of the common strategies and approaches used by investment-linked fund managers in Malaysia.

- **Asset Allocation**
  Investment-linked fund managers in Malaysia use asset allocation strategies to manage the risk and returns of their funds. They invest in a mix of equities, fixed income securities, and alternative assets such as commodities, real estate, and private equity, based on the investment objectives of the fund.

- **Active Management**
  Many investment-linked fund managers in Malaysia adopt an active management approach, where they actively buy and sell securities in response to changing market conditions. This involves conducting fundamental analysis, technical analysis, and market research to identify investment opportunities and risks.

- **Sector Rotation**
  Some investment-linked fund managers in Malaysia use a sector rotation strategy to invest in sectors that are expected to outperform the broader market. They may shift their investments to underweight or overweight certain sectors depending on changes in market conditions.

- **Growth and Value Investing**
  Investment-linked fund managers in Malaysia may adopt growth or value investing strategies, depending on the investment objectives of the fund. Growth investing involves investing in companies with strong growth potential, while value investing involves investing in undervalued stocks.

- **Index Tracking**
  Some investment-linked fund managers in Malaysia may use passive management strategies, where they invest in index-tracking funds that aim to replicate the performance of a particular market index, such as the FTSE Bursa Malaysia KLCI.

8.13 INVESTMENT APPROACH BY FUND MANAGERS

Investment-linked fund managers in Malaysia may use various investment approaches, here are some common strategies and approaches used by investment-linked fund managers in Malaysia.

- **Top-Down Approach**
  The top-down approach is a method of investment analysis that begins with an assessment of the broader macroeconomic and market conditions before drilling down to individual securities. Investment-linked fund managers in Malaysia may use this approach to identify trends, opportunities, and risks in the market and allocate investments accordingly.

- **Bottom-Up Approach**
  The bottom-up approach is a method of investment analysis that focuses on individual companies rather than broader market conditions. Investment-linked fund managers in Malaysia may use this approach to identify companies with strong financial fundamentals, competitive advantages, and growth potential.

- **Quantitative Approach**
  Investment-linked fund managers in Malaysia may use quantitative analysis to identify investment opportunities based on financial data and systematic statistical models. This approach involves using algorithms and mathematical models to analyse financial data and identify trends.

- **Fundamental Analysis**
  Investment-linked fund managers in Malaysia may use fundamental analysis to evaluate the financial health and growth potential of individual companies. This involves analysing financial statements, management quality, competitive position, and industry trends.

- **Technical Analysis**
  Investment-linked fund managers in Malaysia may use technical analysis to identify trends and patterns in market data, such as price and volume. This approach involves using charts and other tools to identify buy and sell signals.

REVIEW QUESTIONS

1	*Choose the correct statement(s)* I. *Investment-linked plans offer various types of funds, such as equity funds, fixed income funds, balanced funds, and Shariah-compliant funds, among others* II. *Policy owners can choose to invest in one or more funds based on their investment objectives, risk tolerance, and financial goals* III. *The value of an investment-linked plan is directly linked to the performance of the funds selected by the policy owner* IV. *The insurers assume the investment risk, and the returns from the investment are not guaranteed*
	a. II and III b. III and IV c. I, II and III d. II, III and IV

2	*Which of the following funds is considered a lowest -risk investment option?*
	a. Equity funds b. Fixed income funds c. Balanced funds d. Specialised funds

3	*What is the primary characteristic of index funds?*
	a. They offer the potential for higher returns b. They invest primarily in real estate properties c. They require active management by a fund manager d. They seek to replicate the performance of a specific market index

4	*Which type of fund restricts investments to those that align with specific ethical and religious guidelines?*
	a. Equity funds b. Fixed income funds c. Shariah-compliant funds d. Global funds

5	*Which fund category is suitable for investors who prioritize capital preservation and income generation?*
	a. Equity funds b. Fixed income funds c. Shariah-compliant funds d. Balanced funds

6	*Which of the following statements is true regarding property funds and REITs?* *I. Property funds invest in income-generating real estate properties* *II. Property funds invest in a wider range of property-related assets* *III. REITs are publicly traded on stock exchanges* *IV. REITs distribute 100% of their taxable income to investors in the form of dividends*
	a. I and IV b. II only c. II and III d. I, III and V

7	*Balanced funds aim to provide a balance between:*
	a. Capital growth and income generation b. High-risk and speculative investments c. Cash and liquid assets d. Short-term gains and high liquidity

8	*Which of the following is NOT a risk factor typically associated with investment-linked funds?*
	a. Market fluctuations b. Liquidity limitations c. Credit defaults d. Potential for higher returns

9	*Which statements describe global funds correctly?* *I. Invest in securities around the world, including developed and emerging markets* *II. Invest in a variety of asset classes, including equities, bonds, and alternative investments such as real estate or commodities* *III. Carry risks associated with investing in different currencies, political instability in some regions, and other macroeconomic factors* *IV. Provide averagely higher rate of return than all other funds*
	a. II and IV b. III and IV c. II, III and IV d. I, II and III

9

CHAPTER 9 PERTINENT GUIDELINES ON INVESTMENT- LINKED BUSINESS

Besides those pertinent points pertaining to the Investment-Linked Guidelines issued by Bank Negara (Ref. BNM/RH/PD 029-36) which came into effect on 13 February 2023 highlighted in some of the earlier chapters, some other points which are relevant to the knowledge of agents are:

9.1 MARKETING OF INVESTMENT-LINKED LIFE INSURANCE PRODUCT

As an agent, it is important to know that you must pass the Certificate Examination in Investment-Linked Life Insurance (CEILLI) conducted by the Asian Institute of Insurance to market investment-linked products. This is a requirement by the law and is enforced to ensure that only licensed persons with proper training and knowledge can market these products.

9.2 OBJECTIVE OF THE GUIDELINES

The guidelines set out requirements on insurers that are aimed to promote and maintain high corporate governance and professionalism, ensure professional and proper conduct in sales and marketing, and enhance product transparency and disclosure to protect the interests of policy owners/takaful participants.

The key changes in the guidelines include the implementation of Minimum Allocation Rates (MAR) to protect the account value of policy owners/takaful participants, standards for sustainability tests to ensure proper management of long-term persistency of investment-linked policy/takaful certificates, and enhancements to the product illustration format.

9.3 REQUIREMENTS OF THE GUIDELINES

To achieve the above objectives, this policy document sets out requirements on the following:

a. Approval to carry on investment-linked business;
b. Management of investment-linked funds;
c. Product design;
d. Fees, charges, and expenses;
e. Disclosure;
f. Investment; and
g. Valuation of asset and liabilities of investment-linked funds.

• Approval to Carry on Investment-Linked Business

Insurers who want to offer investment-linked products must apply to the Bank Negara Malaysia along with a business plan approved by their board.

The business plan must include information on governance structure, resources, risk management framework, and expected impact on the insurer's overall financial condition and business strategy.

• Management of Investment-Linked Funds

If an insurer wants to offer investment-linked products in Malaysia, they must have adequate systems, policies, and procedures in place to manage and administer the investment-linked funds in compliance with regulatory requirements.

They must ensure that the valuation of assets is fair and conducted on a timely basis, and that allocations, provisions, or deductions for expenses and charges are fair and in accordance with the terms and disclosures of the investment-linked policy.

The insurers must also manage the investment-linked funds in a manner that avoids unnecessary costs or risks to policy owners.

Any changes made to the management of investment-linked funds must be justified and supported by demonstrable benefit to the policy owners, and the policy owners must be notified in writing at least three months in advance of those changes taking place.

The insurer must seek Bank Negara Malaysia’s prior approval to close any investment-linked fund to new money or transfer the assets of any investment-linked fund to another fund.

• Product Design

Insurers offering investment-linked products in Malaysia must disclose information on the design of the product and its features in sales or marketing materials.

The name of the investment-linked products and funds must reflect the underlying investment strategy and volatility.

Any options and guarantees provided for the product must be clearly disclosed to policy owners/takaful participants, and capital guaranteed products must meet certain criteria.

Riders may be designed as unit deducting (UDR) or premium/contribution-paying (PPR) riders.

Any extension to the coverage term must be designed as an option or automatic extension, but not required at the point of sale.

No additional benefits or incentives may be offered to unduly influence the decision to extend the coverage term.

Policy owners/takaful participants must be provided with appropriate advice on managing the extension, and written consent must be obtained before deducting any charges for riders during a premium or takaful contribution holiday.

• Fees, Charges, And Expenses

Insurers must only charge expenses that are specifically incurred for the management of an investment-linked fund.

These include commissions, taxes, fees for auditors and valuers, custodian fees, and hedging costs.

General overheads should not be charged to the unit fund, and any rebates received should be credited to the fund.

Insurers must disclose all fees and charges in sales and marketing materials and investment-linked policy documents and give at least three months' notice before revising existing fees and charges.

Any changes to fees and charges must be justified and must not unduly disadvantage policyholders.

• Disclosure

The information provided should be in line with guidelines on transparency and disclosure and should be adequate for policy owners/takaful participants to make informed decisions.

Any statements made about investment-linked products should be reasonable, relevant, factual, suitably qualified, and verifiable.

Information must be accurate and up-to-date, and any misleading information must be immediately withdrawn.

Past performance figures must be based on actual historical performance and not unduly biased and must be supplemented by a warning that past performance is not indicative of future performance.

Investment-linked products must not be marketed with undue expectations based on projected returns, and illustrations must be provided to help policy owners/takaful participants understand the variability of outcomes.

Guarantees by third party guarantors must be disclosed, including the name and credit rating of the guarantor, the material terms and scope of the guarantee, and appropriate caution regarding counterparty risks.

Terms such as “whole life” and “Shariah-compliant” must not be used in a way that may be misleading or confusing to policy owners/takaful participants.

Commissions must be disclosed in a clear and transparent manner.

Electronic means can be used to provide information, but hard copies must be provided upon request.

• Investment

Ensure investment-linked funds are invested according to stated objectives and investment policy, and any performance benchmark used is aligned with the fund's strategy.

Newly established funds must be fully invested in accordance with objectives after the initial offer period, which must not exceed two months.

If minimum required fund size is not achieved, all payments must be refunded to policy owners/takaful participants with any interest/investment profits earned during the offer period.

• Valuation of Asset and Liabilities of Investment-linked Funds

Insurers must follow the accounting standards set by the Malaysian Accounting Standards Board (MASB) and the requirements in the policy documents on Financial Reporting.

These requirements ensure accurate valuation of assets in investment-linked funds.

- Investment-linked takaful funds value their assets daily based on market value.
- Unlisted securities and suspended listed securities must be valued within their fair value limits.
- Fair value determination for these assets is verified by the external auditor.

- Islamic debt instruments without an active market are valued using reliable and widely accepted techniques.

9.4 LIFE INSURANCE POLICY/FAMILY TAKAFUL CERTIFICATE DOCUMENTATION

Insurers must include the following minimum particulars in the life policy/family takaful certificate documentation:

- Description of benefits and how they are linked to the performance of the investment-linked funds.
- Objectives and investment strategies of the investment-linked funds.
- Allocation rates to purchase units in the investment-linked funds.
- Types, amounts, and methods of imposing charges.
- Methodologies used in calculating unit prices.
- Availability of options to vary death benefits and premiums/takaful contributions, switch funds, and take breaks from paying premiums/takaful contributions.
- Provisions that allow insurers to take certain actions, such as closing the fund to new money or changing the name of the fund, in the interests of policy owners/takaful participants Insurers may need to make changes due to regulatory requirements or other circumstances and may refund money contributed to a new unit fund if it fails to meet the minimum required fund size.

9.5 INVESTMENT LIMITS

As an agent selling investment-linked products, you should be aware that there are limits on how much of the fund can be invested in a single issuer or group of related issuers. The maximum investment in equity of any single issuer is 10% of the fund's net asset value, and the maximum investment in securities, over-the-counter derivatives, and structured products of any single issuer or group of related issuers is 25% of the fund's NAV. There are also limits on investments in unlisted securities, structured products, and collective investment schemes.

- There are exceptions to these limits for certain funds, such as those that aim to track or replicate an index fully or those offered as capital guaranteed products.
- The investment-linked product can also participate in derivatives contracts subject to certain requirements, and the total investments in foreign assets must comply with foreign exchange rules.
- If the insurer provides seed money to assist in the start-up of an investment-linked fund, they must have a clear exit strategy and assess and manage the risk. For takaful operators, there are additional requirements related to providing seed money in compliance with Shariah requirements.

9.6 VALUATION OF ASSETS FOR INVESTMENT-LINKED TAKAFUL FUNDS

As an agent, it is important to know that a licensed takaful operator must value the assets of an investment-linked takaful fund at market value daily.

The takaful operator must also ensure that the values of unlisted securities and listed securities that have been suspended from trading for 14 or more consecutive days do not exceed their fair value.

The fair value must be determined using disclosed and verified techniques, and for Islamic debt instruments with no active market, reliable valuation techniques must be used.

9.7 USE OF DERIVATIVES

An insurer may use derivatives for hedging risk exposures of an investment-linked fund or for yield enhancement with prior written approval from the Bank Negara Malaysia. To use derivatives for yield enhancement, the insurer must apply to the Bank Negara Malaysia. before selling the investment-linked product. The application should include information on the choice of derivative instruments, counterparty credit rating, risk mitigation, and internal risk management system.

For takaful operators, derivative activities must comply with Shariah principles and use approved structures such as 'urbun (deposit), hamish jiddiyyah (security deposit), and wa'd (undertaking).

REVIEW QUESTIONS

1	*Why is it important for agents and sales intermediaries to pass the Certificate Examination in Investment-Linked Life Insurance (CEILLI) before they can market investment-linked products?*
	a. To ensure they can be productive in their sales career b. To increase their opportunity to upsell and cross-sell more products c. To be equipped with knowledge of ethical sales practices and needs analysis d. To ensure that only licensed persons with proper training can market these products

2	*What is the objective of the Investment-Linked Guidelines issued by Bank Negara Malaysia?* *I. To promote and maintain high corporate governance and professionalism* *II. To ensure professional and proper conduct in sales and marketing* *III. To maximize returns for policy owners/takaful participants* *IV. To enhance product transparency and disclosure to protect the interests of policy owners/takaful participants.*
	a. I and II b. I, II and III c. I, II and IV d. II, III and IV

3	*According to the Investment-Linked Guidelines, Bank Negara Malaysia, what are the objectives of the Minimum Allocation Rates (MAR) implementation?* *I. To protect the account value of policy owners/takaful participants* *II. To prescribe the standards for sustainability tests to ensure proper management of long-term persistency of investment-linked policy/takaful certificates* *III. To enhance the product illustration format* *IV. To optimise return for policy owners/takaful participants and profit for insurers*
	a. II, III and IV b. I, III and IV c. I, II and IV d. I, II and III

4	*According to the Investment-Linked Guidelines, Bank Negara Malaysia, insurers offering investment-linked products must disclose information about the product's design, including:* *I. The name of the product and funds must reflect the underlying investment strategy* *II. Any options and guarantees provided for the product* *III. Whether the product is whole life or term life insurance* *IV. The commission structure for agents selling the product*
	a. I and III b. I and II c. I, II and III d. All of above

5	*Insurers are required to provide policy owners/takaful participants with appropriate advice on managing the extension of coverage. What consent is required before deducting any charges for riders during a premium or takaful contribution holiday?*
	a. Verbal consent b. Written consent c. No consent is required d. Consent from the agent

6	*Insurers must disclose all fees and charges in sales and marketing materials and investment-linked policy documents. What is the duration of notice that must be given before revising existing fees and charges?*
	a. One month b. Two months c. Three months d. Six months

7	*Insurers must only charge expenses that are specifically incurred for the management of an investment-linked fund including;* *I. Commissions, taxes, fees for auditors and valuers* *II. Custodian fees, and hedging costs* *III. General overheads* *IV. Investment in system to enhance company operations*
	a. I and II b. III and III c. I, II and III d. All the above

8	*How often must a licensed takaful operator value the assets of an investment-linked takaful fund?*
	a. Weekly b. Monthly c. Annually d. Daily

9	*What must an insurer consider when providing seed money to assist in the start-up of an investment-linked fund?*
	a. The insurer must ensure there is an exit strategy to manage its risk exposure b. The insurer must provide liquidity for policyholders to withdraw funds c. The insurer must limit investment in foreign assets d. The insurer must ensure the fund maintains sufficient liquidity to support policyholder transactions

ANSWERS TO REVIEW QUESTIONS

Chapter 1

1. (c)
2. (d)
3. (d)
4. (a)
5. (d)

Chapter 2

1. (c)
2. (b)
3. (a)
4. (d)
5. (c)
6. (d)
7. (b)
8. (d)
9. (b)
10. (d)

Chapter 3

1. (c)
2. (a)
3. (d)
4. (a)
5. (b)
6. (b)
7. (a)
8. (d)
9. (d)
10. (c)

Chapter 4

1. (b)
2. (c)
3. (d)
4. (b)
5. (b)
6. (a)
7. (d)
8. (a)
9. (c)
10. (a)

Chapter 5

1. (c)
2. (d)
3. (b)
4. (b)
5. (b)
6. (a)
7. (b)
8. (c)
9. (c)
10. (d)

Chapter 6

1. (b)
2. (b)
3. (d)
4. (a)
5. (c)
6. (b)
7. (a)
8. (a)
9. (d)
10. (b)

Chapter 7

1. (b)
2. (b)
3. (b)
4. (d)
5. (b)
6. (c)
7. (b)
8. (d)
9. (a)

Chapter 8

1. (c)
2. (b)
3. (d)
4. (c)
5. (b)
6. (c)
7. (a)
8. (d)
9. (d)

Chapter 9

1. (d)
2. (c)
3. (d)
4. (b)
5. (b)
6. (c)
7. (a)
8. (d)
9. (a)

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CERTIFICATE EXAMINATION IN
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