



## **INSTRUCTION NO. 20/2022<sup>1</sup>**

### **ON CLASSIFICATION OF CLASSES OF INSURANCE**

The traditional practice of classifying the insurance in two large groups – life insurance business and non-life insurance business, also known as general insurance business – remains the main basis for the framework for the different types of insurance, the fast development and growing sophistication of their covers, sometimes raises doubts about the correct insertion of some insurance in this classification, so the insurance regulator should provide guidance in this issue.

Considering that it is the greatest interest to market operators to have clear guidelines on the classification of classes of insurance, not only for the purpose of their identification in the authorization request to underwrite the same, but also in regard to their analytical accounting and for statistical and supervisory purposes.

Considering that the BCTL shall, by means of an Instruction, define the insurance categories authorized in the areas of general insurance and life insurance as defined on article 5 paragraph 2 of Law no. 6/2005, of 7 July on Regime for the Licensing, Supervision and Regulation of Insurance Companies and Insurance Intermediaries (Insurance Law).

The Governing Board of Banco Central de Timor-Leste, pursuant to the authority granted in Article 31 paragraph 1 of Law no. 5/2011 of 15 June, and in Articles 3 and 4 of Law no. 6/2005 of 7 July, hereby resolves to approve the following Instruction:

#### **Article 1**

##### **Applicability**

This Instruction applies to all insurance companies, insurance intermediaries including branch of foreign insurance companies licensed by BCTL to undertake the insurance activity in Timor-Leste.

#### **Article 2**

##### **General Requirements**

1. The classes of insurance specified in the following articles shall constitute the classes of insurance that are relevant for the purposes of this Instruction and the Insurance Law.
2. Any authorization granted for carrying on the insurance activity in Timor-Leste may be done so by reference to the appropriate groups specified in annexes 1 and 2 of this Instruction.

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<sup>1</sup> Please refer to the Portuguese version for official use. This English version is prepared to facilitate the availability of information for the financial institutions.

3. Compliance with all conditions referred in the Chapter IX of the Insurance Law.

### **Article 3**

#### **Classification of Class Insurance Business**

1. The list of classed the life insurance business as described on the annex 1 of this instruction.
2. The list of classed the general insurance business as described on on the annex 2 of this instruction.
3. The BCTL may from time to time updates the list on the above-mentioned annexes.

### **Article 4**

#### **Entry into force**

This Instruction shall enter into force on the day of its publication in the Jornal da República.



Approved on 29 Setember 2022

The Governor,

**Abraão de Vasconcelos**

## Annex 1: List of classed the life insurance business

No.	CLASS OF LIFE INSURANCE BUSINESS	DEFINITIONS
1.	Term life insurance	Term insurance is the simplest form of life insurance, paying only if death occurs during the term of the policy, which is usually from one to 30 years.
	Type of Policies	<ul style="list-style-type: none"> <li>• Term life insurance for more than one-year coverage (Level insured capital)</li> <li>• Term life for less than one-year coverage (Decreasing insured capital)</li> <li>• Or any policy by any other name whereby is not defined under above category.</li> </ul>
2.	Whole life Insurance	Whole life insurance is the type of life insurance to pays a death benefit whenever the insured person dies.
	Type of Policy	<ul style="list-style-type: none"> <li>• Traditional whole life policy</li> <li>• Universal life insurance policy</li> </ul>





		<ul style="list-style-type: none"> <li>• Variable universal life insurance policy</li> <li>• Or any policy by any other name whereby is not defined under above category.</li> </ul>	<p>This policy combines death protection with a savings account that can invest in stocks, bonds and money market mutual funds. The value of policy may grow more quickly, but also have more risk. If investments do not perform well, cash value and death benefit may decrease. Some policies, however, guarantee that death benefit have a minimum level.</p> <p>This type of policy will get the features of variable and universal life policies. It is having the investment risks and rewards characteristic of variable life insurance, coupled with the ability to adjust the premiums and death benefit that is characteristic of universal life insurance.</p>
3.	Endowment Combination		<p>Feature an endowment policy is a life insurance scheme that provides dual benefits of life coverage and investment avenue. The benefits can be availed in case of death of the insured person or once the policy matures if the insured person survives.</p> <p>Endowment policies are basically of two types - with profit and without profit. Within these two classes there are many variations of endowment plans structured to meet the need of child education, whole life protection and pension, among others.</p>
	Type of policy	<ul style="list-style-type: none"> <li>• Full Endowment Plan:</li> <li>• Low-Cost Endowment Plan:</li> </ul>	<p>When the policy starts, a basic amount is assured to the insured person that also applies in case of death. The final amount that is received when the policy matures is generally higher than the assured amount. This is due to the growth in investment and yearly bonus added to your account.</p> <p>The low-cost endowment plans have been developed to help the insured person to gather a fund for future</p>

			<p>payments, due after a particular period. These are generally used for repayment of loans or mortgages. In case of the death of the insured person, the minimum sum assured is paid to the beneficiary.</p>
		<ul style="list-style-type: none"> <li>• Unit-Linked Endowment Plan</li> </ul>	<p>This is suitable for people with the high-risk bearing capacity and those looking for higher returns from investments. This is a fixed-term scheme that uses the premium amount for purchasing units under an investment fund. The market performance of the fund decides the final return on investment. Apart from this, it also provides life-coverage of the insured person.</p>
		<ul style="list-style-type: none"> <li>• Unitized with Profit Endowment Plan</li> </ul>	<p>It is a kind of hybrid unit-linked endowment plan that balances the fluctuations associated with unit-linked policies. The value of units is generated annually, and it is guaranteed to create a minimum payback amount. This guaranteed amount is isolated from market risks and hence considered a safe option of investment.</p>
		<ul style="list-style-type: none"> <li>• Non-Profit Endowment Plan</li> <li>• Or any policy by any other name whereby the subject of the policy is not defined above category.</li> </ul>	<p>In case of a non-profit endowment plan, a specified lump sum amount is payable at the time of policy maturity or death of the insured person, whichever occurs earlier. The amount remains unchanged as there is no bonus addition to the said amount. It is suitable to whom is just looking for life coverage.</p>

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## Annex 2: List of classes the general insurance business

TERMS AND INSURANCE POLICIES			DEFINITION
1	Property insurance	<ol style="list-style-type: none"> <li>1. Fire insurance</li> <li>2. Consequential loss insurance (or business interruption insurance);</li> <li>3. Industrial all risk insurance/industry special risk insurance</li> <li>4. Equipment all risk insurance</li> <li>5. Or any policy by any other name whereby the subject of the policy is to protect against loss or damage to the insured's property</li> </ol>	<p>a) Property insurance: financial protection against the risk of damage or loss to property. This insurance can include coverage against a multitude of perils, e.g. "all-risks" or any one of a combination of risks such as fire, ice build-up, theft, flood, earthquakes, wind damage, e.g. tornadoes, hurricanes, as well as due to vandalism.</p> <p>b) Property third party liability insurance: financial protection against incurring liability arising from the risk of another person sustaining injury or death in a defined property.</p>
2	Liability Insurance	<ol style="list-style-type: none"> <li>1. Public liability insurance</li> <li>2. Product liability insurance</li> <li>3. Employers liability insurance/workmen's' compensation insurance</li> <li>4. Professional liability insurance</li> <li>5. Or any policy by any other name whereby the subject of the policy is to protect the insured against third parties</li> </ol>	<p>a) Worker Compensation Insurance: financial protection against the cost of compensation prescribed by statute for bodily injury, disability or death of a worker through accident or disease arising out of or in the course of his employments.</p> <p>b) Employers Liability Insurance: financial protection against loss to an employer through liability for accidental injury to or death of an employee arising out of or</p>

			in the course of this employment but does not include worker compensation insurance.
3.	Construction Insurance	<ol style="list-style-type: none"> <li>1. Construction all risk insurance</li> <li>2. Erection all risks insurance</li> <li>3. Or any policy by any other name whereby the subject of the policy is to protect the insured against risks pertaining to the construction of a physical structure or the erection of equipment plan</li> </ol>	<ol style="list-style-type: none"> <li>a) Construction all risk insurance is comprehensive protection against loss or damage in respect of the contract works, construction plant, equipment, and machinery, as well as against third-party claims in respect of the property damage or bodily injury arising in connection with building and execution of a construction project.</li> <li>b) Erection all risks insurance is a policy that offers comprehensive cover by covering risks which may arise during erection or testing period. It gives financial protection to the engineering contracts in the event of any accident. The Erection All Risk policy is for erection and testing of Manufacturing units or individual machineries.</li> </ol>
4.	Motor land vehicles insurance	<ol style="list-style-type: none"> <li>1. Compulsory motor land vehicle insurance (third party bodily injury only)</li> <li>2. Motor land vehicle insurance (third party, fire &amp; theft)</li> <li>3. Motor land vehicle insurance (comprehensive cover)</li> <li>4. Or any policy by any other name whereby the subject of the policy is to protect the insured against risks pertaining to the use of registered vehicles on roads.</li> </ol>	<ol style="list-style-type: none"> <li>a) Motor Land Vehicle Insurance: financial protection against the risk of loss or damage to a specifically mentioned vehicle.</li> <li>b) Motor Vehicle Third Party Liability Insurance: financial protection against the risk of incurring liability arising from the risk of injury or death to a land motor vehicle passenger or other individuals and the</li> </ol>

			<p>risk of loss or damage to another person's vehicle due to an accident involving the insured land motor vehicle.</p>
5.	Marine & Aviation insurance	<ol style="list-style-type: none"> <li>1. Marine cargo insurance</li> <li>2. Marine hull insurance</li> <li>3. Good –in-transit insurance</li> <li>4. Or any policy by any other name whereby the subject of the policy is to protect the conveyance of goods or physical articles by land, air or sea.</li> </ol>	<ol style="list-style-type: none"> <li>a) Goods in Transit insurance: financial protection against the risk of loss or damage to goods being transported on land motor vehicles.</li> <li>b) Marine insurance: financial protection against the risk of loss or damage to goods in transit by marine vessels on bodies of water, e.g. oceans, and seas.</li> <li>c) Marine third-party liability insurance: financial protection against the risk of incurring liability arising from the risk of injury or death to marine passengers or other individuals or property damage due to an accident involving the insured marine vessel. This type of insurance can also be underwritten for inland marine third party liability insurance or both types of risk, simultaneously.</li> <li>d) Inland marine insurance: financial protection against the risk of loss or damage to goods on bodies of water that are considered to be inland, e.g. rivers, lakes, some seas.</li> </ol>



6. Financial Insurance	<ol style="list-style-type: none"> <li>1. Performance bond</li> <li>2. Bail bond</li> <li>3. Advance payment bond</li> <li>4. Customs bond</li> <li>5. Or any policy by any other name whereby the subject of the policy is the financial guarantee off an insured against the occurrence of a specific event.</li> </ol>	<ol style="list-style-type: none"> <li>a) Errors and Omissions: professional liability insurance that indemnifies third parties who incur or suffer financial losses, property damage or personal injuries arising out of acts (errors) or failure to act (omissions) when such acts are normally expected of the professional in dealings with clients.</li> <li>b) Guarantee insurance: financial protection against the risk of non-payment where payment is contractually due. This insurance is broadly equivalent to a bank guarantee or standby bank letter of credit and is similar to surety insurance.</li> <li>c) Income protection insurance: financial protection against the risk that a person's income may be threatened due to unemployment, long-term illness or disability.</li> <li>d) Legal expense insurance: financial protection against the risk of incurring unexpected legal expenses.</li> <li>e) Mortgage payment protection insurance: financial protection against the risk of being unable to pay mortgage payments in a timely way.</li> <li>f) Professional indemnity insurance: financial protection against legal</li> </ol>
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			<p>suit from another party over claims of negligence. This insurance is sometimes known as errors and omissions insurance or professional liability insurance.</p> <p>g) Surety insurance: financial protection against the risk of non-performance of work under defined contractual obligations. The insurance is normally evidenced via a bond instrument. This insurance is similar to guarantee insurance.</p>
7.	Accident & Health Insurance	<ol style="list-style-type: none"> <li>1. Health Insurance</li> <li>2. Personal accident insurance</li> <li>3. Hospital &amp; surgical insurance</li> <li>4. Travel Insurance</li> <li>5. Or any policy by any other name whereby the subject of the policy is the financial protection of an individual person or interested party e.g. lender) or their estate against his/her injury by sickness or an accident or death.</li> </ol>	<p>a) Health Insurance; financial protection against risks stemming from health problems. This insurance can also be called medical insurance where medical bills are expressly covered by an insurance policy.</p> <p>b) Travel insurance: financial protection against various travel-related risks such as unexpected cancellation of a trip. This type of insurance can also include elements of health and property insurance.</p> <p>c) Aircraft insurance: financial protection against the risk of loss or damage to an aircraft.</p> <p>d) Aircraft third party liability insurance: financial protection against the</p>

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			<p>risk of incurring liability arising from the risk of injury or death to aircraft passengers or other individuals due to an accident involving the insured aircraft.</p> <p>e) Accident insurance: financial protection against the risk of loss or damages as a consequence of an accident. Personal accident policy provides financial protection to the insured persons against uncertainties such as accidental death, accidental bodily injuries, and partial/totally disabilities, permanent as well as temporary disabilities resulting from an accident. In case of accident death of the policyholders, the nominee gets 100% compensation from the insurance company. There are various other compensations that are offer for accident disability such as loss of eyes, limbs, and speech.</p>
8.	Other/Miscellaneous Insurance	<ol style="list-style-type: none"> <li>1. Money insurance</li> <li>2. Fidelity Guarantee Insurance</li> <li>3. Trade Credit Insurance</li> <li>4. Or any policy by any other name whereby the subject of the policy is the financial protection of the insured against an unforeseen, fortuitous event which causes a loss to the insured.</li> </ol>	<p>a) Fidelity insurance: financial protection against risks arising from the fidelity or reliability of employees.</p> <p>b) Trade Credit Insurance: financial protection that can take two forms;</p> <ol style="list-style-type: none"> <li>i. Domestic credit insurance is financial protection against the risk that a domestic</li> </ol>



debtor will be unable to pay his or her debts because of insolvency, financial difficulties or other expressly defined risks.

- ii. Export credit insurance is protection against the risk that a foreign debtor will be unable to pay his or her debts because of insolvency, financial difficulties, and political reasons, e.g. imposition of capital controls, economic factors, e.g. imposition of exchange controls or other expressly defined risks.
- c) Agricultural insurance: refers to crop insurance and livestock insurance.
- d) Crop insurance: financial protection against the risk of suffering damage or destruction to agricultural crops. This type of insurance may be packaged together with livestock insurance to be called agricultural insurance.
- e) Livestock insurance: financial protection against the risk of livestock sustaining injury or death. This type of insurance may be packaged together with crop insurance to be called agricultural insurance.

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