

Introduction

This is an introductory guide to help you understand how investment-linked insurance works. It gives you basic information so that you can make an informed decision when purchasing investment-linked insurance policy.

What is an investment-linked insurance plan?

An investment-linked plan is a life insurance plan that combines investment and protection. The premiums that you pay provide you not only with life insurance cover but part of the premiums will also be invested in specific investment funds of your choice. As a policyholder, you can choose how to allocate your insurance premiums towards protection and investment.

The insurance coverage provided would include death benefit, disability and critical illness.

The investment fund is divided into units of equal value. The prices of these units are published daily in the newspapers for you to track the value of your investments.

Unique features of investment-linked plan

As an insurance plan that combines investment and protection, investment-linked plans have the following unique features:

- You are given the flexibility to choose your own level of protection and investment.
- You can vary the amount of your premium payments or coverage according to your changing financial circumstances.
- You can choose from a wide variety of funds to invest in, depending on the level of risk that you are comfortable with.
- Investment in growth or equity-related funds may give higher returns than traditional life insurance plans over the long term. However, you have to bear in mind that higher returns come with greater risks.

Types of investment-linked insurance plans

Single-Premium Plan	Regular-Premium Plan
<ul style="list-style-type: none"> • A single lump-sum premium payment 	<ul style="list-style-type: none"> • Premium payments either monthly, quarterly, semi-annually or annually.
<ul style="list-style-type: none"> • Death or total permanent disability cover is around 125% of your premium paid. 	<ul style="list-style-type: none"> • The basic insurance coverage, in the event of death or total permanent disability, is usually a multiple of the annual premium.
<ul style="list-style-type: none"> • The benefit payment will be the sum assured or the value of investment units at the time of claim, whichever is higher. 	<ul style="list-style-type: none"> • The benefit payment will be the total of sum assured plus the value of the investment units.
<ul style="list-style-type: none"> • A larger portion of the premium can be invested immediately to generate returns. 	<ul style="list-style-type: none"> • A smaller portion of the premium is allocated for investment during the earlier years of policy due to higher initial charges.

Understanding the risk

- Investment-linked plans, like other types of investments, involve exposure to investment risk. Since an investment-linked plan is linked to the unit price of an investment fund (managed by the insurance company), the total value of the plan fluctuates with the movements in the unit price.
- When the unit price falls, the value of your investment will also reduce and vice versa. You may realise a gain or loss when you sell your units. You may even get less than what you have invested.
- Past performance of the investment-linked fund's track record can only be a guide to its future performance which is not guaranteed.

Important considerations in choosing the right plan

Once you have decided on buying an investment-linked insurance plan, you have to consider factors such as the amount of investment, the choice of either single or regular-premium plan, types of funds, and the level of protection you need. Buying such a product is like having a personalised plan tailored to your special financial needs. It is important that you evaluate your options carefully to find the right plan with the right fund to suit your needs. There are a few things that you must consider when buying an investment-linked insurance plan:

- **Protection cover** - The premium that you pay usually provides insurance coverage for death and total permanent disability. With additional premium, you can also be covered for certain critical illnesses and other options.
- **Fees and charges** - There are various types of fees and charges which will reduce the value of investment.
- **Cash value accumulation** - Regular-premium investment-linked plans may not accumulate adequate cash value during the early policy years. This means that if the policy is terminated during the early period, you may not get back any investment value.
- **Right fund to invest** - You are given a choice of investing in various funds. Funds that are invested mainly in equities will involve higher risks than those invested in fixed income securities or bonds. For example, you may choose a growth fund that invests in equities, a more secure fund in bonds and other fixed interest investments, or a combination of the two. Some insurance companies offer Islamic Funds, which are invested in accordance with Shariah principles.
- **Fund switching** - Should you feel that you have made the wrong choice or you would like to change the profile of your investment portfolio, you are allowed to switch your units from one investment fund to another. Most companies allow one switch per year without any fee. For additional switches, a processing fee of up to RM100 may be charged.

Bid and offer prices

You will be provided with two prices: the offer price for selling units and the bid price for buying them back, much like unit trusts. The difference between the offer and bid prices is called the bid/offer spread and is usually expressed as a percentage of the offer price, normally around 5%.

Fees and charges

Like buying unit trusts or shares, there are several types of fees charged when you buy an investment-linked insurance plan:

- **Initial charge** - This is paid at the inception of a policy to cover the administration costs such as policy issuance and marketing.
- **Fund management fee** - This is the fee charged for managing the investments of the funds and is directly charged to the investment-linked funds account.
- **Policy fee** - Fee to cover the ongoing administration costs of the regular-premium plan and is usually charged by deducting from the units.
- **Other charges** - These will be deducted from the units of your investment account, and include charges for the basic life insurance cover and other add-on rider benefits. The amount to be charged will depend on the level or type of insurance cover chosen, as well as other factors such as your age, sex and smoker status.

Annual statement

You should receive at least an annual statement on the status of your investment-linked insurance plan, showing all transactions or charges during the period, from your insurance company.

What you need to remember

- Before you put your money into an investment-linked plan, think about the risks you are willing to take and make sure you fully understand the risks involved and be prepared to have your money tied-up for a certain period.
- You can get professional advice from your insurance company or your agent on the risks and benefits of a particular investment-linked insurance plan.
- Read carefully all the information provided.
- There is a 15-day cooling-off period for you to decide whether you wish to go ahead with the investment-linked insurance plan after you have signed for it. If you decide to cancel your plan within this period, the insurance company will refund in full any fees and charges that you have paid. However, the amount refunded to you may be more or less than what you have paid, depending on the price of the units at the time of cancellation.

How to lodge a complaint and the redress avenues available

- If you have a complaint about the products or services of your insurance company or if you are not satisfied with the rejection or offer of settlement of a claim, you should first try to resolve the complaint with the Complaints Unit of the insurance company concerned.
 - If you are still not satisfied with the decision, you can write either to the Customer Service Bureau of [Bank Negara Malaysia](#) or the insurance mediator, free of charge. However, the scope of the mediator is limited. Therefore, you need to check with the officer from the Complaints Unit of the insurance company on the proper avenues for dealing with your complaint.
 - Alternatively, you could take your case to court.
- Detailed information on how to lodge a complaint is available under the General Information topic entitled '[Fundamentals of Insurance and Takaful](#)'.

Frequently Asked Questions

Q: Is the return on an investment-linked fund guaranteed?

A: No, the return on an investment-linked fund is not guaranteed. This is because the price of the units that you hold may rise or fall depending on the market value of the investment.

Q: What are bid and offer prices?

A: The offer price is the price quoted by the insurance company when selling the units of an investment-linked fund to you. The bid price is price quoted when the company buys back the units from you. The difference between bid and offer prices is called the bid/offer spread, which is usually expressed as a percentage. This spread is usually about 5%.

Q: Would I know the charges I pay under my investment-linked insurance plan?

A: An investment-linked insurance plan is usually more transparent than other plans in disclosing the charges that are levied. These charges, including insurance charges, administration costs and fund management fees, are disclosed in the statement sent to all policyholders.

Q: Do I have to surrender my investment-linked insurance plan if I decide to change the investment fund?

A: No, it is not advisable to surrender your existing insurance plan if you decide to change the investment fund. This is because you may get less than what you have invested due to fees and charges. What you can do is to switch fund and most insurance companies allow one switch per year without any fee. However, for additional switches, you may be charged a processing fee.

Q: Can I increase my investment?

A: Yes, you are allowed to top up on your existing investment-linked insurance plan at any time. The 'top-ups' are normally used to enhance the investment portion of both single and regular-premium plans without any change in the insurance coverage. You can also increase the coverage for death, critical illness, hospitalisation, accident and others.

Q: How long should I hold my investment-linked insurance plan?

A: There is no fixed period of time for you to hold on to your investment-linked insurance plan. It is like a savings account in a bank or a unit trust in which you may decide on the duration of holding onto your plan. However, it is not advisable to hold the plan for a short period of time in view of the high initial costs.