

Introduction

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

What is life insurance?

In life insurance, a large number of people (called policyholders) pay some money (premiums) into a fund managed by an insurance company. When someone in that group of people suffers a hardship, he/she is given an amount of money from the fund to help ease the hardship.

How can I purchase a life insurance policy?

You can choose to purchase a life insurance policy from a financial institution such as a bank which has a bancassurance arrangement with an insurance company, an insurance broker or a life insurance agent.

If you decide to purchase an insurance policy through an agent, before doing any business with an agent, you must be satisfied with the agent's reputation and qualification.

All agents who sell life insurance are registered with the [Life Insurance Association of Malaysia \(LIAM\)](#) and must pass the examination conducted by the Malaysian Insurance Institute. When dealing with an agent, always insist on seeing his/her authorisation card issued by LIAM.

The policy contract

When you buy a life insurance policy, there is a contract between you and the insurance company. You agree to pay a premium for a period of time and, in return, the insurance company will pay your nominee or estate a sum of money upon your demise. In the event you suffer total and permanent disability or loss arising from any other specified situation, the payment will be made to you. In the case of total and permanent disability, the money is usually paid in instalments.

You must always read the fine print of the contract and understand the limits or exclusion clauses.

Why should I buy life insurance?

You may want to buy a life insurance policy for the following reasons:

- To ensure that your immediate family has cash and income after your demise so that they can easily pay bills, taxes and other obligations.
- To ensure that your immediate family members are able to maintain their standard of living upon your demise.
- For your children to have money for education.
- For you to have a savings plan for the future so that when you retire, you have a constant source of income.
- To ensure that you have extra income when your earnings are reduced due to a serious illness or accident.

Whatever the reason, you need to be careful when choosing one to suit your needs. Always take time to discuss with the insurance company or its intermediary about the policy that you are thinking of buying.

You will need to complete an application form, which asks for your personal and medical details, the type of policy and the amount of coverage you want.

Income tax relief

You can claim tax relief on the premiums that you pay, subject to certain terms and conditions. For an ordinary life policy, the maximum amount of relief is RM5,000 per year inclusive of any contributions you have paid to an approved retirement benefit scheme, such as the Employees Provident Fund or other pension scheme. For a medical or education policy, the tax relief is RM3,000 per year.

Which policy should I buy?

You must choose the type of policy that best suits your personal circumstances. If you are young and wish to make sure that your spouse and children will be taken care of if you pass away suddenly, a term insurance is most suitable. If you are older and have a more established family, the fixed premium type and those that build up cash value is more appropriate.

You should understand the scope of cover provided under the policy, the various terms and conditions and the cost of the insurance cover. You should also be aware of what will happen if you want to switch your policy from one insurance company to another, or if you want to transfer from one type of policy to another.

The basic types of policies are:

- **Term insurance** – This offers insurance protection for a limited period only. The money will be paid only if you pass away or if you suffer total and permanent disability during the term of the policy.
- **Whole life insurance** – This offers life-long protection and premiums are paid throughout your life. The money, including any bonuses, will be paid when you pass away or if you suffer total and permanent disability.
- **Endowment insurance** – This combines protection and savings. The money will be paid at the end of a specific period upon your demise or if you suffer total and permanent disability. If you are still living after the policy matures, you will get the money, otherwise, the money will be given to your nominee.
- **Investment-linked** – Your premium is used to buy life insurance protection and units in a fund managed by the life insurance company. The price of the units is based on the investment performance of the managed fund. The benefits paid to you or your nominee will depend on the price of the units at the time you surrender the policy or when you pass away.
- **Life annuity plan** – An annuity is a series of payments paid to you until you pass away. There are two types of annuities:
 - Immediate annuity – the payments begin within 12 months after you buy the annuity. Those

who are about to retire or have already retired will choose this type.

– Deferred annuity – the payments begin more than 12 months after you buy the annuity. People will buy this type during their working years to provide retirement income later in their lives.

- **Supplementary rider/cover** – A rider is a supplement attached to the basic insurance plan, such as an endowment or whole life. It gives you flexibility to meet your individual needs, such as cover against accident, disability or hospitalisation. You will need to pay additional premiums.

- **Other plans** – Life insurance companies also provide medical and health insurance plans.

- **Mortgage Reducing Term Insurance (MRTA) –**

When applying for a loan to purchase property, the borrower may wish to consider insurance protection against the unforeseen events. The insurance cover, normally known as MRTA policy, will cover the repayment of the outstanding loan to the financial institution in the event of the untimely death, disability or critical illness of the borrower. In the event of such contingencies, the insurance company pays the bank the outstanding amount of the loan and in return, the bank releases the ownership of the property to the owner or his beneficiaries.

Most MRTA policies are paid by a single premium when the loan is taken. The premium rates will normally depend on the age of the borrower, the term of the loan and the interest rate of the loan. In the event that the borrower sells the house or decides to pay off the loan prematurely, the bank will assign the MRTA policy back to him and he may choose to continue with the additional life cover or surrender the policy and receive a cash value.

Importance of disclosure

You must give all the facts in your application form *fully and faithfully*. If your agent filled in the application form for you, read and understand the requirements carefully before signing the form. Otherwise, the life insurance policy could be void.

Understanding important provisions in a life policy contract

- **Premium** – This is the money you pay to the life insurance company for coverage. You can choose how often you want to pay this premium – once a year (annually), every six months (semi-annually), every three months (quarterly) or every month.

- **Participating or non-participating policy** – The premium that you need to pay for a participating policy is higher than a non-participating policy, as it lets you share in the profits of the life insurance company, which is usually paid as dividends or bonus. A non-participating policy does not provide this.

- **Bonus** – This is the extra money paid with the final benefit for participating policies. You will be paid a certain amount for every RM1,000 assured under your participating policy. The insurance company can increase or decrease this amount, depending on the economic environment and returns from investments.

- **Your age** – You have to state your age correctly. Although the insurance company may not cancel the policy due to the incorrect age, your policy benefit will be adjusted to the correct age.

- **Cash/surrender value** – When your life insurance policy has been in force for a number of years (normally a minimum of three years), it acquires a cash value (also known as a surrender value). This is the cash amount a life insurance company will pay you when you cancel your policy. You will lose if you surrender your policy before the maturity period.
- **Policy loan** – This is granted as long as your policy has a cash value. Interest will be charged on such a loan. You can choose how to repay the loan and the interest – as a lump sum or in instalments or not at all. Upon your demise or on maturity of your policy, any unpaid portion of the loan taken, including the interest, will be deducted from the proceeds.
- **Grace period** – This is an additional period of time after the due date for the premium payment. The grace period for monthly premium payments is 15 days. For other frequency of payments such as semi-annually or annually, it is 30 days. If premium is still not paid within the grace period, your policy may lapse or be subject to reduced paid-up or automatic premium loans (as explained below).
- **Reduced paid-up** – You can stop paying future premiums after your policy has acquired a cash value. The policy will continue to remain in force but the sum assured is reduced.
- **Automatic premium loan** – If you do not pay your premium within the grace period, and provided your policy has sufficient cash value, some life insurance companies will automatically advance to you the premium amount. Interest will be charged on the amount of premium loan outstanding. An automatic premium loan will reduce your cash value.
- **Suicide** – Nothing will be payable to a nominee if death was due to suicide within a period, usually one year, as stated in the policy.
- **Incontestability** – The life insurance company cannot dispute the validity of a life policy after the policy has been in force for two years. If the insurance company refuses to pay, it must prove that the policy was obtained through fraud.
- **Free look** – You may cancel your life insurance policy by returning the policy to your insurance company within 15 days after you received the document. The premium that you have paid (less any medical fees incurred) will be refunded to you.
- **Reinstatement** – When your life insurance policy has lapsed, you may revive or reinstate it to full force within a period of time and under certain conditions, such as declaration of your state of health at the time of reinstatement.
- **Assignment** – You may transfer your life insurance policy to another person or organisation. A written notice must be given to your life insurance company.
- **Confidentiality of information** – All your personal information, including medical information, is confidential and your life insurance company is strictly not allowed to divulge such information to third parties.

Cancelling your policy

Buying a life policy is a long-term commitment. If you cancel your policy, you will not receive the total amount of premiums that you have paid to-date, as the surrender value (value of your policy when you terminate it) is usually less than what you have paid. If someone asks you to cancel your policy or advises you to borrow on an existing policy, and then buy another policy, discuss

these matters with your existing life insurance company first before doing anything.

It is not in your best interest to replace a policy because:

- You will likely have to pay a higher premium since you are older.
- Your cash value will build up slowly, as your new premium must pay for the initial cost of writing the life insurance policy a second time.
- The 2-year period of contestability will begin again. Similarly, the suicide clause also allows for the policy to start afresh.
- The existing policy may have more favourable provisions than the new policy in areas such as settlement options and disability benefits.
- Your present life insurance company can often make the changes you want at a lower cost to you.

Backdating

Except for investment-linked policies, you can backdate the commencement date of your policy for a period not exceeding six months at the time the application form is submitted. The advantage is that you will pay the lower premium applicable to a younger age, as premiums will be charged based on the backdated date. But your insurance cover will begin from the acceptance date or payment of the initial premium, whichever is later, and not from the backdated date.

Advising your nominee

- Let your nominee know about your life insurance policy, any changes that you have made to the policy and where you keep your documents.
- Have a contingent (or secondary) nominee in case the main nominee passes away before you.
- Make sure your life insurance company has your nominee's address and that the company is informed of any changes in that address.

What you need to remember

- Keep a note of the premium due dates. If premium is not paid when due, your life insurance policy may lapse.
- Always insist on a receipt as proof of payment. This will help any investigation if your agent fails to forward your premium to the insurance company. Always insist on a receipt as proof of payment. This will help any investigation if your agent fails to forward your premium to the
- Ensure your age is stated correctly in the proposal form. If in the event of your demise and your age has not been stated correctly, the life insurance company will pay an amount equal to the insurance that the premium would have bought at the correct age.

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- Review your insurance needs regularly to ensure they are adequately covered by your existing policies.
- As the policy document is a legally binding document, it should be kept safely until the life insurance policy money is received from the insurance company.
- Have the basic information such as the life insurance company, the type of policy, the policy number and the names of your nominees in a separate place.
- When in doubt of anything relating to your life insurance policy, ask your life insurance company.

How do I lodge a complaint and the redress avenues available

- If you have a complaint about the product and services of your insurance company or 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 avenue 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: How do I know whether the agent is authorised to sell life insurance policy?

A: A life insurance agent is a representative of a particular life insurance company and can provide advice on the products marketed solely by that life insurance company. An agent who sells life insurance products is registered with the Life Insurance Association of Malaysia (LIAM) and is required to pass a pre-contract examination, conducted by the Malaysian Insurance Institute. In dealing with a life insurance agent, always insist on seeing his/her authorisation card that is issued by LIAM.

Q: What is the difference between a participating and non-participating policy?

A: A participating (or with profits) policy would enable the policyholder to share in the profits of a life insurance company, while a non-participating (or without profits) policy does not have this right. Profits that are allotted to the participating policyholders are usually in the form of reversionary bonuses or dividends. These bonuses or dividends are not guaranteed and can increase or decrease depending on the investments returns of the life funds.

Q: How does a life insurance company evaluate my risks?

A: The risk class or mortality of a policyholder is determined by an underwriter using the underwriting process through which a life insurance company would decide whether or not to accept a risk. The risk of death is determined by several factors such as age, sex, habits, personal and medical history, occupation, etc. The life insurance company's decision to insure your life is based on the information provided in the application form, the medical examination report (if required) etc. Therefore, you should disclose in your application form fully and truthfully all the facts so that the life insurance company can be fair in its assessment of the risks involved.

Q: What will happen to my policy if I fail to pay my premium on time?

A: The policy contract provides for a 'grace period', which gives the policyholder an additional period of time after the due date for the payment of the premium. During this period, you can still pay your premium and the life policy still continues to be in force. For monthly mode of payment, the grace period is usually 15 days, while for other frequency of payments (semi-annually or annually), it is usually 30 days. When your life insurance policy has lapsed, you may revive or reinstate it to full force within a period of time and under certain conditions such as declaration of your state of health at the time of reinstatement.

Q: Can I get full refund of premium if I cancel my policy within the free look period?

A: Yes, under the free look period, you can cancel your life insurance policy within 15 days by returning the policy to the life insurance company after you have received the policy document. The premium that you have paid (less any medical fees incurred, if applicable), will be refunded to you.

Q: Should I cancel my existing policy and replace it with another?

A: Since buying a life insurance policy is a long-term commitment, it is not advisable to terminate your policy early as you will not receive the total amount of premium that you have paid because the surrender value is usually less than what you have paid.

Replacing an existing policy with another is not in your best interest because the new policy is likely to be at a higher premium as you are older. There will also be an initial cost of writing the life insurance policy for a second time. Additionally, the two-year period of contestability will begin again. Furthermore, the present life insurance company can often make the changes that you want at lower cost to you.

Q: How much will I receive if I surrender my life insurance policy?

A: When a life insurance policy is in force for a number of years (normally a minimum of three years) it would acquire a cash value. The cash value is the "savings" portion of a life policy. It is derived when your premium payments are more than the cost of insurance, whereby the excess goes into a cash value account and draws interest.

If you decide to surrender your life insurance policy, the life insurance company will pay you the cash value, also known as surrender value. You will suffer a loss if you surrender your policy before the maturity period.

Q: Is a life insurance sales illustration a legal document, like a contract?

A: A sales illustration is not a legal document. Legal obligations of a life insurance policy are spelled out in the policy itself. Therefore, a policyholder must read the fine print of the contract carefully to ensure that he/she understands the exact nature of the policy, the risks that are covered as well as the limits or exclusion clauses, before signing the contract.

Q: Should I pay my premiums through the agent?

A: You have the option of paying the premiums directly to the insurance company or through the agent. If you choose to pay through the agent, you must ensure that the cheque is written in the name of the insurance company. You must also ensure that you receive the receipt from the insurance company.