

## Further clarification to FAQ for Implementation of Phased Liberalisation pursuant to BNM/RH/PD 029-8 on Phased Liberalisation of Motor and Fire Tariffs (Policy Document)

Date: 23 June 2017

### A. Remaining on Tariff rates post 1 July 2017

#### 1. Are licensed persons allowed to remain on the Tariff for Motor Comprehensive and Third Party Fire and Theft products post 1 July 2017, due to various reasons (e.g. strategic/ business decision, system readiness and lack of pricing capability)?

There is a difference between remaining on the Tariff and adopting the Tariff rates as the new rates. Only a few licensed persons have been granted an explicit approval by the Bank to remain on the Tariff, under circumstances which are very specific and permanent in nature, for example sale of business, merger and acquisition and surrender of license. The licensed persons which have been granted such approval to remain on the Tariff are bound by all the rules and requirements of the Tariff and are not allowed to apply any flexibility provided under the Policy Document. These licensed persons shall quote the premium or takaful contribution rates based on the disclosure format under the Tariff, i.e. to clearly state the "Tariff Premium/ Takaful Contribution" and "Loading" where applicable.

Other licensed persons may adopt the Tariff rates as their new rates post 1 July 2017. These rates shall be deemed as the "risk-based price" chosen by the licensed persons and shall no longer be referred to as the Tariff rates and loadings. When quoting the premium or takaful contribution rates, the "risk-based price" inclusive of any adjustments, i.e. any loadings and/or discounts shall be disclosed as a single amount under "Basic Premium/ Takaful Contribution" as per the revised disclosure format specified in Appendix 2 of Policy Document. There shall not be a separate "Loading" item in the quotation.

Licensed persons are required to ensure that the internal processes and systems are ready as soon as possible to comply with the requirements in the Policy Document, including having proper internal governance over the product development and pricing as well as ensuring fair business practices and adequate disclosure.

### B. Deviation of new premium or takaful contribution rates from the rates applicable on 30 June 2016

#### 2. In computing the deviation of new premium or takaful contribution rates from the Tariff rates that are applicable on 30 June 2016 for the purpose of paragraph 9.1(b) of the Policy Document, how do the licensed persons determine the reference rates that are applicable on 30 June 2016? Should the reference rates include or exclude loadings?

For the purpose of paragraph 9.1(b) of the Policy Document, the deviation of new premium or takaful contribution rates from the rates that are applicable on 30 June 2016 shall be computed for each individual policy as follows:

$$\text{Deviation of rate} = \frac{\text{New rate}}{\text{Reference rate}} - 1 \quad \text{where;}$$

- New rate = New premium or takaful contribution rate charged post 1 July 2017 for a policy based on the current risk profile of the policyholder, including any adjustments

(loadings and discounts), No Claim Discount (NCD) entitlement, GST and stamp duty; and

- Reference rate = Premium or takaful contribution rate that would have been charged for the policy using the rates (and actual loadings) applicable on 30 June 2016, but based on the current risk profile of the policyholder, including the actual loadings, NCD entitlement, GST and stamp duty.

Licensed persons shall not apply the maximum permitted loading under the Tariff across all policies when computing the deviation of rate because not all individual policies have or would have been subjected to the maximum loadings on 30 June 2016 and by doing so, the changes in premium or takaful contribution rates for some policies will be underestimated.

The deviation of rate shall be computed separately for each Motor covers including Comprehensive, Third Party Fire and Theft and optional add-ons covers.

If the deviation of rate is more than 10%, licensed persons are required to submit the new rates for approval of the Bank prior to implementing the new rates. The submission for the rates revision shall be justified by data and risk analysis based on the loss experience of the licensed person or external data.

- 3. Assuming that we do not charge any loading currently for a specific vehicle model and distribution channel due to business relationship. However, under the liberalised environment, we intend to charge a loading of 25% as allowed under the Tariff. Is this permissible?**

Licensed persons are required to compute the reference rates based on the loading structure as at 30 June 2016. If the licensed person did not charge any loading as at 30 June 2016, the reference rate used to calculate the deviation shall not include any loading.

- 4. My company has difficulty in tracking and applying the actual loadings that have been charged on individual policies for the calculation of the reference rates as we have not applied the permitted loadings consistently across the board prior to 1 July 2017. What can we do?**

Where loadings have not been consistently applied in the past practice, licensed persons shall exercise prudence in determining the amount of loading to be included in the reference rates for the computation of the deviation of rates. The amount of loading used for the reference rates shall be representative of the actual loading charged for the vast majority of the policies in the licensed person's portfolio. Otherwise, the licensed person shall take the smallest actual loading applied for computing the upward deviation and the smallest discount applied for computing the downward deviation.

### **C. Adjustments to premium or takaful contribution rates**

- 5. Item 12 of the FAQ issued on 21 June 2017 states that any adjustments (loadings and discounts) to the premium or takaful contribution rates should be fixed at the risk group level, and must not be applied on discretionary or per-customer basis. What does this requirement imply?**

Adjustments, i.e. any loadings and/or discounts, may be applied to the premium or takaful contribution rates based on risk-based and/or non-risk based factors. The application of these adjustments shall be guided by specific criteria as well as approved limits and authority levels that must be clearly defined and documented in the licensed persons' pricing policy. Such

adjustments must be applied on a non-discretionary basis, i.e. consistently to all customers or identified risk groups who meet the specified criteria.

All adjustments (loadings and discounts) shall be included in the computation of the deviation of new premium/ takaful contribution rates from the Tariff rates for the purpose of paragraph 9.1(b) of the Policy Document. If the deviation of rate is more than 10%, licensed persons are required to submit the new rates for approval of the Bank prior to implementing the new rates.

**Examples of adjustments**

Scenario	Allowable?
a) Can flexibility be given to certain personnel (e.g. agents, franchise, underwriters) to apply discretion in giving discounts and/or waiving loadings for business retention or competitive reasons?	No. Any adjustments (loadings and discounts) must be guided by specific criteria, clearly defined and documented in the pricing policy, and applied consistently to all customers who meet the criteria.
b) Can additional discount be given to staff on top of the 10% rebate on commission?	Yes, provided that the discount for staff is clearly defined and documented in the pricing policy, and applied consistently to all staff of the licensed persons.
c) Can premium or takaful contribution rates be differentiated by distribution channels (e.g. franchise and non-franchise)?	Yes, provided that such criteria is clearly defined and documented in the pricing policy, and applied consistently to the customers in the same distribution channel.

**6. In view that certain rating factors cannot be modelled by the pricing model, how can licensed persons use these rating factors to derive the final premium or takaful contribution rates?**

Licensed persons may apply adjustments to the technical rates calculated by the pricing model, through loadings and/or discounts, in order to reflect the rating factors that cannot be modelled by the pricing model.

Similar to above, these adjustments must be guided by specific criteria, clearly defined and documented in the licensed persons' pricing policy, and applied consistently to all customers who meet the criteria (not on discretionary or per-customer basis).

**D. Submission requirements**

**7. How should company prepare the product documentation for revision of premium or takaful contribution rates for Comprehensive and Third Party Fire and Theft products?**

Licensed persons shall prepare the product documentation and provide the information required by each section of the product documentation (where applicable) as outlined in Appendix 1 of the Policy Document and item 13 of the FAQ for both new motor products and revision of premium of takaful contribution rates for Comprehensive and Third Party Fire and Theft products.

**8. Are licensed persons required to submit a complete product documentation or an addendum for subsequent changes to a motor product?**

Where the original submission meets the requirement for the Bank's approval, any subsequent changes to the product documentation or its supporting documents will require approval of the Bank. In determining whether a new product documentation is required or an addendum to the original product documentation is sufficient for the submission, licensed person may be guided by paragraph 13.13 of the policy document on Introduction of New Products by Insurers and Takaful Operators which states that licensed person must submit a new product documentation instead of an addendum if the features of the product have changed materially since the original submission.

**9. Is the prior approval of the Bank required for subsequent changes to the range of deviation of premium or takaful contribution rates from the Tariff?**

Any change in the premium or takaful contribution rates that results in a range of deviation of more than 10% from the Tariff (for any one risk) requires the approval of the Bank. The following table summarizes the applicability of the requirement for approval of premium or takaful contribution rate revision:-

<b>Previous range of deviation from the Tariff</b>	<b>Subsequent range of deviation from the Tariff</b>	<b>Requires the Bank's approval</b>
Within $\pm 10\%$ (e.g. 6% deviation)	Within $\pm 10\%$ (e.g. 8% deviation)	No
	Beyond $\pm 10\%$ (e.g. 12% deviation)	Yes
Beyond $\pm 10\%$ (e.g. 15% deviation)	Within $\pm 10\%$ (e.g. 8% deviation)	No, notification to the Bank is sufficient
	Beyond $\pm 10\%$ (e.g. 12% deviation)	Yes

**10. For a new motor product with both Tariff and non-Tariff cover, how should the 10% threshold in paragraph 11.5(e) be tested as there is no comparable Tariff cover for the non-Tariff cover?**

For such new product, the test for 10% deviation of rate shall be made with most comparable product or cover defined under the Tariff. For example, for a new motor product consisting of Comprehensive cover packaged together with an add-on cover which is not defined under the Tariff, the reference rates from which the 10% deviation is computed shall be the rates for the Comprehensive cover as at 30 June 2016.

The new premium or takaful contribution rates used in the test for deviation shall be the premium or takaful contribution rates for the new product as a whole (i.e. not limited to Tariff components), inclusive of the premium or takaful contribution rates for the additional features or components in the new product.

**11. How should the highest and lowest possible premium or takaful contribution rates charged for a product be illustrated in the table of model points required under paragraph 15(a) of Appendix 1 of the Policy Document?**

The illustration of the highest and lowest possible premium or takaful contribution rates shall reflect the risk appetite of the licensed person (such as maximum and minimum limits on sum insured), include all combinations of rating factors and assumptions used for pricing the product and all adjustments (loadings and discounts) to the premium or takaful contribution

rates. Where there is no explicit limit to the possible premium or takaful contribution rates charged for a product, licensed persons may determine the highest and lowest possible premium or takaful contribution rates based on its in-force business.

Licensed persons shall ensure that the actual premium or takaful contribution rates charged to any customer do not, at any time, fall outside the range of minimum and maximum rates specified in the tables of model points submitted to the Bank.

## **E. Disclosure requirements**

### **12. Is a licensed person required to disclose the new premium or takaful contribution for a motor product in the renewal notice?**

A licensed person should disclose the new premium or takaful contribution in the renewal notice unless it requires additional information about the customer before a binding quote can be provided and/or expect the customer's circumstances to have changed during the course of holding the policy. In such cases, the licensed person must provide the contact details of the licensed person and/or its agent and the customer must be provided with a binding quote within 24 hours of receiving a request for quotation.

The licensed person shall clearly indicate/inform the customer the validity period of the quote in both cases and should not charge the customer higher than the premium or takaful contribution quoted (irrespective whether it is an indicative premium or takaful contribution) should he/she renew his/her motor cover with the licensed person.

The premium or takaful contribution quoted in the renewal notice for the motor cover should be based on the basic premium or takaful contribution and any optional covers that the customer had purchased from the licensed person in the last purchase.

### **13. Is a licensed person allowed to combine the optional add-on covers with the total premium or takaful contribution amount payable when quoting the premium or takaful contribution for a motor cover?**

When quoting the premium or takaful contribution for a motor product (as specified in Appendix 2 of the Policy Document on Phased Liberalisation of Motor and Fire Tariffs), a licensed person should only include the optional add-on covers in the total premium or takaful contribution amount payable if the customer had indicated his/her interest to purchase a particular add-on cover.

The premiums or takaful contributions for these optional add-on covers should not be combined with the total amount payable by the customer if the customer did not indicate his/her interest to purchase the add-on covers. In such cases, the licensed person must indicate the optional add-on covers and the premium or takaful contribution amount for each of the optional add-on covers in a separate line/section below the total amount payable. To facilitate customers' understanding, a brief description of what is covered under each of the optional add-on covers should also be provided in the premium or takaful contribution quotation.

## **F. Fire products**

### **14. For the purpose of determining special rates, will there be any changes to the role of the Rating Committee during the phased liberalisation period?**

The role of the Rating Committee remains unchanged, but may be reviewed moving forward.

**15. Are licensed persons allowed to revise the premium or takaful contribution rates for fire products which are defined under the Revised Fire Tariff such as homeowners/ householders insurance?**

No, the premium or takaful contribution rates for fire products which are defined under the Revised Fire Tariff shall continue to be determined in accordance with the Revised Fire Tariff and any variations specified by the Bank, as per the requirement of paragraph 9.1(e) of the Policy Document.

Only new Fire products are not subject to the Revised Fire Tariff and the premium or takaful contribution rates may be determined by a licensed person according to its individual risk pricing model, subject to any limits or conditions specified by the Bank. However, where rates for the fire component of the new Fire products deviate from the Revised Fire Tariff rates by more than 30%, licensed person shall submit the new products to the Bank for approval prior to applying the rates. The fire component includes all perils covered under the Revised Fire Tariff (e.g. lightning, explosion, flood, burstpipe).

**16. Item 9 of the FAQ issued on 21 June 2017 requires licensed persons to clearly separate the Fire (Tariff and Non-Tariff) and Non-Fire components of a new fire product and show a comparison of the new and tariff premium or takaful contribution rates for the Fire component. Is there a specific minimum format for such disclosure to customers?**

There is no specific minimum format for the disclosure of the premiums for the Fire and Non-Fire components of a new fire product. Disclosure to the customers shall be guided by the requirements on "Fair business practices and adequate disclosure" set out in the Policy Document and relevant requirements sets out by the Bank in other policy documents.

The requirement to clearly separate the Fire (Tariff and Non-Tariff) and Non-Fire components is also to facilitate comparison between the new premium or takaful contribution rates and tariff rates for the Fire component for the purpose of determining whether the prior approval of the Bank is required, as per the requirement of paragraph 11.6(b) of the Policy Document.