Preparatory Pack for
The Certificate Examination in Investment-Linked Life Insurance (CEILLI)

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Welcome Message from Senior Vice President & Head, Centre for Excellence

Congratulations for taking your first step towards becoming part of Great Eastern Life Assurance (Malaysia) Berhad (GELM), the number one life insurance company in Malaysia.

Recognized for our quality service, millions of Malaysians have trusted us to deliver on our promises since 1908. With a growing field force of more than 17,000, we look forward to having you be part of this dynamic team.

The Certificate Examination in Investment-Linked Life Insurance (CEILLI) is the basic examination required for you to be licensed as an insurance agent. More importantly, it is also the first step of an agent's learning curve in the profession.

This learning package was designed by Centre for Excellence to supplement the Malaysian Insurance Institute CEILLI textbooks. Used along with the textbooks, this preparatory pack will help you master the course material as you prepare for the CEILLI examinations.

It is a comprehensive and interactive self-learning tool for knowledge enhancement that can be used at your convenience. You will find within the chapters summary notes, a self-assessment test with answers, explanatory notes as well as sets of trial examinations.

Thorough preparation with our preparatory pack will serve as your key towards success in CEILLI

I wish you all the best.

Andy Ng Yen Heng
Senior Vice President & Head
Centre for Excellence

The Certificate Examination in Investment-Linked Life Insurance (CEILLI)

CHAPTER 1 – Introduction to Investment-Linked (IL) Life Insurance

1.1 Introduction

The insurance industry in Malaysia has experienced steady growth in the last 20 years. What are the factors that contributed to this steady growth?

- Insurance companies in Malaysia designing and offering plans that continue to meet customers' needs
- Introduction of investment-linked insurance
- Increasing popularity and demand

Investment-linked insurance was first introduced in Malaysia in December 1999.
Investment-linked policy allows:

- Owners to choose the amount of coverage they need with their selected annual premium
- Owners to select the minimum sum assured (SA) 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
- May accrue returns on their contributions in the form of long-term savings

What is an investment-linked insurance policy?

- Offer policyholder a chosen amount of insurance cover
- Provides that a portion of the premiums paid is used to purchase funds in one or an array of investments offered by the insurance company

Insurer may appoint external fund manager to tailor and manage certain funds on its behalf. The level of the investment account can go down to zero, or to a level insufficient to cover the cost of protection and other related charges. If so, the policy will terminate. It is vital that policy owners must be adequately informed and be made aware that their IL policy is directly linked to investment performance. An IL policy thus combines investment and protection in the policy.

IL plans allow individuals to invest in a diversified portfolio with a minimum of RM1,200 a year (regular premium) or a one-time single payment (single premium) of RM5,000. An average income earner may not possess sufficient financial resources to invest in a spread of assets. However, IL plan allows individual to own cumulative units of such investment spread over progressive stages by paying affordable regular premiums.

The IL funds of an insurer can acquire a wide array of assets like equities or stocks, bonds, fixed interest, foreign funds, real estate, currency and so on.

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

Chapter 1: Self-Assessment Questions:

1) What are the factors that have contributed to the steady growth of the life insurance industry in Malaysia since 2000?
   i) The Malaysian Government granting more flexibility to life insurance companies to run business operations based on their own management philosophies and at their own prudent discretion
   ii) Malaysia's dynamic economic growth experience
   iii) Life insurers designing and offering customer-centric plans
   iv) The introduction of investment-linked insurance and the steady growth of this product
   a) i and ii
   b) ii and iii
   c) iii and iv
   d) ii

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 return
   d) A policy offering protection while also investing in funds which form the basis for returns to the policy owner

3) An investment-linked life insurance policy is also known as the following in some parts of the world:
   i) Mutual fund-linked policy
   ii) Unit-linked policy
   iii) Variable life policy
   iv) Universal life policy

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 managers in its internal investment department
   ii) Funds 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, ii, iii and iv
   b) i
   c) i and ii
   d) i and iv

5) Since investment-linked insurance has an insurance element, a prospective policy owner is allowed to opt for
   i) A nominal amount of sum assured of his selection
   ii) No life protection at all
   iii) At least the minimum amount of sum assured according to age, basic premium paid and a formula set by the relevant regulator
   iv) The sum assured offered by the insurer concerned based on its internal underwriting guidelines in relation to the financial status and circumstances of the intended policy owner

   a) i
   b) i and ii
   c) iii
   d) iv

6) Which of the following statements are correct?

i) Policy owners of investment-linked plans should be made to understand that they wholly bear the gains or losses from the investment portion of their policies

ii) As responsible corporations, life insurers are obliged to be partly responsible for any drastic drop in prices of funds under their custody; thus, they have to bear part of the losses suffered by policy owners if such incidents occur

iii) For investment-linked policies, an individual can invest in a diversified portfolio with a sum as low RM1,200 per year. This is possible as the overall collected premiums contributed by investment-linked policy owners form a sufficiently large pool for spreading over varied stocks or securities in the market

iv) An average income earner may not possess ready sufficient liquidity to invest in a spread of assets if he wants to do it in the open market on his own

a) i, iii and iv

b) ii and iii

c) i and ii

d) i, ii, iii and iv

Chapter 2 – Mechanisms and Features of Regular Premium Investment-Linked (IL) Life Insurance

2.1 Introduction:

IL insurance products cater for more flexibilities and transparencies. Hence, their structure is slightly more complex than traditional insurance products. The primary focus of the regular premium IL insurance is protection, with IL as the secondary focus.

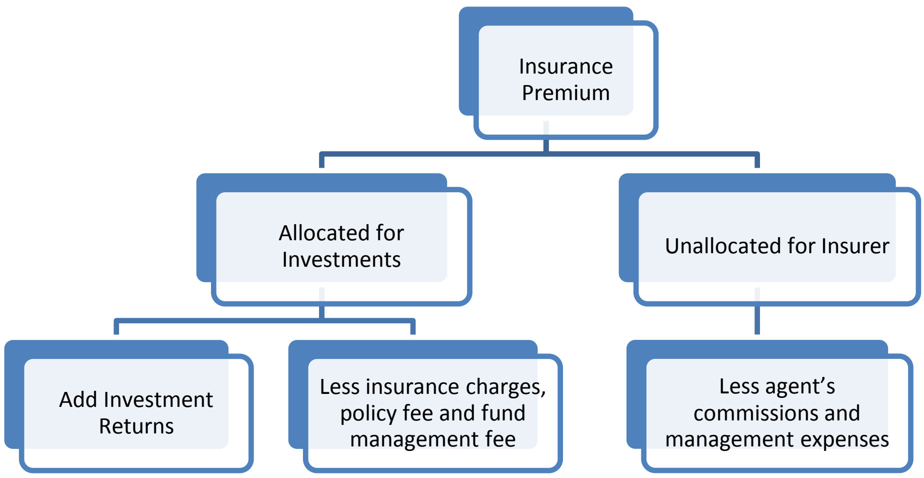
2.2 Minimum Regular Premium:

Bank Negara Malaysia's (BNM) guidelines on IL insurance do not stipulate a minimum premium amount. This is left to the discretion of insurers. The current practice is that generally, the minimum annual premium varies from RM1,200 to RM1,800, depending on the product and the marketing directions of an insurer.

2.3 Allocated and Unallocated Premium

The allocated premium ratio set by insurers normally commences at 40%-50% in the first year, and the rate increases until the 7th year and from this time on, it will be 100%.

The money received by the insurer as regular premium (either monthly, quarterly, semi-annual or annual mode) is allocated to 2 accounts – Allocated Premium Account and Unallocated Premium Account.



2.4 Regular and Ad Hoc Top-up Premium

Besides 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. 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 Cost of Insurance (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. Some policy owners make ad hoc TU when they sense that the market is reaching the bottom of the trough and is expected to pick up.

2.5 Sum Assured Multiple (SAM) Rule

SAM stipulates the minimum multiple factors, depending on the age range of the life insured when the policy is signed, which is 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.

Example: Let's 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 amoung covering the life of a minor who is 16 years old, the minimum coverage is RM300,000 (5,000 x 60).

Regular TU premium is excluded from the multiple factor for calculating the minimum sum assured.

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

A unit-deducting rider (UDR) which does not involved extra premium caters for the deduction of COI from the account value. COI is lower than for the full rider premium. The treatment depends on the 2 categories of UDR:

1. Riders with Sum Assured (SA) payable on death.
2. Riders without SA payable on death.

The SAM formula for UDRs is as follows:

SAM = Total Sum Assured / (Total Annual Premium – Notional Premium of Riders)

Example:

1) A person age 30 wants RM300,000 basic coverage and RM300,000 enhanced critical illness coverage – total SA is RM600,000. Based on the SAM factor of 50 for a 30-year-old, the minimum annual premium will be RM12,000 (600,000 divided by 50).

2) A 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 hospitalization bills. Assuming that the notional premium for the rider is RM200. The minimum SA for the basic coverage will be 3,400 (3,600 – 200) x 55 (the multiple factor for this age), which will be RM187,000.

2.6 Optional Riders

Various types of supplementary coverage or riders are offered as options to the basic coverage. Examples are: accident rider, medical rider, critical illness/dread disease rider, waiver of premium rider, payor benefit rider, disability income rider etc.

A rider may be available in the form of a premium-paying rider (PPR) or a unit-deducting rider (UDR), depending on the product design for each rider. A PPR requires extra regular premium to be paid for the rider concerned together with the basic premium. On the other hand, UDR does not require extra regular premium but it entails the additional COI charge for the rider to be deducted from the investment account value of the policy owner. Agency commissions are payable from PPRs, but not from UDRs.

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

2.7 Account Value

This is the projected value of units 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:

i) The value of each of the units, and
ii) The number of units the policy has accumulated to date

2.8 Partial Withdrawal, Surrender and Charge

Policy owners may make a partial withdrawal from their accrued account value when they need money. Most insurers do not limit the frequency of withdrawal or the maximum amount per withdrawal as long as the remaining account value is not below a certain minimum (eg RM1000). A minimum amount per withdrawal is normally imposed, say RM1,000. Also, total surrender is allowed without restrictions.

Insurers may impose an early withdrawal or surrender charge. For example, charge if withdraw 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.

2.9 Fund Switching and Switching Fee

If a life insurance company sells IL life policies and it offers more than one IL fund, it usually provides switching facility which allows policy owners to switch part of all of their investment from one fund to another fund. Switching facility is very useful for financial planning.

Switching practices vary. It may be

i) Offered free of charge, or

ii) Offered free of charge for a limited number of switches within a given period (normally a year) and charges imposed for subsequent switches, or a specific charge and each and every switch.

2.10 Premium Holiday

When a due premium is not paid and if the accrued account value is sufficient to cover due premiums, premium holiday (PH) comes into play to prevent the policy from lapsing.

2.11 Free-look period

There is also a 15-day free-look period from the date of delivery of the policy. If you decide to cancel your plan within this period, the insurer shall refund:

i) The unallocated premiums,

ii) The value of units that have been allocated (if any) at the unit price at the next valuation date, and

iii) Any insurance charges and policy fee that have been deducted, less expense which may have been incurred for the medical examination of the life insured.

2.12 No-lapse Guarantee Period

This clause stipulates that the IL policy will lapse in the first few years if the account value is not sufficient to cover the COI and other necessary charges, unless:

- The regular premium has been paid without fail;
- No premium holiday has been effected;
- No changes have been effected to the policy, including any partial withdrawal from the account value and investment requests like fund switching

Any unpaid COI and monthly administrative/service charge will be deducted from the account value contributed by all future premiums and TUs, if any, until fully repaid. However, no-lapse guarantee is only for the first few years.

2.13 Death Benefit Mechanism

The death benefit (DB) at any time is the basic sum assured plus the accrued account value. DB amount should never be less than the basic SA as long as due premiums are paid faithfully.

2.14 Dual Pricing and Single Pricing

Dual pricing refers to the bid-offer spread, which is normally a 5% difference. The bid price is the lower figure in the spread. On the other hand, single pricing means the acquisition or disposal of units in a fund is at the same price per unit. However, there may be a charge imposed at the point of acquisition (upfront charge) or at the point of disposal (back-end charge). The trend in Malaysia is shifting to single pricing for new policies

2.15 The Long Horizon

In the longer run, the Dollar Cost Averaging phenomenon creates a positive impact on the cumulative effect on the account value. Each investment-linked fund comprises a spread of assets.

2.16 Dollar Cost Averaging

Unit price will rise and fall with market fluctuations; however, the continued payment of premiums will bolster the averaging effect. When prices go down, policy owner will be able to acquire more units at a lower price. When prices go up, the units acquired at lower prices will appreciate in value. Dollar Cost Averaging means leveraging price fluctuations.

2.17 Spread-out Risk among Varied Assets

Not all assets in a fund have the same experience at any point in time. Some may perform better in a given short period; some may not. So long assets selected are sound and fund manager exercises prudence, the fund price should end up higher in the long run despite fluctuations.

2.18 Retirement plan, Medical plan and Education plan

The tax relief for qualified medical plans is up to RM3,000 a year, subject to approval by the Inland Revenue Board (IRB).

There are also limited term investment-linked plans sold as education plans. The tax relief for qualified education plans is up to RM3,000 a year, again subject to the approval of IRB.

The tax relief for both qualified medical and education plans (combined) owned by a policy owner is also RM3,000 a year.

Chapter 2: Self-Assessment Questions:

1) Which options are open to policy owners of a regular premium investment-linked plan?
   - i) A policy owner may opt for a higher sum assured than the minimum amount stipulated by the Sum Assured Multiple rule
   - ii) A policy owner can pay top-up premium to accelerate the accumulation of the account value in the policy
   - iii) A prospective policy owner can apply to combine a single premium plan with a regular premium plan into one policy
   - iv) A prospective policy owner can select the death benefit based on either the sum assured or the account value, whichever is higher

   a) i and ii
   b) i, ii and iii
   c) ii and iii
   d) i, iii and iv

2) Which of the following statements are correct?
   - i) Top-up premiums can either be paid on a regular basis or at any time
   - ii) Most insurers impose a minimum amount for both regular top-ups and ad hoc top-ups
   - iii) Most insurers allow ad hoc top-ups once a year and impose a maximum amount
   - iv) An upfront charge, normally around 5% is deduced from each top-up

   a) ii, iii and iv
   b) i, ii and iv
   c) i and iv
   d) i, ii, iii and iv

3) A female, aged 30 has budgeted to set aside RM3,000 a year for a basic regular premium investment-linked plan with a Unit-Deducting Hospitalization Rider. According to the SAM formula, the multiple factor for her age is 50 times. How would you calculate the minimum sum assured for the basic plan?

a) RM3,000 minus the notional premium for the rider, multiply by 50
b) RM3,000 multiply by 50
c) RM3,000 multiply by 55 times
d) RM3,000 minus the notional premium, then multiply by 55 times

4) Which of the statements below are correct?
   i) All life insurers impose an early partial withdrawal charge and an early surrender charge
   ii) High partial withdrawals may cause the future account value to be insufficient to cover the higher cost of insurance at older ages. Therefore, it is prudent for a policy owner to make ad hoc top-ups to replenish the units and the account value
   iii) Depending on the practices instituted by individual life insurers, all fund switches may be processed free of charge, or be free for the first switch or first few switches within a policy year and a fee is charged for subsequent switches
   iv) The investment risk profile of a young investor or policy owner may likely change from the aggressive category to the conservative category as he advances in age; hence, he may want to progressively shift more of his equity assets to fixed income or bond fund until he gets close to retirement age

   a) i, ii, iii and iv
   b) ii and iii
   c) i, iii and iv
   d) Ii, iii, and iv

5) Identify the correct statements from those given below
   i) The free-look period is 15 days commencing from the date of delivery of policy contract to the policy owner
   ii) The no-lapse guarantee clause stipulates that as long as premiums are paid without fail by the grace period and there was no previous premium holiday or partial withdrawal, the regular investment-linked policy will never lapse over the entire policy tenure although the

account value may be insufficient to cover the cost of insurance at any point in time

iii) The no-lapse guarantee clause stipulates the regular premium investment-linked policy will not lapse in the first few years (e.g. 2 years) even though the account value is not sufficient to cover the cost of insurance, provided:

- All premiums were paid during the period
- No premium holiday was exercised during the period
- There was no partial withdrawal or fund switching during the period

iv) As the basic death benefit of a regular premium investment-linked policy is basic sum assured plus account value, the life insurer will continue to deduct the cost of insurance for the basic coverage as long as the policy remains in force

a) i, iii and iv
b) ii, iii and iv
c) ii and iii
d) i, ii, iii and iv

6) Select the correct statements from the following

i) The Dollar Cost Averaging phenomenon leverages the long term or the acquisition of more fund units when prices are down and the appreciation of units already acquired when prices go up

ii) Some assets in a fund may perform well in a given short period while some may not, but the overall impact is the averaging effect due to the spreading out of risk. With prudent management by fund managers, the unit price is likely to be higher in the longer run

iii) The maximum tax relief for a qualified regular premium investment-linked medical plan and an education plan is RM3,000 a year. If a policy owner has both, the combined limit is also RM3,000

iv) Whether a policy owner has a qualified regular premium investment-linked medical plan or an education plan, or both, he qualifies for a tax relief of up to RM6,000 a year

a) i, ii and iv
b) i, ii and iii
c) i and iii
d) ii and iv

Chapter 3 – Mechanisms and Features of Single Premium Investment-Linked Life Insurance

3.1 Introduction

Single premium investment-linked (SP-IL) life insurance has almost the same characteristics as regular premium investment-linked (RP-IL) life insurance with regard to the sum assured (SA) and death benefit (DB) mechanisms, allocated premium/unallocated premium ratio, COI deduction mechanisms and the objective for purchasing this product.

3.2 Main Objective for owning SP-IL insurance

While the main objective of RP-IL is protection, the priority for policy owners of SP-IL would presumably be investment first and protection second.

3.3 Minimum Basic Single Premium

Setting the minimum basic single premium (SP) is at the discretion of individual insurers and the current range is RM5,000 to RM20,000.

3.4 One-Time Unallocated Premium Charge

Since only one premium is paid, the unallocated premium charge or upfront charge is a one-time payment which is unlike the regular premium model whereby the unallocated portion spans over the first 6 years in reducing ratios. The normal charge is around 5%, and the balance 95% will be channeled to acquire units in the selected fund/s.

3.5 Sum Assured Formula

The basic sum assured (BSA) is 125% of the single premium paid. For example: For RM10, 000 SP, the BSA is RM12,500. However, BNM allows insurers the discretion to lower it to RM5,000 or 105% of SP, whichever is higher, for older age groups and sub-standard lives.

3.6 Death Benefit Formula

All top-ups (TUs) are excluded from the BSA formula as such additional remittances are meant for investment.

3.7 Cost of Insurance Deduction and Sum at Risk Mechanism

The minimum protection amount is the BSA. When the account value exceeds BSA, the DB will be the account value. When the account value is below the BSA, the COI will be deducted.

Deduction of COI purposes to cover the shortfall between the account value and the SA – the shortfall difference is known as Sum at Risk (SAR). As the account value increases, the COI reduces. When the account value reaches or exceeds BSA, the COI will cease. If account value drops again below BSA, COI deduction will resume

Chapter 3: Self-Assessment Questions:

1) SP-IL insurance is said to be more inclined towards investment than protection because
   a) Generally, about 95% of the SP is allocated for investment in fund units
   b) The policy owner has the discretion to opt out for any protection coverage so that no COI will be deducted from the account value
   c) The usual sum assured is 25% above the SP outlay and may be lowered to 5% above the premium for older age groups, i.e. RM125,000 for SP of RM100,000, RM105,000 for senior ages with the same premium
   d) Once the account value exceeds the basic sum assured, the DB will be the account value, not inclusive of the sum assured

2) Mrs A, aged 45 signs up for a SP-IL plan by paying an initial RM100,000. 6 months later, she pays another RM100,000 as top-up. The total sum assured in her policy after payment of the top-up is
   a) RM250,000
   b) RM125,000
   c) RM205,000
   d) RM210,000

3) Which of the statements below are correct regarding SP-IL insurance?
   i) Most insurers set their minimum basic SP as ranging from RM5,000 – RM20,000, depending on the product design
   ii) All insurers set the minimum basic SP at RM5,000
   iii) Top-up premiums, if any, also bear the same normal upfront or unallocated premium charge ratio of around 5% as the basic SP
   iv) COI will be deducted regardless of whether the account value is above or below the basic sum assured at any point in time

   a) i, iii and iv
   b) i and iii
   c) ii and iv
   d) ii, iii and iv

4) Which statement/s relate to the application of COI in SP-IL insurance?
   i) COI is based on the sum assured or account value, whichever is higher
   ii) When the account value of a SP-IL policy is still below the sum assured, the shortfall gap between the 2 levels is called sum at risk
   iii) Deduction of COI is based on the shortfall amount from the account value level to sum assured level
   iv) COI is based on the difference between the sum assured and account value at any point in time
   a) i
   b) iii
   c) ii and iii
   d) iv

5) Top-ups for SP-IL plans are encouraged when
   i) The market is on the upturn and unit prices are rising
   ii) A market downturn sets in not long after policy inception, thus causing the sum at risk to prolong longer than expected, based on the initial premium outlay
   iii) The nation is experiencing a period of strong economic or GDP growth
   iv) The policy owner believes in the impact of Dollar Cost Averaging and wants to leverage that to boost the account value instead of relying on just one single outlay

   a) i, ii, iii and iv
   b) i and iii
   c) ii and iv
   d) i, ii and iii

6) The few mechanism and features of a SP-IL plans which differ from RP-IL plans are:
   i) The sum assured formula for SP plans is different than that for RP plans
   ii) The DB formula for SP plans is not guided by the same minimum SAM rule applicable to RP plans

iii) The allocated premium ratio for SP plans is different from that for regular premium plans

iv) While the policy is kept in force, the COI deductions for SP plans may not be continuous because the formula is based on sum at risk, unlike RP plans which are based on sum assured

a) i and iv

b) i, ii, iii and iv

c) ii, iii and iv

d) i, iii and iv

Chapter 4 – Considerations for Purchasing an Investment-Linked Policy

4.1 Introduction

IL insurance plan is a life insurance 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.

4.2 Benefits

4.2.1 Pooling and Diversification

IL funds offer the policy owner access to a “pooled” and diversified portfolio of investments – which consists a wide range of equity assets and fixed income securities.

4.2.2 Flexibility

Investment-linked products (ILP) consist of investment (unit-driven) and insurance protection (charge-based). A policy owner may change the level of his premium or protection as long as it is within the guidelines.

On the other hand, traditional with-profit life insurance products are very inflexible. 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

4.2.3 Expertise

Managed by professional fund managers with investment expertise to achieve high return.

4.2.4 Access

Access to well diversified IL funds managed by professional investment managers.

4.2.5 Administration

Policy owners are relieved of the day-to-day administration of their investments.

4.2.6 Transparency

Regular premium IL insurance promotes full transparency relating to official sales materials presented at the point of sale. There is a requirement for the intended policy owner to sign as confirmation he has received and understood the contents of the sales quotation and policy disclosure sheet (PDS). The soliciting agent/sales intermediary must also provide his signature to confirm having presented the documents and explained the non-guaranteed elements in the sales quotation.

4.3 Risks and uncertainties

4.3.1 Investment Fluctuations

The death and disability benefits of a regular premium IL plan are based on the sum assured and the value of units. The sum assured is always guaranteed but the value of the units is not guaranteed because it is directly linked to the investment performance of the underlying assets of the fund. In times of a volatile stock market, the account and maturity values of an IL life insurance policy will rise and fall. For long term, policy owner can expect to achieve higher return for IL plan than a traditional whole life product.

4.3.2 Charges

The administration fee, insurance charge, fund management fee etc of an IL life insurance policy are usually not guaranteed. These are subject to review and can be changed by the insurance company after giving 3 months' written notice. Except for the insurance charge or COI which gradually increase yearly according to attained age, insurers in Malaysia have not so far been known to revise their fund management fees and nominal administrative charges unnecessarily or frequently.

4.4 Regular Premium Investment-Linked Plans vs Whole Life Participating Plans

No	Regular Premium Investment-Linked Plan	Whole Life Participating Plan
1	Whole life coverage up to age 100	Whole life coverage up to age 100
2	Account value is not guaranteed as it depends on fund performance	Cash value (CV) is guaranteed and incorporated in the policy contract
3	Surrender value is based on an accrual in the account value payable	Surrender value is based on cash value plus vested bonus or dividend
4	Death benefit is payable from the sum assured plus account value. Maturity benefit is payable from the account value	Death or maturity benefit is payable from the sum assured plus vested bonus or dividend
5	Policyholder can choose from an array of funds	Investment instruments are decided by insurer
6	Policyholder can choose a higher sum assured with the same premium	Premium amount is based on sum assured
7	Policyholder can add rider/s via cost of insurance deduction from account value. This means that no extra premium is required	Policyholder has to pay extra premium for the rider/s chosen
8	Top-up premium is allowed at any	Top-up is not allowed

	time	
9	Partial withdrawal from the account value is allowed	No partial withdrawal is allowed from the cash value but withdrawal can be made from the surrender value of bonus or vested dividend
10	There is no policy loan feature	Policy loan is available with interest chargeable
11	Policyholder can choose to request premium holiday if he does not have the means to pay the premium. The cost of insurance will still be deducted from the account value if it is sufficient	There is an automatic premium loan (APL) feature with interest chargeable to cover the premium in default, if there is sufficient cash value
12	Same tax relief as accorded to a whole life participating plan	Same tax relief as accorded to a regular premium investment-linked plan
13	Minimum age of 18 years to apply on own life	Minimum age of 10 – 16 can apply on own life. Age 10 – 15 will require parental consent. Parental consent is not required for age 16.

Chapter 4: Self-Assessment Questions:

1) The benefits of an IL 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 flexibilities
   iii) Fixed nominal charges are levied on the policy
   iv) The life insurer insulates the policy owner against market risk
   a) i and ii
   b) ii and iv
   c) i and iii
   d) i, ii, iii and iv

2) When an IL 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

3) When are 2 similarities between a RP-IL plan and a whole life participating plan?
   i) Both plans provide lifetime coverage up to maximum age 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 our 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) i, ii, iii and iv

4) Which of the following statements are correct?

i) The minimum age for applying a regular investment-linked policy on own life is age 18 last birthday

ii) A minor aged 16 last birthday who is applying for an IL policy on own life needs parental consent

iii) A minor age 16 last birthday can apply for a whole life participating policy without parental consent

iv) Minors aged 10-15 last birthday can apply for a whole life participating policy with parental consent

a) i, ii, iii and iv
b) i, ii and iii
c) i and iii
d) i, iii and iv

5) As the sales illustration document printed by any life insurer is meant for reference and view by a prospect, a sales intermediary is expected to observe certain rules. The sales intermediary must

i) Get the new policy owner to sign the illustration as acknowledgement of having understood the contents

ii) Get the new policy owner to sign the policy disclosure sheet and also to sign it himself to declare that proper presentation has been carried out and the non-guaranteed elements have been explained

iii) Highlight that all investment risks are borne by the policy owner, that all fees and charges may be changed by the insurer giving 3 months' notice, and that the COI increases with attained age

iv) Explain that the projected returns may be deemed likely returns of the selected funds based on the past 5 years' historical performance

a) i, ii, iii and iv
b) i, ii and iii
c) i, iii and iv
d) i and iii

6) Which of the following statements regarding a life insurer's sales illustration/quotation document are correct?

i) The projection of future returns is based on the past 5 years' performance experience of a specific fund or funds proposed to the prospect

ii) Projected returns are based on assumed rates for the high and low scenarios of the specific fund/s

iii) Normally, the actual historical returns of the various offered funds in the past 5 years are also shown for the purpose of transparency

iv) Projection of values is based on assumed rates of return up to 20 years

a) i and iii
b) ii, iii and iv
c) i, iii and iv
d) ii and iii

Chapter 5 – Investment Considerations

5.1 Introduction

Over the years, an increasing number of clients have become more inclined to investing.

The following key considerations must be made known to the client:

1) Investment Objectives
2) Availability of Funds
3) Risk or Security
4) Investment Horizon
5) Accessibility of Funds
6) Taxation Treatment
7) Investment Performance
8) Diversification

5.2 Investment Objectives

All investment vehicles can be categorized according to 3 fundamental characteristics: safety, income, and growth. Depending on objectives, the person would need to choose between investing in income-producing instruments or growth-weighted instruments. While it is possible for an investor to have more than one of the objectives stated above, the success of one must come at the expense of the others.

a) Safety

   Purchase of government-issued bonds, sukuk (Islamic bonds), treasury bills and fixed deposit accounts found in money market have relatively safe investment return (able to hedge against inflation) but the client has to forgo growth and income stream.

b) Income

   The safest instruments are also the ones that are likely to have the lowest rate of income, eg: fixed deposit accounts in bank.

c) Growth

   Investors who seek growth in their investments could invest in growth-based investments such as common stocks (generally ranks among the most speculative of investments as their return depends on what will happen in an unpredictable future), commodities and other share-based investment. The objective of the client here is to realize capital gains and to hold stocks for a long time to derive profit from the growth of the investments.

d) Other Investment Objectives

   While the basic objective of every investor can fall into one or more of the 3 categories discussed above, investors also have secondary objectives such as:

   - Ensuring a comfortable standard of living
   - Providing funds for their dependents
   - Providing funds for the education and upbringing of their children
   - Improving their financial position
   - Hedging inflation
   - Liability cancellation
   - Retirement income

- Achieving a state of financial freedom
- Funds for paying necessary expenses and taxes upon death

5.3 Funds Available

Clients need to know how much funds are available for them to invest as this will affect their investment decision. To do this, a personal budget, cash flow analysis and net worth analysis could be done. These analysis assist them to ensure that they have enough money to put aside for investments and that they will be able to follow through with the financial obligations of the investment.

An example of a Simple Monthly Cash Flow Analysis is as below:

No	**Income (A)**	**RM**	**Expenditure (B)**	**RM**
1	Salary	5,000.00	Rental/Housing Loan Payments	1,000.00
2	Rental	500.00	Groceries and Utilities	750.00
3	Commissions	1,000.00	Childcare/Parents' allowance	500.00
4	Others	1,000.00	Education Expenses	250.00
5			Loans (Car, Credit Cards, etc.)	2,000.00
6			Insurance Premiums	500.00
7			Savings	500.00
8			Misc.	1,000.00
Total				**6,500.00**

Based on the analysis, we can identify that this client has RM1,000 a month as surplus fund and this can be utilized to fund an investment plan.

An example of a Simple Net Worth Analysis is as below:

No	**Assets (Present Value)**	**Amount**	**Liabilities**	**Amount**
1	House	220,000.00	Housing Loan Balance	200,000.00
2	Car	30,000.00	Car Loan Balance	35,000.00
3	EPF	20,000.00	Credit Card Balance	5,500.00
4	Saving Account	1,500.00	Personal Loan Balance	10,000.00
5	Insurance Cash Value	20,000.00	Others	15,000.00
		291,500.00		**265,500.00**

Based on the example above, the client has a positive net worth position of RM291,500 – RM265,500 = RM 26,000. Here, the client should consider how much immediate net worth he wants to create and increase. If he/she decides to upgrade his net worth to RM300,000, he needs to understand that he has a leeway of up to RM1,000 a month to ensure himself for RM274,000 (RM300,000 – RM26,000), which will immediately fulfill his new net worth goal for his family in the event of an early untoward demise.

Assuming he is 30. At the SAM factor of 50 times for his age, he only needs to pay RM457 per month (or RM5, 480 annual premiums) to own a RP-IL policy of RM274, 000 sum assured.

5.4 Risk or Security

There is a trade-off between expected return and risk. Investors whom are unwilling to assume risk must be satisfied with the risk-free rate of return. If they wish to earn a larger rate of return, they must be willing to assume a larger risk.

5.5 Investment Horizon

The investment horizon can be defined as the length of time a sum or money is expected to be invested. It is also used to determine the investor's income needs and desired risk exposure which is then used to aid in security selection. An individual's investment horizon depends on when and how much money will be needed, and the horizon influences the optimal investment strategy. In general, the shorter the investor's horizon, the less risk he should be willing to accept.

5.6 Accessibility of Funds

We should understand that a client will invest with the objective to make money. With this in mind, we can categorize the accessibility of funds into 3 as below:

a) If a client needs the funds in a short period of time, the client would not want to place his money in an investment that will not allow him to unlock it in a short time frame.
b) The second element is the cost or penalty that the client has to pay if he exits early. This is important because if the cost is big, then it defeats the purpose of the investment objectives.
c) The third consideration is how much it is going to cost the client to get into an investment.

5.7 Taxation Treatment

Clients should consider the different tax treatment for different types of investments before investing. Different types of investment portfolios attract or enjoy a different tax treatment.

5.8 Investment Performance

The performance of an investment depends on the following factors:

a) The country's economic, regulatory and political factors
b) Regional and global economic factors
c) The competencies and capabilities of the management team
d) The invested company's level of costs
e) Past experience of the investment
f) The history of the invested company
g) The life cycle of the investment

5.9 Diversification

Diversification is used by professional fund managers and it involves spreading of risks by putting money under management into several categories of investments such as shares, bonds, money market instruments and real estate investment trusts (REITs). This strategy can also be achieved by buying shares in different countries and by choosing different types of shares.

Chapter 5: Self-Assessment Questions

1) An example of investment in Money Market is
    a) 5-year bond
    b) Currencies and forex
    c) Treasury bills
    d) Savings account

2) People generally want to invest
    i) To lead a comfortable lifestyle
    ii) To be comfortable during retirement
    iii) To amass great wealth
    iv) To provide adequate funding for their children's education and their upbringing
    a) ii, iii and iv
    b) i, ii and iii
    c) i, ii and iv
    d) ii, iii and iv

3) Which statement below explains what a simple (current) net worth analysis involves?
    a) The forecast of a person's future net wealth and financial status (e.g. middle income, upper middle income, etc)
    b) A calculation of the sum of assets in current monetary terms that a person presently owns, not including any future inheritance
    c) The total sum of all assets owned by a person in present value minus the existing total sum of all liabilities he is obliged to settle. The balance, if any, is his present net worth to his family in the event of his early demise
    d) A personal plan outlining the targets for values of current and future assets to be achieved at a certain time in the future

4) The main purpose of an agent conducting a risk profile on his potential client is
   a) To assess whether the potential client is willing to use a major portion of his savings or liquid assets to purchase a large investment-linked plan
   b) To help the potential client understand his own risk profile, i.e. whether he has conservative, aggressive or balanced risk characteristics, and also to consider the type of asset categories suitable for his profile
   c) To assess whether the potential client will be attracted to the product/s being offered
   d) To assess whether the potential client is willing to forego some of his existing liquid assets in order to buy an investment-linked product

5) Which of the statements below are true?
   i) A person's investment horizon is the length of time that he is prepared to hold a particular asset before he liquidates it
   ii) The investment horizon of an individual, among other factors, also depends when he needs liquidity in the future date for specific objective/s
   iii) The cost or penalty that an investor has to pay in the event he needs to liquidate the asset earlier than expected also has a bearing on his choice of investment horizon
   iv) It is pertinent for an agent to strike a clear understanding with a potential client as to how much the latter is
   a) i, ii, iii and iv
   b) i, ii and iii
   c) ii, iii and iv
   d) i, ii and iv

6) Which of the following statements in correct?
   a) Diversification means spreading out investment in different asset categories or fund types
   b) Diversification not only means spreading out investment in different asset categories or fund types, but also acquiring various assets of the same category or fund type

c) Investment-linked funds in Malaysia confine the investment diversification to assets in the country as a way of discouraging the outflow of funds
d) When the stock market shows sign of going up, an investor should give key focus to leverage the market trend and switch all fixed income or bond assets to equities

Chapter 6 – Types of Investment Vehicles and Potential Risks

6.1 Introduction

The common investment instruments available to individual Malaysian investors include:

- Cash and Deposits
- Fixed Income Securities
- Shares
- Unit Trusts
- Properties
- Real Estate Investment Trusts
- Sukuk
- Bonds
- Capital Guaranteed Funds
- Commodities

6.2 Cash and Deposits

The term "cash and deposits" refers to all liquid instruments that carry little or no risk. However, cash cannot be considered an investment – it is just a means to finance investments. The capital value of cash will not increase and will not generate any additional income. It has no value in itself. It is of value only as a medium of exchange.

For the purpose of this course, however, the definition of "cash" will include short-term debt instruments. These cover: a) Treasury bills b) Bank accounts

6.2.1 Treasury Bills (T-bills)

Malaysian Government finances amenities such as roads, schools, hospitals etc. using the taxes collected. However, total government expenditure cannot be fully funded by taxes alone; thus, the government has to obtain funds through borrowing on a short-term basis.

One of the methods used by the Government to borrow money from its citizens is by the issuance of T-bills. These are short-term government funding vehicles issued on a regular basis with repayment, normally within a year. T-bills are issued by BNM to the discount market, at a price lower than the par value (redemption value) which is payable at the end of the short tenure. The difference between the discounted price and the par value represents the yield. Institutional investors are the main buyers of T-bills.

6.2.2 Bank Accounts

Time/Term/Fixed deposits are placed with banks for fixed periods with fixed interest rates for that period. Generally, the longer the deposit period, the higher the interest rate. Few factors that may influence the choice of deposits are as follows:

- Funds available for investment
- Duration of funds remaining in the account
- Emergency withdrawals
- Prevailing market conditions

6.2.3 Perbadanan Insurans Deposit Malaysia (PIDM)

PIDM is a Government agency established under Akta PIDM 2005 to protect against the loss of deposits in the unlikely event of a bank failure and to promote financial system stability. The current maximum protection limit granted by PIDM is RM250,000 per depositor per bank.

PIDM was set up to protect Islamic and conventional deposits, provide incentives for promoting sound risk management and to promote and contribute to the stability of the financial system in Malaysia. Only banks which are member institutions of PIDM are covered by the protection scheme. Examples of non-members are investment banks and international Islamic banks. Coverage is not extended to branches and subsidiaries of domestic banks operating outside Malaysia as the host countries may have their own scheme.

PIDM also protect owners of insurance policies and holders of takaful certificates in the event of the failure of a member insurance/takaful institution. The maximum for insurance/takaful coverage (per insured/covered person) is RM500,000. Examples of insurers/takaful operators which are non-members institutions of PIDM: reinsurance companies and retakaful operators, international takaful operators, and offshore insurance companies.

A levy is imposed on all member institutions for the protection coverage.

6.3 Fixed Income Securities

A group of investment vehicles that offer a fixed periodic return is known as Fixed Income Securities. It can be regarded as promissory notes issued by companies or the government to raise funds. It usually stress current income and offer little or no opportunity for appreciation in value. The types of fixed income securities include:

- Government Bonds
- Corporate Bonds
- Preference Shares (please refer to 6.4.2)

6.3.1 Government Bonds

Government bonds are effectively financial instruments used by the government to borrow money from the public. It is also the safest types of investments (government guarantees interest payments and repayment of the principal).

The key difference between government bonds and T-bills is the tenure. T-bills are issued with very short-term maturity of not more than 1 year, example: 1 month, 3 months, 6 months, 12 months. Government bonds are of longer tenure, example: 5-10 years or as long as 15-20 years.

Government bonds can be classified according to their maturity periods as follows:

- Short-term bonds: < 5 years to maturity
- Medium-term bonds: 5-10 years to maturity
- Long-term bonds: >15 years to maturity

The only disadvantage is that in times of high inflation, capital invested in this type of investment can be eroded. While being the safest as an investment vehicle, the return potential is comparatively lower than for other assets, including corporate bonds.

6.3.2 Corporate Bonds

Companies can also issue bonds or loan stocks to raise capital. Just as Government raises capital to fund its development programs, companies also raise these instruments to fund the growth of their operations. Corporate bonds can be classified into 3 categories: Debenture stocks, Loan stocks, and Convertible stocks.

6.3.2.1 Debenture Stocks

Debentures stocks are effectively, secured loans to a company. The security is either a fixed charge on the company's property or some of its assets such as trading stock. If the company defaults on the loan, the investor can take over the said assets and sell them to get his money back. Like government bonds, debenture stocks pay fixed interest rates for a fixed term at the end of which the capital is repaid.

The company also has an option to repay the debenture stocks earlier. Corporate stocks are not as secure as government bonds. A company can become insolvent and be unable to pay the interest due. Hopefully, the charge on property would mean that this could be sold to repay the capital, but a forced sale might not raise enough money to cover the capital. Interest rates for corporate bonds tend to be higher than for government bonds as the security is lower.

6.3.2.2 Loan Stocks

These are unsecured loans to a company. Both the interest rate and the term are fixed.

If the company defaults, the investor has no security and thus is in the same position as all the other unsecured creditors of the company. Investors may or may not get back their capital, depending on the company's performance. Compared to debentures, loan stocks are much less secure and therefore they carry a higher interest rate.

6.3.2.3 Convertible Stocks

Convertible stocks can be converted to ordinary shares of a company on a fixed date at a discount to the market price at the time of conversion. From then, investor can convert his investment from a fixed interest loan to being a part-owner who is then entitled to a share of its profit through dividends declared. The decision to convert depends on whether dividend income and capital appreciation in share price are better than the fixed interest given.

6.3.2.4 Advantages and Disadvantages

In general, corporate bonds tend to give a higher return than government bonds. However, they are more risky than government bonds.

6.4 Shares

A company is a separate legal entity, i.e. it is owned by all of its shareholders. Companies can be public or private. Private companies operating in Malaysia are not listed on Bursa Malaysia and are not available to ordinary investors. Public Limited companies can be quoted on stock exchanges if they meet the requirement.

Share prices fluctuates and are influenced by factors such as general performance of the country's economy, the current interest rates, inflation rates, the specific company's earnings and the prevailing currency performance. Adverse events in other regions and adverse performance of other major stock markets might affect the performance of the local stock market. The costs of buying and selling include stockbroker's commission as well as the difference between the buying price and the selling price.

6.4.1 Ordinary Shares

The holder of an ordinary share in a company is a part-owner of the company and is entitled to share in its profits in the form of dividends. Dividends are paid out of the company's profits as decided by the directors. There is no certainty that a company will make profits and thus no certainty if there will be dividend. Dividends are usually paid bi-annually as income to shareholders.

6.4.2 Preference Shares

These are shares which give the holder the right to a fixed dividend provided enough profit has been made. This right takes precedence over the right of ordinary shareholders to dividends. Although the dividend from this asset is fixed, it is not interest payment and may not be paid if profits are not made.

Dividends of preference shares are usually lower than common dividends granted to common shareholders. The dividend will never be more than the fixed rate even if profits are more than enough to warrant so. Preference shares are slightly more secure than ordinary shares but with less return potential. These assets are like a hybrid containing the structures of both an equity and a debt instrument or fixed income combined into one.

In the event the company winds up, preferred shareholders have the right to be compensated from the company assets first after holders of debt papers and before normal shareholders or stockholders. Preferred shareholders do not have voting rights.

6.4.3 Advantages and Disadvantages

Advantage:

- Shares provide potential good dividends, capital appreciation and liquidity (since they are easily traded in open market)

Disadvantages:

- Shares have risks as their value can go below the price the shares were originally bought for, especially in times of market downturns

6.5 Unit Trusts

Unit trusts are useful vehicles for small private investors. In Malaysia, unit trusts are authorized and supervised by the Securities Commission Malaysia. It is a pool of funds contributed by many investors, kept in trust by a trustee (usually a bank) and managed by a professional fund manager or a team of fund managers.

Unit trust investment comprises of an array of funds ranging from equity, bond, fixed income, balanced fund etc. which is established by a trust deed. This deed enables a trustee to hold the pool of money and assets in trust on behalf of the investors. Investment manager (fund manager) manages the pool, manages the portfolio of investments and administers the buying and selling of shares in the unit trust. This is essentially a 4-way arrangement among – investors, unit trust operating company, trustee and fund manager.

Unit trusts chosen should match the investment objectives of the particular investor. All unit trusts are required to clearly state their investment objectives in their prospectus. Every investor should have this prospectus and understand it before buying into the unit trust. The types of assets that may be bought by the fund manager are also specified in the objectives of the trust contained in the trust deed.

Advantage of unit trust

- The risk is spread out over the assets
- Investment services are provided by professional fund managers
- Dividends can be reinvested into the selected fund in the form of additional units to unit-holders
- Malaysians who contribute to the Employees Provident Fund (EPF) are allowed to utilized a portion of their EPF account to invest in funds offered by approved unit trust operating companies

Some people tend to compare single premium investment-linked (SP-IL) life insurance with unit trusts because of similarities in the investment approach. However, there are a few variations or slight differences too.

Similarities and Differences between UTs and SP-IL

	UTs	SP-IL
1. Regulator	Securities Commission (SC)	Bank Negara Malaysia (BNM)
2. Investment Approach	Acquisition of units in funds entailing a spread of assets Wide array of funds available for selection	Acquisition of units in funds entailing a spread of assets Array of funds available for selection, although array offered by insurers may generally be less than that offered by a UT company
3. Fund Price Validation	Daily validation	Daily validation
4. Life Protection Element	No sum assured on investor's life Not an inherent feature of UT products	Minimum sum assured of 125% of initial Single Premium, 105% for senior ages and sub-standard cases
5. Cost of Insurance & Policy Fee	Nil	Both are chargeable
6. Top-Up	Allowed at any time	Allowed at any time
7. Fund Switch	Allowed	Allowed
8. Sales Charge	Charge imposed by some UT schemes may be slightly higher than 5%	Usually 5%
9. Trustee	Must be appointed	Trustee appointment not

	Small trustee fee is charged	compulsory. At the discretion of the board of directors If no trustee, then no trustee fee
10. Fund Management Fee	Usually up to 1.5% of account value charged annual, depending on fund category	Usually up to 1.5% of account value charged annually, depending on fund category
11. EPF Withdrawal	Can make withdrawal from EPF to buy	Cannot make withdrawal from EPF to buy

6.6 Properties

Real estate has always been an investment vehicle. There are basically 3 types of real estate investments. These are (a) agricultural property, (b) residential property and (c) commercial/industrial property, in Malaysia and overseas.

The price of an agriculture property depends on the following factors:

- Quality of the land as reflected by the quality and profitability of the crops grown
- The location of the land
- The type of crops grown, example: rubber, oil palm, fruits
- Existing facilities on agriculture property, example: processing mill, storage house, power supply

On the other hand, the price of residential and commercial/industrial properties generally depends on the following factors:

- Location and types of buildings on the land
- Availability of infrastructure, example: public transportation like LRT or MRT
- Reputation of the developer

6.6.1 REITs

Another popular form of real estate investment is known as Real Estate Investment Trust (REIT). The concept of a REIT is similar to a unit trust as the money is invested by many investors. Apart from investing in and managing properties, REITs distribute rental income as dividends back to the investors. REITs are traded on Bursa Malaysia like equities. Some REITs target at specific real estate like shopping malls while others invest in a variety ranging from shopping malls, office blocks, apartments and warehouses to hotels; while some invest in a specific region.

6.6.2 Advantages and Disadvantages

Property is a low risk investment which provides good capital appreciation and steady flow of income. By mortgaging the property, capital financing can be obtained. If financed by a financial institution, property owners need to pay the annual Assessment Tax and the Land Tax (or Quit Rent).

At the time of the purchase of a property in Malaysia, the initial fees that have to be paid are:

- Legal fee
- Stamp duty
- Mortgage loan agreement fee
- Valuation fee

For properties sold within 5 years after their purchase, the Real Property Gains Tax (RPGT) on the gain (sale price over acquisition price) will be imposed on the seller. RPGT rates depend on how long the seller holds the property:

- 30% if disposed within 3 years
- 20% if disposed within 4 years
- 15% if disposed within 5 years

6.7 Sukuk

"Sukuk" is the Arabic term for financial certificates and is commonly referred to as the Islamic equivalent of bonds. Since fixed income (interest-bearing bonds) are not permissible in Islam, sukuk securities are structured to comply with Islamic law and its investment principles which prohibit the charging or paying of interest. Malaysia is the world's largest issuer of sukuk.

Sukuk is similar to an obligation backed by an asset but is not really a bond because it is not based on debt. It can be regarded as a commercial paper which gives the investor a share of ownership in the underlying asset. It is considered less risky than conventional bonds. In the event of default, ownership of underlying assets of the issuer will be transferred to the holders of the papers – this provides a form of protection to holders.

Sukuk papers are securities which have the following characteristics:

- They are issued by pooled funds (mutual funds)
- They are based on hard assets that generate steady income and expectations
- They may be guaranteed or not by their originators
- Investors receive a fee equal to the income of the underlying assets
- These securities are issued by Special Purpose Vehicles (SPVs), often subsidiaries of banks or trusts called SPVs
- Sukuk may be issued in USD

- Sukuk papers differ from conventional bonds because they are based on tangible assets instead of being based on the debt

6.8 Capital Guaranteed Funds (CGF)

A CGF is an investment vehicle offered by certain institutions that guarantee the investor's initial capital from any losses. On one hand, the fund guarantees the invested capital while on the other hand; the return is capped at a specific rate although the actual investment experience may be higher. If you do not redeem your investment before the maturity date, it is guaranteed that you will not lose any money.

6.9 Commodities

Commodities represent an avenue for investors to venture out of stocks or bonds with the objective of gaining from price movements. A popular way to do so is by a future contract (an agreement to buy or sell in the future a specific quantity of a commodity at a specific price – speculating future price movements). Apart from deploying futures for hedging purpose, speculating on price movements itself is a high risk exposure.

Chapter 6: Self-Assessment Questions:

1) Malaysian T-bills are debt instruments that are considered safe because
   i) They are issued by the Government of Malaysia
   ii) They are short-term instruments
   iii) They are guaranteed by the World Bank
   iv) Their tenure is normally 12 months
   a) i, ii, iii and iv
   b) i, ii and iii
   c) i and ii
   d) i, ii and iv

2) Which of the following statements are correct?
   i) Normally, when interest rates fall, the prices of fixed income or bond assets may rise; when interest rates rise, their prices may drop
   ii) Government bonds are safer than corporate bonds but their returns are comparatively lower
   iii) The maturity period of short-term government bonds is usually less than 5 years; for the medium-term ones, it is usually 5-10 years and for the long-term ones, it is usually above 15 years
   iv) Preference shares are hybrid securities with both equity and fixed income characteristics. In the event the company concerned winds up, preferred shareholders have the first right to be compensated from the company assets first before normal shareholders
   a) i, ii, iii and iv
   b) ii, iii and iv
   c) i, ii and iii
   d) i and iv

3) The similarities and differences between unit trusts and single premium investment-linked plans are:
   i) The investment approach of both are similar
   ii) The life insurance protection element is not part and parcel of unit trust products, whereas for single premium investment-linked plans, it is

iii) Unit trusts do not impose COI and policy fee charges since the life protection element is absent
iv) A trustee must be appointed for unit trusts but this is not compulsory for single premium investment-linked plans
a) i and ii
b) i, ii, iii and iv
c) ii, iii and iv
d) i and iii

4) Which of the following statements about REITs it NOT true?
a) REITs operate in a way similar to unit trusts
b) Rental income from the properties invested by a REIT is distributed to investors in the form of dividend
c) A REIT can invest in a wide range of properties like malls, office blocks, apartments, commercial lots, hotels etc
d) REITs may acquire shares in property development companies

5) Which of the statements below is incorrect?
a) Sukuk are like bonds but they are based on Shariah-compliant principles
b) Malaysia is the world's largest issuer of sukuk
c) Sukuk securities are issued by Malaysia in Ringgit only
d) Sukuk securities issued by Malaysia can be in USD

6) The protection offered by PIDM on the deposits placed in banking institutions are policies bought from insurance companies operating in Malaysia is granted
i) To all banks, insurance companies, takaful operators, reinsurance companies and retakaful operators which have business operations in Malaysia
ii) Only to banks, insurance companies and takaful operators which are member institutions of PIDM
iii) With a levy charged to all member institutions and non-member institutions at differing rates

iv) With a levy charged to member institutions

a) i and iii

b) i and iv

c) ii and iv

d) iii and iv

Chapter 7 – Common Types of Investment-Linked Funds

7.1 Introduction

Just as for unit trust plans, the investment aspect of investment-linked plans involve channeling a portion of policy owners' money to acquire units in funds administered by professional fund manager.

7.2 Fixed Income/Cash and Money Market Funds

These funds target at assets which have been elaborated. Please refer to Chapter 6 – 6.2 and 6.3.

7.3 Equity Funds

This type of funds acquires units of stocks in companies. Most fund managers design such funds to allow a minor portion in cash/money markets for temporary hold after units of a certain stock are sold and before channeling them to another stock when the timing is right. Chapter 6 (6.4) gives you an explanation of equities.

7.4 Property Funds and REITs

These funds invest either in:

- Property development companies: involve acquisition of stocks in development companies
- REITs: invest in real estate (refer to Chapter 6, 6.6.1)

7.5 Managed Funds

Managed funds invest in various asset categories such as in equities, fixed incomes, properties, cash/money markets etc.

7.6 Balanced Funds

Also called hybrid funds, these comprise specified proportions of specified asset categories.

7.7 Specialized Funds

These funds are designed with specific themes or regions in mind. Example: Asia Pacific Fund, Emerging Markets Fund etc.

7.8 Sukuk

Some life insurers also offer sukuk. This is because sukuk is increasingly popular among Malaysians due to its positive historical performance and growth potentials. With strong support from the Malaysian Government and mega corporations, sukuk is gaining dominance in the Malaysian capital market and is gaining ground in terms of transaction volumes.

7.9 RISKS vs RETURNS of Investment-Linked Funds

Bonds are less volatile compared to equities. Malaysian bonds are less volatile than global bonds. Bonds return are stable, however they provide lower return potentials as compared to equities. Return potentials for equities can be significantly higher, especially during periods of market buoyancy.

Risk of loss facing investment-linked equity funds can be softened by the mechanism of Dollar/Ringgit Cost Averaging via continuous contributions and/or topping up to the fund concerned over a long horizon, and the spread-out to various stocks in one equity basket.

Another advantage of IL funds is the services of professional fund managers who manage the transactions on behalf of policy owners. An ordinary person who is not an adept stock market player may not have the necessary knowledge, information and experience to aim and time correctly. Neither does he have the time to keep close watch on market trends.

Policy owners of investment-linked plans rely on professionals to manage for them – that is a key difference between investing directly in the stock market on one's own and investing via IL – which at the same time also caters for protection.

Chapter 7: Self-Assessment Questions:

1) Sukuk is gaining ground in terms of transaction volumes in Malaysia, including for investment-linked funds because
   i) This investment vehicle is becoming more popular among investors
   ii) Of the strong support from the Government and mega corporations, especially Malaysian ones
   iii) Of its higher return experience compared to conventional bonds because of special incentives provided by the Government
   iv) It is traded only in Malaysian Ringgit
   a) i, ii and iii
   b) i and ii
   c) ii and iii
   d) i, ii, iii and iv

2) The average yield of Malaysian T-bills with tenures of 6-12 months is
   i) Around or slightly better than 3%
   ii) Normally around 4-5%
   iii) Normally of very low volatility ratio but in periods when the Government embarks on mass mega projects and needs funding, it may issue bills with yields as high as corporate bonds
   iv) With wide variance, depending on the type of bill
   a) i
   b) ii and iv
   c) i, ii, iii and iv
   d) iv

3) It is safer to rely on professional fund managers appointed for investment-linked funds than to invest directly in the stock market because
   i) An ordinary individual is generally not equipped to identity the right stock that will reap gain
   ii) The professional fund managers' role is to ensure the assets and vehicles achieve a certain minimum growth rate according to the various stages of

time span; otherwise, the fund managers and life insurer will be obligated to make up the shortfall

iii) It is not easy for an ordinary individual to pick the right time to buy and the right time to sell for optimizing capital gains

iv) Ordinary individuals, especially those occupied with work, do not have the time and knowledge to properly monitor market trends

a) i, ii, iii and iv

b) i, iii and iv

c) i, ii and iii

d) ii, iii and iv

4) Malaysian bonds are deemed to be

i) More volatile than global bonds

ii) Less volatile than global bonds

iii) Rated at very high preference because the country's economy is growing vibrantly

iv) Experiencing better yields than global bonds for many years

a) i and iii

b) ii

c) iii and iv

d) iv

5) Compared to government bond funds, corporate bond funds have

i) Lower yield and lower risks

ii) Higher yield and higher risks

iii) More or less similar yield and risk ratios

iv) A longer tenure

a) i, ii, iii and iv

b) ii

c) iii and iv

d) iv

6) If an insurer has an investment-linked fund tracking the FBM-KLCI index, it means
   i) The fund manager refers to the index as the benchmark for guiding the fund’s investment strategy and also the return targets in the ensuing years
   ii) The insurer is obligated to grant the returns according to the ratios experienced by the index. If the actual return of the fund in any period is lower than that shown by the index, the insurer will top up the difference
   iii) The fund invests in the same stocks of the companies identified by the index
   iv) The fund invests in stocks of companies in the same industries as the companies identified by the index
   a) i and iv
   b) ii
   c) i and ii
   d) iii

Chapter 8 – Pertinent Guidelines on Investment-Linked (IL) Business

8.1 Guidelines on Investment-Linked Business

In addition to the SAM rule, some of the pertinent points regarding the IL Guidelines issued by BNM relevant to the knowledge of agents are:

- Agent must ensure professional and proper conduct in the sales/marketing of IL insurance policies
- The valuation of units shall be carried out every business day
- Insurers may undertake unit splits for any IL fund, provided these conditions are met:

(a) A unit split/combination can only be done once in a financial year

(b) The unit split may only be exercised when there is a sustainable appreciation in the NAV over a 6-month period preceding the split. This refers to an increase in the average monthly NAV from 1 month to another over the 6-month period.

- In the case of premium holidays, insurers are required to explicitly seek policy owners' consent before deducting from the fund any charges for riders
- The requirement for minimum death benefits does not apply to top-up premiums. As such, the whole of the top-up premium can be used to purchase units
- If a policy is cancelled with the 15 days free-look period, the insurer shall refund:

(a) The unallocated premium

(b) Value of units that have been allocated at the unit price at the next valuation date

(c) Any insurance charges and policy fee that have been deducted; less expense which may have been incurred for the medical examination on the life insured

- Insurers shall provide a separate Fund Fact Sheet for each of its IL funds
- Insures shall provide to each policy owner a statement on the value of his/her policy at least once a year
- Insurers shall provide to each policy owner a report on the performance of each IL fund in which the policy owner has units at least once a year

Insurers shall publish the latest NAV per unit of all IL funds daily in at least one widely-circulated English and one widely circulated Bahasa Malaysia national newspapers, and on the insurer's website

- The initial offer period (of a new fund) shall not exceed 2 months. Where the minimum required fund size is not reached, the insurer shall refund monies contributed with any interest/investment profits earned on premiums received during the offer period
- The maximum gross rates for sales/marketing illustrations for various types of funds should be within the limits as follows:

Illustrated Return for Generic Funds	X%	Y%
Equity	2%	9%
Managed	3%	8%
bond	4%	7%

The maximum period of projection for both single premium and regular premium plans should not exceed 30 years to avoid inappropriate expectations.

Chapter 8: Self-Assessment Questions:

1) Valuation of units in an investment-linked fund must be done
   a) 6 days in a week, including Saturdays (half day)
   b) Every business day
   c) Everyday
   d) 7 days a week. For a day that falls on a weekend or a public holiday, valuation processed by the automated system will be based on the same unit price as the previous business day

2) The guidelines stipulated by the regulatory authority in allowing a life insurer to undertake unit splits for an IL fund once a year is on the condition that "there is sustainable appreciation on net asset value (account value) over a 6-month period preceding the split". Which of the statements below is correct regarding the above statement?
   a) This means that appreciation over the 6-month period must be considered substantial by reasonable standard compared to the previous 6 months
   b) This refers to an appreciation rate of at least 20% at the end of the current 6 months over the previous 6 months
   c) This refers to an increase in the average monthly net asset value (account value) consecutively for 6 months
   d) This means that the discretion to define "sustainable appreciation" may lie with the life insurer as long as there is growth in the fund in the prevailing 6 months over the previous 6 months, subject to the approval of the board of directors

3) Since part of the initial premium of a regular premium IL plan may already have been allocated and invested to acquire fund units by the time the customer decides not to take the plan within the 15 days free-look period, in what manner will the refund be made?
   a) Refund of full initial premium
   b) Refund of full initial premium minus policy fee and medical examination expenses (if any) incurred by the life insurer

c) Refund of unallocated premium + net asset value (account value) at next valuation date + insurance charges and policy fee already deducted – medical examination fees if any
d) Refund of unallocated premium + net asset value (account value) – cost of insurance and policy fee-medical examination fees if any

4) Life insurers offering IL insurance are obligated to provide certain fundamental “transparencies” as required by regulatory guidelines. These are:
   i) A separate Fund Fact Sheet for each of the funds
   ii) A statement on the policy owner’s net asset value (account value) details at least once a year
   iii) A performance report on each fund of the policy owner at least once a year
   iv) Publishing of fund unit prices daily in at least one notional English newspaper and one national Bahasa Malaysia newspaper, and on the insurer’s website
   a) ii, iii and iv
   b) i, ii and iii
   c) i and ii
   d) i, ii, iii and iv

5) Which of the statements below regarding sales illustrations for IL plans are correct?
   i) The high and low projection for an equity fund should not be above 2% and 9% respectively for the first 20 years
   ii) The low and high projection for a managed fund should not be above 3% and 8% respectively for the first 20 years
   iii) The low and high projections for a fixed income/bond fund should not be above 4% and 7% respectively for the first 20 years
   iv) For projected illustrations beyond 20 years, insurers must abide by the low scenario rates of 2%, 3% and 4% for equity funds, managed funds and bond funds respectively. The high scenario rates for the same three funds are 6%, 5.5% and 5% respectively

a) i, ii, iii and iv
b) i, ii and iii
c) i and ii
d) ii, iii and iv

6) What are the pre-requisites for the launch of a new IL fund?
   i) A minimum fund size can be set by the insurer
   ii) The initial offer period shall not be more than 2 months from the date of launch
   iii) If the minimum fund size is not reached by the end of the initial offer period, the insurer can call off the fund and refund all premiums collected
   iv) The insurer will also have to pay interest or profit from the premiums collected during the initial offer period to the intended policy owners
   a) i and ii
   b) i, iii and iv
   c) i, ii, iii and iv
   d) i, ii and iii

Chapter 9 – Agents Professional Approach and Guidelines

9.1 Introduction

We shall look at the process of marketing and selling IL life insurance and the guidelines for agents in conducting IL life insurance business in Malaysia.

9.2 Marketing

Customers should be buying policies which they understand, meet their needs and affordable. On the other hand, agents need to sell policies with the objective of satisfying customers' requirements and needs while also earning an income.

With personal selling, the objective of satisfying customers' requirement can be achieved through the use of financial needs analysis, knowing the customer tools, sales illustrations and other materials approved and provided by the insurance company – these tools are important as they allow insurance agent to render proper advice to the customer.

An agent who engages in personal selling requires:

(a) Product knowledge
(b) Market knowledge
(c) Knowledge of the buying process
(d) Knowledge of the selling process
(e) Selling technique

9.3 Consumer Buying Decision Process

Knowledge of the consumer's buying decision process is important to an insurance agent because it helps the agent to adjust to different consumers' needs.

There are 5 stages in the consumer buying decision process:

(a) Problem Recognition

At this stage, the consumer becomes aware of the threat of risks or a potential opportunity and feels the need for the product to protect him from financial difficulties or to satisfy his needs. Agents are to conduct a proper fact-find process before moving to the product package identification stage. Also, agents must utilize their respective company's Customer Fact-Find (CFF) form. Minimum details required to be recorded in an insurer's CFF are:

- Personal details
- Personal and family circumstances
- Objectives with regard to various needs, i.e. protection, retirement, children's education, savings and retirement
- Risk appetite or tolerant
- Elements identified in a financial needs analysis
- Advice by agent/intermediary

- Recommendation of appropriate product by the agent/intermediary
- If the intended new policy owner prefers to be given specific product information only, he should declare so in the form
- Signature of the intended new policy owner as evidence he has gone through the fact-find process and documentation with the agent/intermediary
- Signature of the agent/intermediary as evidence and witness that the due process has been carried out

Prospective policy owner has the option to either fully or partially declare his financial status or prefer product information only. However, he is encouraged to go through the entire process to ensure the product package finally selected by him fits his needs well.

(b) Information search

When the needs have been perceived, the consumer searches for information and shop around. The intensity for these efforts depends on:

- The consumer's experience in purchasing the product
- The importance of the purchase (benefits from the purchase)
- The value involved

(c) Evaluation of alternative policies

The consumer will decide on which seller to buy from. Studies shown that the selections of insurers are:

- Reputation of the insurer (60%)
- Quality of coverage and services provided (26%)
- Policy benefits (14%)

Other factors which have influence on consumer buying decision are:

- Agent's personality and friendliness
- Agent's professional capability
- Premium and other terms

(d) Purchase

Consumers make decision after evaluating the alternative products based on criteria and factors set by the consumer himself (which often are influenced by personal, public and market-dominated sources)

(e) Post-purchase evaluation

After purchase is made, buyer begins to evaluate his purchase. The agent who delivers a policy promptly, keeps in contact with his customers, and provides important information of risk evaluation will have a better chance of securing the loyalty of his customer at the time of renewal

9.4 The Selling Process

The process of personal selling involves 5 basic steps:

(a) Locating the prospective customer

An insurance agent's potential customers are called prospect. Prospecting involves identifying, contacting and qualifying potential customers. The name of prospects can come from many sources including: Current and past customers, friends, relatives, neighbors, business associates, social and professional contacts, mailing lists and directories, and many more.

(b) The sales presentation

The sales presentation is the promotional message an insurance agent delivers to a prospect to explain, stimulate interest in, and motivate the prospect to purchase the product(s) recommended in the proposal. It is important to note that insurance agents must use sales brochures or sales illustrations that are authorized by the insurer.

(c) Conducting the sales interview

An insurance agent must firstly gain the attention of the potential customer, secondly develop prospect's interest via sales presentation, and thirdly create a desire for the product which would satisfy the prospect's need.

(d) Handling objections

The success of the sales interview hinges on the effectiveness of the insurance agent's skill in handling objection.

(e) Closing the sale

If the presentation is successful, the sale will be made. Sales are not always closed at the end of the first presentation. If more meetings are required, the insurance agent should try to set a date for a follow-up interview.

9.5 After-sales services

The follow-up stage helps ensure that customers remain satisfied with the purchase. After-sales calls on customers also help reduce customers' further questions and concerns, if any. In the after-sales calls, the agent can address the customer's concerns and reinforce the customer's original decision to buy the product.

Most insurance companies have rules and regulations on activities that must be completed between the time a policy is sold and the time the policy is issued, such as:

- Making sure that the application is complete and that all the proposer's answers have been recorded accurately and clearly
- Providing timely response to any applicant's or company's questions or request

The delivery of a policy is also an important aspect of providing after-sales service because it gives agent an opportunity to perform the following:

- Address any post-sales concerns that policy owners may have and reassure them about their decision in buying the policy
- Provided a basis for future sales by reminding the policy owner about any currently unmet or future financial needs or expectations
- Re-emphasize the insurance agent's commitment to providing the policy owner quality service
- Encourage the policy owner to call the agent if there is any problems or questions that need to be answered
- Explain the policy's provisions, terms and conditions
- Obtain the names of referred leads and other prospects
- Strengthen the customer relationship and help encourage persistency

After explaining the contractual provisions and benefits during the delivery, agents must ensure new policy owners sign the delivery acknowledgement slip and indicate the date of receipt. Then, agents must return the signed acknowledgement slip to their principal for recording and filing. This is important because the 15 days free-look or cooling-off period commences from the date of policy delivery acknowledged by the new policy owner.

Agents selling IL products should conduct reviews on their client's investment profile and investment progress periodically – ideally once a year – and discuss alternative next steps for consideration by the client, if necessary.

9.6 LIAM guidelines on the code of conduct

The guidelines formulated by Life Insurance Association of Malaysia (LIAM) for self-regulating the life insurance business apply to the investment-linked life insurance business as well:

Part I – Guidelines on the Code of Conduct
Part II – Life Insurance Selling
Part III – Statement of Life Insurance Practice

9.6.1 Part I – Guidelines on the Code of Conduct

This part deals with the following aspects concerning the Code of Conduct:

(a) Statement of Philosophy (b) Coverage (c) Monitoring Devices

(d) Seven Principles of the Guidelines (e) Code of Conduct

9.6.1.1 Statement of Philosophy

These guidelines hinge on the following:

i. The life insurance business is based on the philosophy of risk sharing and be operated and administered with the highest degree of integrity and ethics

ii. It is a business based on trust and honesty, requiring a high degree of responsibility and professionalism
iii. The confidence of policy owners and members of the public in the integrity and honesty of life insurers shall be safeguarded and enhanced
iv. Life insurers shall at all times see that their business is soundly managed to ensure the safety of policy owners' savings and the credibility of their companies

9.6.1.2 Coverage

The guidelines cover all employees of a life insurer operating in Malaysia. Insurers are free to formulate more comprehensive set of rules.

9.6.1.3 Monitoring Devices

To ensure that guidelines are abided by, the management of a life insurance company is required to establish the following minimal procedures:

i. Require all employees to sign a declaration to observe the guidelines
ii. Require all intermediaries to sign a declaration to observe the guidelines
iii. Assign responsibility to the heads of department to ensure compliance with the guidelines on a day-to-day basis and to handle enquiries from employees on matters relating to the code of conduct
iv. Report breaches observed to an audit/disciplinary committee which reports directly to the Board of Directors. In addition, the committee is required to submit quarterly reports to BNM on breaches observed and the actions taken on these
v. Maintain centralized records of breaches
vi. Report immediately cases of fraud to the police and BNM

9.6.1.4 The Seven Principles Underlying the Guidelines

i. To avoid conflict of interest
ii. To avoid misuse of position
iii. To prevent misuse of information
iv. To ensure completeness and accuracy of relevant records
v. To ensure confidentiality of communication and transactions between the life insurance company and its policy owners and clients
vi. To ensure fair and equitable treatment of all policy owners and others who rely on or who are associated with the life insurance company
vii. To conduct business with the utmost good faith and integrity

9.6.1.5 Code of Conduct Only a Guide

The guidelines serve as a guide to promote proper standards of conduct and establishing sound and prudent business practices

i. It is not the intention of the guidelines to restrict or replace the matured judgment of employees in conducting their day-to-day business

ii. When in doubt as to matters relating to the code of conduct, employees are to seek guidance from their respective heads of department.

9.6.2 Part II: Life Insurance Selling

i. Introduction
ii. General Sales Principles
iii. Explanation of the Contract
iv. Disclosure of Underwriting Information
v. Accounts and Financial Aspects

9.6.2.1 Introduction

9.6.2.2 General Sales Principles

The intermediary shall:

- When he makes contact with the prospective policy owner, make it known that he is an agent of which insurance company and product his Registered Intermediary Authorization Card to identify himself
- Ensure as far as possible that the policy proposed is suitable to the needs and not beyond the resources of the prospective policy owner
- Give advice only on those matters in which he is competent to deal with and seek or recommend other specialist advice if this seems appropriate
- Treat all information supplied by the prospective policy owner as completely confidential to himself and the life office which he represents
- In making comparisons with other types of policies or other forms of investment, make clear the different characteristics of each policy/investment
- Render continuous service to the policy owner

The intermediary shall not:

- Make inaccurate or unfair criticism of any insurers
- Attempt to persuade a prospective policy owner to cancel any existing policies unless these are clearly unsuited to the policy owner's needs

Twisting is strictly not allowed and action will be taken if 'twisting' is proved. Twisting is a form of misrepresentation in which a policy owner is induced to discontinue an insurance policy to purchase a new policy with another company or the same company, without the policy owner being clearly informed of the differences between the two policies and of the financial consequences of replacing the original policy.

9.6.2.3 Explanation of the Contract

i. The intermediary shall explain all essential provisions of the contract and ensure that policy owner understands it.
ii. Where a policy offers participation in profits or investment performance, descriptions of the benefits shall distinguish between fixed and projected benefit

iii. Where projected benefits are illustrated, it should be made clear that the benefits may be lower or higher than those presumed
iv. Where an intermediary has been supplied with an illustration by the life insurer, he shall use the whole illustration and shall not add to it or select only the most favorable aspects of it.

9.6.2.4 Disclosure of Underwriting Information

i. Avoid influencing proposer
ii. Ensure consequences of non-disclosure and inaccuracies are pointed

9.6.2.5 Accounts and Financial Aspects

i. Acknowledge all receipt and maintain a proper account of all monies received
ii. Forward to the company without delay any monies received for life insurance

9.6.3 Part III: Statement of Life Insurance Practice

i. Introduction
ii. Claims
iii. Proposal forms
iv. Policies and accompanying documents

9.6.3.1 Introduction

The aim of this part is to reduce the formalities involved in the issue of new policies and payment of a claim.

9.6.3.2 Claims

i. The guidelines require that an insurer may not unreasonable reject a claim
ii. If there is a time limit for notification of a claim, the claimant will not be expected to do more than to report a claim and subsequent developments as soon as reasonably possible
iii. Upon the claimant proving the insured event and the right to receive the claim, the claim has to be settled without undue delay
iv. The insurer shall not collect any claim processing fees from the policy owner or the beneficiary

9.6.3.3 Proposal Forms

i. If the proposal form calls for the disclosure of material facts, a statement should be included in the declaration or on the form:
ii. A life insurer shall provide a copy of the proposal form relating to the policy owner together with the policy

9.6.3.4 Policies and Accompanying Documents

i. Insurers will continue to develop clear proposal forms and policy documents taking into consideration the legal nature of insurance contracts
ii. The policy and accompanying documents must indicate whether there are rights to a surrender value. If the policy carries a right to a surrender value, then this right must be indicated

In respect of a proposal for whole-life or endowment, the sales literature should bring out:

i. These are long-term contracts
ii. Surrender values, especially in the early years are often less than the total premiums paid. The policy will not have a cash value on termination until the policy owner has paid premium for 3 years or more

9.7 Guidelines on Minimum Standards for Treating Customers Fairly (TCF)

Agents should take note of the following:

- Customers are fully informed about the key benefits, key risks and exclusions
- Agents should be well-trained, especially in investment and savings product
- That products are sold based on customer’s suitability, needs and risk appetite.

Chapter 9: Self-Assessment Questions:

1) Which of the following statements are correct?
   i) Agents must utilize the sales materials and sales illustrations provided by their respective principal in their sales process
   ii) Agents must utilize the sales materials and sales illustrations provided by their respective principal in their sales process. However, they may have the discretion to supplements these provided the facts do not deviate from those in the materials and illustrations provided by the principal
   iii) Only the signature of the intended new policy owner must be obtained on an insurer's Customer Fact-Find (CFF) form
   iv) The sales intermediary must also sign the CFF form as witness after the intended new policy owner has signed
   a) i, ii and iv
   b) i and iii
   c) ii and iv
   d) ii and iii

2) As soon as a policy contract has been issued by a life insurer
   i) The insurer is to mail (by registered mail) the policy contract to the correspondence address of the new policy owner. The registered mail slip should suffice as evidence that the contract has reached the policy owner
   ii) The agent should deliver the policy contract without delay
   iii) The delivery process should entail the explanation of the contractual provisions and re-explaining the benefits. The agent then has to request the new policy owner to sign the delivery acknowledgement slip. Finally, the agent must return the signed acknowledgement slip to the insurer for recording and filing
   iv) If the new policy owner is unavailable at the first time of personal delivery by the agent, acknowledgement of receipt of the policy contract signed by a representative of the policy owner's household or office shall be deemed valid. The agent does not need to follow up on this

a) i and ii
b) ii and iii
c) i, ii, iii and iv
d) i, iii and iv

3) Agents who have sold IL plans should conduct reviews with their clients ideally once a year. The purposes are
   i) To provide updates on the performance progress of fund/s selected by the clients
   ii) To discuss and ascertain whether the client's financial objectives might have changed due to certain circumstances
   iii) To discuss and ascertain whether the original risk profile of the client has changed due to certain circumstances
   iv) To discuss alternative next steps where necessary
   a) i, ii and iv
   b) ii, iii and iv
   c) i, ii, iii and iv
   d) iii and iv

4) The Code of Conduct pertaining to life insurance selling applies to
   i) All agents
   ii) All employees of life insurers
   iii) Insurance brokers
   iv) Agents and insurance brokers
   a) i, ii, iii and iv
   b) i and iii
   c) i and ii
   d) i, ii and iv

5) Which of the following statements are correct?
   i) Agents may design their own financial planning form to gather financial data and financial information of their prospective clients for analysis. However, the format must be approved by their principal

ii) The CFF form of a life insurer officially documents important facts concerning the financial data concerning a prospective policy owner and his family
iii) Cancellation of a policy is allowed if the request by a new policy owner falls within the 15 days free-look period. The period commences from the date the policy contract is passed to the agent for delivery
iv) The free-look period commences from the date the client signs the acknowledgement slip upon receiving the policy
a) i, ii and iii
b) i, ii and iv
c) ii and iv
d) i and iv

6) The pertinent points highlighted by the Guidelines on Minimum Standards for TCF for agents' attention are:
i) Agents should inform customers fully about the key benefits, key risks and exclusions
ii) Agents must first be well-trained, especially involving the sale of investment and savings products
iii) Agents must guide the customers as to what details are necessary to declare and what are not necessary so that the concise personal information captured in the application documents will cater for a smooth underwriting process
iv) The product being proposed to a customer should be based on suitability, needs and risk appetite
a) i, ii and iv
b) i, ii and iii
c) ii and iii
d) i, ii, iii and iv

Answers to CEILLI Self-Assessment Questions

	Q1	Q2	Q3	Q4	Q5	Q6
Chapter 1	C	D	D	C	C	A
Chapter 2	A	B	A	D	A	B
Chapter 3	B	B	B	C	C	B
Chapter 4	A	B	C	D	B	D
Chapter 5	C	C	C	B	A	B
Chapter 6	D	A	B	D	C	C
Chapter 7	B	A	B	B	B	D
Chapter 8	B	C	C	D	A	C
Chapter 9	A	B	C	C	C	A

CEILLI Examination: 100 Mock Questions:

1. What is the amount of life cover for Encik Ahmad who bought a single premium investment-linked whole life plan RM20, 000 single premiums?
   A. RM5,000
   B. RM10,000
   C. RM25,000
   D. RM30,000

2. What are the pertinent provisions an agent should take note under the treating customers fairly (TCF) guidelines?
   I. Customers must be well informed about the key benefits, key risks and exclusions.
   II. Agent should be well-trained.
   III. Agents should receive large commissions.
   IV. Products sold must be based on customers' needs and risk appetite.
   A. I, II and III
   B. I, II and IV
   C. II, III and IV
   D. I, II, III and IV

3. If a policyholder withdraws RM 2000 from 10000 units of his investment-linked fund and assuming the unit price is RM 2, how many units does he still have?
   A. 1,000 units
   B. 9,000 units
   C. 8,947 units
   D. 10,543 units

4. Funds that restricted to investment in particular geographical regions or industries are known as...................... Funds.
   A. Bond
   B. Managed
   C. Specialised
   D. Balanced

5. Mr. Tan, age 35, bought a single premium investment-linked life insurance by paying an initial premium of RM 50,000.00. Two year later, he paid an additional RM 30,000 as top-up. The total sum assured in Mr. Tan's policy after the top-up is
   A. A RM50,000
   B. B RM62,500
   C. C RM80,000
   D. D RM100,000

6. When in doubt about the code of conduct, employees can seek guidance from
   I. An experienced agent
   II. The company's management
   III. Bank Negara Malaysia
   IV. Their respective heads of department
   A. I, II and III
   B. I, II and IV
   C. II, III and IV
   D. I II, III and IV

7. Which of the following statements is true ?
   I. Equity assets are inherently lower risk in nature
   II. Bond funds are also known as ' income ' or ' fixed income ' funds
   III. Specialised funds are normally segmented based on geographical regions or particular industries.
   IV. Property funds are generally considered to be safer than equity funds, but have lower liquidity.

A. I, II and III
B. I, III and IV
C. II, III and IV
D. I, II, III and IV

8. Which of the following statements is true concerning debenture stocks?
A. Debenture stocks are not secured loans to a company
B. Interest rates for debenture stocks tend to be lower than government bonds
C. Debenture stocks pay a fixed interest rate at the end of which the capital is paid
D. If the company defaults on the loan , the investor cannot sell the company's property to get his money back.

9. From the statements about the similarities and differences between single premium investment-linked life insurance (SP-IL) and unit trusts (UTs) given below, select the statement that is NOT true.
A. EPF withdrawal is allowed for investment in both UTs and SP-IL.
B. Fund switching is allowed for both UTs and SP-IL.
C. A policy fee is charged only in the case of SP-IL.
D. Cost of insurance only applicable to SP-IL.

10. Which kind of investment vehicles allow small private investors to get professional investment management as well as access to a wide range and spread of investments?
A. Preference shares
B. Government bonds
C. Unit trusts
D. Derivatives

11. Investment-linked insurance offers investors policies where values are directly linked to

A. Actuarial profits
B. Actuarial valuation
C. Investment objectives
D. Investment performance

12. Identify the statement that is correct about ordinary shares and preference shares.

A. Dividends for ordinary shareholders are decided by the security commission.
B. Dividends will be paid to ordinary shareholders will never be more than the fixed.
C. The dividends of preference shareholders will never be more than the fixed rate.
D. Preference share are less secure than ordinary share.

13. Which of the following statements is NOT true?

A. Amount of funds available affects the investment decision.
B. The choice of Investment available does not depend on the availability of funds.
C. If the investor can set aside a fixed amount of current income which is surplus to his need, he can consider insurance policies.
D. None of the above

14. Which of the following statements is NOT true regarding ordinary shares ?

A. Shares are not risky
B. Dividends provide income from the investment
C. There is no certainty that there will be a dividend
D. Dividends are paid out of the company's profits as decided by the shareholders.

15. Which combinations do different type of investment produce ?

I. Capital gains
II. Residual sum

III. Capital acquisitions
IV. Regular income flow

A. I and III
B. I and IV
C. II and IV
D. III and IV

16. Which of the following are the monitoring devices used by life insurance to ensure the code of conduct guideline are observed?

I. All employees and intermediaries need to sign a declaration to observe the code of conduct guidelines.
II. All heads of department are responsible to ensure compliance in their day-to-day work.
III. Report cases of mis-selling to agency manager and allow them time to train their agents.
IV. Cases of fraud to policy and must be reported to Bank Negara Malaysia.

A. I, II and III
B. I, II and IV
C. II, III and IV
D. I, II, III and IV

17. Amount of premium allocated to buying of units is RM5,000

- Service charge: 5%
- Unit price: RM1/unit
- Mortality charge: 1%
- Policy fee: RM72

Based on the above information, calculate its cash value by using the single pricing method.

A. RM4,250
B. RM4,750
C. RM4,900
D. RM4,630.50

18. What are the benefits of investing in investment-linked funds ?

I. Diversification
II. Flexibility
III. Expertise
IV. Easy access to well diversified investments

A. I, II and III
B. II, III and IV
C. I, III and IV
D. I, II, III and IV

19. What are the overriding obligations of intermediaries?

I. To sell only for one insurer
II. To conduct business at all times with utmost good faith
III. To uphold integrity in conducting business
IV. To satisfy all customer demands

A. I and IV
B. I, II and III
C. II and III
D. III and IV

20. Assuming the nit price for single pricing method for single premium policy at time of withdrawal is RM3; calculate the withdrawal benefit if a policyholder withdraws 100 units.

A. RM285
B. RM180
C. RM300
D. RM250

21. The following are the secondary objectives of investment ,EXCEPT :

A. Safety
B. Hedging inflation
C. Retirement income
D. Achieving financial freedom

22. The guidelines on investment-linked business specify that the requirement for minimum........................... does not apply to top-up premiums.

A. Death benefits
B. Partial withdrawal amount
C. Switching amount
D. Premium holidays

23. Under the calculation of death benefits on unit value or death cover basis, what is the criteria for payment upon death?

A. The unit value
B. The unit value plus sum assured
C. The sum assured
D. Unit value or death cover, whichever is higher

24. Which using the single pricing method, what comprises the formula to determine the number of units a policyholder of an investment-linked life insurance policy is entitled to ?

I. Age of policyholder
II. The premium received
III. Iii .Deduction of policy charge
IV. The unit price

A. I, III and IV
B. II, III and IV
C. II and IV
D. II and III

25. The factors that do NOT influence the choice of deposits in a bank include

I. Prevailing market conditions
II. The gender of the depositor.
III. The funds available for investment
IV. The academic qualifications of the depositor

A. I and II
B. I and III
C. II and III
D. II and IV

26. Which of the following is NOT a benefit enjoyed by policy holders of investment-linked life plan

A. Non-flexibility
B. Easy access
C. Easy administration
D. Pooling or diversification

27. An investment-linked life insurance policy holder may make withdrawal in terms of the

I. Net cash value
II. Number of units
III. Fixed monetary amount

A. I only
B. II only
C. II and III i
D. I, II and III

28. Which of the following investment vehicles is categorised as fixed income securities?

A. Shares
B. Cash and Deposit
C. Corporate bond
D. Unit trusts

29. Which type of investment-linked fund has lowest risk?

A. A less diversified fund
B. A company with a big fund from many policy holders
C. A well-diversified Fund
D. A well-known insurance company specialising in certain fund

30. Which of the following are NOT key consideration in investments?

I. Funds available
II. Loans available
III. Risk or Security
IV. Actuarial Objectives

A. I and II
B. II and IV
C. II and III
D. III and IV

31. Deposit Insurance coverage includes the following, EXCEPT:

A. All current and savings deposit accounts and fixed deposits.
B. Foreign currency fixed deposits accounts
C. Islamic and conventional fixed deposits
D. Unit trust bought through bank

32. The death and disability benefits of an investment-linked policy are based on

A. The sum assured and guaranteed investment return
B. The sum assured and/or value of units
C. On the guaranteed investment return only
D. The minimum fixed value of units

33. During an equity market crash, ______________ are usually the first to depreciate in high amounts.

A. Property Funds
B. Balanced Funds
C. Cooperate Funds
D. Equity assets/funds

34. Why was the investment-linked life insurance policy introduced?

A. To offer investors to make more profits than the life policy with bonus
B. To provide investor with management advice
C. To Offer Investors life insurance policies with values linked directly to Investment performance
D. To offer investor life insurance cover together with a guaranteed investment return

35. Which type of Shares is Listed on the stock exchange and is available to ordinary investors?

A. Public Limited company shares which meets the Exchange's requirements
B. Private company shares.
C. Sole-proprietorships company shares
D. All Public limited companies shares

36. With investment-linked Products, policy holders are allowed to

I. Add a single premium top-up
II. Take premium holidays
III. Switch their investment between funds
IV. Change the level of the sum assured

A. I, II and III
B. II, III and IV
C. I, II, III and IV
D. I, II and IV

37. Debenture stocks pay a fixed interest rate for a fixed term. The company

A. Cannot repay The capital until the end of the fixed term
B. Can repay the capital earlier than the fixed term
C. Can negotiate the interest rate before the end of the fixed term
D. Can make a partial repayment of the capital before the end of the fixed term

38. Which of the followings are the stages of the consumer buying decision process?

I. Problem recognition
II. Information search
III. Evaluation of alternatives polices

A. I, II and III
B. II, III and IV
C. I, III and IV
D. I and III

39. The switching facility is provided in investment-linked life insurance policies is very useful for the purpose of

A. Financial planning by policy owners
B. Profit planning by life offices
C. Sales planning by fund managers
D. Asset planning by trustees

40. Premium Relief is allowable when the _______ is on the life of the spouse of the individual

I. Life insurance
II. Deferred annuity
III. General insurance

A. I only
B. II only
C. I and II
D. II and III

41. What need to be understood before giving clients advice on investment?

A. The amount of profit that can be made
B. The importance of managing investment
C. The key consideration in investment
D. The key consideration in management

42. In Malaysia, _______ could be considered as a good investment tool for a long term retirement plan

A. Fixed Deposit
B. Term life insurance
C. Equity investment
D. Real Estate Investment Trust (REIT)

43. Which type of investment Fund Fluctuates drastically in times of a volatile stock market?

A. Property Fund
B. Equity Fund
C. Fixed Deposits Fund
D. Specialized Fund

44. _____ will be imposed if a capital guaranteed fund is redeemed before its maturity.

A. Entry fee
B. Service charge
C. Redemption Fee
D. Processing Fee

45. ____________ review must be done if there is a major change that might have happened to the clients investment account.

A. A regular
B. An ad hoc
C. An emergency
D. An accidental

46. The promotional message delivered to a prospect by an agent is known as the

A. Marketing plan
B. Sales Presentation
C. Purchase Presentation
D. Sales report

47. Who has limited investment options?

A. A Speculative investor
B. A long term investor
C. An investor which large funds available
D. An investor with a small fund available

48. Short term government funding issued on a regular basis with repayment normally within a year is known as

A. Government bonds
B. Central bank bills
C. Finance bills
D. Treasury bills

49. Traditionally Guaranteed without-profit life insurance products do NOT include

A. Temporary Assurance
B. Non-participating whole life insurance
C. Investment linked life insurance
D. Non-participating endowment insurance

50. The payment made to the insured upon the cancellation of a policy is called

A. Investment value
B. Return of premium
C. Surrender Value
D. Penalty payment

51. If a policyholder buys units on the dual pricing basis, how many units can he get by paying RM10, 000 for a unit priced RM2?

A. 10,000 units
B. 8,000 units
C. 5,000 units
D. 6,000 units

52. Compared to traditional participating life policies, investment-linked life policies

I. Bear a higher degree of risk
II. Have the potential for higher return
III. Are subject to volatility in investment performance

A. I and II
B. I and III
C. II and III
D. I, II and III

53. For Single premium investment-linked life insurance the shortfall between the account value and sum assured is called

A. Premium holiday
B. Cost of insurance
C. Partial withdrawal
D. Sum at risk

54. Which of the following is considered INCONSISTENT with after-sales-service?

A. Providing a basis for future sales on current needs
B. Explaining the policy's provisions terms and conditions
C. Establishing the customer/agents relationship
D. Strengthening the customer/ agent relationship

55. What are the types of investment property funds?

A. Real estate only
B. Property Shares only
C. Individual property only
D. Real Estate and property shares

56. All the following are types of real estate investments, EXCEPT:

A. Liquid assets
B. Agricultural property
C. Commercial property
D. Domestic property

57. What is guaranteed under an investment-linked policy?

A. The fixed value of units
B. The annual investment income
C. The sum assured
D. The investment under property fund

58. If a regular premium investment-linked policy is cancelled with the 15 days free-look period, the insurer shall NOT refund the following:

A. The unallocated premium
B. Value of units that have been allocated
C. Any insurance charges and policy fee that have been deducted
D. All the initial premium plus 5% bonus unit

59. Why are the rules for the conduct of the insurance business and for the selling of competency standards required?

A. To ensure that business in increased
B. To get agents with good performance
C. To ensure that the highest standards required for insurance business transaction are maintained
D. To ensure that the reputation of insurers are protected

60. How do investment-linked life insurance policies work?

A. Part of the premium is used to purchase units in the fund at the price at the time of payment
B. Part of the premium after initial expenses is set aside to purchase units in the fund set up by the life insurance company
C. All of the premium is used to purchase unit trust
D. Part of the premium is reserved for the fund and profits are declared at the end of each year.

61. Investment-linked Permanent Health Insurance

I. Provide disability income
II. Contain cash value
III. No cash value
IV. Price is more competitive when compared to traditional with-profit life insurance product

A. I, II and III
B. I, II and IV
C. I, III and IV
D. II, III and IV

62. What is defined as 'the management process for identifying, anticipating and satisfying customers requirement profitably'?

A. Investment
B. Investment-linked
C. Marketing
D. Marketing investment

63. Which one of the following statements about Investment Trust is true?

A. The unit price is recalculated once a week
B. The unit price will be quoted every month in at least one national Bahasa Melayu newspaper and one national English language newspaper
C. The price reflect the value of the underlying investment
D. The unit price will not fluctuate in line with stock market prices

64. The 4 basic forms of life insurance cover include
   A. Whole life insurance, endowment insurance, mortgage insurance, key person insurance
   B. Whole life insurance, endowment insurance, term insurance, annuities
   C. Term insurance, annuities, medical insurance, health insurance
   D. Whole life insurance, endowment insurance, term insurance, personal accident insurance

65. In times of volatile stock market, the policyowner may want to switch all or part of his investment
   A. In cash fund and equity fund
   B. In managed fund to property fund
   C. In equity fund to cash fund in order to protect the capital value if he thinks the stock market will crash
   D. In balanced fund to equity fund

66. The total relief allowable for all insurance premium on the life of individual on his/her spouse and on contribution to approve provident funds (e.g. to EPF) in a basis year is
   A. RM3,500
   B. RM3,500 plus RM2,000 for children education and medical policies
   C. RM5,000
   D. RM5,000 plus RM2,000 for children education and medical policies

67. Under the single pricing method, Joo Eng pays a premium of RM4,000 for his single premium Investment-linked life insurance policy. The price per unit is RM1.00. The life office deduct a charge of 5%. The number of units that Joo Eng can buy is
   A. 4,200
   B. 4,000
   C. 3,800
   D. 380

68. A well-diversified investment-linked funds has

   A. Many professional fund managers who take care of many funds
   B. A better risk characteristics than a less-diversified fund
   C. A simple designed product which cater separately for investment and insurance protection
   D. Provision of flexibility to change the level of premium payment and take premium holidays

69. Customers who have purchased policies from an organization who are sales-oriented, usually ended buying policies which

   I. They do not understand
   II. Cannot meet their needs
   III. Can meet their needs
   IV. They surrender for its value or paid-up

      A. I, II and III
      B. I, II and IV
      C. I, III and IV
      D. II, III and IV

70. Conducting the fact-finding requires an agent to obtain relevant information like

   A. What is the sex of the customer
   B. What are the customer's hobbies
   C. What are the customer's personal details
   D. What is the favorite fruit of the customer

71. What is the extra knowledge/requirement needed for an investment-linked life insurance agent?

   A. All relevant knowledge about technical aspect of life insurance, coverage and scope
   B. All aspects about life cover
   C. All aspects of life insurance and legal requirement
   D. The financial advice in order to fulfill the customer's needs

72. What are the 3 components of accessibility of fund?

I. If individual requires the fund in a short period of time

II. Cost or penalty of realizing the investment before the maturity period

III. Individual's attitude towards risk

IV. The initial cost in setting up or buying into the investment

A. I, II and IV

B. II, III and IV

C. I, II and III

D. I, III and IV

73. What are the key considerations in investment?

I. Fund for education

II. Improvement in their financial position

III. Income for retirement

IV. Depositors' academic qualification

A. I

B. I and II

C. I, II and III

D. All of the above

74. What if an investor has a small amount of free funds?

A. Certain types of investment are not accessible to the investor

B. Most types of investment are not accessible to the investor

C. All types of investment are accessible to the investor

D. Only variable life insurance is accessible to the investor

75. What are the criteria of investment-linked permanent health insurance

I. Provides health coverage such as disability income

II. Contains cash value unlike traditional health product that does not have cash value

III. No cash values like traditional health products

A. I

B. II

C. I and II

D. All of the above

76. The policyowner may cash out all his units or partially from his units. These two processes are known as _______ respectively.

A. Withdrawal or surrender

B. Surrender or withdrawal

C. Surrender

D. Withdrawal

77. Under single premium pricing method, Alex bought a single-premium investment-linked policy. He hold 3,800 units at RM1.00 unit price. With 1% mortality charge and policy fee of RM100, what is the cash value of his policy?

A. RM3,938

B. RM3,800

C. RM3,700

D. RM3,662

78. If the offer price in an investment-linked policy is RM2.50 and the premium amount of RM250.00 is used to buy units it will buy

A. 0.01 unit

B. 10 units

C. 100 units

D. 100 units less the unallocated premium

79. Currently, the financial instrument which investment-linked funds are invested include

I. Cash fund
II. Equity fund
III. Property fund
IV. Balanced fund

A. I
B. I and II
C. I, II and III
D. I, II, III and IV

80. Unit trust is essentially for

A. Two-way arrangement between the investors and the fund manager
B. Two-way arrangement between the investors and the trustee
C. Three-way arrangements among the investors, the trustee and the fund manager
D. Three-way arrangements among the investors, the trustee and the super authority

81. Which of the following IS NOT the characteristic of the debenture stock?

A. If the company defaults on the loan, the investor can take over the charged properties for sale
B. Debenture stocks pay a variable interest according to the base lending rate set by Bank Negara Malaysia
C. Trustee are appointed to supervise the company performs its obligations
D. Corporate stocks are less secured compared to government bonds

82. Regular premium investment-linked whole life insurance has one or more of the following characteristics:

I. Premium payment in a lump sum

II. Premium payment at a regular interval

III. Serves as investment and life protection

IV. No provision for top-ups

A. I, II and III

B. I only

C. II and IV

D. II and III

83. The value of an investment-linked insurance can be estimated depending on ________.

I. The value of each of the units

II. The value of the invested shares

III. The number of units the policy has accumulated to-date

IV. The number of shares the policyowner holds in hand

A. I and II

B. III and IV

C. I and III

D. None of the above

84. Investment-linked life insurance products are known for its flexibility. The followings are its flexible options EXCEPT:

A. Top-ups

B. Withdrawal of units

C. Take premium holidays

D. Fixed unit price

85. A policyowner invested RM5,000 in single premium investment-linked life insurance product. The unit price is RM1, the mortality charge is 1% and the policy fee is RM100. In single premium method, the cash value calculated is______/

A. RM5,000
B. RM4,850
C. RM4,950
D. RM4,900

86. Traditional life insurance policy has the following features EXCEPT:

A. A reserve to smoothen the fluctuations of the investment
B. Never reduce in value unless the life company becomes insolvent
C. Investors may choose a particular investment area which he believes can offer a good return at that time
D. The value of the sum assured is guaranteed at inception

87. A range of investment choices is available to individual investors. Which of the following investment choices are considered as liquid assets:

I. Cash
II. Term deposit
III. Current account
IV. Malaysian Government Securities

A. II and III
B. I and II
C. I, II and III
D. IV only

88. Loan stocks offer higher interest rate compared to Government Bonds. Investors still have the preference towards government bonds as for loan stocks ____________

   A. If the company defaults, the investors has no security and may not recover the capital
   B. It is not supervised by Government
   C. The company may repay earlier if it wishes
   D. It cannot be converted into ordinary shares

89. Convertible stocks offer lower interest rate compared to other fixed income securities such as loan stock. However, it is still popular among the investors because ________

   A. The Government guarantees the performance of the company in interest payment
   B. A trustee is appointed to ensure the solvency of the company
   C. Investors are given the privilege to redeem capital if the company defaults
   D. It may be converted into ordinary shares within a stated period

90. Physical commodities and financial instruments are typically traded in cash markets. There are two types of cash markets i.e. market for immediate delivery and market for deferred delivery. These are respectively referred to as ________ and _________.

   A. Future market, forward market
   B. Spot market, future market
   C. Forward market, foreseeable future market
   D. Spot market, forward market

91. 'Unit Trusts' are useful vehicles for small private investors. 'Unit Trusts' refers to

   A. Some form of loyalty expressed by the public to the Government
   B. A type of trust deed signed by an apartment unit owner
   C. A pool of funds contributed by many investors held on trust by a trustee and managed by a professional fund manager
   D. A trust signed between a remisier and a shareholder

92. The sum assured is payable only upon the death of the life assured within a specified period __________.
    A. Endowment insurance
    B. Whole life insurance
    C. Term/temporary insurance
    D. Annuity

93. Warrants are seldom issued on their own but are often issued free as sweetener to loan stock. Warrantholders have the option to subscribe the shares in the company:
    I. At a pre-determined ratio
    II. At a pre-determined exercise price
    III. Within a specified time period
    IV. At a negotiable price
        A. I and II
        B. I, II and III
        C. I and IV
        D. I, II, III and IV

94. The following Laws are governing the investment-linked life insurance in Malaysia EXCEPT:
    A. Insurance Act 1996
    B. Companies Act 1965
    C. Income Tax Act 1967
    D. Companies Act 1956

95. Surrender charges under the investment-linked life insurance policy_______
    A. Are deducted from the value of units at surrender
    B. Are deducted from the value of units at the commencement of the policies
    C. Are applicable to policies with no uniform allocation
    D. Represent initial expenses which have already been incurred and recovered

96. The offer price under an investment-linked life insurance policy is ____________

   A. A fixed amount throughout the life of the policy
   B. Also known as the bid price
   C. The price at which units under the policy are bought back by the life office
   D. The price at which units under the policy are offered for sale by the life office

97. The switching facility under investment-linked life insurance policies is very useful _________.

   A. For the purpose of assets planning by the trustee
   B. For the purpose of profit planning by the life policies
   C. For the purpose of financial planning by the policy owners
   D. For the purpose of sales planning by the fund managers

98. The administrative fee, insurance charge, fund management fee and the like under an investment-linked life insurance policy are ____________.

   A. Usually guaranteed
   B. Not subject to review
   C. Subject to change by the life office after written notice is given
   D. Always up-front charges

99. In Malaysia, unit trusts are authorized and supervised by ____________.

   A. Clearing House
   B. Securities Act, 1933
   C. Securities Commission
   D. Securities and Exchange Commission

100. Which of the following fund is of the highest risk and highest return?

   A. Cash Fund
   B. Managed Fund
   C. Equity Fund
   D. Bonds Fund (109)

Answer for CEILLI

1. C	11. D	21. A	31. B	41. C
2. B	12. C	22. A	32. B	42. A
3. B	13. B	23. D	33. D	43. B
4. C	14. A	24. B	34. C	44. C
5. B	15. B	25. D	35. A	45. B
6. C	16. B	26. A	36. C	46. A
7. C	17. D	27. C	37. B	47. D
8. C	18. D	28. C	38. A	48. D
9. A	19. C	29. C	39. A	49. C
10. C	20. C	30. B	40. A	50. C

51. C	61. B	71. D	81. B	91. C
52. D	62. C	72. A	82. D	92. C
53. D	63. C	73. C	83. C	93. B
54. A	64. B	74. A	84. D	94. D
55. D	65. C	75. C	85. B	95. A
56. A	66. D	76. B	86. C	96. D
57. C	67. C	77. D	87. C	97. C
58. D	68. B	78. C	88. A	98. C
59. C	69. B	79. D	89. D	99. C
60. B	70. C	80. C	90. D	100. C

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