



# **BUSINESS AND MARKET CONDUCT MODULE**

CONSULTATION



<b>MODULE:</b>	<b>BC (Business and Market Conduct)</b>
<b>Table of Contents</b>	

		Date Last Changed
<b>BC-5</b>	<b>Life and Unit-Linked Insurance</b>	
BC-5.1	Product Design and Oversight	xx/2023
BC-5.2	Pricing and Terms and Conditions	xx/2023
BC-5.3	Claims	xx/2023
BC-5.4	Selling of Products and Disclosures	xx/2023
BC-5.5	Customer Notifications	xx/2023
BC-5.6	Other Requirements for Unit-Linked Insurance	xx/2023



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

## BC-5.1 Product Design and Oversight

### *Life and Unit-linked Products*

#### BC-5.1.1

Licensees must establish a product approval committee and a process for approval and related due diligence on the design of life insurance and unit-linked products. This is for preventing or mitigating customer detriment and facilitating ongoing monitoring of the performance of the products, complaints related to the product and for implementing necessary corrective actions. The committee must also determine the target customer segment and distribution channels for each customer segment.

#### BC-5.1.2

For the purpose of Paragraph BC-5.1.1 ongoing monitoring and regular reviews of marketed products are required to ensure they still meet target market needs and objectives. The frequency of the reviews will depend on product size, scale, duration, complexity, distribution channels, and external factors like legal or market changes.

#### BC-5.1.3

Licensees must ensure that their policies and processes address the following in respect of new life insurance and unit-linked products:

- (a) Products are designed taking into consideration customer objectives, interests, and characteristics;
- (b) Products must only be marketed if they align with the target customer segment's needs, characteristics, and objectives, while also considering the customer's level of understanding and financial literacy;
- (c) Conflicts of interest are effectively managed;
- (d) The product approval process matches the complexity, risks, and the licensee's business nature;
- (e) Intermediaries and appointed representatives are given clear, complete, and updated information about the products, target market, distribution strategies, risks, costs, and potential conflicts of interest;
- (f) Regularly verify that intermediaries and appointed representatives are adhering to the product approval process goals, focusing on target market distribution;
- (g) Staff involved in product design possess the necessary skills and knowledge of the products and the target market.



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

## BC-5.1 Product Design and Oversight (continued)

### *Unit-linked Products*

#### BC-5.1.4

For unit-linked insurance products, licensees must ensure that their policies and processes address the following in addition to the requirements in Paragraph BC-5.1.3 above:

- (a) Products must be tested (including scenario analyses) for compatibility with the target market before launch or significant adaptations, assessing lifetime suitability. Products failing these tests must not be marketed;
- (b) Any adverse effects on customers identified during the products lifetime are mitigated, with prompt communication to distributors and customers;
- (c) Each product's target market and suitable customer segments are clearly identified, considering the product's characteristics, risks, and complexity; and
- (d) Customer segments incompatible with the product are identified.

#### BC-5.1.5

Licensees must ensure that all unit-linked funds are undertaken on terms that are consistent with the interests of policyholders ensuring the following:

- (a) The allocations, provisions or deductions for expenses and charges in respect of a unit-linked fund are in accordance with the terms of the unit-linked insurance policy;
- (b) Changes in investment objectives, strategies, asset allocation and risk management strategy are supported with demonstrable benefits to the policyholders, and the policyholders are notified in writing of the changes, at least one month in advance of those changes taking place;
- (c) The sustainability of a unit-linked insurance policy is actively managed throughout the contractual coverage term on an ongoing basis, by performing regular sustainability tests; and
- (d) The valuation of assets in each unit-linked fund is fair and conducted on a timely basis, and any unit pricing errors and/or delays are addressed adequately.



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

## BC-5.2 Pricing and Terms and Conditions

### *Life and Unit-linked Products*

#### BC-5.2.1

Licensees must ensure that there is an effective process and control over pricing of the life insurance and unit-linked insurance policies. In particular, they must:

- (a) Establish a policy and process for pricing the insurance risks in accordance with generally accepted technical and actuarial rules;
- (b) Not add any excessive surcharges to the net premium or offer prices lower than the technically determined level;
- (c) Maintain complete documentation of the costs and fees associated with the different types of policies, together with a detailed statement on the technical and actuarial basis for price determination;
- (d) Maintain statistical data related to past settled claims, outstanding claims, as well as details about significant losses and their frequency.

### *Unit-Linked Products*

#### BC-5.2.2

Licensees must ensure that the premiums in unit-linked insurance policies are priced at a level where the policy is expected to sustain its coverage until the end of its contractual coverage term i.e., the fund value needs to be sufficient to ensure continued insurance/takaful coverage for the full policy term. If the fund value is insufficient and reduces to zero, licensees must take steps to maintain the insurance/takaful coverage (see also Paragraph BC-5.2.4).

#### BC-5.2.3

Licensees must ensure the following in respect of unit-linked policies sold:

- (a) Establish a policy and process for determining the surrender values of the policies and ensure they are determined using actuarial methodologies;
- (b) The interest of the policyholder must be considered when deriving the surrender value from the cash value, and when a policyholder chooses to stop paying premiums and maintain the same term coverage;
- (c) Any charges related to the conversion of products must be minimal and it must exclude all amounts that the client has already paid such as commissions or policy set-up charges;



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

## BC-5.2 Pricing and Terms and Conditions (continued)

- (d) The surrender value of a policy must be set on an equitable basis to both the policyholder and the company and it must be set in a way that the profit to the company is not greater than or equal to income it would have earned up to that date had the policyholder not surrendered the policy;
- (e) The actuary equitably allocates policy costs and charges and ensures that the policyholder is not overburdened in the initial year(s);
- (f) The application of charges must be consistent with the rating structure of the policy and must be disclosed in the policy documentation, promotional material, and illustrations;
- (g) For policies that have bonus distribution, such as reversionary or guaranteed bonuses, at maturity, the surrender value must take into account the bonuses foregone; and
- (h) If the adopted methodology results in a negative or zero surrender value, the surrender value may be set to zero.

### BC-5.2.4

Licensees must disclose the outcome of the sustainability test to policyholders/takaful participants to facilitate timely and informed decision-making. Such disclosure must include sufficient information on how the volatility associated with the different returns to the policy account value may impact the sustainability of cover. Licensees must also ensure that disclosures to policyholders/takaful participants are clear and not misleading and cover the following elements:

- (a) The assumptions and limitations to the sustainability test are clearly highlighted (e.g., sustainability test is based on estimates of future outcomes);
- (b) For policies where the cover is no longer sustainable until the end of the contractual coverage term, the disclosures must include:
  - i. A clear and concise explanation on the factors which have affected the sustainability of the cover; and
  - ii. The recommended amount of top-up premiums/takaful contributions needed to restore the sustainability of cover and options for alternative actions. Examples of alternative actions include:
    - a. Reducing coverage or the contractual coverage term period;
    - b. Removing rider(s) to the unit-linked policy; or
    - c. Funding increases in insurance charges using the fund itself (the licensee must inform policyholders/takaful participants that such option will result in a higher rate of depletion of the unit fund value).



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

### BC-5.3 Claims

#### BC-5.3.1

Licensees must ensure that they do not repudiate a claim made within a period of 3 years from the date of death regardless of a shorter time frame specified in the terms and conditions for processing of claims. Furthermore, to protect the interests of the policyholders the licensee must:

- (a) Contact the policyholders upon non-receipt of periodic premium payments; and
- (b) Notify the beneficiaries upon becoming aware of the policyholder's death.

#### BC-5.3.2

Licensees must ensure that there are no unreasonable or onerous provisions (e.g. regarding misrepresentation, inaccurate information, non-disclosure of material information) in the contracts for life insurance and unit-linked insurance that would allow the licensee to repudiate claims while it has profited from the premiums earned. In any event, the licensee must refund the policyholders all premiums paid (less reasonable admin charges), i.e. at least the surrender value.



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

#### BC-5.4 Selling of Products and Disclosures

##### BC-5.4.1

Any communication made by the licensee must be in simple and clear language avoiding the use of technical jargon. Where the use of technical terms is unavoidable, clear explanations of such terms must be made in simple language.

##### BC-5.4.2

Licenses must make the following disclosures with respect to commissions paid to brokers or appointed representatives:

- (a) The amount of commissions expected to be paid by the policyholders/takaful participants in respect of each year throughout the duration of the policy, in nominal figures and as a percentage of annual premium/takaful contribution; and
- (b) The total nominal amount of commissions expected to be paid over the duration of the policy and as a percentage of total premiums/takaful contributions payable over the duration of the policy.

##### BC-5.4.3

Licenses must allow policyholders a free look period of 30 calendar days, from the date the insurance policy goes into effect in order to examine the terms and conditions of such policy and terminate such policy if they wish to do so. Licenses may only deduct expenses which have been incurred for the medical examination, if any, and must refund the remaining premiums to the policyholders.

##### *Unit-Linked Insurance*

##### BC-5.4.4

Licenses must collect details such as the customer's financial goals, risk tolerance, etc. in order to evaluate his investment knowledge, liquidity situation, experience, financial background and other objectives and preferences, and perform suitability assessments when selling unit-linked products. In this respect, licenses must ensure the following:

- (a) Collect relevant customer information in order to provide accurate and proper advice;
- (b) Ensure that recommendations meet customer investment objectives, financial situation, knowledge, and experience;
- (c) Take steps to ensure customer information reliability for suitability assessments, including emphasising the importance of accurate information and using effective assessment tools;
- (d) Ensure that the responsibility for suitability assessment applies to automated and semi-automated advice systems; and
- (e) Provide a statement outlining advice, its suitability, including how it meets the customer's investment objectives, their financial situation, and knowledge/experience.





MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

#### BC-5.4 Selling of Products and Disclosures (continued)

##### BC-5.4.5

Licenses offering unit-linked insurance policies must ensure that:

- (a) All unit-linked insurance policies are sold only by unit-linked investment advisors or qualified appointed representatives as per Paragraph GR-9.1.4;
- (b) Review of the performance of sales personnel (including intermediaries) is undertaken annually with regard to policies sold by them for the purpose of determining training needs, and taking appropriate disciplinary actions such as claw back of commissions;
- (c) Conflicts of interest are managed to ensure customers are not unfairly disadvantaged;
- (d) Systems, policies and procedures are established for the day-to-day management of the licensee's unit-linked insurance business;
- (e) Policyholders must be allowed a period of 3 calendar days to review the documents prior to signing the declaration and concluding the sale if they wish to do so;
- (f) A product illustration and Fund Fact Sheet must be provided to the policyholders (See Appendix A for guidance) and a declaration from the policyholder is obtained confirming the receipt of the product illustration and Fund Fact Sheet;
- (g) The following disclaimer must be made to customers:  
"Early surrender or withdrawal of the policy may result in a significant loss of principal and/or benefits awarded. Poor performance of underlying funds/assets may further magnify the policyholder's investment losses, while all charges are still deductible."

##### BC-5.4.6

Licenses offering unit-linked insurance policies must initiate a post-sale call back from an independent agent within 7 calendar days of the sale to confirm the customer's understanding of the policy terms, conditions, benefits, risks and any associated charges and fees.



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

## BC-5.4 Selling of Products and Disclosures (continued)

### *Provision of information requirement*

#### BC-5.4.7

Licenses must provide an information document to its customers while marketing or while making an offer to sell any type of life insurance product, which must contain the following:

- (a) Information about the insurer: Name and contact details of the insurance company (and in cases where the licensee acts as an intermediary, then the name and contact details of the insurance company underwriting the policy);
- (b) Scope of insurance: A summary of the coverage provided by the policy, including the main benefits and any additional cover options;
- (c) Exclusions: Key exclusions or limitations of the policy;
- (d) Restrictions on cover: Indicates any specific conditions or limits on coverage, such as age limits or territorial limits;
- (e) Obligations: Details of what the policyholder must do, such as paying premiums or providing accurate information;
- (f) Payment terms: Information on payment terms and methods;
- (g) Duration: Duration of the policy coverage; and
- (h) Cancellation terms: Information on the policy cancellation process.



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

## BC-5.5 Customer Notifications

### BC-5.5.1

Licensees must notify their customers 3 months prior to the policy lapsing due to non-payment of premiums. Licensees must also notify their customers in case of poor performance of the underlying funds and recommend alternative solutions to address the issues (see also Subparagraph BC-5.2.4(b)).

### BC-5.5.2

Licensees must have in place a communication channel or a digital platform for information sharing, complaints handling, etc. for their customers.



MODULE	BC: Business and Market Conduct
CHAPTER	BC-5: Life and Unit-Linked Insurance

## BC-5.6 Other Requirements for Unit-Linked Insurance

### BC-5.6.1

Licenses must ensure that charges in respect of a unit-linked insurance policy, including any service charge, top-up charge, switching charge, partial withdrawal charge, and surrender charge are reflective of the expenses incurred or expected to be incurred.

### BC-5.6.2

Licenses must give at least three months written notice to all existing policyholders prior to effecting any upward revisions of existing fees and charges for unit-linked insurance policy. However, where there are any downward revisions of fees and charges, licenses may apply these changes immediately. In addition, licenses must notify the CBB of any upward revisions to fees and charges, and submit an assessment of the changes which must consider the following aspects at minimum:

- (a) The financial implications and fairness of fee revisions on policyholders;
- (b) The impact on customer satisfaction, retention rates and relationship;
- (c) The long-term effects of fee revisions on policy performance, including the policy's viability and future payouts;
- (d) The necessity of the fee revisions based on operational costs, market conditions, investment strategies, and other relevant business factors; and
- (e) Any potential risks associated with fee revisions, including risks to the insurance firm's reputation, customer trust, or legal repercussions.

### BC-5.6.3

Where licenses make references to past investment performance, it must ensure that the reference is supplemented by a clear warning statement that such past performance is not indicative of future performance, and that the future performance of the fund is not guaranteed. The past performance figures must be based on actual historical performance and not simulations. They should not be unduly biased, i.e. historical performance that is based only on a period of exceptionally favourable market conditions.

### BC-5.6.4

Licenses must ensure that the following statement must be prominently displayed in large bold fonts in all product literature (such as promotional materials or advertisements, sales/marketing brochures, press announcements, etc.) for a unit-linked insurance policy:

*'This is an [insurance or takaful] product that is tied to the performance of underlying assets, and it is not a pure investment product.'*



<b>MODULE</b>	<b>BC:</b>	<b>Business and Market Conduct</b>
<b>CHAPTER</b>	<b>BC-5:</b>	<b>Life and Unit-Linked Insurance</b>

## BC-5.6 Other Requirements for Unit-Linked Insurance (continued)

BC- 5.6.5 Licensees should also make available Frequently Asked Questions (FAQ) to customers on factors to consider in choosing a product that is suitable for their needs and circumstances.

**BC-5.6.6** Licensees must semi-annually provide the following post-sale disclosures to policyholders (see Appendix A for guidance):

- (a) A statement on the status of the unit-linked insurance policy; and
- (b) A fund performance report.



CONSULTATION DRAFT

Appendix A

**Product Illustration (Additional details)**

The following should be observed in the product illustration:

1. Describe how the premiums are paid: annually / semi-annually / quarterly / monthly / single;
2. Describe benefits and risks relevant to the policy including clear disclaimers on investment risk;
3. An explanation on whether the death or maturity benefit policy is determined as the higher of the value of units or sum assured or participated, or the aggregate of the two;
4. Charges should be disclosed separately under the following three categories:
  - a. Insurance charge: For unit deducting riders, a clear distinction between the cost of insurance for the basic policy and riders must be made;
  - b. Fund management charge; and
  - c. Other charges, which include the unit-linked insurance policy fee, switching fees and other charges;
5. The period of illustration should be up to the contractual coverage term of the unit-linked policy with sufficient details including surrender values (for example the product illustration can be presented as yearly up to the 10<sup>th</sup> policy year, at policy year 15, and at ten-year intervals from policy year 20 and above until the end of the contractual coverage term) and variation in risk and return per investment option; and
6. Illustrate the potential gains and losses through numerical examples for the following hypothetical scenarios:
  - a. Bull scenario (positive performance of underlying asset);
  - b. Flat scenario (0% performance of underlying assets, i.e. no movement in either direction); and
  - c. Bear scenario (negative performance of underlying assets) where an illustration of potential losses must be included.



## CONSULTATION DRAFT

### Appendix A (continued)

#### Fund Fact Sheet

The following should be observed in the Fund Fact Sheet:

1. Name of fund;
2. Type of the fund (single, umbrella, feeder etc.) and jurisdiction where it is incorporated;
3. Investment objectives and target market;
4. Investment strategy & approach:
  - a. Investment focus (i.e. equities, bonds, funds, etc.);
  - b. Techniques used (passive or active, top-down/bottom-up, quantitative/fundamental analysis/technical analysis, etc.);
  - c. For funds investing in derivative contracts, an explanation of how returns from such derivatives will be generated, a description of the derivative instruments used and maximum limit on derivative exposures (as a ratio to the fund's NAV);
  - d. For funds investing in other collective investment units (CIUs), name and type of the CIU, the fund manager of the CIU, historical performance and the rating of the CIU;
5. Details on asset allocation, e.g. by type, by geographical region, etc.
6. Performance benchmark(s) used, including where to obtain further information on the benchmark;
7. Clearly highlight if the fund manager is the licensee itself or a third party appointed by the licensee;
8. Fees and charges including fund management charges (and fund management charges where the fund is invested in other CIUs) and any cost variations for different investment options;
9. Fund performance:
  - a. 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 paid of the unit-linked insurance policy);
  - b. Where licensees choose to provide performance comparison of a unit-linked fund, it must be with that of a similar fund, in terms of investment objectives and focus, and based on a similar time frame of at least 12 months;
  - c. For funds which have existed less than 12 months, licensees should not use the annualised monthly performance figures for such purposes;
10. Risks:
  - a. Description of relevant risks (the description must be specific to the nature of the investment and not merely generic descriptions);
  - b. Risk classes (on a scale of 1-7) for all investment options;
  - c. Description of risk management techniques including any derivative contracts entered into for hedging purposes;
11. Basis and frequency of valuation; and
12. Description of any exceptional circumstances under which issuance or redemption of units may be suspended.



## CONSULTATION DRAFT

### Appendix A (continued)

#### Periodic Statements

##### Statement of status

The following information should be provided in the statement of status:

1. Number and value of units held at the end of the previous statement period;
2. Number and value of units purchased and sold during the statement period;
3. Number and value of units held at the end of the statement period;
4. Number and value of bonus units and dividends payable during the statement period;
5. Charges incurred during the statement period;
6. Total amount of premiums received and allocated to buy units during the statement period;
7. The death benefit, maturity and surrender value at the beginning of the statement period;
8. The death benefit, maturity and surrender value at the end of the statement period.; and
9. The outcome of the sustainability test. The disclosures should include the following:
  - a. The assumptions and limitations to the sustainability test (e.g. sustainability test is based on estimates of future outcomes);
  - b. For policies where the cover is no longer sustainable until the end of the contractual coverage term:
    - i. An explanation on the factors which have affected the sustainability of the cover; and
    - ii. The recommended amount of top-up premiums needed to restore the sustainability of the cover and options for alternative actions. Examples of the alternative actions include reducing coverage, reducing the term period, removing riders, utilising the unit fund to fund increases in insurance charges.

##### Fund performance report

The following information should be provided in the fund performance report:

1. Summary of the audited financial statements of the fund;
2. Asset allocation as at the reporting date;
3. Analysis on the fund performance of not less than five years, where applicable, on the net (of charges and tax) investment return of the fund;
4. Description on charges levied against the fund during the year;
5. Statement on any changes in the investment objectives, strategies, restrictions and limitations of the fund during the year. This includes explanations should the fund depart from its stated investment objectives and strategies;
6. Details of any distributions made and proposed during the period, and the effects in terms of the NAV per unit before and after the distributions;
7. Details of future prospects of the investments and proposed strategies of the fund;
8. Performance of relevant benchmark indices of the market in which the fund is invested;
9. Details of any soft commissions received by fund managers; and
10. Auditor's certification.





**CONSULTATION DRAFT**

**GLOSSARY**

**Independent Agent**

Employees or outsourced agents not directly involved with the sales process.

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## CONSULTATION DRAFT

### General Requirements Module

#### *Appointed Representatives*

GR-9.1.4 For purposes of Subparagraph GR-9.1.3 (a), the CBB recognises the following minimum or equivalent (as agreed with the CBB) qualifications for appointed representatives:

- (a) For general insurance, the Award in General Insurance from the Chartered Insurance Institute (CII) and the Bahrain Institute of Banking and Finance (BIBF);
- (b) For long-term insurance, the Award in Financial Planning from the Chartered Insurance Institute (CII) and the Bahrain Institute of Banking and Finance (BIBF); and
- (c) For unit-linked insurance policies, the Diploma in Regulated Financial Planning, Chartered Insurance Institute (CII) and associate (ALMI), Life Management Institute (LOMA).

CONSULTATION DRAFT