GUIDELINES NO. TIU/G-1/2021/14

GUIDELINES ON PRODUCT DEVELOPMENT AND PRICING FOR INSURANCE COMPANIES

1. INTRODUCTION

1.1. These Guidelines are issued pursuant to section 88 of the Insurance Order, 2006 ("the Order") to provide guidance to the Notice No. TIU/N-5/2020/16 "Notice on Product Approval for Insurance Companies", and to supplement the streamlining process of product approval application processes for insurance companies (hereinafter referred to as "insurers").

1.2. These Guidelines are to be read in conjunction with the following:

1.2.1. Section 18(1) of the Order;

1.2.2. Notice on Corporate Governance for Insurance Companies and Takaful Operators [Notice No. TIU/N-3/2017/7];

1.2.3. Notice on Product Approval for Insurance Companies [Notice No. TIU/N-5/2020/16];

1.2.4. Guidelines on Risk Management and Internal Controls for Insurance Companies and Takaful Operators [Guidelines No. TIU/G-3/2018/8];

1.2.5. Notice on Application for Approval of Outsourcing Arrangement for Insurance Companies and Takaful Operators [Notice No. TIU/N-1/2019/11];

1.2.6. Guidelines on Outsourcing Arrangement for Insurance Companies and Takaful Operators [Guideline No. TIU/G-1/2019/10];

1.2.7. Guidelines on Product Transparency and Disclosure for Insurance Companies [Guidelines No. FCI/G5/2019/1]; and

1.2.8. any other notices, directives or guidelines, which the Authority may issue from time to time.

1.3. These Guidelines take immediate effect.

2. DEFINITIONS

2.1. For the purpose of these Guidelines:

2.1.1. "Board" means the Board of Directors of the insurer;

2.1.2. "existing product" means any insurance product that has already been offered in Brunei Darussalam;

2.1.3. "group" refers to the insurer's Head Office or parent insurer, subsidiaries, affiliates, and any entity (including their subsidiaries[1], affiliates[2] and special purpose entities[3]) that the insurer exerts control over or that exerts control over the insurer;

2.1.4. "insurer" means a registered insurance company under the Order;

2.1.5. "new product" means a product comprising of:

(i) an insurance product that has never been introduced or used by an insurer before in Brunei Darussalam; or

(ii) a combination of two or more existing insurance products, or variation to an existing insurance product being offered by an insurer in Brunei Darussalam, that results in a material change to the structure, features or risk profile of the existing product;

2.1.6. "product(s)" means insurance products and services developed, offered or marketed by an insurer, including those marketed by other financial institutions;. For the purposes of this Guidelines, products do not include investment linked insurance sub-funds; and

2.1.7. "senior management" means persons having authority and responsibility for planning, directing and controlling the activities of the company as appointed by the Board, including the Principal Officer as defined in the Insurance Order, 2006 and Takaful Order, 2008.

[1] As defined in Notice on Product Approval for Insurance Companies (Notice No. TIU/N-5/2020/16)
[2] As above
[3] As above

3. **PRODUCT DEVELOPMENT**

3.1. Product development is the process of working out the features of a product to be marketed to customers in accordance with the insurer's business objectives. This includes enhancements or variations to existing products.

3.2. The product development process should involve conducting environmental scans, understanding customers' needs, developing and refining proposals, obtaining the requisite approvals, implementing the approved proposal and conducting post-implementation reviews.

3.3. With the product development process, an insurer should analyse the information collected to identify emerging trends, and the associated opportunities and threats they may pose to the insurer's business objectives.

3.4. The proposed product should be consistent with the insurer's risk strategy and policies.

3.5. The insurer's risk management framework should cover operational risk[4], such as determining the adequacy of expertise of staff and management, legal, regulatory and reputational risk, such as avoiding ambiguous or inconsistent contract wordings.

3.6. The proposal paper for the proposed product should include the following information to assist the Board or senior management in making informed decisions:

3.6.1. scope and level of coverage proposed for the product including options and guarantees, if any;

3.6.2. risk exposure limits (which can be defined by premiums, sum insured, probable maximum loss or other risk measures and may also include interim limits to manage new product growth);

3.6.3. reinsurance protection;

3.6.4. pricing methodology;

3.6.5. delegation of authority for underwriting and claims;

3.6.6. underwriting and claims assessment criteria;

[4] As defined in the Guidelines on Risk Management for Insurance Companies and Takaful Operators [TIU/G-3/2018/8]

3.6.7. investment strategy;

3.6.8. projection of sales, expenses, profitability and solvency under different scenarios to test the sensitivity of results to different operating conditions. For example, life insurance products often contain guarantees, particularly on investment performance, which can significantly add to the risks written;

3.6.9. distribution method; and

3.6.10. ability of existing or proposed administrative systems and processes to handle the new or enhanced product.

3.7. The insurer should have clearly articulated procedures for withdrawal and re-pricing of existing products when pre-determined criteria are triggered, such as when it is no longer economically viable to sell the product.

3.8. The insurer should develop a structure setting out the procedures and risk indicators to monitor the product implementation and performance after its launch. These may include the following:

3.8.1. monitoring changes in risk profiles and analysing experience;

3.8.2. monitoring changes in policyholders' behaviour that may have led to higher lapse rates or deteriorating claims experience; and

3.8.3. monitoring changes in the investment and economic environment which may affect the performance of the portfolio.

4. PRICING

4.1. The pricing of an insurance product involves the estimation of claims, operational and financing costs and the income arising from investing the premium received.

4.2. The pricing process typically comprises collecting data on the underlying risks to be covered, determining the pricing assumptions and the base rate, setting the final premium rate, and monitoring and reviewing the appropriateness of pricing.

4.3. An insurer should identify scenarios of inadequate pricing that may lead to the revenue from premiums and investment income being insufficient to meet the payment of anticipated benefits and expenses.

4.4. The insurer should also consider the risk of inconsistent pricing with regard to the different risk categories within the same product and products with similar features.

For example, premium for a risk category which has a higher level of risk should be higher than the premium for a lower risk category.

4.5. Pricing should be done by modelling all identified risks, using appropriate methodologies depending on the complexity of the risks and available data. For example, for life insurance complex benefit structures such as embedded options, the insurer should evaluate the risk arising from such options through stress testing.

4.6. The insurer should not limit itself to using only a single pricing methodology, particularly where there is little historical experience to base the pricing on or where the nature of business does not lend itself to extensive statistical analysis.

4.7. The insurer should analyse the profit and loss of its business, including monitoring the effect of premium rate adjustments. There should be procedures in place to monitor emerging trends and changes to the external environment and risk indicators to trigger a pricing review when the insurer's objectives are unlikely to be met.

5. PRUDENT MANAGEMENT OVERSIGHT

5.1. An insurer should:

5.1.1. exercise prudent management oversight; and

5.1.2. implement and maintain adequate controls;

in respect of the development and pricing of insurance products.

5.2. The insurer should ensure that the board of directors approve the policies and procedures in respect of the development and pricing of insurance products.

5.3. The policies and procedures in respect of the development and pricing of insurance products should observe **Appendix 1** (where applicable).

MANAGING DIRECTOR

AUTORITI MONETARI BRUNEI DARUSSALAM

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APPENDIX 1: GUIDE FOR ITEMS TO BE INCLUDED IN POLICIES AND PROCEDURES ON DEVELOPMENT AND PRICING OF INSURANCE PRODUCTS

1. Profit requirements for major lines of insurance products.

2. Policies on insurance product lines that the insurer is prepared to engage in or has chosen not to engage in.

3. Clearly defined and appropriate levels of delegation for approval of each material aspect of the design and pricing of insurance products.

4. Processes for assessing risks, including risks arising from inflation, anti-selection, concentration, misrepresentation, catastrophes, changes in government policy and investment returns.

5. Requirements for limiting risk through, for example, diversification, exclusions and reinsurance.

6. Procedures for ensuring that policy documents are appropriately drafted to give legal effect to the proposed level of coverage under the insurance products.

7. Procedures for ensuring clear and adequate disclosure in the policy illustrations and marketing materials to prospective or existing policyholders.

8. Procedures and criteria for withdrawal and re-pricing of existing insurance products.

9. Policies on audit practices for monitoring compliance with insurer's policies and procedures.