

## **GUIDELINES ON PROPER ADVICE PRACTICES FOR LIFE INSURANCE BUSINESS**

### **Introduction**

- As the insurance industry has a significant role in the financial system and economy, an important area of focus is ensuring best standards of service to consumers. The development of a wide range of products, from the basic risk protection to the more sophisticated financial planning products for retirement and asset accumulation, to meet the needs of consumers has become increasingly more challenging. Clearly, the spectrum of insurance coverage required by a better educated population is different from that of a decade ago. In this context, insurers including intermediaries need to continuously improve and upgrade their range and quality of services to consumers.
- For a large number of consumers, making right decisions in the purchase of a life insurance policy is not an easy task. Life insurance products are generally complex. Therefore, it is important for consumers to have access to relevant and meaningful information, to receive proper advice in assessing their insurance requirements, and be well informed about their rights and obligations prior to making any decisions on the purchase.
- While there is no doubt that the majority of the agency force in the industry advocate high standards in their sales practices, there are some whose practices continue to create adverse public perception. This is reflected by the types of complaints received culminating from the misconduct of life insurance agents involving misrepresentation of policy benefits, inability to highlight clearly the product features and inducing consumers to purchase policies that are not compatible to their needs, resulting in early lapses. Public perception and trust are fundamental to the future growth of the life insurance industry. The agency force in particular, can improve further, consumer perception of the insurance sector by adopting and practising professional and ethical standards. With increased professionalism, public confidence in the insurance industry will be enhanced.
- Bank Negara Malaysia has formulated a framework on proper advice practices for life insurance business to ensure that intermediaries make greater efforts to effectively evaluate the insurance requirements of consumers. The Guidelines set the minimum standards for proper advice as well as a structured process for selling life insurance products. Under the Guidelines, intermediaries must obtain sufficient information about the prospective policy owner before rendering appropriate advice on the suitability of a particular insurance product. This requirement will also help consumers understand clearly what product or service best meet their needs. Professional service to consumers will lead to lower policy lapsation rates.

### **The Guidelines**

The Guidelines aim to further improve insurer, intermediary and consumer relationships, and strengthen consumer protection and public confidence in the insurance industry. The objectives are to:-

- protect policy owners' interests by ensuring that they are in a position to make an informed choice when purchasing life insurance products;
- facilitate consistent and orderly sales practice/process of life insurance products;
- ensure that life insurers and their intermediaries enhance the quality and maintain a high standard of professionalism in life insurance sales; and
- minimise the instances of mis-selling of life insurance policies and ensure that the life policies sold are appropriate to the needs of the policy owners.

## Components of Proper Advice Practices

The Guidelines outline a structured sales process that an intermediary is required to follow when advising and selling a life insurance product, as follows:-

- i. disclosure of the intermediary's status;
- ii. fact-find on the prospective policy owner;
- iii. analysis of the financial needs and objectives of the prospective policy owner; and
- iv. product recommendations and record of advice.

### I. Disclosure of Intermediary's Status

At the earliest reasonable opportunity, the intermediary should provide a written disclosure to the prospective policy owner on the intermediary's personal details, the insurer that the intermediary represents and the range of products the intermediary is allowed to sell. The disclosure of the intermediary's status to a prospective policy owner will give an indication of the range of advice being offered, the range of products that the intermediary is allowed to sell, as well as the number of insurers that the intermediary represents.

### II. Fact-find on the Prospective Policy Owner

An intermediary should obtain sufficient information about his or her prospective policy owner before giving advice or concluding an insurance contract. This process is commonly referred to as a fact-find. The fact-find on the prospective policy owner should provide an analysis of the prospective policy owner's personal and financial circumstances leading to clear identification of his or her financial needs and priorities so that a suitable and affordable life insurance product can be recommended by the intermediary. The information obtained during the fact-finding process is confidential and is strictly for the purpose of determining the needs of the prospective consumer.

### III. Financial Needs Analysis

The objective of the financial needs analysis process is to ensure that the products recommended are suitable to the consumer. Given the information arising from the fact-find, the intermediary will conduct a financial analysis which could cover income protection, provision for retirement, children's education and savings and investment plans.

### IV. Product Recommendations and Record of Advice

The intermediary should analyse the information provided by the prospective policy owner before recommending the purchase of life insurance products. The intermediary should provide enough information and assistance so that the prospective policy owner can make an informed decision before he or she makes a final commitment to buy a life insurance policy. The intermediary should also demonstrate that the advice given is suitable to meet the needs of the policy owner and the policy is affordable to the prospective policy owner. It should prevent the prospective policy owner from making a commitment that is not beneficial in the long run.

In cases where the intermediary cannot match the needs of a prospective policy owner with appropriate life insurance products, the intermediary has a duty to explain the differences in the products that he or she can offer vis-à-vis the needs of the prospective policy owner. The product recommendations to a prospective policy owner should be recorded in the record of advice section of the 'Customer Fact-Find' (CFF) form. The CFF contains the types of products identified as suitable and why they are likely to satisfy the prospective policy owners' financial needs and objectives. After the purchase of the life insurance product, the insurer will issue a 'Confirmation of Advice' (CA) to the policy owners together with the life insurance policy. The CA contains a summary of the fact-find, product recommendation and key features of the insurance product.