

GUIDELINES ON PERMISSIBLE LIFE INSURANCE BUSINESS WITH HIGH NET-WORTH MALAYSIAN INDIVIDUALS

1.0 Introduction

- 1.1 Labuan life insurers licensed under the Labuan Financial Services and Securities Act 2010 (LFSSA) are allowed to sell life insurance policies including investment-linked insurance denominated in foreign currency (life insurance business) to high net-worth Malaysian individuals.
- 1.2 The issuance of this Guidelines is aimed to consolidate the requirements pertaining to permissible Malaysian life insurance business into a single reference document so as to provide better clarity.

2.0 Definition

- 2.1 For the purpose of this Guidelines, a high net-worth Malaysian individual is defined as follows:
 - (i) For single premium life policy, a Malaysian resident who spends not less than the equivalent of RM20,000 in any foreign currency on such policy in Labuan; and
 - (ii) For annual premium life policy, a Malaysian resident who spends not less than the equivalent of RM15,000 in any foreign currency on such policy in Labuan.

3.0 Applicability

- 3.1 The Guidelines is applicable to all Labuan life insurers and insurance brokers dealing with high net-worth Malaysian individuals for life policies denominated in foreign currency.

4.0 Legal Provision

- 4.1 The Guidelines is issued pursuant to Section 4A of the Labuan Financial Services Authority Act 1996 (LFSAA) to clarify the requirements on the offering of the life insurance policies by Labuan life insurers to high net-worth Malaysian individuals.
- 4.2 Any person who fails to comply with the Guidelines commits an offence upon which Labuan FSA may undertake appropriate enforcement action to the extent provided by the law.

5.0 Effective Date

- 5.1 This Guidelines have consolidated all the prevailing requirements under the following previously issued Guidelines/circulars but retained the effective dates of the original policy documents:
- (i) The Guideline on High Net-Worth Malaysians for Offshore Insurance Purpose dated 18 December 1997;
 - (ii) Marketing Channels for Direct Insurance of Permitted Malaysian Risks (Circular no.: 2000/1/INS) dated 7 December 2000;
 - (iii) The Guidelines on High Net-Worth Malaysian for Offshore Insurance Purposes (Circular No.:16/2002/LIIA/ALTC) dated 23 April 2002;
 - (iv) Purchase of Investment-Linked Products by Malaysian Residents from Licensed Offshore Life Insurers in Labuan (Circular No.:27/2003/ALL) dated 11 April 2003;
 - (v) Sales of Investment-Linked Products by Offshore Life Insurers in the Labuan IOFC (Circular No.:57/2004/ALL) dated 2 August 2004;
 - (vi) Liberalisation of the Foreign Exchange Administration Rules (Circular No.:72/2005/ALL) dated 12 April 2005;
 - (vii) Sales of Investment-Linked Policies to High Net-Worth Malaysian Individuals (Circular No.:92/2007/LIIA/ALTC) dated 21 November 2007; and
 - (viii) Use of Onshore Licensed Institutions as Distribution Channel by Labuan Insurance Companies (Circular no.: 101/2009/LIIA/ALTC) dated 18 June 2009.
- 5.2 With the issuance of this Guidelines, the past Guidelines/circulars listed in paragraph 5.1(i) to 5.1 (viii) have been hereby withdrawn and superseded.
- 5.3 The removal of the following requirements shall take effect immediately:
- (i) Commission limits for engagements of Malaysian banking institution, financial adviser and insurance broker by Labuan life insurers; and
 - (ii) Submission of monthly reporting to Central Bank of Malaysia (BNM) by Labuan life insurers.

6.0 Eligibility Criteria

- 6.1 A Labuan life insurer is required to comply with the following eligibility criteria in order to underwrite the permitted Malaysian life insurance business:
- (i) Licensed under the LFSSA to carry on life insurance business;
 - (ii) Establish a presence in Labuan or Malaysia pursuant to section 103(1)(e) of LFSSA and the Guideline on Co-location of Labuan Insurance and Takaful Licensee; and
 - (iii) Be a member of the Malaysian Insurance Institute (MII).
- 6.2 The high net-worth Malaysian individuals shall comply with the Foreign Exchange Administration rules issued by BNM with regard to the purchase of investment-linked products offered by Labuan life insurers.
- 6.3 Notwithstanding the above, Labuan FSA reserves the right to withdraw the approval to access the Malaysian insurance market at any time should the Labuan life insurers fail to comply with any of the regulatory or operating requirements set within this Guidelines and any other requirements as may be required by Labuan FSA from time to time.

7.0 Marketing and Distribution Channels

- 7.1 Labuan life insurers are allowed to utilise the following marketing and distribution channels to sell life insurance policies denominated in foreign currency (life insurance policies) to high net-worth Malaysian individuals:
- (i) Marketing or Co-located Offices

Labuan life insurers are allowed to sell life insurance policies to high net-worth Malaysian individuals through their marketing or co-located offices in Malaysia.
 - (ii) Labuan Insurance Brokers

Labuan insurance brokers licensed under the LFSSA are allowed to market life insurance policies of Labuan life insurers licensed under the LFSSA to high net-worth Malaysian individuals.
 - (iii) Tie-up with Malaysian banking institution
 - a) Labuan life insurers are allowed to have tie-up with one Malaysian banking institution licensed under the Financial Services Act 2013 (FSA 2013) subject to any requirements as may be specified by Bank Negara Malaysia (BNM).

b) Pursuant to Section 29 of the FSA 2013, the banking institution concerned is required to obtain prior written approval from BNM before entering into such arrangement with Labuan life insurer.

(iv) Engagement of Malaysian financial advisers and insurance brokers

Labuan life insurers are allowed to engage financial advisers and insurance brokers licensed under the FSA 2013 to sell life insurance policies to high net-worth Malaysian resident individuals subject to any requirements as may be specified by BNM.

7.2 Conditions for using Malaysian distribution channels

- (i) The employees of the Malaysian distribution channels engaged in sales or servicing, of the Labuan life insurers' products shall be on a full time basis and possess the minimum insurance qualifications as life agents registered with Life Insurance Association of Malaysia.
- (ii) In addition, the employees of the Malaysian distribution channels engaged in sales or servicing of investment-linked products are also required to pass the Examination in Investment-Linked Life Insurance conducted by the MII.
- (iii) Any contract between a Labuan life insurer and a Malaysian banking institution/financial adviser/insurance broker shall include a provision for the flexibility for changes in the event of any revision to the current policy and commission limits.

7.3 Labuan life insurers are not allowed to utilise the Malaysian agency force or appoint agents in Malaysia to market their products to high net-worth Malaysian individuals.

8.0 Prudential and Disclosure Requirement for Foreign-currency Denominated (FX) Education and Investment-linked Policies

8.1 Labuan life insurers that solicit investment-linked policies with high net-worth Malaysian individuals are subjected to the prudential and disclosure requirements set out by BNM as follows:

- (i) Separate funds shall be established for FX policies within the ordinary life and investment-linked funds as applicable.
- (ii) Liabilities and underlying assets shall be currency-matched for each product line offered. Where products are offered in more than one currency, the assets should be matched to the predominant currency(ies).
- (iii) Investment strategies supporting the FX funds shall be consistent with the general prudential principles of diversification, liquidity and dealings with creditworthy counter-parties.

- (iv) Adequate disclosures shall be provided to policy holders in the marketing materials to draw attention to the foreign investment exposures underlying the policies. This should include information on the nature of foreign investments (including details on the jurisdiction, investment instruments and sectors/industries in which the funds will be invested) and a description of the major investment risks faced by policy holders.¹

9.0 Reporting Requirement

9.1 Labuan life insurers transacting with Malaysian high net-worth individuals are required to submit to the Industry Reporting Unit of Labuan FSA, the following:

- (i) Periodical reporting on the total number of life policies transacted with high net-worth Malaysian individuals, the amount assured and the premium submitted via the Statistical Management System; and
- (ii) Other statistical information as may be required by Labuan FSA from time to time.

10.0 Enquiries

10.1 Any enquiries or clarification may be directed to the following contact details:

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Labuan Financial Services Authority

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¹ E.g. Policy holders of a fund that have investments in an investment-linked UK FTSE tracker fund will be subject to movements in both the RM-Pound Sterling exchange rate as well as values of the shares composing the FTSE 100 Index.