TAKAFUL BASIC EXAMINATION (TBE) TEXTBOOK

Part C: Family and Investment-Linked Takaful





MALAYSIAN TAKAFUL ASSOCIATION

TAKAFUL BASIC EXAMINATION (TBE)TEXTBOOK

Part C: Family and Investment-Linked Takaful

2022 EDITION

Copyright © 2022 by the Malaysian Takaful Association

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any means, electronics, mechanical, photocopying, recording or otherwise, without the prior written permission of the authors.

This book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, re-sold, hired out or otherwise circulated without the prior consent from the authors in any form of binding or cover other than in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

Published by:

Malaysian Takaful Association
21st floor, Main Block
Menara Takaful Malaysia
No 4, Jalan Sultan Sulaiman
50000 KL

Edited and Produced by:

ACTIVE PERFORMANCE CONSULTING SDN. BHD.
No. 17, Jalan Telawi 8, Bangsar Baru, 59100 Kuala Lumpur (898600-A)

CONTENTS Page

CHAPTER 1: FAMILY TAKAFUL PRELIMINARIES

1.0 INTRODUCTION 6

1.1 THE TAKAFUL CONTRIBUTION 6

1.2 PERSONAL RISKS COVERED BY FAMILY TAKAFUL PLAN 7

1.3 MANAGING PERSONAL RISK AND FAMILY TAKAFUL BENEFITS 8

1.4 TYPES OF FAMILY TAKAFUL PLANS 9

1.5 CHARACTERISTICS OF FAMILY TAKAFUL PLAN 12

ASSESSMENT QUESTIONS 13

CHAPTER 2: FAMILY TAKAFUL PRACTICES: CERTIFICATE ADMINISTRATION

2.0 INTRODUCTION 14

2.1 CERTIFICATE TRANSACTIONS 15

2.2 ISSUANCE OF A DUPLICATE CERTIFICATE 17

2.3 PRIVILEGES AND CONDITIONS 17

2.4 RESTRICTIVE CONDITIONS 19

2.5 CERTIFICATE SERVICING 21

2.6 REPLACEMENT OF FAMILY TAKAFUL CERTIFICATES 21

2.7 RENEWAL NOTICE 22

ASSESSMENT QUESTIONS 23

CHAPTER 3: FAMILY TAKAFUL PRACTICES: UNDERWRITING

3.0 INTRODUCTION 25

3.1 ANTI-SELECTION 25

3.2 UNDERWRITING PROCESS 25

3.3 COMMENCEMENT OF RISK 29

ASSESSMENT QUESTIONS 31

CHAPTER 4: FAMILY TAKAFUL PRACTICES: CLAIMS

4.0 INTRODUCTION 33

4.1 NOTIFICATION OF CLAIMS 33

4.2 TYPES OF CLAIMS 33

4.3 TOTAL AND PERMANENT DISABILITY CLAIMS 35

Copyright @ MTA 2022

CONTENTS PAGE

4.4 CRITICAL ILLNESS CLAIMS 36
4.5 PERSONAL ACCIDENT CLAIMS 36
4.6 HOSPITALISATION AND SURGICAL CLAIM 37
4.7 CLAIM DECISION 37
4.8 MATURITY CLAIMS 37
4.9 THE CLAIMS PROCESS 38
4.10 CLAIMS REGISTER 38
4.11 SETTLEMENT OF DISPUTES 39
ASSESSMENT QUESTIONS 40

CHAPTER 5: KEY CONSIDERATIONS IN INVESTMENT
5.0 INTRODUCTION 42
5.1 KEY CONSIDERATIONS IN INVESTMENTS 42
ASSESSMENT QUESTIONS 48

CHAPTER 6: CHOICE OF INVESTMENT VEHICLES
6.0 INVESTMENT CHOICES 49
6.1 INVESTMENT INSTRUMENTS 49
ASSESSMENT QUESTIONS 55

CHAPTER 7: INTRODUCTION TO INVESTMENT-LINKED TAKAFUL
7.0 INTRODUCTION 56
7.1 TYPES OF INVESTMENT-LINKED TAKAFUL 57
7.2 FEATURES OF INVESTMENT-LINKED TAKAFUL (ILT) 58
7.3 EXAMPLES OF INVESTMENT-LINKED TAKAFUL PLANS (ILTP) 60
7.4 TYPES OF INVESTMENT-LINKED FUNDS 60
7.5 RISK-RETURN TRADE OFF FOR INVESTMENT LINKED FUNDS 62
7.6 BENEFITS OF INVESTING IN AN INVESTMENT-LINKED TAKAFUL PLAN 62
7.7 COMPARISON BETWEEN INVESTMENT-LINKED TAKAFUL AND ORDINARY FAMILY TAKAFUL PLANS 63
ASSESSMENT QUESTIONS 64

Copyright @ MTA 2022

CONTENTS PAGE

CHAPTER 8: BASIC MATHEMATICS OF INVESTMENT LINK TAKAFUL
8.0 INTRODUCTION 65
8.1 VALUATION OF INVESTMENT-LINKED TAKAFUL 65
8.2 WITHDRAWAL BENEFIT 67
8.3 SURRENDER VALUE 68
8.4 MATURITY VALUE 68
8.5 DEATH BENEFIT 68
8.6 METHOD OF DISTRIBUTING THE FUND SURPLUS 69
8.7 FUND PERFORMANCE REPORT AND STATEMENT TO PARTICIPANTS 70
8.8 TAXATION OF INVESTMENT-LINKED TAKAFUL PLAN 70
ASSESSMENT QUESTIONS 71

CHAPTER 9: IDENTIFYING AND ESTABLISHING CUSTOMER NEEDS
9.0 INTRODUCTION 73
9.1 THE CLIENT ENGAGEMENT PROCESS 74
ASSESSMENT QUESTIONS 77

CHAPTER 10: FAMILY TAKAFUL PRACTICES: MARKETING AND SERVICES, ETHICS AND CODE OF CONDUCT
10.0 INTRODUCTION 78
10.1 CODE OF ETHICS AND CONDUCT 78
10.2 GUIDELINES ON THE CODE OF CONDUCT 80
10.3 CONTINUING PROFESSIONAL DEVELOPMENT (CPD) REQUIREMENTS 81
10.4 ETHICS AND CONDUCT 81
10.5 COMMISSIONS WITHIN *WAKĀLAH* FEES AND ITS DISCLOSURE 81
10.6 FAMILY TAKAFUL PRACTICE 82
10.7 PROMOTION MATERIALS / ADVERTISEMENTS 83
ASSESSMENT QUESTIONS 84

GLOSSARY OF FAMILY TAKAFUL TERMS 85

ANSWERS TO SELF-ASSESSMENT QUESTIONS 89

Copyright @ MTA 2022

CHAPTER 1: FAMILY TAKAFUL PRELIMINARIES

LEARNING OUTCOMES

After reading this chapter you will be able to:

- **Describe the concepts and characteristics of Family Takaful to customers.**
- **Identify the features and benefits of Family Takaful plans and how the plans cater for the needs of customers.**

1.0 INTRODUCTION

The personal risk of death, prolonged disability, illness and old age can create a financial burden on an individual and his family members. A Family Takaful plan mitigates the impact of personal risks by making funds available if any one of the risks covered by the plan becomes a reality. Such funds provide a relief and financial stability for the participant and his dependents.

There are various plans available in the market and each is designed to meet one or more of the needs caused by these personal risks. These are consistent with the *"Maqasid Sharī'ah",* which is, to bring convenience, harmony and provide for the well-being and welfare of mankind.

1.1 THE TAKAFUL CONTRIBUTION

The Islamic Financial Services Act (IFSA) 2013 defines a family Takaful plan as a "Takaful certificate by which Takaful benefits are payable on death or survival, including those Takaful benefits payable in respect of personal accidents, disease or sickness, and includes an annuity but excludes a personal accident Takaful certificate".

In a Takaful contract, participants will contribute to a common Takaful fund and agree to assist each other financially in case any one of them suffers upon the occurrence of an event covered under the Takaful contract. A Takaful contract, is thus a financial arrangement between the participants of a Takaful plan for mutual financial protection from the unexpected occurrence of any personal risks in the future.

The contribution paid by the participant to the Takaful Operator will be apportioned to the Participants' Risk Fund (PRF) as *tabarru'* (donation) and to the Participant's Investment Fund (PIF) for savings and investment.

1.1.1 Participant Investment Fund (PIF)

The Participant Investment Fund (PIF) is the investment proportion of the participant's Takaful contribution. It will be credited for the purpose of savings and investment. The profit from the investment will be treated as follow:-

- Under the *Muḍārabah* Model

Copyright @ MTA 2022

The profit will be shared between the participant and the Takaful Operator according to a pre-agreed ratio.

- Under the *Wakālah* Model

The net profit (after deducting the *Wakālah* fee) will be credited into the participant's PIF.

1.1.2 Participant Risk Fund (PRF)

The Participant Risk Fund (PRF) is the participative portion (*tabarru'*) of the contribution. It will be used to fulfill the obligation of mutual help if any of the participants face a misfortune arising from any of the contingencies covered under the Takaful plan. However, if the participant survives until the maturity of the plan, the surplus from the PRF will be treated as follows:-

- Under the *Muḍārabah* Model

The surplus will be shared between the participant and the Takaful Operator according to a pre-agreed ratio.

- Under *Wakālah* Model

The net surplus (after deducting the *Wakālah* fee) will be credited into the participant's PIF.

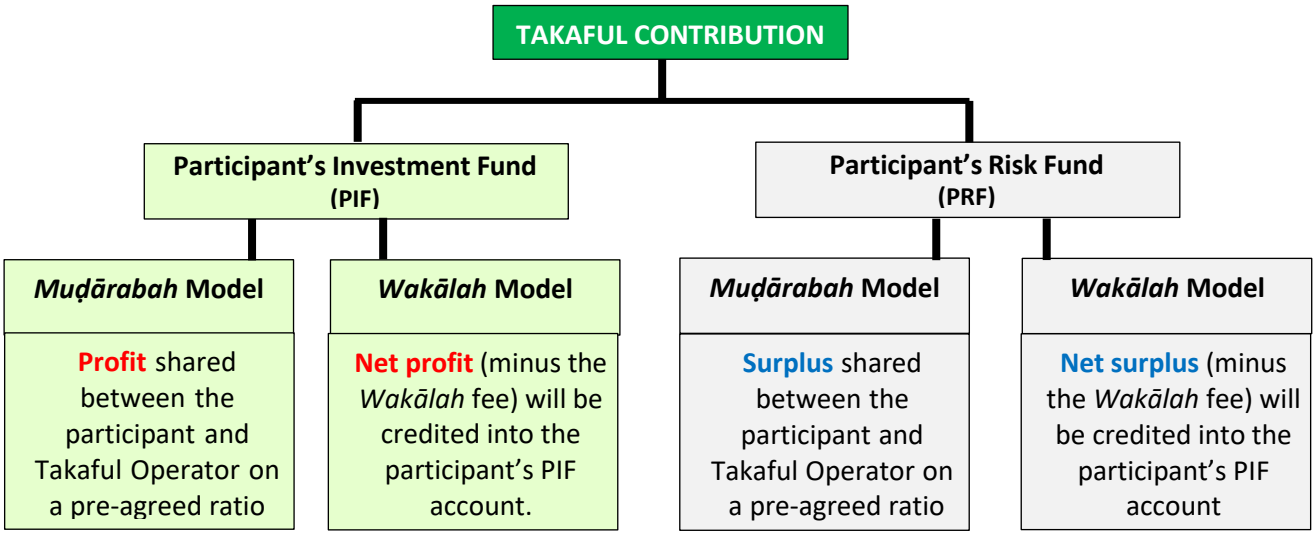


Figure 1.1: Apportionment of Takaful Contribution

It is pertinent to note that the participant is eligible for a share of the surplus in the PRF fund if the individual does not make any claim under the certificate. The surplus is not guaranteed and may vary from year to year.

1.2 PERSONAL RISKS COVERED BY FAMILY TAKAFUL PLANS

Let's look at each of the risks covered by a takaful plan to have a greater understanding of the risk and its' implications on an individual and his dependents.

Copyright @ MTA 2022

- **Risk of Premature Death**

The unfortunate reality is that pre-mature death can strike at any time. The financial impact arising from premature death can be disastrous and long lasting. Without sufficient savings or other financial resources, a family would have to compromise their life-style and endure challenging financial circumstances in the future.

- **Risk of Disability and Poor Health**

Again, the risk of disability and poor health can strike at any time during one's life time. Such risks not only cause the loss of income but also increases the living expenses of the individual and family. These factors can cause severe hardship as the cost of medical treatment, subsequent check-ups, and, sustained need for medication and care, will drain the family's resources and compound the financial strain on the family.

- **Risk of Insufficient Fund during Old Age**

The major risk associated with old age is longevity. If a person survives and lives to a good healthy old age, money could be the biggest drawback to a happy and comfortable life. The probability of insufficient income to fund one's post retirement life (for example health and medical cost, living cost, emergencies) is a real concern if that individual does not have a retirement and savings plan during the younger years.

1.3 MANAGING PERSONAL RISK AND FAMILY TAKAFUL BENEFITS

While the above describes the personal risks that an individual faces, let's now look at how family takaful benefits can help manage and provide a solution for the said risks.

- **Death Benefit**

In the event of pre-mature death, the loss of income will impact the life-style of the dependents who are left behind. To ensure the life-style is not affected, the Takaful representative needs to calculate a death benefit that is sufficient to provide funds for the family to carry on living without a compromise in their life-style. The death benefit provided by a takaful plan mitigates the financial impact of death on the dependents. *The death benefit receivable is equal to the takaful cover plus the participant's share of profits credited to the Participant Investment Fund.

*Note: This is a generic version of a death benefit. Some Family Takaful products will not include the share of profits when the sum covered is paid

- **Disability and Accident Benefit**

This coverage is critical in ensuring the participant has sufficient funds to cover the loss of income and medical care arising from the disability or accident. This will ensure that the participant does not have to liquidate any assets that have been accumulated during the lifetime to fund the loss of income. In addition, if long term care is needed, the accumulated assets may be insufficient to finance proper care for the participant. A basic takaful plan with a disability and accident coverage will be a good solution to manage such risks. The disability and accident benefit is equal to the takaful coverage plus the share of profits from investments that is credited to the Participant Investment Fund (PIF).

Copyright @ MTA 2022

- **Maturity Benefit**

A Takaful plan can also provide investment and savings benefits which can be designed to provide sufficient funds for education, retirement, or a lump sum for enjoyment of life in the future. This is provided when the takaful plan is developed to provide a sizeable maturity benefit at some future date. The maturity benefit is equal to the total accumulated fund of the Participant Investment Fund (PIF) plus the surplus (if any) of the Participant Risk Fund (PRF).

- **Surrender Value Benefit**

While the above benefits are inherent in the plans described above, the Takaful plan also has an in-built mechanism to provide some return to the participant in the event the participant wishes to discontinue the certificate for whatsoever reason(s). This value which is built over time as the participant pays the contribution is called the surrender value. The surrender value is equal to the total amount accumulated in the Participant Investment Fund (PIF).

- **Partial Withdrawal Benefit**

There may be instances when a participant in a Takaful scheme may suddenly have a need for funds. The Takaful plan does offer a remedy through the partial withdrawal benefit, where the participant can apply to withdraw a certain amount from the PIF. Usually, the amount that can be withdrawn is about 50% of the amount in the Participant Investment Fund (depending on the Takaful Operator guidelines).

1.4 TYPES OF FAMILY TAKAFUL PLANS

1.4.1 Individual Takaful

Takaful plans are designed to provide the above benefits. The basic plans, which fall under individual family takaful includes term, endowment, and investment-linked plans. These plans provide protection, savings, education,retirement,mortgage, health and annuity coverage.

- **Term Takaful**

If the certificate owner or life covered under the plan dies within a specified period, it provides payment of the sum covered only.

- **Endowment Takaful**

Endowment Takaful plans are traditional plans that provide protection as well as some targeted returns on the contributions paid by the participant. A typical Endowment Takaful plan provides for payment of the sum covered to nominated beneficiary(ies) if the person covered dies before certificate maturity.

- **Investment-Linked Takaful**

Investment linked plans provide both a death benefit and an opportunity for investing a part of the contribution (for returns) in selected funds managed by the Takaful Operator. These will be discussed in greater details in the later part of this book (Chapter 7).

Copyright @ MTA 2022

1.4.2 Types of Family Takaful Riders

The protection and benefits offered by the basic plans can be enhanced by the attachment of riders. Riders are also referred to as supplementary benefits. The common types of family takaful riders are:

- **Critical Illness Rider**

This generally provides protection against 36 critical illnesses. The rider pays the participant the sum covered under the plan if a covered illness occurs. The funds helps to ease the financial burden of participant in seeking medical care.

- **Accidental Death and Disability Rider**

This rider provides protection against accidental death and Total and Permanent Disability (TPD) of the Covered Person within the term of the Takaful Certificate.

- **Waiver of Contributions Rider**

The rider will waive all future Takaful contributions due under the Takaful Certificate when the covered event occurs.

- **Medical and Hospitalisation Rider**

The rider offers protection against medical costs. It covers hospitalization expenses, day care procedures, and ambulance charges, and other benefits depending on the certificate cover.

1.4.3 Group Family Takaful Plan

Group Family Takaful is generally arranged by employers who have permissible takaful interest in the lives of their employees. A minimum number of participants is required for the coverage to qualify as a 'group' plan. The benefits are provided under a master certificate. The takaful contribution may be paid by the employee (contributory basis) or paid by the employer (non-contributory basis). Group Family Takaful plans are also commonly participated by clubs, trade unions, associations and societies.

Examples of Group Family Takaful plans include:-

1.4.3.1 Employee Benefits Schemes

This is a yearly renewable plan offered to groups of people under one master certificate. Advantages of participating in such scheme for the employer are:-

- It portrays a caring image of the employer.
- It boost employee morale and productivity.
- It attracts and retain employees.
- There are tax reliefs available.
- It meets the demand for employee benefits requested for by labour unions.

Copyright @ MTA 2022

The plan offers following coverage:-

- Personal Accident cover which provides benefits upon partial/total and/or temporary/permanent disability due to accident.
- Hospitalisation and Surgical benefits which cover in-patient medical expenses and outpatient accidental, cancer or kidney dialysis treatment.
- Term Takaful which provides benefits upon death and total permanent disablement.

- **Group Medical and Health Plan**

This plan is commonly participated by employers, where employees and their families (depending on the plans) are covered in respect of expenses incurred for surgery and hospitalization. Employers participate in this scheme to provide for employees' welfare and goodwill.

- **Group Retirement Scheme**

This plan is designed to provide the covered group of employees (participants) with saving elements for retirement purposes.

In the event of a participant's death or TPD, the Sum Covered plus the accumulated amount (if any) in the Participant Investment Fund (PIF) are payable to the rightful claimants.

1.4.3.2 Riders under Employee Benefits Schemes

A rider is something added onto the basic certificate to confer additional benefits under the basic takaful plan and requires the payment of additional contributions. A participant has the option of adding one or more riders to the basic certificate.

Takaful Operators also offer critical illness benefit as a rider. Should the participant be afflicted by any of the listed critical illnesses, compensation becomes payable as per the certificate cover.

There are other riders that offer major surgical and hospitalization benefits. The former entails a payout, depending on the surgical procedure; the latter covers the expenses involved in hospitalization by paying the room charges subject to certain ceiling on both the amount and the number of days in a year depending on the certificate cover.

The terms of the rider will override any conflict with the certificate. In other words, if there is a provision in the rider that is different from a similar provision that was originally in the certificate, then the provisions in the rider will prevail.

1.4.3.3 Group Credit Takaful

This plan is designed to provide coverage to offset outstanding financing facility/debt to any financial institution in the event of the participant's death (who is the applicant/borrower) or if the participant becomes totally and permanently disabled.

This plan is quite popular in Malaysia among personal financing and credit cardholders where the outstanding credit balance will be offset by Takaful Operator in the event of death or Total Permanent Disablement of the member.

Copyright @ MTA 2022

1.5 CHARACTERISTICS OF FAMILY TAKAFUL PLAN

The main characteristics of family takaful plans are discussed below.

- **Long-term contracts**

Family Takaful contracts are long term contracts with level contributions. The Takaful Operator has to manage the fund effectively to ensure that sufficient reserves are maintained and available to meet the obligation of paying any claims in the future.

- **Unilateral contracts.**

A Family Takaful plan is a unilateral contract in which both the Takaful Operator and participants have certain rights and obligations. As long as the participant continues to pay the contribution and does not breach Section 141 of the IFSA 2013, (i.e. suppression of material facts), the Takaful Operator does not have the right to terminate the contract. Conversely, if the participant does not continue to pay the contribution as agreed, the Takaful Operator has the right to terminate the plan.

- **Contract of adhesion**

A contract of adhesion is a contract drafted by one party (in this case the Takaful Operator who has a stronger bargaining power) and signed by another party (in this case the certificate owner who has a weaker bargaining power). This means that the certificate owner has no power to negotiate the terms of the contract and thus have to accept the contract as designed by the Takaful Operator.

- **Permissible Takaful Interest**

The existence of Permissible Takaful Interest is a pre-requisite for a family takaful contract and is covered under para3 of Schedule 8, IFSA 2013 and has been discussed in Part A of the TBE book.

- **Duty of utmost good faith**

The duty of utmost good faith refers to the positive duty to voluntarily, accurately and fully disclose all facts material to the risks being proposed, whether requested or not. Failure to do so may give the aggrieved party the right to regard the contract as void. This has been discussed in Part A of the book.

- **Termination of the contract upon the payment of a claim**

When the participant receives the claim settlement upon the happening of a covered event under the contract, the Family Takaful contract is deemed to be terminated.

- **Risks covered under a Takaful plan**

The risk of death (mortality risk) and illness (morbidity risk) increases with age. Hence the contribution paid by the participant increases as the age at entry under a Takaful plan increases.

Copyright @ MTA 2022

CHAPTER 1 ASSESSMENT QUESTIONS

1. The contribution paid by the participant to the Takaful Operator will be channeled to _____

A. the Participant Risk Fund and the Participant Tolerance Fund.
B. the Participant Risk Fund and the Participant Investment Fund.
C. the Participant Risk Fund and the Participant Retirement Fund.
D. the Participant Tolerance Fund the Participant Investment Fund.

2. The maturity benefit paid in a takaful plan is equal to the _____

A. total accumulation in the Participant Investment Fund (PIF).
B. total surplus in the Participant Risk Fund (PRF).
C. total accumulation in the Participant Investment Fund (PIF) plus the surplus in the Participant Investment Fund (PIF).
D. total accumulation in the Participant Investment Fund (PIF) plus the Participant Risk Fund (PRF) surplus.

3. The surrender value of the takaful plan is equal to _____

A. Total accumulated fund in the Participant Investment Fund (PIF).
B. Total accumulated fund in the Participant Risk Fund (PRF).
C. Total accumulated fund in the Operator Investment Fund (OIF).
D. Total accumulated fund in the Operator Risk Fund (ORF).

4. The death benefit paid under a takaful plan is equal to _____

A. The total Takaful coverage.
B. The total surplus in the PRF.
C. The total Takaful coverage plus share of profits from investments.
D. Total contributions paid plus share of profits from investments.

5. A contract of adhesion is a contract drafted by one party (in this case the Takaful Operator who has a stronger bargaining power) and _____. Select the most appropriate answer.

A. signed by another party (in this case the certificate owner who has a weaker bargaining power).
B. signed by another party (in this case the certificate owner who has equal bargaining power).
C. signed by another party (in this case the certificate owner who has a stronger bargaining power).
D. None of the above is TRUE.

Copyright @ MTA 2022

CHAPTER 2: FAMILY TAKAFUL PRACTICES: CERTIFICATE ADMINISTRATION

LEARNING OUTCOMES

After reading this chapter you will be able to:

- List and explain the types of certificate transactions that are generally undertaken by Takaful participants.
- Understand the certificate privileges and conditions and how these impact the participant and the Takaful Operator

2.0 INTRODUCTION

A Family Takaful Certificate details the contract between the Takaful operator and participant. It defines the terms and conditions of the coverage. The Takaful contract is a long-term contract. During the life-time of the contract (certificate term), the participant's circumstances can change and this may require certain changes or amendments to be made to the certificate. The agent must be aware of the types of amendments that are generally requested by the participants and the process required to give legal effect to such amendments in their normal course of providing customer advice and services.

The Takaful certificate is the written evidence of the Takaful contract. In order to be accepted as evidence in a court of law, a certificate has to be stamped in accordance with the provisions of the Stamp Act, 1949 (as amended).

The certificate is divided into the following sections:

1. Heading

The heading will indicate the full name and registered address of the Takaful Operator.

2. The Preamble or Recital Clause

This clause introduces or recites the parties to the contract - the Takaful Operator and the participant.

3. Operative Clause

This clause specifies the perils covered under the certificate and the circumstances in which the Takaful Operator will become responsible to make compensation or payment or its equivalent to the participant or assigned beneficiary or executor. It therefore highlights the granting of the coverage on the payment of the first contribution and the continuation of the coverage upon the receipt of the renewal contributions.

4. Proviso

The proviso will contain the answers to the questions of the proposal form and the personal statement which forms the basis of the contract.

Copyright @ MTA 2022

5. Schedule

The schedule states the features that are specific to the certificate owner such as:

- The date of the proposal and the details of the participant such as name, address, occupation, date of birth etc.
- The risks that are covered and their respective quantum, and the name of the individual to whom the claim amount is to be paid
- The contribution amount and contribution due date,
- The type of plan, certificate number and certificate term (commencement date and maturity date, if applicable), and
- Any other special provisions and exclusions applicable to the contract.

6. Exclusions

Exclusions are restrictions on the scope of the Takaful cover. Exclusions are inserted in a certificate because certain perils and losses cannot be covered under the certificate.

7. Attestation or Signature Clause

This clause is called the attestation clause because it makes provision for the Takaful Operator to attest the undertakings. The certificate is signed by an authorized official of the Takaful operator.

2.1 CERTIFICATE TRANSACTIONS

The certificate transactions can be considered under the following headings:-

2.1.1. General alterations

The frequent types of alterations effected to update a takaful certificate will cover the endorsements made at:

a. the time of issuance of the certificate, for example:-

- those affecting the contribution, or its frequency of payment,
- those affecting the sum covered, or its mode of payment,
- those incorporating special benefits, e.g. options to convert the contracts into a different type.

b. after issuance of the certificate, for example:-

- mode of contribution payment,
- alterations to the terms of the contract,
- imposition or removal of extra contribution,
- change of address.
- change of nominee or beneficiary

2.1.2 Endorsements

The certificate documents are often endorsed to record the alterations that have been made. Each Takaful Operator will have its own procedures for certificate alterations. In general, the certificate and the participant's written instructions must be sent to the Operator's office for the alteration to be endorsed onto the certificate document. The endorsements will then become a part of the certificate.

Copyright @ MTA 2022

2.1.3 Assignment of a family takaful certificate

Section 2 of IFSA 2013 defines a "Takaful Participant" as the person who has legal title to a Takaful certificate including an assignee, if such certificate has been assigned.

The legal transfer of all rights and obligations of the participant to another person is referred to as an assignment. The person who transfers the rights and obligations is called the assignor, and the person to whom the rights and obligations are transferred is called the assignee. In the case of takaful, if an assignment is made, the rights (rights to receive benefits) and obligations (obligation to pay contributions) is transferred by the participant (the assignor) to another person (the assignee). An assignment can either be absolute or conditional.

An absolute assignment is one which does not leave any residual rights to the assignor and is not revocable. If Mr. A absolutely assigns a certificate to another, he cannot subsequently change his mind.

On the other hand, a conditional assignment gives the assignor the right to revoke the assignment if certain conditions are not fulfilled. For example, where the assignor (participant) survives until the maturity date of the certificate and if the assignment is conditional on the death of the participant, the assignment is revoked upon survival of the participant at the certificate maturity.

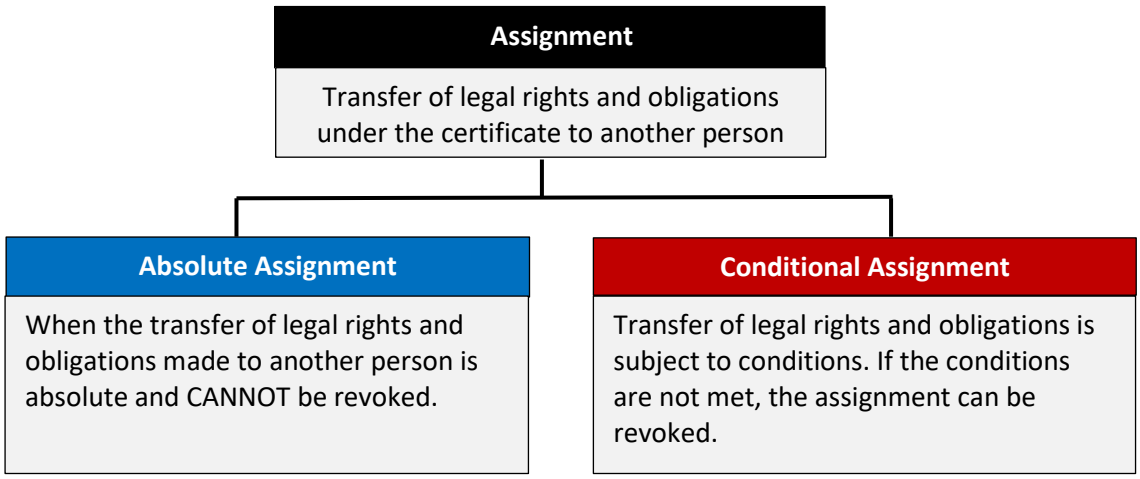


Figure 2.1: Summary of Assignment

2.1.4 Hibah

On 5 November 2014, the BNM Shariah Advisory Council (SAC) issued a resolution that Hibah in takaful can be granted.

Hibah means the giving of ownership of an item to a person without any return, meaning Hibah is a gift given by a participant to another person voluntarily while he is still alive. This means that when a takaful participant passed away, the nominee will receive absolute compensation of the takaful plan.

Copyright @ MTA 2022

2.1.4.1 Benefit of Hibah

a) Income replacement
b) Children's education fund
c) Settlement of debt
d) Absolute recipient and hassle free process

2.2 ISSUANCE OF A DUPLICATE CERTIFICATE

When a certificate document is lost or misplaced, a replacement certificate may be issued by the Takaful Operator. The Takaful Operator would normally require the following documents before a replacement certificate can be issued:-

- a letter of request;
- an undertaking to indemnify the Takaful Operator against any eventual loss due to the issuance of duplicate certificate.

The replacement certificate would be stamped with the words "Duplicate Certificate", and it is a valid legal document.

2.3 PRIVILEGES AND CONDITIONS

The Family Takaful certificate accords certain privileges and defines certain conditions under which the payment of the sum covered is made. The privileges and conditions in the certificate can be broadly classified under three groups:

- Those adding to the benefits of the coverage known as privileges (some of the privileges provided are the grace period, revival of lapsed certificates (reinstatement), surrender value and paid-up certificate).

- Those limiting the scope of coverage known as restrictive conditions. These are conditions which are not taken into account when the contributions were fixed (examples include suicide, foreign travel, foreign residence restrictions, hazardous occupations and the incontestability clause).

- Those explaining the nature of the contract. These are conditions which provide information to the participant, (examples include, the terms of contribution payment, and implications of the misrepresentation of age, or material facts).

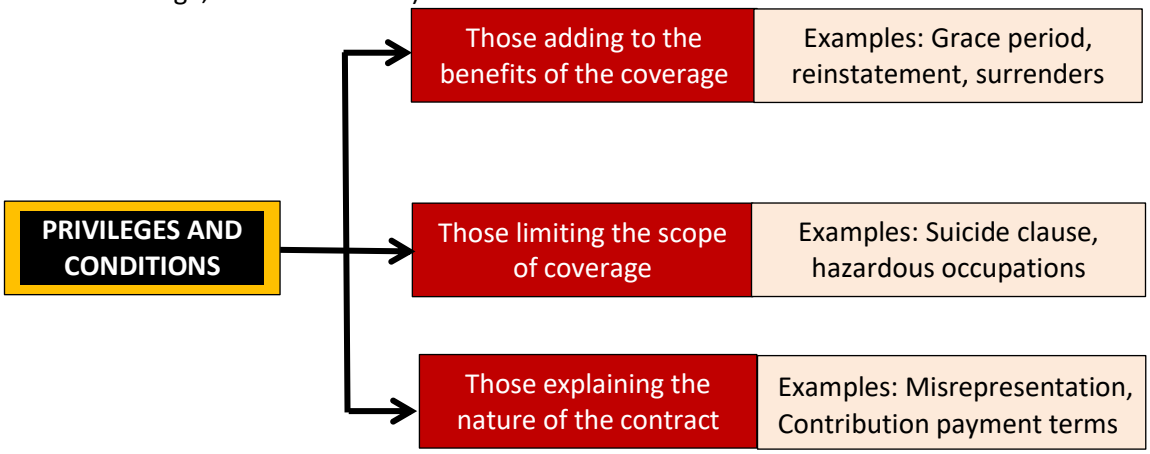


Figure 2.2 Classification of Privileges and conditions

Copyright @ MTA 2022

Some of these privileges and conditions are explained below:-

2.3.1 Grace period for contribution payment

A period of thirty days (30 days) is usually allowed as the grace period for the payment of renewal contribution from the due date of the contribution. The cover under the certificate continues during the grace period for the full sum covered. If any claim occurs during the grace period, the certificate will be valid and effective as though the contributions had been paid, and the claim will be paid in full. However, any outstanding contribution amount will be deducted from the claim proceeds payable to the participant. If the contribution is not paid within the grace period, the certificate will lapse.

2.3.2 Reinstatement

The participant may reinstate the certificate within a given period of time (usually 3 months) from the date of the certificate lapse. The participant will have to write to the Takaful Operator and pay the accumulated outstanding contributions.

2.3.3 Surrender value

The takaful participant may, by notice in writing to the licensed family takaful operator, surrender the family takaful certificate, and he shall be entitled to receive the surrender value of the family takaful certificate (para 6 of Schedule 8, IFSA 2013).

Under such circumstances, the participant will be paid all the accumulated balance in his Participants' Investment Fund (PIF), but none will be paid out of the Participants' Risk Fund (PRF) (*tabarru'* fund or Risk Fund).

2.3.4 Partial withdrawal

Most Takaful Operators would allow their participants to make partial withdrawal on their family takaful certificates, subject to certain terms and conditions. Partial withdrawal is allowed from the Participant's Investment Fund (PIF). Each operator will have their own set of guidelines on the amount of money (usually up to 50%) that can be withdrawn from the balance in their PIF. A small one-time fee to administer the transaction is normally charged by the Operator. The participant may or may not payback the amount withdrawn from the PIF.

2.3.5 Non-payment of contribution

The non-payment condition constitutes a privilege to the participant who may have overlooked the payment of his contribution or is temporarily unable to pay it. The non-payment provision comes into play only after the certificate has acquired a cash value. The cash value built up in the Participant's Account is used to pay the outstanding contribution.

The following methods are generally used for non-payment provisions:-

- **Automatic Advance**

In the event the contribution is not paid, the certificate will be kept in force by using the amount from the Participant Investment Fund (PIF). The certificate will be in force as long as the amount in the PIF can pay for the outstanding contributions.

Copyright @ MTA 2022

• **Paid-Up Takaful Certificate**

Para 8 (1) under Schedule 8 of IFSA 2013 states that where a family takaful certificate provides for a surrender value, the takaful participant may, by notice in writing to the licensed family takaful operator, elect to exchange the family takaful certificate for a paid-up family takaful certificate. The paid-up value will be determined in accordance with generally accepted actuarial principles.

The characteristics of a paid up certificate are:-

- The participant does not have to pay any additional contributions.
- The sum assured is reduced accordingly.
- The original terms of the policy will remain unchanged.

2.4 RESTRICTIVE CONDITIONS

Some of the restrictive conditions are explained below.

2.4.1 Suicide clause

If a participant commits suicide within a stated period of time (12 months upon contract being in-force), the certificate becomes void and the Takaful operator is not liable to pay the claim except to refund all contributions paid from the Participant Investment Fund (PIF) subject to the terms and conditions of the Takaful Operator.

2.4.2 Cooling-off period or free-look period

Participants are allowed a 15-days period (from the date they received the certificate) to decide for themselves if the certificate issued fulfills their requirement. If they feel otherwise, they are free to return the certificate to the Takaful Operator for a full refund of the contribution less the cost of the medical examination of the person covered. Upon refund of the takaful contribution, the family takaful certificate shall be deemed to be cancelled and the liability of the licensed family Takaful Operator shall cease. (Para 2 of Schedule 8, IFSA 2103).

2.4.3 Misrepresentation of age

• The law with regard to misstatement of age is covered under Para 1 of Schedule 8, IFSA 2013. A takaful operator shall not void a family takaful certificate or refuse a claim under a family takaful certificate by reason only of a misstatement of the age of the person covered.

The Takaful operator can take the following actions: -

- Where the **true age is greater** than that on the family takaful certificate.

  The age of the participant is understated on the certificate. The takaful operator may vary the sum covered and the surplus or profit allotted according to the takaful contribution that would be payable based on the true age. Since the age is understated, the sum covered and allocated surplus will be lowered.

Copyright @ MTA 2022

- Where the **true age is less** than that on the family takaful certificate.

  The age of the participant is overstated on the certificate. The takaful operator shall either:-

  (a) vary the sum covered and the surplus or profit allotted based on the proportion to the takaful contribution that has been paid based on the true age; or

  (b) reduce the takaful contribution to that based on the true age and refund the over-payments of takaful contribution less any excess of surplus paid.

- Where the period of coverage of a family takaful certificate is calculated based on the age indicated on the certificate.

  The Operator can vary the family takaful certificate by changing its period of coverage based on the true age of the person covered.

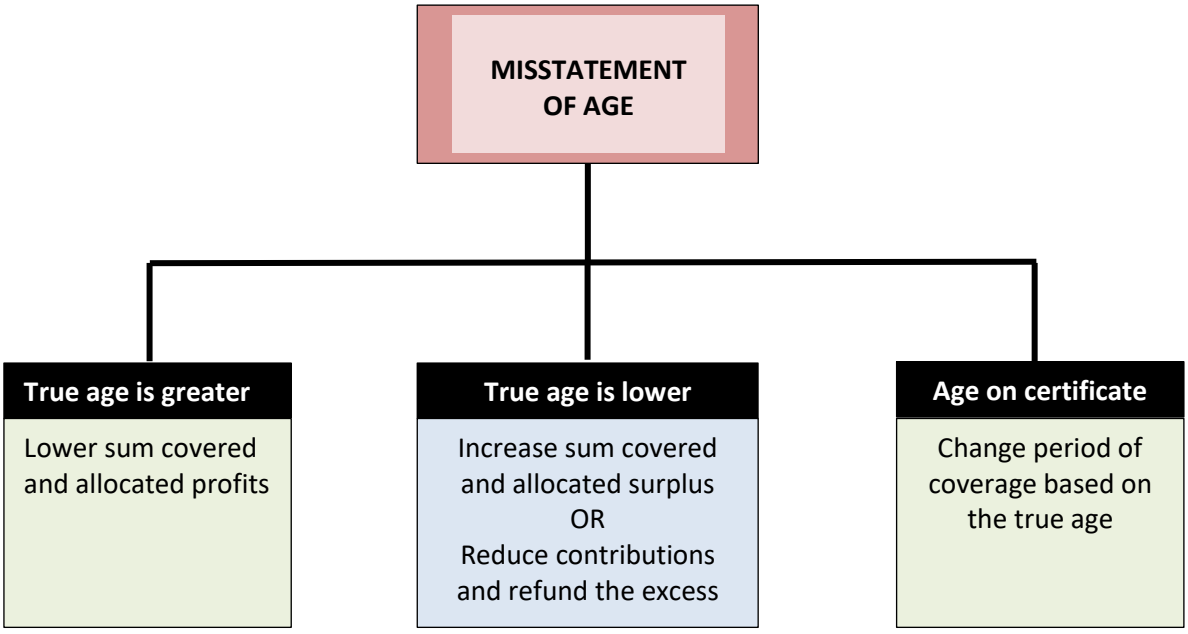


Figure 2.3 Options of dealing with a misstatement of age

2.4.4 Incontestability clause

In the event that a statement made in the proposal form was misleading, such a certificate shall not be called in question after 2 years the contract being in-force, unless the Takaful Operator can show that such statement was made with a fraudulent intention.

2.4.5 Exclusions

The common exclusions under a Family Takaful certificate are:-

- Death, disablement or medical expenses caused by:-
  - war, warlike operations, strike, riot, civil commotion,

Copyright @ MTA 2022

- insanity, suicide or any attempt at suicide,
- venereal disease, infection or parasites,
- intoxication by alcohol or drugs,
- childbirth, miscarriage or pregnancy.

- Death, disablement or medical expenses sustained by the participant:-

  - while travelling in an aircraft as a member of the crew,
  - while engaging in motor cycling, hunting, mountaineering, polo playing, steeplechasing, water-ski jumping, underwater activities, or any other extreme sports,
  - while committing or attempting to commit any unlawful act.

2.5 CERTIFICATE SERVICING

A Family Takaful certificate is considered terminated when:-

- A participant dies,
- Expiry of the term (length of time) of cover,
- Total benefits paid under the certificate exceeds the maximum limits specified in the Schedule.

2.6 REPLACEMENT OF FAMILY TAKAFUL CERTIFICATES

"Replacement of Certificates (ROC)" is defined as any transaction involving the participation of a newfamily takaful certificate within 12 months before or after, an existing Family Takaful certificate has been lapsed or surrendered. ROC shall apply to all Takaful Certificates which have a cash value feature only.

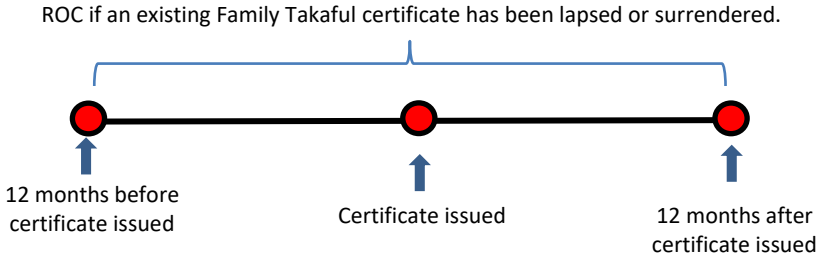


Figure 2.4: Time-line to demonstrate ROC

The ROC shall NOT apply to the following:

- Where a Takaful certificate has been changed or modified into paid-up Certificate, continued as Extended Term Takaful or automatic advance from participant's account (for more than 6 months) or non-payment of contribution for more than 6 months for Investment-linked Takaful.

- Where a Takaful certificate has been changed or modified to effect a reduction in contribution by more than 25% via a reduction in sum covered/removal of riders.

- Where a Takaful certificate has been partially withdrawn.

- Where a Takaful certificate belongs to the agent, spouse or children.

Replacement of certificates is detrimental to the participant's interest and if allowed to perpetuate,

Copyright @ MTA 2022

will adversely affect the Takaful Operator's and agent's long-term image in the Takaful industry

2.7 RENEWAL NOTICE

For an annual renewable of a plan, for example a Medical and Health Takaful plan, the Takaful Operator will issue a renewal notice one or two months in advance of the renewal date to remind the participant that the certificate expires on a certain date and to advice of any contribution change.

The renewal notice will include all relevant particulars of the certificate including:

- Participant's name;
- Certificate number;
- Certificate expiry date;
- Annual contribution;
- Revised certificate terms (if any);
- Renewal date.

Copyright @ MTA 2022

CHAPTER 2 ASSESSMENT QUESTIONS

1. Select the statement below which is NOT TRUE about assignment of a takaful certificate.

A. The legal transfer of all rights and obligations of the participant to another person is referred to as an assignment.

B. The person who transfers the rights and obligations is called the assignor.

C. The person to whom the rights and obligations are transferred is called the assignee.

D. Both the absolute and conditional assignments can be revoked by the participant at any time.

2. Partial withdrawal under a takaful certificate is allowed from the _____.

A. Participant's Investment Fund (PIF).

B. Participant's Risk Fund (PRF).

C. Participant's Investment Fund (PIF) and Participant's Risk Fund (PRF).

D. Operator's shareholder fund.

3. Select the statement below which is NOT TRUE about the cooling-off period.

A. The cooling-off period is for a duration of 15 days.

B. The operator has to refund all the contribution less the cost of medical examination of the person covered.

C. The operator has to refund all the contribution less the cost of medical examination and administrative expenses incurred to issue the certificate.

D. The 15 days under the cooling-off period commences on the date the certificate is received by the participant.

4. In the event that a statement made in the proposal form was misleading, such certificate shall not be called in question unless the Takaful Operator can show that such statement was made with fraudulent intention. This is called the

A. Replacement Clause

B. Incontestability Clause.

C. Participant refund Clause.

D. Operator's Clause.

Copyright @ MTA 2022

5. The ROC shall NOT apply to the following _____. Select the correct combination below.

I. Where a Takaful certificate has been changed or modified into paid-up Certificate.
II. Where a Takaful certificate has been changed or modified to effect a reduction in contribution by more than 25%.
III. Where a Takaful certificate has been partially withdrawn.
IV. Where a Takaful certificate belongs to the agent, spouse or children.

A. I and II only.

B. I, II and III only.

C. I, II and IV only.

D. I, II, III and IV.

Copyright @ MTA 2022

CHAPTER 3: FAMILY TAKAFUL PRACTICES: UNDERWRITING

LEARNING OUTCOME

After reading this chapter you will be able to:

- Understand underwriting process in assessing, evaluating and classifying risks of the proposal for Takaful cover.
- Understand the importance of completing the proposal form with due care to ensure an underwriter has accurate information in assessing and classifying risks.

3.0 INTRODUCTION

Underwriting is the process of evaluating, classifying and selecting the risks and determining the appropriate rates and terms that will be offered to those applying for takaful cover. The aim is to protect the Takaful fund from any undue risks and financial strain, and to ensure the fund will have sufficient cash for payment of any future claims.

The person who undertakes the underwriting is called an underwriter and the underwriter will carry out the task by following the underwriting guidelines of the Takaful Operator.

3.1 ANTI-SELECTION

This is the propensity or urge of individuals who are not healthy to seek for takaful coverage. If these individuals succeed in securing a takaful certificate, they will bring a higher than normal risk to the takaful fund. Underwriting is required to protect the Takaful Operator from such anti-selection and ensure fairness and equity for all participants.

3.2 UNDERWRITING PROCESSES

The underwriting process, based on the information provided in the proposal form is used by an underwriter, can be described as follows:

3.2.1 Identification and Evaluation of Risk

In the assessment and evaluation of risks, an underwriter will pay attention to two key areas, that is, the health factor (medical underwriting) and the financial circumstances of the potential participant (financial underwriting).

3.2.2 Medical Underwriting

Medical underwriting covers the 'physical hazard' of the risk proposed for takaful. It will take the following factors into consideration:

- **Age** - the higher the age the greater the mortality risk (probability of death), similarly the higher the age the greater the morbidity risk (probability of illness).

- **Gender** - Female mortality risk is lower but the morbidity risk is higher than males of the same age.

Copyright @ MTA 2022

- **Height and weight** - Body mass index (BMI) is a measure of weight adjusted for height. BMI is often considered an indicator of body fat. Studies have shown that BMI levels correlate with body fat and with future health risks. High BMI predicts future morbidity and death. Therefore, BMI is an appropriate measure for screening for obesity and its health risks.

- **Personal and family medical history** - If there are medical histories indicated in the proposal form, the underwriter may ask for further information to review the medical histories of any previous conditions of the proposer to determine the:

    - Possibility of recurrence as some diseases have a tendency to recur.
    - Effect of medical conditions (based on the history) on the applicant's general health.
    - Possible complications that may develop at a later date.
    - Normal progression of any impairment that shows a potential higher future incidence of the impairment.

- **Lifestyle, hobbies, travel** – these must be clearly spelt out in the proposal form especially the country of travel and duration, and, the type and kind of hobbies.

- ***Occupational hazards** are categorized into four classes as stated below:

    - **Class 1** refers to white collar workers in a non-hazardous industry and confined within the office premises. For example a teacher and an administration officer in a company.
    - **Class 2** refers to workers overseeing or supervising downline workers, involved in non-office works, workers with industry riskier than Class 1. For example a nurse, a housewife and workers who work outstation.
    - **Class 3** refers to skilled or semi-skilled workers using light machinery. For example a factory worker, technician, farmer and workers in a fast food restaurant; and
    - **Class 4** refers to industrial workers involved with heavy and hazardous machinery. For example a construction builder and oil rig worker.

If the information provided in the proposal form reveals any adverse features (for example dangerous hobbies, or Class 3 or Class 4 occupational hazards) or a medical condition (for example diabetes or elevated blood pressure), the underwriter may request for more information. The underwriter will then issue a supplementary questionnaire or request for a medical examination (at the expense of the takaful operator) to provide the required information for the evaluation process.

*Note: examples are subject to underwriting guideline by each Takaful Operator.

3.2.3 Financial Underwriting

Financial underwriting is undertaken to assess the 'moral hazard', the 'true intent' or 'true motive' of the application for takaful. The underwriter will review:

- the existence of permissible takaful interest,
- the motive for taking the takaful cover,
- whether the takaful cover applied for corresponds to the income and financial standing of the applicant,
- the nature and number of takaful certificates with the same or other Takaful Operators,
- the timing of the issued certificates, and

Copyright @ MTA 2022

- whether any other Operator has rejected any proposal from the proposer and if so, the reasons for such rejection.

3.2.4 Assessment, Evaluation and Classification of Risks

To assess an applicant's physical and moral risk, the underwriter will rely on information from a variety of sources as detailed in Table 3.1. A 'proposer' is a person who intends to participate in a takaful plan.

Table 3.1: Sources of information for the underwriter	
Proposal Form	All questions in the proposal form must be accurately completed as it is the basis of risk assessment and evaluation. It is the duty of the proposer to take reasonable care not to make a misrepresentation when answering any questions in the proposal form. The proposer may seek the assistance of a Family Takaful representative to fill up the proposal.
Agent Statement	The Takaful representative provides certain information regarding the proposer such as the agent's relationship to the proposer, data about the proposer's financial status, habits, generalcharacter, and any other information that may be pertinent to the risk being assumed by the Takaful fund.
Medical Report	If the underwriter decides that the proposal needs to be medically underwritten, a request for the proposer to undergo a medical examination will be made. A medical examination includes questions about the proposer's medical history, height, weight, pulse rate, blood pressure etc. Additional requirements may be needed by the Takaful Operator (in cases of advanced age, adverse personal or family history) such as an examination by a physician, more detailed and specific blood test, resting ECG, treadmill stress test, chest x-ray etc.
Attending Physician Statement (APS)	An attending physician's statement is prepared by the physician who examines the proposer.
Hospital Medical Report	By signing and submitting the application, the proposer is giving the Takaful Operator the right to obtain and review the medical records; both prior to and after becoming an accepted medical and health plan member.

3.2.5 Risk Classification and the Underwriter's Decision

After assessing and evaluating the hazards associated with the risk, an underwriter will make a decision with regard to the risk. The underwriter will classify the risks and make decisions as stated below:

3.2.5.1 Standard Risk

The Takaful Operator will accept the application, and, the proposer will be charged the normal contribution rate without any special exclusion or reductions in benefits.

Copyright @ MTA 2022

3.2.5.2 Sub-Standard Risk

If the proposer poses an above-average risk, the proposer will be classified as sub-standard risk. The underwriter will also determine if the 'extra risk' falls under one of the following categories.

- **Risks that increase over time (increased mortality)**

This is an impairment that will increase over time and thus contributing to a higher mortality rate. Example: A person who is overweight places more strain on his body and heart than a normal person, and this increases mortality and morbidity over time.

- **Risks that remain constant over time (constant mortality)**

This is the type of impairment that will remain constant from year to year. Some hazardous occupations, for example a construction worker or a work on an oil rig, will fall under this category.

- **Risks that decrease over time (decreased mortality)**

This will cover an impairment which may be present in a younger person (for example tuberculosis) but will reduce over time if the person is cured and also due to the advancement of modern medicine.

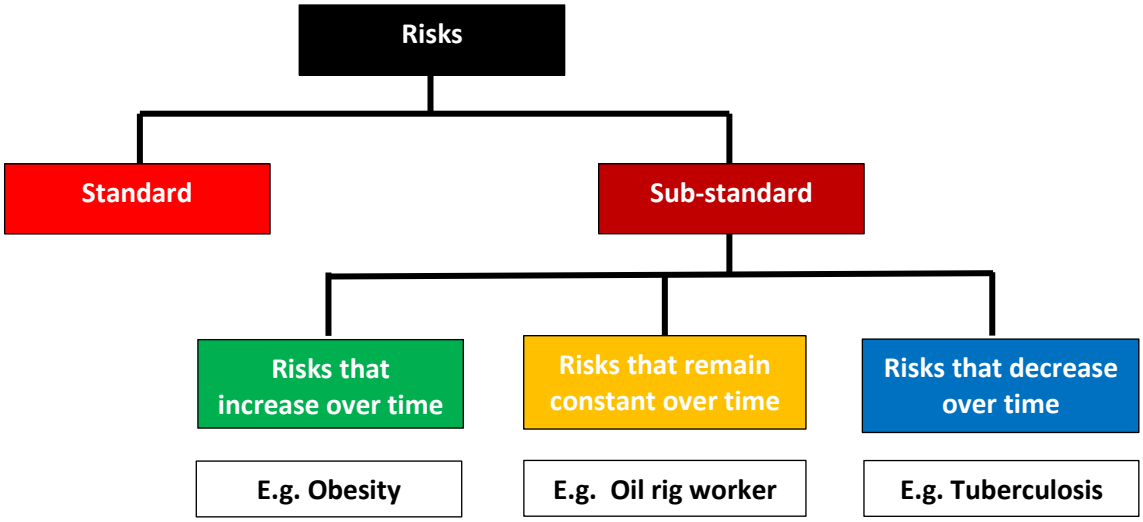


Figure 3.1: Classification of risks

The Takaful Operator may still offer a coverage to the proposer subject to conditions such as:

1. **Charging an extra contribution.**

The Takaful Operator may charge an additional contribution for the extra risk. Such an additional contribution is called a loading.

2. **Exclusion.**

The Takaful Operators may exclude a particular condition or impairment or restrict participation in a specific form of sports or activity as a way to issue coverage to persons who would otherwise have to be declined.

Copyright @ MTA 2022

3. Modify the Benefits.

The Takaful Operator may offer modified benefits to the proposer such as a lower annual limit, a larger deductible on a medical plan, decrease the death benefit, offer an alternative plan etc.

4. Defer the decision.

This will refer to the risks that are not acceptable by the Takaful Operator at the time of application. However, if through the lapse of time, the risk has reduced or there is no further incident of the impairment, the Takaful Operator may accept the application in the future. So, here the acceptance of the risk may be deferred for a certain period of time.

5. Decline the risk.

An underwriter will reject the application if the proposer is rated as unfavorable and cannot be accepted under any circumstances (perhaps due to a serious illness or engaging in an extremely dangerous occupation).

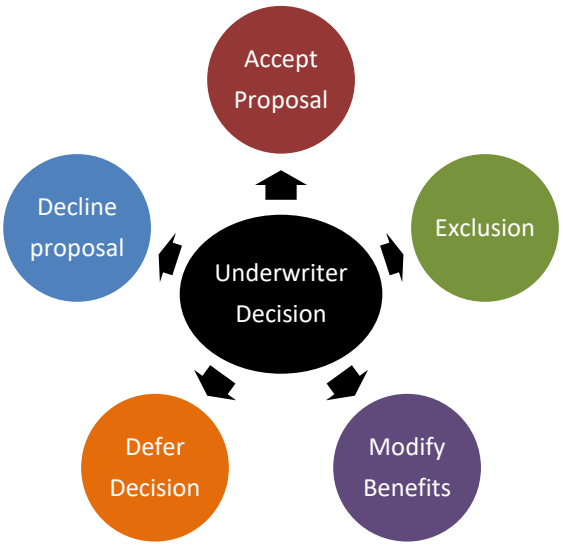


Figure 3.2: Summary of an underwriter's decision.

3.3 COMMENCEMENT OF RISK

Once the proposal is approved by the Takaful Operator, a letter of acceptance is issued requesting for the payment of the contribution (usually 30 days). The Operator will be liable for the sum covered once the contribution is received by the Operator.

However, if the contribution is not paid within the period stated in the letter, the Takaful Operator will have to re-confirm the acceptance by requesting a 'declaration of good health' from the proposer. If there are any material changes to health, occupation or other circumstances from the date of the original proposal, the proposer must declare it to the Takaful Operator and a re-assessment of the risk will be undertaken by the underwriter (and the whole process will be repeated).

Copyright @ MTA 2022

3.3.1 The takaful certificate issuance

Once all the formalities are concluded, a takaful certificate which is the evidence of the contract is issued by the takaful operator. A family takaful certificate is defined under IFSA, 2013 as a certificate by which takaful benefits are payable on death or survival, including those takaful benefits payable in respect of personal accidents, disease or sickness, and includes an annuity but excludes a personal accident takaful certificate

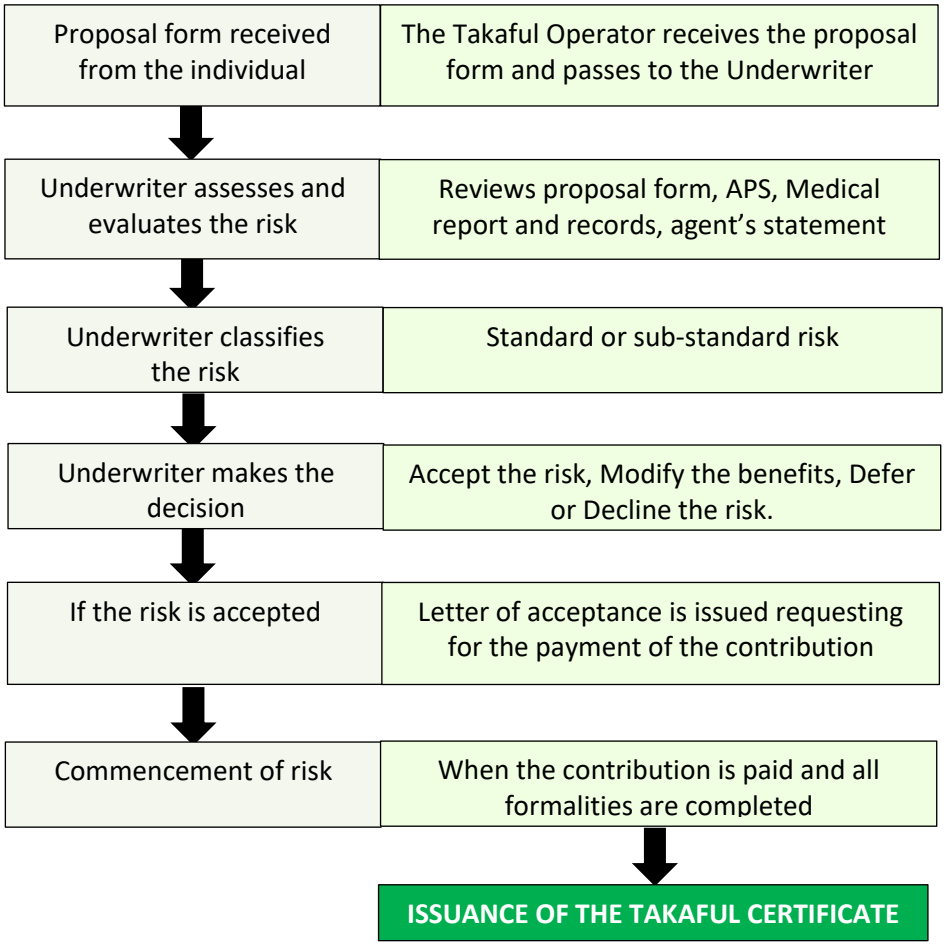


Figure 3.3: Summary of an underwriting process

Copyright @ MTA 2022

CHAPTER 3	ASSESSMENT QUESTIONS

1. The term anti-selection is best described as _____.

A. the ability of individuals who are not healthy to obtain takaful coverage.

B. the propensity of individuals who are not healthy to apply for takaful coverage.

C. the right of individuals who are not healthy to obtain takaful coverage and pay the contribution.

D. the capacity of individuals who are not healthy to obtain takaful coverage.

2. The term standard lives is best described as _____.

A. the ability of individuals to stay healthy throughout their lives.

B. the proposer who has the capacity to pay the contributions at the standard rate.

C. a group or class of proposers who lead normal lives.

D. a proposer who is a standard risk and is offered a takaful coverage at the normal contribution rate.

3. After assessing and evaluating the risk of the proposer life, the underwriter may

I. classify the risk as a standard risk

II. classify the risk as a sub-standard risk

III. defer the risk

IV. decline the risk

A. I and II only

B. I, II and III only

C. I, II and IV only

D. I, II, III and IV

4. The Takaful Operator may charge an additional contribution for the sub-standard risk called _____.

A. the extra charge

B. the health charge

C. a loading

D. the approval charge

Copyright @ MTA 2022

5. In Financial Underwriting, an underwriter will review the following _____. Select the combination of option below that is TRUE.

I. the existence of permissible takaful interest,
II. the motive for taking the takaful cover
III. whether the takaful cover applied corresponds with the income of the applicant.
IV. whether any other Operator has rejected any proposal from the proposer

A. I and II only

B. I, II and III only

C. I, II and IV only

D. I, II, III and IV

Copyright @ MTA 2022

CHAPTER 4: FAMILY TAKAFUL PRACTICES: CLAIMS

LEARNING OUTCOMES

After reading this chapter you will be able to:

- Understand the claims process to a client
- Understand the documents required for a death, total and permanent disability, critical illness, hospitalization and accident claim to the client.

4.0 INTRODUCTION

For a takaful certificate, a claim can arise under any one of the following situations:-

- death of the participant,
- maturity of the takaful certificate,
- occurrence of a hospital and surgical condition or critical illness,
- occurrence of a total and permanent disability,
- occurrence of a covered event under supplementary contracts.

It is important for the representative and Takaful Operator to assist the claimant in the claim submission and ensure the claim is processed promptly. The reputation of an agent and Takaful Operator is dependent on the efficiency with which claims are settled. It is therefore important that the agent is well-versed with the procedures and documents needed for a particular claim. The settlement of a death claim will bring the Family Takaful contract to an end.

4.1 NOTIFICATION OF CLAIMS

Upon the happening of an event (the covered event) that gives rise to a claim, the beneficiary or claimant should notify the Takaful Operator and provide the initial information such as the:-

- Participant's name,
- Participant's identity card number,
- Certificate number,
- Participant's address; and
- Date and cause of death, injury or sickness, as the case may be.

Upon receipt of the notification, the Takaful Operator's will advise the claimant of its requirements for processing the claim.

4.2 TYPES OF CLAIMS

The claimant must indicate the type of claim that is being made during the notification. This is important as the requirements for each type of claim can vary. The claimant must ensure all forms and documents are accurately prepared to ensure there will be no cause for undue delay in the claims process. The requirements for the different types of claims is discussed below.

Copyright @ MTA 2022

4.2.1 Death claims

The claimant or beneficiary has to provide the Takaful Operator with documentary evidence regarding the death of the person covered. In addition to the items in Section 4.2 above, the Takaful Operator will accept any one of the following documents (original or certified copy) as proof of death:-

- death certificate;
- coroner's report;
- an order pronouncing a statutory presumption of death, for cases where the person covered has gone missing for more than 7 years;
- certificate evidencing the death of service personnel and war related death;
- certificate evidencing that death has occurred at sea.

The operator would also request for the death claim form, takaful certificate, and proof of age (identity card or birth certificate) of the deceased person covered.

If the death was caused by an accident, the documents required will include the:-

- police report;
- claim form;
- post mortem report;
- newspaper cutting (if any);
- death certificate;
- takaful certificate; and
- proof of age.

4.2.2 Payment of takaful proceeds for a death claim

The Takaful Operator has to ensure that the death claim proceeds are paid to the person entitled to receive them. Para 2(1) under Schedule 10 (Section 142) of IFSA 2013, states that the payment of such benefits can also be made by the Takaful Operator to the nominee or beneficiary (under a conditional *hibah*) of the deceased estate, if that is the desire of the participant. Such nomination or beneficial interest must be duly registered with the Operator.

Where a takaful participant dies without having made a nomination relating to the takaful benefits, the takaful operator shall pay the takaful benefits of the deceased participant to the lawful executor or administrator of his estate.

The nominee, administrator or lawful executor will serve as a trustee and will subsequently distribute the proceeds to the rightful heirs in accordance with *Fara'id* or the prevailing distribution provisions (for non-Muslims).

No claim is payable in the event the death is caused by suicide, whether in a sane or insane condition, within one year from the date of inception of the certificate or from the date of reinstatement, if applicable.

Copyright @ MTA 2022

4.2.3 Compensation on claim amount if claim is not paid on time by the operator.

Para 12 (1) under Schedule 10 (Section 142) of IFSA 2013 states:-

'where a death claim made under a family takaful certificate, or under a personal accident takaful certificate is not paid by a licensed takaful operator **within sixty (60) days of notification** of the claim,

the takaful operator shall pay a minimum compensation at the rate of the investment yield of the participant's risk fund plus one percent or such other rate as may be specified by Bank Negara Malaysia

on the amount of takaful benefits exceeding the sixty days until the date of payment, the one percent is to be paid from the shareholders' funds.'

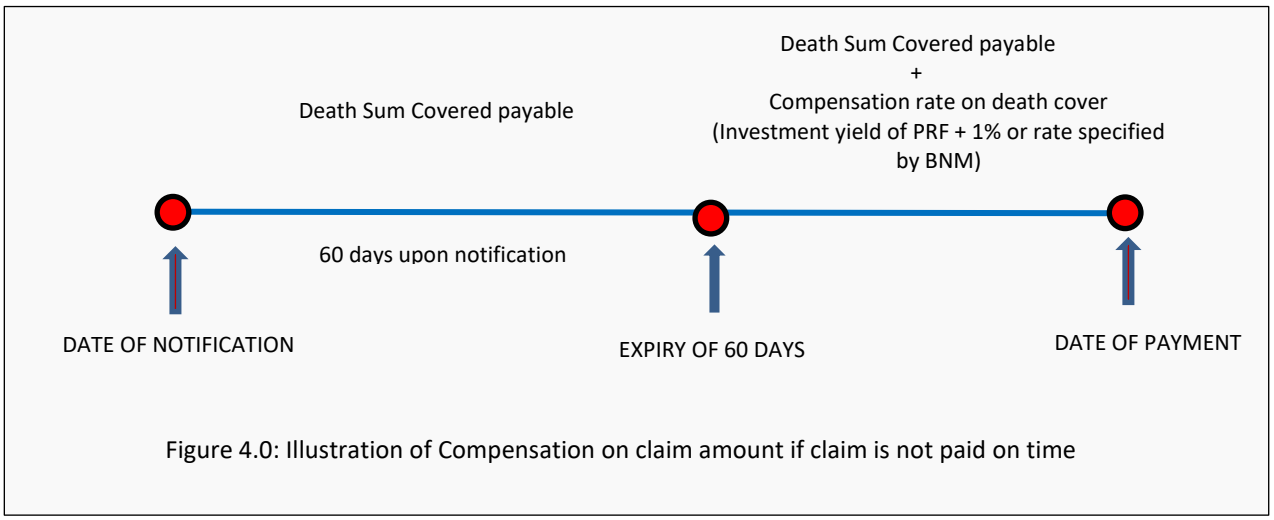


Figure 4.0: Illustration of Compensation on claim amount if claim is not paid on time

4.3 TOTAL AND PERMANENT DISABILITY CLAIMS

There are two types of total and permanent disability claims; one arising from natural causes or illness and the other arising from accidental causes.

a. Documents required for total and permanent disability claim due to natural causes are the:-

- completed TPD claim form,
- total and permanent disability medical report and supporting documents (if any), by the attending doctor after the person covered's disability,
- certified true copy of the participant's identification card,
- original Takaful Certificate,
- termination letter if service was terminated by the employer.

Copyright @ MTA 2022

b. Documents required for total and permanent disability claim due to accidental causes are the:-

- completed TPD claim form;
- medical certificate by the attending doctor after the participant's accidental disability;
- certified true copy of the participant's identification card;
- certified true copy of the police report;
- original Takaful Certificate;
- termination letter if service was terminated by the employer.

4.4 CRITICAL ILLNESS CLAIMS

Critical illness certificates provide a lump sum cash payment of the sum covered upon diagnosis of one of the 36 critical illnesses listed in the Takaful Certificate. The certificate owner is required to submit the:-

- critical illness claim form;
- medical report and related medical test results of the diagnosis by the attending physician;
- certified true copy of the identity card.

4.5 PERSONAL ACCIDENT CLAIMS

In the case of personal accident claims covered under a rider to the Takaful certificate, the principle of proximate cause will be applied to determine if the accident was the proximate cause of death or disability sustained by the participant. This is necessary as there can be more than one concurrent causes for the accident. For example, if a person has taken some prescribed medicine that can cause drowsiness, and, while driving his car in the rain, it skids because of an oil spill on the road. The car then collides into a parked vehicle and the person dies in the accident. Would the death be deemed accidental? What would the proximate cause be? Would the proximate cause be covered by the certificate?

The Takaful Operator will look at the information in the claim documents and may conduct further investigation or engage forensic experts to establish the actual cause of death. If the cause is covered under the certificate, the claim is duly paid. If the Takaful Operator is of the opinion that the claim is brought about by an excluded peril, then the Takaful Operator will reject the claim. The reasons for the rejection would be forwarded and explained to the claimant.

The documents required for an accident claim are as follows:

- accident claim form;
- certificate of medical attendance duly completed and signed by medical attendant at the participant's own expense;
- original/certified true copy of the medical certificate or light duty certificate;
- certified true copy of the police report for assault cases;
- original payment receipts of medical expenses for assault cases.

Copyright @ MTA 2022

4.6 HOSPITALISATION AND SURGICAL CLAIMS

For the hospitalization and surgical claims, the following documents are needed:-

- Hospitalisation and Surgical claim form;
- Takaful certificate number;
- Proof of identification;
- Attending Physician's Statement describing the illness, and date of visits;
- Copy of Discharge Note or Summary or hospital bill showing admission and discharge date and diagnosis result for Hospital Benefit Claim;
- Original itemized bills (invoice or statement) and original official receipts including deposit receipts;
- All medical test results including MRI, CT scan, dialysis etc.;
- Police report (for accident cases only).

The claimant also needs to provide the authorization permitting any medical provider, physician,or employer to release records, or information concerning the participant's medical history, or employment status.

4.7 CLAIM DECISION

Takaful Operator will review all the evidence submitted under each type of claim and make a decision to pay or repudiate the claim. The reasons for repudiating liability may be as follows:

- Non-existence of loss as reported;
- The loss or damage was due to the peril that is not covered under the certificate;
- The loss or damage is within the scope of an exclusion of the certificate;
- The certificate has been rendered void as a result of a breach in condition.

Once the claim is rejected, Takaful operator will notify the claimant by issuing a letter to the certificate owner informing him or her of the decision.

4.8 MATURITY CLAIMS

In the event that a participant survives the term of his certificate, the maturity amount is payable to the participant. The Takaful Operator would usually inform the certificate holder of the impending maturity of the certificate and would request the participant to comply with the claim procedures.

The Takaful Operator will forward an identity form, the survival form and a discharge voucher for completion. These are to be duly completed and returned to the Operator together with the original certificate contract.

The following are usually required in settling maturity claims:

a. when the participant is the person covered:-
   - proof of age;
   - proof of survival;
   - the original certificate contract;
   - discharge voucher completed by the participant.

Copyright @ MTA 2022

b. when the claimant is not the person covered:-

- a deed of assignment or any other title document;
- a notification that the person covered is alive and is unable or not available to sign the survival certificate.

4.9 THE CLAIMS PROCESS

Based on the understanding of the flow of the claim requirements, a summarized claims process is shown in the Figure 4.1 below.

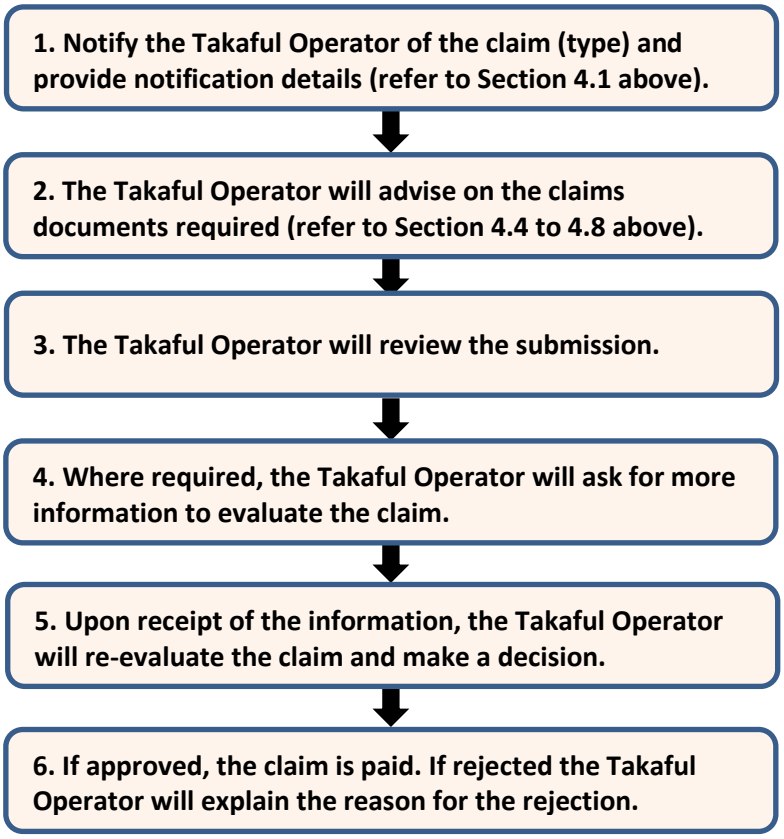


Figure 4.1: Summary of the claims process

4.10 CLAIMS REGISTER

It is a legal requirement that every Takaful Operator shall maintain an up-to-date register of all Takaful claims immediately upon becoming aware of it. None of the claims shall be closed as long as the Takaful Operator is still liable for the claims and the claims have not been settled. The claims register serves as an official record of claims notified to the Takaful Operator. The claims register could be kept in either a manual form (card or ledger sheet) or in a computer database.

Copyright @ MTA 2022

4.11 SETTLEMENT OF DISPUTES

There is a probability that a small portion of claims intimated to Takaful Operators will end up with dispute. The disputes will involve cases such as whether the Takaful Operator is liable and the quantum of loss. When a claim dispute arises, it may be resolved through any one of the following processes:

1. Negotiation and Compromise Settlement

The claimant may meet the Takaful Operator to settle the dispute through discussion.

2. Mediation

The ombudsman for Financial Services is approved by the Bank under the Islamic Financial Services Act 2013 as a mediator to provide a fair and efficient avenue for financial consumers to resolve disputes against financial service providers

3. Arbitration

Arbitration is a well-established means to end disputes. It provides parties to a dispute with a choice other than litigation. Unlike litigation, arbitration takes place out of court. The two sides select an impartial third party, known as an arbitrator and agree in advance to comply with the arbitrator's award. Both parties will participate in a hearing at which both sides can present their respective evidence and testimony. The arbitrator's decision is usually final, and courts will rarely reexamine it.

4. Litigation

A claimant may take the Takaful Operator to court if he is unhappy with the outcome of his discussion/negotiation. Litigation is normally the last option as court proceedings will incur a high cost.

Copyright @ MTA 2022

CHAPTER 4	ASSESSMENT QUESTIONS

1. If a claim is not paid within sixty (60) days from the date of notification _____. Select the statement below that is CORRECT.

A. the takaful operator shall pay a minimum compensation at the rate of the investment yield of the PRF plus one percent or such other rate as may be specified by Bank Negara Malaysia.

B. the takaful operator shall pay a minimum compensation at the rate of the investment yield of the PRF plus the fixed deposit rate as may be specified by Bank Negara Malaysia.

C. the takaful operator shall pay a minimum compensation at the rate of the investment yield of the PRF plus one percent or such other rate as may be specified by Bank Negara Malaysia.

D. the takaful operator shall pay a minimum compensation at the rate of the investment yield of the PRF plus the fixed deposit rate as may be specified by Bank Negara Malaysia.

2. For a personal accident claim covered under a rider to the Takaful certificate, the _____ will be used to determine if the 'accident' was the cause of the death or disability.

A. principle of relevant cause

B. principle of reasonable cause

C. principle of proximate cause

D. principle of actual cause

3. According to Para 12 (1) under Schedule 10 (Section 142) of IFSA 2013, if the claim is paid within the 60 days, the amount paid will be _____.

A. equal to the sum covered and one per cent paid from the shareholders fund.

B. equal to the sum covered and one percent of the Participant Risk Fund (PRF).

C. equal to the sum covered and the yield from the Participant Risk Fund (PRF).

D. equal to the sum covered only.

4. Which of the following is TRUE about maturity claims?

I. It is paid when the participant survives the term of the certificate.

II. The Takaful Operator will inform the certificate owner of the policy maturity.

III. The maturity value is adjusted for inflation at the time of payment.

IV. the survival form and discharge voucher are some of the documents required for the maturity claim.

A. I and II only.

B. I, II and III only.

C. I, II and IV only.

D. I, II, III and IV.

Copyright @ MTA 2022

5. There are two types of total and permanent disability claims; one arising from _____ and the arising from _____.

A. natural causes or illness; death

B. natural causes or illness; accidental causes

C. illness only; accidental causes

D. none of the above are true.

Copyright @ MTA 2022

CHAPTER 5: KEY CONSIDERATIONS IN INVESTMENT

LEARNING OUTCOMES

After reading this chapter you will be able to:

- Understand the key considerations in making an investment decision during a client engagement

5.0 INTRODUCTION

One of the areas where representatives need to work with their clients is in the area of investments. In providing takaful solutions, investments are relevant in planning for the future needs of participants such as retirement, education and savings for a specific purpose (for example; early settlement of a home loan pre-retirement travel and enjoyment during the senior years, etc.). It is therefore necessary for an agent to understand the various considerations in making investment decisions when advising a client.

5.1 KEY CONSIDERATIONS IN INVESTMENTS

The key considerations in investments are:-

5.1.1. Setting the investment objective(s)

An individual may have one or more objectives in making an investment. For example, he may focus on capital gains only, or he may focus on capital preservation only, or he may focus on an income stream and capital gains. Understanding the investment objective(s) provides a clear picture of how to proceed with the client engagement and subsequent investment decisions. Generally the key investment objectives are:-

a. Safety

Some investors prefer the safety of the capital sum over the returns. These individuals are conservative (*risk averse) and are comfortable in receiving low returns from their investments. Such investments will include Fixed Deposits, Treasury Bills, Sukuk and Government Bonds.

b. Income

The primary objective of the investor is to focus on the income stream from the investment. The income will vary based on the risk-return tradeoff of the investment, that is, the higher the risk, the greater the potential income from the investment. For example, fixed deposits provide a lower return than some dividend yielding stock, but the risk of placing money in the fixed deposit is lower than in the stock market. The option chosen will depend on the risk tolerance of the investor.

Copyright @ MTA 2022

c. Balanced asset portfolio

To mitigate risks in investments, some individuals will want moderate risk and moderate returns. This can be achieved by having a balanced investment portfolio through diversification. An example would be where the investor diversifies his investment into several asset classes, say shares, unit trust, fixed deposits and gold (moderate diversified risk) compared to placing the entire investment in shares (high asset risk).

d. Long Term Growth

The primary focus of the investor under this category is long term capital appreciation of the investment. An example would be investments in property, where the investor will enjoy rental income and has the potential long term capital appreciation of the property.

e. Speculation

If the investor is a risk taker, the investor would want to maximize the returns on capital. An example of such an investment is equity, where the investor takes a speculative risk that a certain share price is going to increase in the short term. Speculators trade based on their educated assumptions on where they believe the market is headed. For example, if a speculator thinks that a stock is underpriced, they may buy the stock and wait for the price to rise at which point it can be sold at a profit.

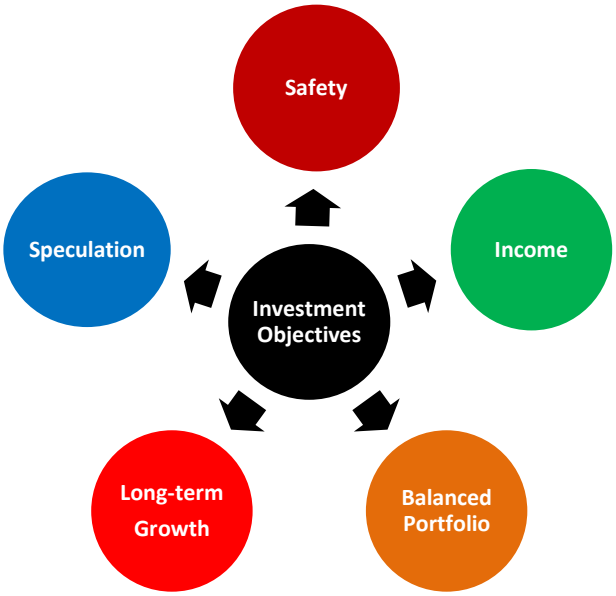


Figure 5.1: Summary of the Investment objectives

Copyright @ MTA 2022

5.1.2 Availability of funds

Investing even small amounts of money can pay off over time. But the question is how can an individual make the funds available for investment? What are the sources of funds available to the investor?

There are some sources of funds that may provide funds for investment.

a. Surplus from income

While income is important, the true ability to invest actually comes from the surplus arising from the income. The agent needs to work with the client and estimate the client's life-style expenses. The agent can identify customers' surplus by using the Customer Fact Finding Form. The difference between the income and life-style expenses will provide the surplus.

When a client has an income surplus, the agent must ensure that not all of the surplus is used for investment. Some portion must be set aside for 'emergency or unexpected events' prior to investment. If it is not done, the investment will have to be liquidated for any contingency needs.

b. Extra Money

This can arise from various sources. The individual may receive a gift, inheritance or unexpected 'windfall', extra income from a part-time business etc. All or some of the extra money may be invested depending on the individual's circumstances.

c. Liquidation of other investments

The individual may want to liquidate other investments that may have already served its purpose. For example, an investment in shares or commodities that have already reached its target price. The funds from the liquidation are available for re-investment.

5.1.3 Risk tolerance

It is important for the agent to be aware of client's risk tolerance level due to the risk-return trade-off. Risk tolerance is the degree of variability in investment returns an investor is willing to take and tolerate in financial planning. A risk tolerant investor is one who is willing to take some risk in the trade-off for a higher return. The goal is to determine which type of investment will meet the risk tolerance of the client. Figure 5.2 below provides an idea of the risk–return profile of various investment instruments.

Note: * Risk-return trade-off: The higher the risk, the higher the potential return

Copyright @ MTA 2022

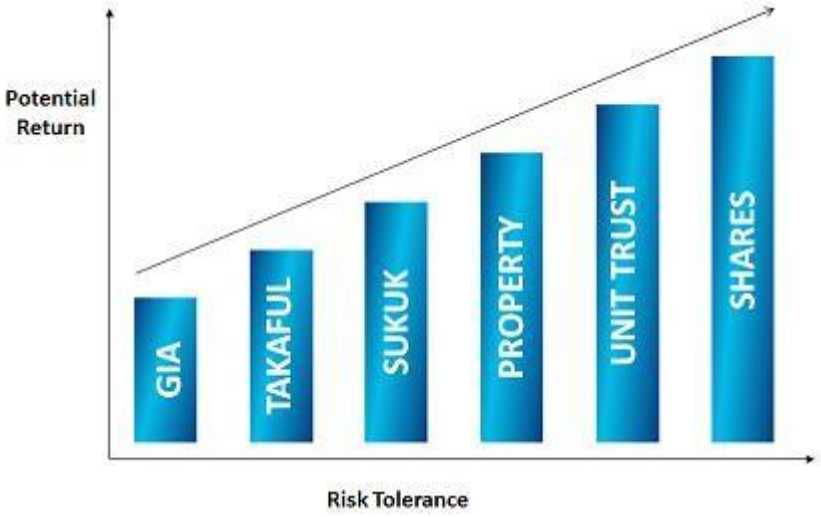


Figure 5.2: Risk return profile

5.1.4 Investment Horizon

The investment horizon refers to the total length of time that an investor expects to hold on to an investment. The longer the time horizon, the more time, an investor will have to build an aggressive or riskier portfolio. Generally speaking, the investment time horizon can be classified as short, medium or long term. These investment durations are explained in Table 5.1 below.

Table 5.1 : Time Horizon of Investments	
Term	**Description & Examples**
Short term	Less than 3 years Short term funds share normally invested in low-risk investments such as fixed deposits, savings, and short-term bonds.
Medium term	3-10 years Medium-term investment strategies tend to balance between high and low risk assets. A mix of stocks and bonds would be a suitable way to protect your wealth without losing value to inflation.
Long term	More than 10 years The most common long-term investments are savings for retirement and property.

Copyright @ MTA 2022

5.1.5 Tax treatment

Different types of investments have a different tax treatment. A client must know the tax treatment for the specific investment instrument before making a decision on the investment. Taxation will determine the net return of an investment.

5.1.6 Performance of the investment

Investment performance is the return on an investment portfolio. It is measured over a specific period of time and in a specific currency. Investors often distinguish between different types of return. Examples include:-

- **Net versus Gross Return**

The net return to the investor is the return net of all fees, expenses, and taxes, whereas the gross return is the return before all fees, expenses, and taxes.

- **Total Return versus Price Return**

Total return takes into account income (profit and dividend), whereas the price-return only takes the capital appreciation into account.

The performance of an investment depends on the following factors:-

- The country's economy,
- The country's risk,
- Regional and global economy,
- The competencies and capabilities of the fund manager,
- The performance of the company in which the investment is made,
- History of the invested company,
- Life cycle of the investment.

5.1.7 Diversification

Diversification is the simplest way to increase the investment returns while reducing risk. It involves investing the funds across a range of asset classes, industries, countries or even currencies to spread and reduce investment risk. Diversification protects the investment portfolio from market volatility. Through diversification, investors can offset losses on some investments with gains on others. It simply means "*Do not to put all of your eggs in one basket*".

5.1.8 Investment Risk

In point 5.1.3 above, the risk-return trade-off for investment in an asset or class of assets was mentioned. It is important to note that in the consideration of an investment risk, there are other risks that can impact the return on the investment. These risks are:-

- **Market Risk**

Market risk arises because of factors that affect the entire marketplace and typically include changes in regulations, politics, technology and the economy. Market risk can be mitigated through

Copyright @ MTA 2022

diversification of the fund's investments (equity or non-equity, local and overseas etc.).

- **Liquidity Risk**

Liquidity risk is the risk that the security/instrument invested in cannot be readily liquidated and converted into cash. This can occur when the trading volume for the security is low and/or when there is a lack of demand for the security.

- **Profit Rate Risk**

Profit rate risk arises from the potential fluctuation in the values of the profit-bearing assets and is related to the timing of the sale of the asset. If the price is high at the time of liquidation, the profit is high and vice versa. This risk can be mitigated by undertaking dollar cost-averaging, which is, buying an asset over time to average out the cost of the asset. An example would be to buy a share at a price of RM 3.00 at one point in time, and buying it at RM 2.90 at another time. The average price is RM 2.95 per share.

- **Currency Risk**

Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital when investing in non-ringgit denominated investments. To mitigate such risks, investments should be spread across a few currencies.

- **Country Risk**

If the fund is invested in a specific country, the investments may be affected by risks specific to that country. This can arise from the country's economic fundamentals, social and political stability, currency movements, foreign investment policies, leakages due to corruption, taxation laws etc. The risk may be mitigated by conducting a thorough research of the respective markets with regard to the above factors, or omitting investments in such markets.

- **Non-Compliance Risk**

It refers to non-compliance with the provisions of the deeds, prospectus, guidelines, internal policies and relevant laws in the management of the investments. This risk can be mitigated through internal controls and compliance monitoring.

- **Risk of Reclassification of *Sharī'ah* Status**

This risk arises from the potential revision of the status of *Sharī'ah*-compliant funds in the investment portfolio. During the periodic review, the funds may be reclassified as *Sharī'ah* non-compliant. As a consequence, the value of the fund may be adversely affected where the manager will have to take quick action to dispose of the said investment which may result in a loss. This risk may be mitigated keep abreast with the periodic reviews by the *Sharī'ah* Compliance Department (SCD) and *Sharī'ah* Committee (SC) of the Takaful Operator.

Copyright @ MTA 2022

not true.

A. Diversification protects the investment portfolio from market mortality.

B. Through diversification, investors can offset losses on some investments with gains on others.

C. It simply means “Put all of your eggs in one basket”.

D. It involves investing the funds across a range of asset classes, industries, countries or even currencies to focus and extinguish investment risk.

2. Investment horizon refers to _____.

A. the total length of time that an investor expects to get a return on the investment.

B. the total length of time that an investor expects to hold on to an investment.

C. the total length of time that an investor expects to double his return from the investment.

D. the total length of time that an investor expects to get a buyer for the investment.

3. The return on an investment portfolio is referred to as the _____.

A. profit performance.

B. investment performance.

C. investment risk net return performance.

D. diversified return performance.

4. A risk tolerant investor is one who is _____.

A. willing to take some risk in the trade-off for higher return

B. willing to take any risk in the trade-off for higher return

C. not willing to take any risk in the trade-off for higher return

D. willing to speculate on any risk in order to make a gain.

5. Which one of the following is not an investment objectives?

A. Safety

B. Income

C. Long term growth.

D. Maximize returns at all times.

Copyright @ MTA 2022

CHAPTER 6: CHOICE OF INVESTMENT VEHICLES

LEARNING OUTCOMES

After reading this chapter you will be able to:

- Understand the different types of investment instruments available for individuals in investment planning

6.0 INVESTMENT CHOICES

In order to achieve the investment objective(s) discussed in the previous chapter, an individual needs to make investment choices that are consistent with his risk tolerance and investment objectives. A sound knowledge of the various investment instruments that are available and the risk-return tradeoff associated with each instrument is important in achieving the investment objectives.

6.1 INVESTMENT INSTRUMENTS

The following are the various investment instruments that are available for an individual to plan their investment strategy:-

6.1.1 Cash and Deposit

Cash and deposit refer to all types of liquid instruments which have a minimal or no risk to the principal amount. Such instruments are suitable for risk averse individuals and includes the following:-

a. **Government Investment Issue**

Government Investment Issue (GII) is the Islamic version of a marketable debt (borrowing) instrument issued to raise funds from the domestic capital market. It is issued under the Government Funding Act 1983. Its aim is to finance the Government's development expenditure and working capital. Bank Negara Malaysia is the agent for issuing the GIIs for the Government.

GIIs are issued to enable Islamic financial institutions, such as Islamic banks and Takaful Operators, to meet their statutory liquidity requirements.

Effective from 22 July 2013, GIIs' are issued based on the *Murābaḥah* concept. The GII based on *Murābaḥah* contract is essentially a certificate of indebtedness arising from a deferred mark-up sale transaction of an asset which complies with *Sharī'ah* principles. GII is assigned with no credit risk as it is issued by the government.

b. Islamic Bank Accounts

Islamic bank accounts include saving account, current account, investment account, general investment account, and the offshore account. The profit rate of these accounts is low and the investment is exposed to inflation risk.

Copyright @ MTA 2022

- **Profit Sharing Investment Account**

This refers to a deposit product structured on the *Muḍārabah* contract. Profit realized from the investment will be shared between the investment account holder and bank, and is based on a pre-agreed profit sharing ratio. However, losses (if any), will be borne by the investment account holder unless there was any negligence, fraud and willful default on the part of the Bank.

- **General Investment Account (GIA)**

It is also known as the Unrestricted Investment Account. Under the account, the Bank can invest the money in any income producing assets without restriction. Profit is payable on every interim profit payment date or at maturity (where applicable). The amount of actual profit will only be known on the maturity date and distributed on the agreed profit-sharing ratio.

- **Special Investment Account (SIA)**

The SIA or Restricted Investment Account refers to the profit-sharing investment. Special investment accounts are accounts in which clients deposit money in the bank, and the bank invests the deposited amounts using methods based on the *Muḍārabah* contract. The account holder provides the bank with consent to invest the money in specific income producing assets. The profits are subject to the prevailing profit-sharing ratio ("PSR") determined by the Bank.

- **Foreign Currency Deposit**

This is an investment product for customers who wish to operate a *Sharī'ah* based foreign currency account.

- **Gold Account**

The account allows the account holder to invest and trade in gold. The account holder can do so without holding the physical commodity.

- **Current Account**

In general, it is a "non-profit" bearing bank account. The account allows the accountholders to write cheques against the money available in the account. An individual or a company can operate such an account.

- **Saving Account**

A savings account is a form of bank deposit which allows customers to deposit and withdraw their money. There is no maturity date imposed on the deposit. It can be opened by either individual or company.

6.1.2 Sukuk

Sukuk is a financial product which terms comply with *Sharī'ah*. It aims to create returns similar to those of conventional fixed-income instruments like bonds (conventional interest-bearing bonds are not permissible in Islam).

It can be issued by the government or by companies. Corporate *sukuk* provides a higher return than a government *sukuk*. In the event of a default, ownership of underlying assets of the issuer will be

Copyright @ MTA 2022

transferred to the holders of the certificate. The *sukuk* holders will therefore bear the credit risk of the issuer.

6.1.3 Shares

Shares, also known as stocks or equities, are the unit of investment in individual companies. Islamic equities are shares or securities of companies operating in activities permissible under *Sharī'ah.* These are approved and periodically reviewed by *Sharī'ah* scholars through a process known as Islamic stock screening.

For a company to be considered permissible under *Sharī'ah*, the majority of its revenues must be primarily derived from activities other than the trading in alcohol, weapons, tobacco, pork, pornography, or gambling or from profits associated with charging interest on loans.

With shares, investors can create wealth in three ways:-

- receive an income from them in the form of dividend;
- have a growth in their value and sell them at a profit; or
- a combination of the above.

Shares can be classified into two main types, namely:-

a. Ordinary Shares

An ordinary share represents ownership rights in a company. Each ordinary share owned entitles the purchaser to one vote at the general meeting on certain issues within the company. If a company makes a profit, the Board of Directors will decide the amount of dividend that will be paid, and this amount can vary from year to year.

While the risk of an ordinary shareholder lies in the fluctuation of the share price, another risk faced is that should the company become insolvent, the ordinary shareholders are last in line, behind all debtors and preferred shareholders to be compensated. This simply means that they will get their share of whatever money is left after all others have been paid.

b. Preferred Shares

Preferred shares give the holder part ownership of a company. The preferred shareholders are paid a fixed dividend and such payment is made before payments are made to the ordinary shareholders. The dividends of preferred shares are often higher than the dividends of ordinary shares.

If the company becomes bankrupt, preferred shareholders are entitled to be paid from the company assets before common shareholders. The downside is that preferred shareholders do not have any voting rights in the company.

6.1.4 Unit Trust

The Securities Commission Act 1993 defines a "unit trust scheme" as:

"any arrangement made for the purpose, or having the effect, of providing facilities for the participation of persons as beneficiaries under a trust in profits or income arising from the acquisition, holding, management or disposal of securities; futures contracts; or any other property".

Copyright @ MTA 2022

Unit trust is also referred to as 'collective' or 'pooled' investments. It is an investment vehicle made up of different types of investments chosen by the fund manager. Islamic unit trust is similar to a conventional unit trust scheme except that it invests only in *Sharī'ah* compliant assets.

The contract governing the exchange of units between the unit trust manager and the investor conforms to the principle of *bay' al-naqdi* (buying and selling on a cash basis). When an investor purchases a unit of the trust, the investor is actually sharing in the ownership of the assets held by the trust on a pro-rated basis (based on the number of units owned) with other investors. The manager receives a management fee under the concept of *ujrah* (fee) for managing the unit trust.

The main reasons for investing in unit trust funds are:-

- unit trust funds help reduce an investors overall level of risk;
- unit trust funds can lower the cost of building a diversified portfolio;
- unit trust funds reduce the need to select and manage the investments by an individual.

The advantages and disadvantages of unit trust are shown in Figure 6.1 below.

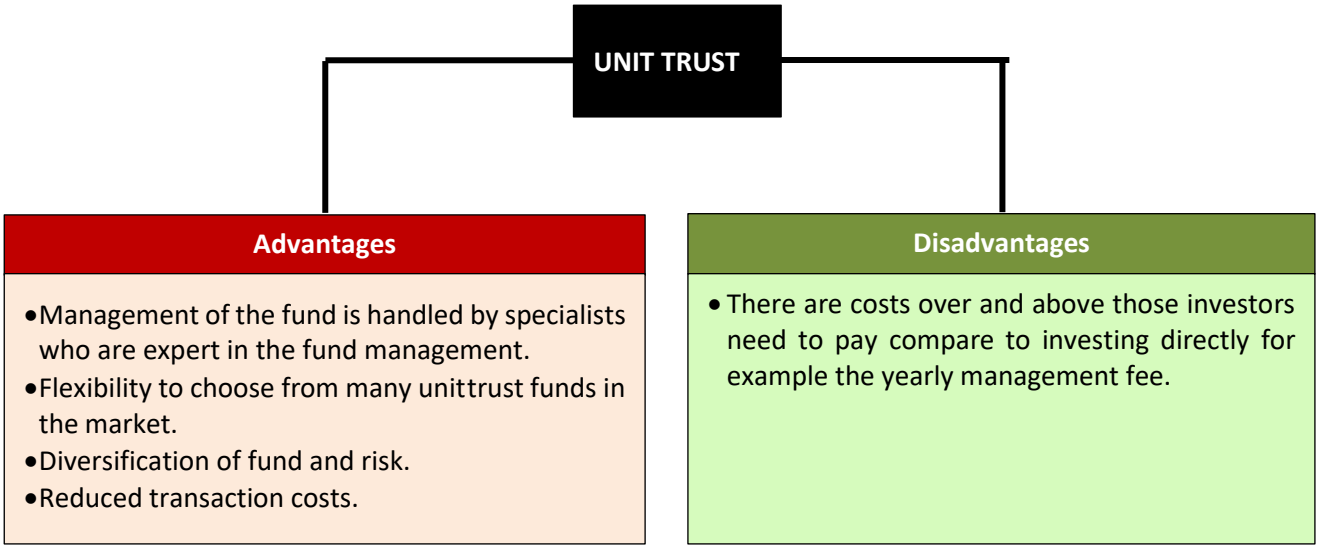


Figure 6.1: Advantages and Disadvantages of Unit Trust

6.1.5 Real Estate and I-REITs

Real estate investment can be made in residential, commercial (e.g. retail property), industrial (e.g. warehouses and factory lots) and agricultural property. The prime aim of such investments is to either earn an income through rental collections or making a capital gain through selling the property at a higher price sometime in the future. Property values tend to rise over time, especially if there are infrastructure development and upgrades nearby. Real estate is a long-term investment and not very liquid. It takes time to dispose of the property and complete all regulatory requirements before the investor can see the returns upon its disposal.

Copyright @ MTA 2022

Investors can also invest in real estate through the Real Estate Investment Trust (REITs). An Islamic REIT is a real estate investment trust that invests primarily in *Sharī'ah* compliant income-producing real estate.

I-REITs can be publicly or privately held. Public I-REITs may be listed in Bursa Kuala Lumpur which will provide the investor the ease of buying and selling it like normal equity.

Table 6.2: Advantages and Disadvantages of investment in real estate

Advantages	Disadvantages
• An investment that can give steady income for a long period. • An investor can buy properties without using his/her own money. One way of doing this is financing. • It has an intrinsic value to it. A share that an investor buy can lose 99% of its value but it is almost impossible to buy a property where it loses 99% of its value.	• If an investor buys a property and can't make the mortgage payments, he can lose the property and also affect his credit rating. • Rental rates of individually owned property can fluctuate. • High maintenance cost.

6.1.6 Capital protected fund

A capital protected fund is a type of mutual fund that guarantees the initial capital investment if it is held for the entire contractual term (up to maturity). Its primary objective is to safeguard investors' capital in the event of market downturns while providing them scope for capital appreciation and returns by participating in upturns of the investments in the fund.

6.1.7 Islamic commodity funds

An Islamic commodity fund is one that has direct holdings in commodities which comply with *Sharī'ah* principles. For example, a gold fund that holds gold bullion.

There are several requirements that must be met to comply with *Sharī'ah* principles:-

- Commodity must be owned by the seller at the time of sale;
- Short selling is not permitted but forward sales are allowed under *Bay'Al-Salam (future delivery) and Istiṣnā'* (acquisition of asset/property by specifications/order);
- Commodity traded must be halal i.e. permissible;
- Seller must have physical possession of the commodity to be sold;
- Price of the commodity must be fixed and known to the parties involved.

Copyright @ MTA 2022

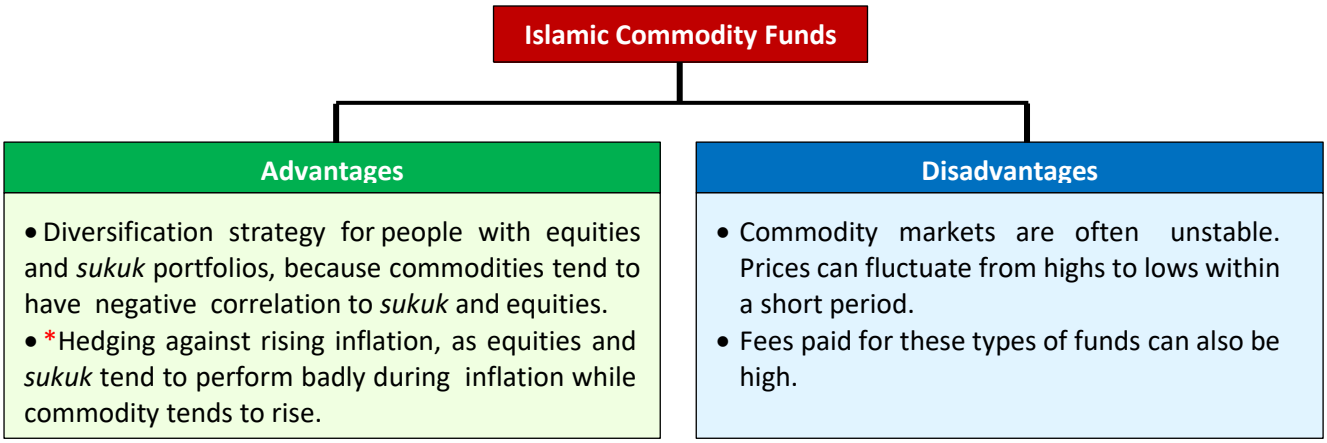


Figure 6.2: Advantages and Disadvantages of Islamic funds

*Hedging is a risk management strategy employed to offset losses in investments by taking an opposite position in a related asset. For example, if you participate in a takaful for your car, you're hedging your investment in the car against thefts, accidental damages or any other unforeseen disasters.

Copyright @ MTA 2022

CHAPTER 6	ASSESSMENT QUESTIONS

1. Government Investment Issue (GII) is the Islamic version of marketable debt (borrowing) instrument which is issued to:-

A. raise funds from the domestic capital market.
B. ensure the government collects sufficient revenue from Bank Negara for development.
C. ensure sufficient taxes are paid by companies involved in the investment business.
D. none of the above is true.

2. Select the statement about preferred shares which is NOT true.

A. Preferred shares do not give the holder any ownership in the company.
B. The preferred shareholders are paid a fixed dividend.
C. Payments to preferred shareholders are made before payments are made to the ordinary shareholders.
D. Preferred shares' dividends are often higher than ordinary shares' dividends.

3. A corporate sukuk provides _____ returns than a government sukuk.

A. a higher
B. a lower
C. a similar
D. double

4. In unit trust, the contract governing the exchange of units between the unit trust manager and the investor conforms to the principle of _____

A. *ujrah*
B. *bay' al-naqdi*
C. *bay' al-salam*
D. *bay' al-Istiṣnā'*

5. Effective from 22 July 2013, GII is issued based on _____ concept.

A. *Bay' al-salam*
B. *Bay' Bithaman Ājil*
C. *Murābaḥah*
D. *Bai Al-Inah*

Copyright @ MTA 2022

CHAPTER 7: INTRODUCTION TO INVESTMENT-LINKED TAKAFUL

LEARNING OUTCOMES

After reading this chapter you will be able to:

- compare the difference between an investment linked plan and ordinary takaful family plan
- understand the types of investment funds available under the investment linked takaful plans
- understand the key features of the investment linked takaful plans to customers

7.0 INTRODUCTION

Investment-Linked Takaful (ILT) is a Family Takaful plan that combines investment and Takaful coverage.It is a flexible plan that allows the participant to select the sum covered and also invest a portion of the contribution in one or a variety of *Sharī'ah*-approved investment funds offered by the Takaful Operator.

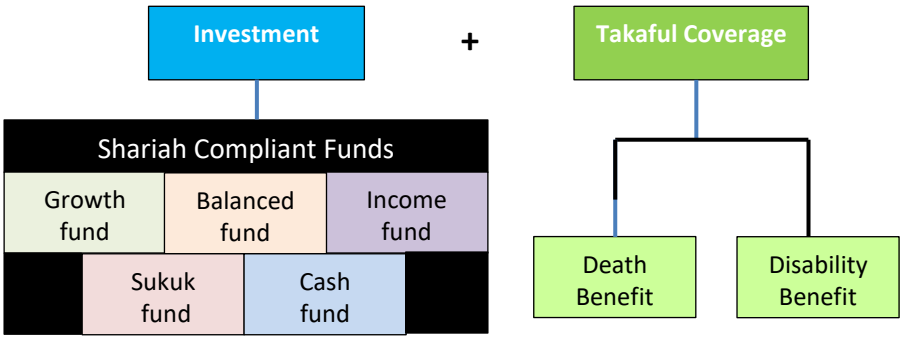


Figure 7.1: Depiction of an Investment-Linked Takaful

The value of the certificate is tied to the value of the underlying investments in the respective funds. This is called the Net Asset Value (NAV) of the plan. It is determined by the performance of the selected funds. This will be further discussed in Chapter 8.

The Takaful Operator may manage the fund through its internal expertise, or it may appoint an external fund manager to tailor and manage the funds on its behalf. The risk of the investment portion in the investment linked plan is borne by the participant.

In the case of the protection cover, the cost is based on explicit charges that depend on the age and level of protection. This cost is funded from the cancellation of the units in the fund. If there are insufficient units in the fund to cover the cost, the policy will terminate. So, it is vital that the certificate owners are aware that their certificate continuity is directly linked to the investment performance of the relevant funds and is subject to market fluctuations.

Copyright @ MTA 2022

The participant of an Investment-Linked Takaful Plan must be at least 18 years old. This is imposed in view of the need to confine the sale of such plans to individuals who are sufficiently matured to make an evaluation of the investment risks involved and make sound investment decisions in the selection of funds.

We shall look at the takaful cover of the Investment Linked Takaful first and then move on to the investment elements of the plan.

7.1 TYPES OF INVESTMENT-LINKED TAKAFUL

1. Single Contribution Investment-Linked Plan

Under this plan, the participant will invest a single lump sum payment which will be used to purchase units in the investment-linked funds and provide a certain level of life cover.

Sum covered (Guideline: IBNM/RH/GL 010-15)	Usually a percentage of the single contribution (usually 125% of the single contribution paid), and is subject to a minimum amount (RM 5,000). For sub-standard live & older age Minimum RM 5,000 or 105% of the single contribution, whichever is higher. Single contribution plan must at least have a minimum contribution of RM 3,000. This is to ensure a meaningful level of investment outlay for the benefit of the participant.
Death Benefit	Sum covered **OR** the value of investment-linked units, whichever is higher.

2. Regular Contribution Investment-Linked Plan

The regular contribution plan is a plan which provides the investor a choice of paying the contribution on a regular basis i.e. on monthly, quarterly, half-yearly or yearly basis.

Sum covered	Usually a multiple of the annual contribution. Based on the BNM's minimum Sum Covered Multiplier (SCM) guidelines for regular contribution plan (based on individual Takaful Operator practice).
Death Benefit	Sum covered plus the value of investment-linked units.

Copyright @ MTA 2022

7.2 FEATURES OF INVESTMENT-LINKED TAKAFUL (ILT)

Apart from the above, Investment-Linked Takaful has the following features:-

- **Flexibility to choose the quantum of protection and investment**

Investment-Linked Takaful provides the flexibility to choose the sum covered and investment ratio in the annual contribution. It depends on the needs of the customer. For example, if the customer's needs and objectives are focused toward an investment, he can choose to lower the protection and increase the investment and vice-versa.

Investment-Linked Takaful offers a complete selection of high, medium and low risk investment options under the same plan. A participant can:-

- choose an appropriate combination of funds according to one's risk taking appetite;
- switch between fund options without any additional expense for a specified number of switches (see below).

- **Top-ups**

Investment-linked takaful also offers the flexibility of increasing the investment portfolio, through top-ups' to take investment opportunities in the market place. The top-ups will be used to purchase additional units (after deducting the top-up fee). There will be no appropriation to the Participant Special Account (*Tabarru'*).

The Participant Special Account refers to a fund established to pool a portion of the contributions paid by participants on the basis of *Tabarru'* for the purpose of helping fellow participants facing hardship associated with the occurrence of events or risks specified in the Certificate. This fund is collectively owned by the pool of participants.

- **Switching**

A participant can switch his investment out from one sub-fund to another sub-fund within the same umbrella fund. This allows the investor to take advantage of the market performance. Another reason could be the change in the risk profile of the participant. Switching practices vary among the Takaful Operators. Switches between funds may:-

- be offered free of charge, or
- be 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 is incurred for every switch.

- **Partial Withdrawal**

To cope with the participant's unforeseen financial circumstances, the operator may offer the benefit of partial withdrawal. A participant may make a withdrawal from the fund, retaining only the stipulated minimum amount (for e.g. RM 1,000). Generally, there is no limit on the number of withdrawals or the maximum amount per withdrawal provided the amount in the account value is not below the stipulated minimum.

Copyright @ MTA 2022

- **Contribution Holiday**

The contribution holiday, where the participant does not have to pay the contribution, is usually allowed for a period depending on the accumulated value in the PIF. The contribution holiday will be granted if the value of the PIF is deemed to be sufficient to fund the deduction of *tabarru'* (risk charges) and other charges required under the Takaful certificate during the contribution holiday period.

The BNM's Guidelines on Investment-Linked Insurance/Takaful Business requires the Takaful Operator to seek the participant's consent before deducting any charges for riders from the PIF during the contribution holiday period. The Takaful Operator shall remind the participant of the possible consequences of continuing with such deductions as this can cause the certificate to lapse if insufficient funds are available in the PIF. The Takaful Operator is also required to provide advice on other options available to the participant, for example, reducing or terminating the coverage of the riders.

- **Free-Look Period**

The free-look period gives the participant an opportunity to review the full certificate document of the product to verify whether the product meets his needs. According to IFSA 2013, If a certificate is cancelled within the 15 days free-look period, the Takaful Operator shall refund:-

a) the unallocated contributions; -value of units that have been allocated (if any) at the unit price at the next valuation date; and
b) any takaful charges and certificate fee that have been deducted; less expenses which may have been incurred for the medical examination of the participant.

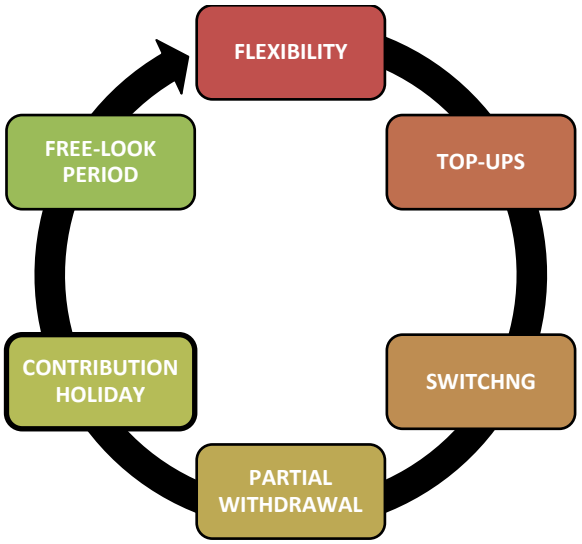


Figure 7.2: Key features of Investment-Linked Takaful

Copyright @ MTA 2022

7.3 EXAMPLES OF INVESTMENT-LINKED TAKAFUL PLANS (ILTP)

- **Investment-Linked Individual Retirement Plan**

The Investment-Linked Individual Retirement Plan is a takaful plan that is designed to provide a retirement income. For a retirement plan, a high allocation from the contribution is made towards the accumulation to ensure sufficient funds to meet the retirement plan.

- **Investment-Linked Critical Illness Plan**

The Investment-linked Critical Illness plan is a Takaful plan that is designed to provide a lump sum if the certificate owner contracts any one of the covered critical illnesses such as heart attack, stroke, coronary bypass, renal failure, etc.

- **Investment-Linked Education Plan**

The Investment-Linked Education Plan is a Takaful plan specially designed as a savings plan to provide sufficient funds when the child reaches the age for entry into college (usually 18 years and above). Underthis plan, the child is the life covered, while the parent or legal guardian is the certificate owner. It can also be packaged with a Payor Term Rider which ensures no further contributions need to be paid until the plan's maturity in the event of any unforeseen circumstances such as death or total and permanent disability (TPD) of the certificate owner.

7.4 TYPES OF INVESTMENT-LINKED FUNDS

In building an investment portfolio, the participants will have a selection of funds in which they can invest. The funds that are selected will depend on the respective risk appetite of each participant. It is important for the agent to understand the types of funds that are available and their corresponding risk-return trade off. This is important in ensuring that the fund(s) selected match the risk tolerance of participant.

The different types of funds which are available:-

1. Fixed Income, Cash and Money Market Funds

Fund Composition	The fund comprises of investments in the Islamic money market instruments, including Government Investment Issue (GII), Islamic bank deposits, Islamic Negotiable Instruments and Islamic Accepted Bills.
Investment objective	The aim is to maintain liquidity with capital preservation, and provide an income stream.
Risk	Very low to Low risk

2. Balanced Fund

Fund Composition	These are hybrid funds and comprise of specific asset classes, usually investments in both equity and fixed income securities.
Investment objective	The aim is to provide for capital growth and income for the participant.
Risk	Medium

Copyright @ MTA 2022

3. **Property Fund**

Fund Composition	The investment is in I-REITs and securities of property development and/or property management companies.
Investment objective	The aim is to provide for a steady income stream for the participant and long-term capital appreciation.
Risk	Medium

4. **Managed Fund**

Fund Composition	Managed funds invest in various asset categories such as equities, fixed incomes, properties, cash or money markets, sukuk, etc.
Investment objective	The aim is to provide a medium to high return over the medium to long term.
Risk	High

5. **Growth Fund**

Fund Composition	The fund may invest in a portfolio of mixed assets. However, due to its relatively aggressive nature, the fund will be investing in a portfolio of growth based equities to achieve capital growth.
Investment objective	The aim is to provide for capital growth over the long term.
Risk	High

6. **Specialized Fund**

Fund Composition	The fund focuses on non-traditional asset classes and is designed with a specific theme, specific industry, sector or region. Examples include the Emerging Market Fund, China Fund, Global Green Energy Fund etc.
Investment objective	The aim is to provide investors with capital appreciation through investment in a specific industry, sector or region.
Risk	High to very high

Copyright @ MTA 2022

7.5 RISK-RETURN TRADE OFF FOR INVESTMENT LINKED FUNDS

The risk-return trade-off for the various funds is shown in the Figure 7.3 below. As it can be seen, the cash fund has the lowest risk, the balanced fund has medium risk and the specialized fund has the highest risk.

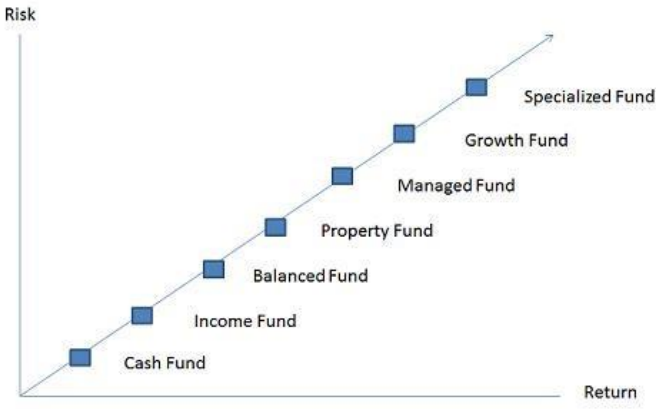


Figure 7.3: Risk-return trade-off for investment linked funds

7.6 BENEFITS OF INVESTING IN AN INVESTMENT-LINKED TAKAFUL PLAN

The benefits of investing in an investment linked plans are:-

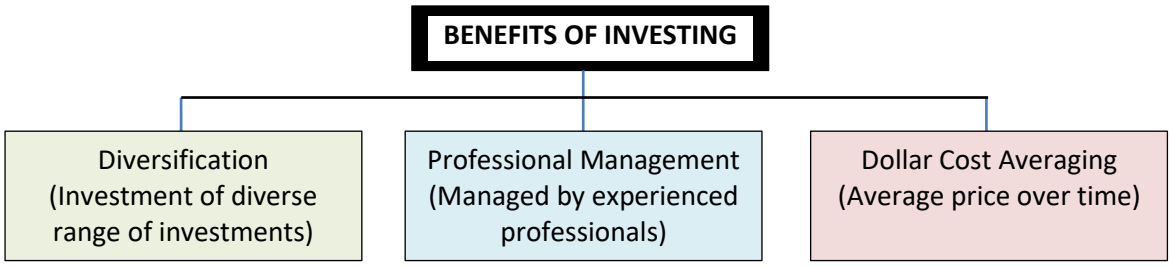


Figure 7.4: Benefits of Investing in an investment linked

7.7 COMPARISON BETWEEN INVESTMENT-LINKED TAKAFUL AND ORDINARY FAMILY TAKAFUL PLANS

During the customer engagement, it is important for the agent to assess the needs of the client and ascertain which type of plan, an ordinary family plan or an investment linked takaful, is more suitable to meet the needs of the clients based on the risk exposure, the quantum of cover needed, the objective of the proposal, the resources available and the customer's affordability. Thus, it is necessary for the agent to clearly understand the difference between these two classes of takaful plans. An overview of the differences is provided below:-

Table 7.1: Comparison between Investment-Linked Takaful and Ordinary Family Takaful

Characteristic	Investment-Linked Takaful	Ordinary Family
Participant Investment Fund(PIF)	The PIF is maintained in the form of units (unitized).	The PIF is maintained in the form of currency value.
Investment options	The participant may select funds in line with his investment strategy.	Investments are at full discretion of the Takaful Operator.

Copyright @ MTA 2022

Investment risk	Borne solely by the participant.	Borne solely by the Operator.
Takaful contributions	Participants can have the flexibility of changing the contribution payment, contribution holiday, and add contribution top-up.	Fixed and usually level throughout the period of Takaful.
Fees and charges	Fees and charges are fully disclosed to the participants. The Takaful operator may vary these if future experience diverges from what had been assumed when the product was priced initially.	Fees and charges are fixed throughout the period of Takaful.
Cash value	Cash value depends on the number of units in the PIF and the prevailing unit price.	Depends on the savings accumulated in the PIF inclusive of investments.
Partial withdrawal	Two options available. Withdrawal based on the 1) Ringgit amount; 2) Number of units.	Some products allow partial withdrawal. Withdrawal is based on percentage/amount.
Lapse risk	Risk of lapse if the PIF value is insufficient to pay for the *tabarru'*.	The certificate will not lapse, if the contributions are paid as required.

Copyright @ MTA 2022

CHAPTER 7	ASSESSMENT QUESTIONS

1. The value of the investment linked certificate is tied to the value of _____.

A. Net Assessment value.
B. Net Asset Value.
C. Net Assigned Value.
D. Net Average Value.

2. Select the statement about investment linked certificate which is NOT true.

A. Investment linked plans provide for single and regular top-ups only.
B. Investment linked plans allow for switching from one fund to another.
C. There is no lapse risk in an investment linked plans.
D. Partial withdrawals are allowed under investment linked plans.

3. The investment risk in an investment linked plan is borne by _____.

A. the participant.
B. the Takaful Operator.
C. between the participant and Takaful Operator on an agreed ratio.
D. none of the above is true.

4. The benefits of investment linked plans include all of the following EXCEPT

A. Dollar Cost Averaging.
B. Professional management of the funds.
C. Diversification.
D. Risk free investment.

5. For a single contribution Investment-Linked Plan, the death benefit is _____. Select the MOST APPROPRIATE answer

A. Sum covered or the total contribution amount, whichever is higher.
B. The value of investment-linked units or a portion of the Operator's profit, whichever is higher.
C. Sum covered or the value of the investment linked units, whichever is higher.
D. none of the above is true.

Copyright @ MTA 2022

CHAPTER 8: BASIC MATHEMATICS OF INVESTMENT LINK TAKAFUL

LEARNING OBJECTIVES

After reading this chapter you will be able to:

- Demonstrate the method of calculating the value per unit and the number of units in an investment linked fund.
- Explain the method of calculating the cash and partial withdrawal values for investments in an investment linked fund.

8.0 INTRODUCTION

As discussed in the previous chapter, the investment linked plan has an element of investment. The investment value is tied to the price of the units in the fund. In this chapter, the basic mathematics of how to calculate the price of the unit or the quantum of the units is introduced to familiarize the intermediaries with issues relevant to the value of the investment.

8.1 VALUATION OF INVESTMENT-LINKED TAKAFUL

1. Value per unit

The value of the unit will be calculated as follow:

$$\text{Value per unit} = \frac{\text{Total Fund Value}}{\text{No. of Units}}$$

Example 8.1

Fund value: RM 10,000,000
No. of units: 10,000,000 units
Thus, the value per unit = $\frac{\text{Total fund value}}{\text{Total no. of units}}$

$$= \frac{\text{RM 10,000,000}}{\text{10,000,000}} = \text{RM 1.00}$$

What happen if the fund earn investment returns and the value increases from RM10 million to RM15 million. If the number of units remains the same, the new value of the units will be:

Fund value: RM 15,000,000
No. of units: 10,000,000 units
Thus, the value per unit = $\frac{\text{Total fund value}}{\text{Total no. of units}} = \frac{\text{RM 15,000,000}}{\text{10,000,000}} = \text{RM 1.50}$

Copyright @ MTA 2022

2. Investment by the participant

The contribution made by the participant will be used to purchase units in the investment-linked funds managed by the Takaful Operator. The Takaful Operator will purchase the units at the last declared unit price.

The number of unit purchased will be calculated as follows:-

$$\text{No of Unit Purchased} = \frac{\text{(Contribution - Certificate Charge)}}{\text{Unit Price}}$$

Example 8.2

Monthly contribution = RM 200.00
Unit price = RM 1.00
Certificate charge = 5%

Calculating the number of units allocated.

Certificate charge = RM 200.00 x 0.05 (5%) = RM 10

$$\text{No. of units allocated to the participant} = \frac{\text{(RM 200 – RM10)}}{\text{RM 1.00}} = 190 \text{ units}$$

3. Calculation of Protection

Protection coverage is provided by contributing part of contribution (*tabarru'*) via redemption of units from the investment funds.

$$\text{No of units to be redeemed} = \frac{\text{Monthly } \textit{Tabarru'}}{\text{Unit Price}}$$

Example 8.3

Monthly *Tabarru'* = RM 125.00
Unit price = RM 1.00

$$\text{No of units to be redeemed} = \frac{\text{RM 125.00}}{\text{RM1.00}}$$

= 125 units

Copyright @ MTA 2022

4. Cash Value

Cash value of the fund is calculated as follows:-

Cash value = (No. of Units x Unit Price) – (Certificate Fee + *Tabarru'* charge)

Tabarru' charge (RM) = (No. of Units x Unit Price x *Tabarru'* charge (%))

Example 8.4

Number of units = 10,000
Unit price = RM 1.00
Tabarru' charge = 1%
Certificate fee = RM 100
Tabarru' charge = (10,000 x RM 1.00 x 1%) = RM 100

Cash value = (No. of units x unit price) – (Certificate fee + *Tabarru'* charge)
= (10,000 units x RM 1.00) – (RM100 + RM100)
= RM 10,000 – RM 200
= RM 9,800

8.2 WITHDRAWAL BENEFIT

The Participants may request a partial cash withdrawal at any time before maturity of their Certificate to accommodate their financial needs at different life stages.

The withdrawal can be made in term of number of units or a fixed monetary amount.

1. No. of Units

The amount to be withdrawn is calculated by multiplying the number of units against the unit price.

Withdrawal amount (RM) = Number of units withdrawn x Unit price

Example 8.5

Number of units withdrawn = 1,000 units
Unit price = RM 1.50

Thus, the withdrawal amount = 1,000 units x RM 1.50

= RM 1,500

Copyright @ MTA 2022

2. Fixed Monetary Amount

The amount to be withdrawn is calculated by dividing the intended amount by unit price.

Example 8.6

Amount to be withdrawn = RM 3,000
Unit price = RM 1.50

Thus, the units to be sold = $\frac{\text{RM 3,000}}{\text{RM1.50}}$

= 2,000 units

8.3 SURRENDER VALUE

Participant can surrender their certificate anytime. The calculation of the surrender value is similar to the calculation for withdrawal.

8.4 MATURITY VALUE

Upon maturity of the Takaful certificate, all units of the PIF will be redeemed at the *Bid Price of the relevant funds. The entire fund value in the PIF would be paid to the participant as the maturity benefit.

*The Bid Price is price quoted when the company buys back the units from you.

Note: The offer price is the price quoted by the Takaful Operator when selling the units of an investment- linked fund to you. The difference between bid and offer prices is called the bid/offer spread, which is usually expressed as a percentage.

8.5 DEATH BENEFIT

There are 2 types of death benefits:-

1. Unit Value and Sum Covered

In the case of a claim under this type of death benefit, the participant will get both the value of the investment plus the sum covered.

2. Unit Value or Death Cover (whichever is higher)

Under this type of claim, the participant will get either the value of the investment or the sum covered, whichever is higher.

Copyright @ MTA 2022

8.6 METHOD OF DISTRIBUTING THE FUND SURPLUS

The distribution of the surplus in the funds will depend on how the investment linked funds are structured. Generally, investment-linked funds can be structured into two way, that is through the accumulation of the surplus in the units itself (Accumulation units), or through the creation of new units (Distribution units). The methodology of each is discussed below:-

1. Accumulation Units

Under this method, investment return is retained within the fund. As a result, the net asset value (NAV) of the fund will increase over the long term. The number of units remains the same. As such, the unit price will increase due to the additional surplus.

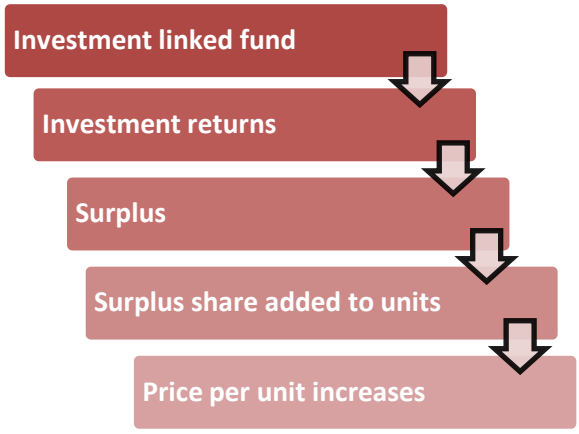


Figure 8.1: Method for Accumulation units

2. Distribution Units

Under this method, the investment surplus will be utilized to purchase additional units. These units are then distributed to the certificate owners according to their proportionate share in the fund. Certificate owners will have more units but the unit price will remain the same.

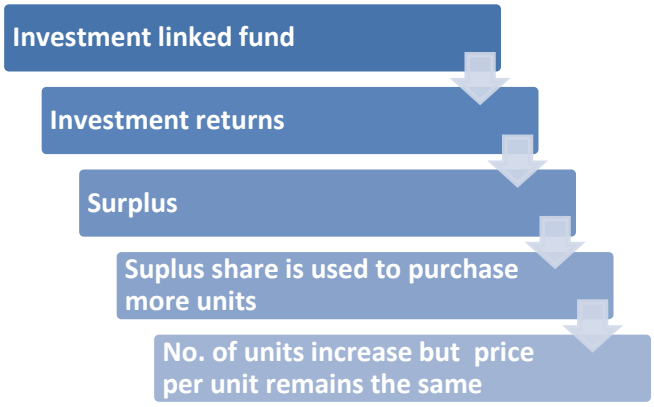


Figure 8.2: Method for Distribution

The Takaful Operator's actuary will periodically perform an actuarial valuation of the PRF to determine if there is a surplus. If there is a surplus in the PRF, it will be distributed according to the pre-determined ratio as mentioned in the certificate.

Copyright @ MTA 2022

This surplus is only shared if the participant has not made a claim during the period of the Takaful cover. The surplus will be used to buy investment-linked units and these will be credited into the existing funds selected by the participant.

8.7 FUND PERFORMANCE REPORT AND STATEMENT TO PARTICIPANTS

Takaful Operators are required to provide each participant with a report on the performance of each of the participant's investment-linked funds at least once a year. The report shall be distributed within four months from the end of each financial year of the Takaful Operator, or at the end of the reporting period. For closed-end funds, the Takaful Operators may provide the report based on the fund's financial year-end.

Takaful Operators are also required to provide each participant with a statement on the value of his/her certificate at least once a year. The statement shall be distributed within two months after the end of each financial year of the Takaful Operator, or the end of the reporting period. Each transaction during the period is reported individually, together with the date(s) on which the individual transaction occurred.

8.8 TAXATION OF INVESTMENT-LINKED TAKAFUL PLAN

Investment-Linked takaful plans are categorized as Family Takaful products. Thus, the tax aspects of an Investment-Linked Takaful Plan are treated in the same manner as other forms of Family Takaful certificates. Participants should refer to the Inland Revenue for the final amount of tax relief of their takaful plans, as per many disclaimers in product brochures.

The contribution relief is allowable when the Takaful certificate is as follows:-

1. on the individual participant;
2. on the life of the spouse of the individual participant;
3. on the joint lives of the individual participant and the spouse.

Copyright @ MTA 2022

CHAPTER 8	ASSESSMENT QUESTIONS

1. Select the statements that are TRUE about the Accumulation units method.

I. The investment return is retained within the fund.
II. The net asset value of the fund will increase over the long term.
III. The number of units is maintained.
IV. The unit price will increase over time.

A. A. I only
B. B. I and II only
C. C. I, II and III only
D. D. All of the above

2. Select the statements that are true about the Distribution units method.

I. Under this method, the investment surplus will be utilized to purchase additional units.
II. These units are then distributed to the certificate owners according to their proportionate share in the fund.
III. Certificate owners will have more units.
IV. As more units are added, the unit price will increase.

A. A. I only
E. B. I and II only
F. C.I, II and III only
G. D. All of the above.

3. Based on the information given below, calculate the cash value of the units.

Number of units = 20,000
Unit price = RM 1.00
Tabarru' charge = 1%
Certificate fee = RM 100

A. RM 20,000
B. RM 19,700
C. RM 18,500
D. RM 17,700

Copyright @ MTA 2022

4. Calculate the number of units that are allocated to the participant based on the information below.

Annual contribution = RM 300
Unit price = RM 1.00
Certificate charge = 5%

A. 185 units
B. 200 units
C. 250 units
D. 285 units

5. Calculate the price per unit for the information given below.

Fund value: RM 10,000,000
No. of units: 5,000,000 units
Certificate charge = 5%

A. RM 1.00
B. RM 1.50
C. RM 1.75
D. RM 2.00

Copyright @ MTA 2022

CHAPTER 9: IDENTIFYING AND ESTABLISHING CUSTOMER NEEDS

LEARNING OUTCOMES

After reading this chapter you will be able to:

- Apply the six step process to customer engagement in developing a takaful solution based on the circumstances and needs of the client.

9.0 INTRODUCTION

The financial services landscape is changing rapidly. Consumers are more aware of the products and services available in the financial services environment. As for takaful planning, consumers expect an agent to be knowledgeable, ethical and competent in providing takaful solutions based on their circumstances and needs. The consumer's expectation goes beyond the solution as they expect the agent to provide post-sale services and follow-ups to ensure the takaful plan is consistent with changes that may take place in their financial circumstances.

A takaful agent must engage the client and conduct Customer Fact Finding (CFF) to obtain the relevant information in developing a need-based solution. The agent is encouraged to manage the client engagement well through the following steps:-

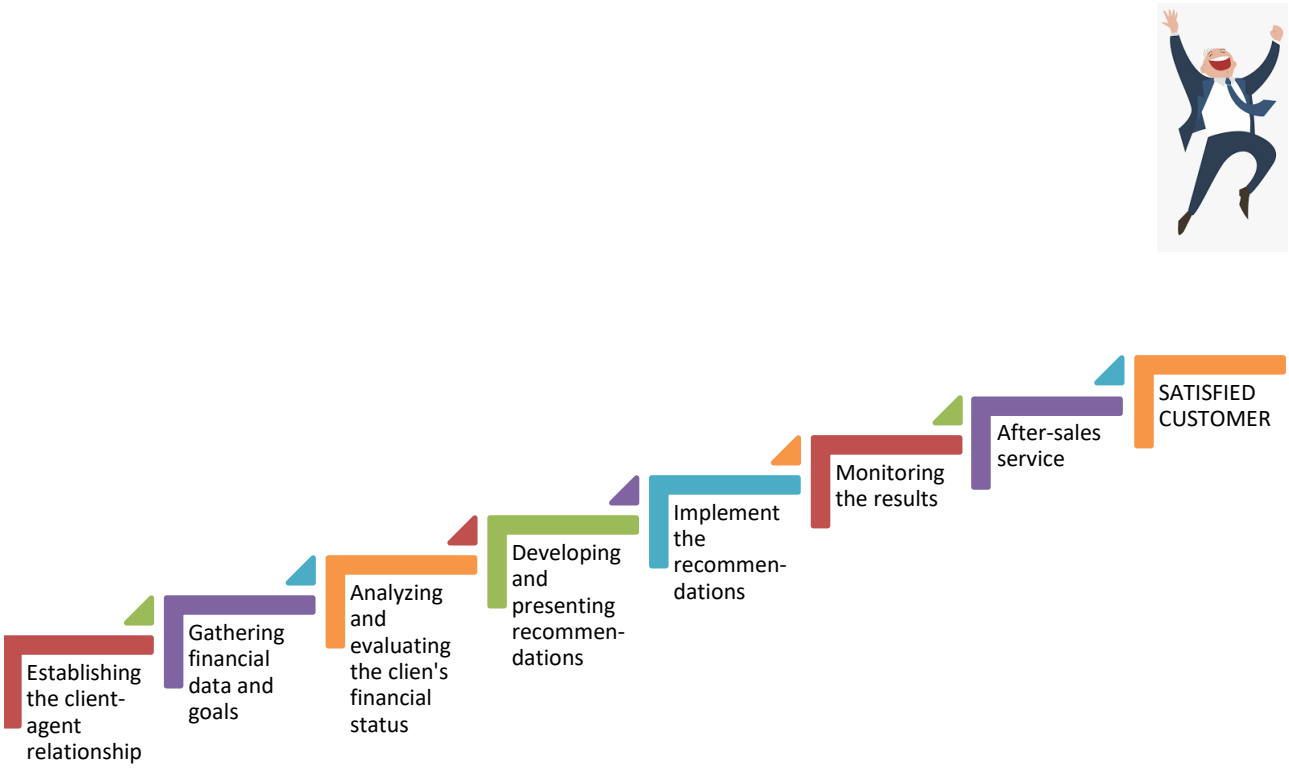


Figure 9.1: The client engagement process

Copyright @ MTA 2022

9.1 THE CLIENT ENGAGEMENT PROCESS

This section will focus on the seven (7) step process outlined above.

9.1.1 Establishing the client-agent relationship

The foundation for successfully closing a takaful proposal is trust. If a prospect does not trust an agent for whatsoever reason(s), it will be practically impossible to close the case. To build trust, the agent needs to show sincerity. Honesty and competency in all dealings with the client. Be ethical. Place the client's needs foremost when dealing with the client. Establishing a trust relationship opens the door for the client to provide the relevant information in the development of a client centric takaful solution.

Another aspect of the client agent relationship is to establish the service expectation of the client at the beginning of the client-agent relationship. What does the client want or expect from the agent in terms of service? For example,

- How often does the client expect a follow-up contact from the agent?
- What mode of contact is the client comfortable with?
- What kind of information is the client interested in?
- Are there specific needs that the client wants the agent to keep in mind for the future?

While this latter aspect of the client-agent relationship is more relevant once the takaful solution is implemented, the agent needs to keep in mind that relationship building and servicing is a continuous process throughout the life time of the takaful solution (certificate) that have been put in place.

These are important issues in setting the platform of the client-agent liaisons for the future and is also connected to the last step in the process, which is, monitoring the investment (takaful) decisions that have been made.

9.1.2 Gathering financial data and goals

The next step is for the agent to gather all relevant information that is needed in analyzing the needs of the client. The agent has to conduct a thorough "fact-find". The agent should ask for information about the client's financial situation, the client's assets and liabilities, the clients concerns and the issues which the client wants to resolve, personal and family's financial goals, and the time frames involved in achieving those goals.

It is mandatory for agents to complete the Customer Fact Finding before submitting a new case proposal to the Takaful Operator. The Customer Fact Finding is a requirement in helping the agent to position with the client in obtaining the relevant information for developing a solution.

The Customer Fact Finding Form addresses the following areas:-

- Customer's Personal and Dependent(s) details;
- Life and Financial Priorities and Goals;
- Risk Profile;
- Net Worth Analysis;

Copyright @ MTA 2022

- Cash Flow Analysis;
- Recommendations and Record of Advice.

The above information will enable the agent to have a clear understanding of the client's current financial situation and help the agent to formulate recommendations to achieve the client's financial goals and objectives.

9.1.3 Analysing and evaluating the client's financial status

The agent should analyze the client's information to assess the current situation and determine what is required to meet the client's goals. The agent has to develop the plans that will help the client realize those goals. The analysis will provide recommendations that will satisfy the client's need in areas like:-

- The client's affordability – how much surplus is available for investing in the takaful plan?
- The personal risks to be covered;
- The priorities of the identified risks to be covered – death, TPD, Medical, Critical illness etc.;
- Who should be covered in the family?
- The quantum of coverage for each risk that is identified;
- Matching the contribution amount with the client's affordability;
- Packaging the solution,
- Issues related to Estate planning – the beneficiary(ies), nominees etc.
- The follow-up process and mechanism.

The list above is not exhaustive but these are the main areas that most people worry about. Developing a constructive plan to meet the client's need is important and this has to be done prudently based on the client's needs and the affordability. Here, the client engagement must be interactive and professional to gauge the client's feedback during the analysis and formulation stage.

9.1.4 Developing and presenting recommendations

Once the plan has been developed, the agent will have to present the recommendation(s) that addresses the client's needs and goals (based on the information gathered). The agent should go over the recommendations with the client to ensure the client understands the objective(s) of the recommendations. The agent should consider the client's concerns and revise the recommendations where required.

Client circumstance and situations are unique. So are the solutions. An agent should not duplicate a plan designed for one client and use it for multiple clients.

9.1.5 Implement the recommendations

The client and agent should agree on how the recommendations will be carried out. The agent must put into effect all the recommendations that have been agreed upon. Any changes to the amount of cover or contribution must be agreed upon with the client before it is implemented.

9.1.6 Monitoring the results

Monitoring the recommendation(s) that have been implemented is a very important function in an agent's scope of work. Regular monitoring must be performed, and the client should be kept updated on the progress of the plan by the agent. As stated in Section 9.1.1, one aspect of the client agent relationship is to establish the service expectation of the client at the beginning of the client-agent

Copyright @ MTA 2022

relationship. Once the solution is implemented, set the platform for the service expectations for the future.

As a solution may include an Investment-Linked Takaful products, the Takaful Operator is required to send a quarterly or yearly report to the client about the performance of the funds invested. The agent must ensure the client gets these reports and be on hand to explain the implications of the report. The agent must explain the fund performance and ensure that the growth of the funds is in tandem with the initial objectives of the investment. The agent must assist the client to make the necessary switching and adjustments, when necessary, to ensure that the client gets the best returns from the certificate.

9.1.7 After Sales Service

Agents must commit themselves to providing continuous service over the term of the takaful plan. One avenue for this, is to undertake a certificate review on a half yearly or yearly basis, or when there is a change in the financial circumstances of the client. This will of course depend on the nature of the solution that is implemented., for example, in the case of investment linked plans, the reviews will have to be conducted more frequently (due to market volatility and its impact on the Net Asset Value) versus a purely protection-based family plan (death coverage, TPD, critical illness etc.) which is less subjected to volatility. Ad hoc reviews can also be done if there is a special request from the client or if there is a major change that might have occurred to the client's circumstances or investment account.

It is necessary to undertake these regular reviews in the context of servicing and relationship building. Reviews are an opportunity to strengthen the trust relationship with the client. It is also an avenue for the agent to obtain quality referrals in the future to further expand their business. It also allows the agent to cross present other Takaful related solutions during the review process if such a need arises.

Copyright @ MTA 2022

CHAPTER 9	ASSESSMENT QUESTIONS

1. The structured client engagement process of providing advice involves the following steps. Select the CORRECT steps from the combination below.

I. Establishing and defining the client-agent relationship;
II. Gathering all relevant financial data, including goals;
III. Analyzing and evaluating the client financial status;
IV. Developing and presenting recommendations;

A. I only
B. I and II only
C. I, II and III only
D. All of the above

2. One of the following is NOT a correct step in the structured client engagement process of providing advice.

A. Establishing and defining the agent's goal
B. Gathering all relevant financial data, including goals
C. Analyzing and evaluating the client financial status
D. Implementing the recommendations

3. The Customer Fact Find Form will address all of the following areas EXCEPT

A. Risk-Trade off Profile of all members of the investor's family;
B. Net Worth Analysis;
C. Cash Flow Analysis;
D. Recommendations and Record of Advice.

4. The key factor in establishing and defining the client-agent relationship is

A. Affordability
B. Trust
C. Relationship
D. Personality

5. When the agent undertakes an analysis of the information provided by the client, the analysis will enable the agent to provide recommendations in the areas below EXCEPT _____.

A. The personal risks that have to be covered
B. The life-style management for improving mortality
C. Planning for children's education
D. Estate planning

Copyright @ MTA 2022

CHAPTER 10: FAMILY TAKAFUL PRACTICES: MARKETING AND SERVICES, ETHICSAND CODE OF CONDUCT

LEARNING OUTCOMES

After reading this chapter you will be able to:

- Understand the objectives of the Code of Ethics and Conduct and Ethics and its relevance to customer service.
- Understand the Seven Principles underlying the Code of Ethics and Conduct and how these guide the behaviour of agents in the customer engagement.

10.0 INTRODUCTION

The marketing of products and services to consumers is mainly undertaken through the agency force. As such, there is a need to ensure the customer interaction between the agent and the customer is conducted in an ethical, regulated and disciplined manner.

10.1 CODE OF ETHICS AND CONDUCT

1. Introduction

The Code will apply as follows:-

a. The term "Family Takaful" used in the Code of Ethics and Conduct covers all types of:-

i. Ordinary Family;
ii. Annuities;
iii. Pension Scheme;
iv. Investment-Linked Takaful;
v. Permanent Health Takaful.

b. The Code applies to all intermediaries, i.e. all persons, including the staff of a Takaful Operator who markets any of the Family Takaful products. Registered insurance brokers and/or Takaful brokers are specifically excluded, as they are subjected to a separate professional code of conduct.

c. Member companies of Malaysian Takaful Association are required to enforce the code and to use their best endeavours to ensure compliance with the various provisions of the Code, by all those involved in marketing the certificates.

d. In the case of complaints from the participant that an intermediary has acted in breach of the Code, the intermediary shall be required to cooperate with the Takaful Operator to help establish the facts.

e. The overriding obligation of an intermediary is to conduct business with utmost good faith and integrity at all times.

Copyright @ MTA 2022

2. General Sales Principles

This and the following sections below are extracted from the Code of Ethics and Conduct to maintain the full spirit of the codes.

a. *The intermediary shall:*

i. when making contact with prospective clients, inform them that he is representing a particular Takaful Operator;
ii. ensure that the certificate proposed is suitable to the clients' need and not beyond his financial resources;
iii. give advice only on those matters in which the agent is competent and seek or recommend other specialist advice if this is more appropriate;
iv. maintain all information supplied by the prospective client completely confidential;
v. when making comparisons with other types of policies, Takaful certificates, or other forms of investment, the intermediary must make clear the different characteristics of each policy/ certificate/investment, without specifically mentioning the name(s) of the Takaful Operator.
vi. render continuous service to the client.

b. *The intermediary shall not:-*

i. make inaccurate or unfair criticisms of any Takaful Operator(s);
ii. attempt to persuade a prospective participant to cancel any existing certificates unless these are clearly unsuitable for the client's needs.

It has been agreed by all member companies of the Malaysian Takaful Association that all agents and intermediaries are being made fully aware that it is against the interests of participants to practice Replacement of Certificate or otherwise known as 'twisting'. The member companies have also agreed to cooperate to eliminate this practice. In the event a Replacement of Certificate can be proven, appropriate action can be taken against the said agent.

3. Definition of Replacement of Certificate

Replacement of Certificate is defined as 'to discontinue a certificate or to have a certificate becoming paid-up and then to effect a new one with another Takaful Operator or the same Takaful Operator (also (refer to Chapter 2 (Section 2.6) on Replacement of policies).

4. Explanation of the Contract

a. The intermediary shall:-

i. explain all the essential provisions of the contract or contracts to the prospect;
ii. draw attention to any restriction(s) including exclusions under the certificate;
iii. draw attention to the long-term nature of the certificate and to the consequence of early discontinuance and/or surrender.

b. Where a certificate offers profit-sharing, the intermediary needs to explain to the client the difference between fixed benefits and projected benefits. In the case of a collateral certificate where the maturity proceeds are for loan settlement but which are dependent on non-guaranteed benefits, the sales illustration should mention that "there is no guarantee that the full loan amount will be available on maturity".

Copyright @ MTA 2022

c. Where projected benefits are illustrated, it should be made clear that they are based on certain assumptions, and hence are not guaranteed, and the benefits declared in the future may be lower or higher than those presumed, (past performance may not necessarily be repeated in the future). In the case of investment-linked certificates, it should be made clear that unit values may fluctuate depending on the value of the underlying investments.

d. When an intermediary is supplied with an illustration by the Takaful Operator, the intermediary shall use the whole illustration when discussing with the prospect, and shall not add or select only the most favourable aspects of the illustration.

5. Disclosure of Underwriting Information

The intermediary shall:-

a. avoid influencing the proposer and make it clear that all the answers or statements are the proposer's own responsibility;
b. ensure that the consequences of non-disclosure and inaccuracies are pointed out to the proposer by drawing attention to the relevant statements in the proposal form and by explaining them to the proposer.

6. Accounts and Financial Aspects.

The intermediary shall:-

a. acknowledge receipt and maintain a proper account of all moneys received in connection with a Takaful certificate and shall distinguish such contribution from any other payment included in the moneys;
b. forward to the Takaful Operator without delay any moneys received for certificate concluded.

10.2 GUIDELINES ON THE CODE OF CONDUCT

This part deals with the following aspects:-

1. Code Of Ethics (Statement of Philosophy)

The guidelines are based on the following statement of philosophy:-

a. The Family Takaful Business is based on the philosophy of risk sharing. It is universal that such be operated and administered with the highest degree of integrityand ethics.

b. It is based on trust and honesty, requiring a high degree of responsibility and professionalism.

c. The confidence of participants and members of the public in the integrity and honesty of Takaful Operators shall be safeguarded and enhanced.

d. Takaful Operators shall at all times see that their business is soundly managed to ensure the safety of participants' savings and the credibility of their companies.

e. Takaful Operators shall maintain a system which is efficient and provide prompt service to participants and to assist and advise them where necessary, with the aim of promoting goodwill.

Copyright @ MTA 2022

2. Monitoring Devices

To ensure adherence to the guidelines, the management of a Takaful Operator is required to establish the following minimal procedures:-

a. require all intermediaries (existing and upon appointment in the case of new intermediaries) to sign a declaration to observe the guidelines.

b. 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.

c. maintain centralized records of breaches.

d. report immediately cases of fraud to the Police and Bank Negara Malaysia.

10.3 CONTINUING PROFESSIONAL DEVELOPMENT (CPD) REQUIREMENTS

Minimum CPD Hours

• General Requirements

Newly contracted agents and the financial institution employees (regardless of their levels) are required to complete minimum mandatory training of 20 hours for Family Takaful and 12 hours for General Takaful within the first 6 months of appointment.

10.4 ETHICS AND CONDUCT

The Seven Principles Underlying the Guidelines:-

The document on the Code of Ethics and Conduct dwells at length on the following principles. It is sufficient at this juncture to state these; (interested reader is encouraged to refer to the document).

1. To avoid conflict of interest;

2. To avoid misuse of position;

3. To prevent misuse of information;

4. To ensure completeness and accuracy of relevant records;

5. To ensure confidentiality of communication and transactions between the Takaful Operator and its participants and clients;
6. To ensure fair and equitable treatment of all participants and others who rely on or who are associated with the Takaful Operator; and

7. To conduct business with the utmost good faith and integrity.

10.5 COMMISSIONS WITHIN *WAKĀLAH* FEES AND ITS DISCLOSURE

Bank Negara Malaysia Guidelines on Operating Costs of Family Takaful Business issued December

Copyright @ MTA 2022

2017, draws the limit for the amount of commissions payable to Family Takaful agents.

It also sets to limit the agency commission to related expenses and other management expenses. Indeed, the guidelines also set the Agency Structure that the Takaful Operators will have to adopt in the course of running their sales agencies.

10.6 FAMILY TAKAFUL PRACTICE

1. Introduction

The aim of this part is to reduce the formalities involved in the issue of new certificates and payment of a claim. BNM came up with a guideline called "Proper Advice Practices for Family Takaful Business" which was affected in March 2004.

In addressing these, the guidelines recognize the problems posed by non-disclosures and improper claims.

2. Claims

a. The guidelines require that the Takaful Operator may not unreasonably reject a claim. In particular, a Takaful Operator may not reject a claim on the grounds of non- disclosure or misrepresentation of a matter that was outside the knowledge of the proposer. The exceptions to this are those circumstances mentioned in the certificate provisions or the provisions of IFSA 2013, together with other related regulations.

b. If there is a time limit for the 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.

c. On the claimant proving the covered event and the right to receive the claim, the claim has to be settled without undue delay, generally within 60 days.

d. The Takaful Operator shall not collect any claim processing fees from the participant or the beneficiary.

3. Proposal Forms

a. If the proposal form requires the disclosure of material facts, then a statement should be included in the declaration or prominently displayed elsewhere on the form or in the document of which it forms a part: -

i. drawing attention to the consequences of failure to disclose all material facts;
ii. warning that if the prospect is in any doubt about whether certain facts are material, these facts should be disclosed.
b. A Takaful Operator shall provide a copy of the signed proposal form to the participant together with the original certificate.

4. Certificates and Accompanying Documents

a. Takaful Operators will continue to develop clearer proposal forms and certificate documents taking into consideration the legal nature of Takaful contracts. In addition to the proposal form, the

Copyright @ MTA 2022

client/proposer must also sign the "Customer Fact-Finding" form during the process of concluding the purchase of a Family Takaful cover. This is in line with the requirements of the Proper Advice Practice (PAP) Guidelines.

b. The certificate and accompanying documents must indicate whether there are rights to a surrender value. If the certificate carries a right to a surrender value then this right must be indicated. In respect of a proposal for a term cover, or endowment takaful, the sales literature should bring out the following features of these plans:-

i. that these are long-term contracts;
ii. surrender values, especially in the early years, are often less than the total contributions paid.

10.7 PROMOTION MATERIALS / ADVERTISEMENTS

Takaful Operators will ensure that information contained in the sales materials and advertisements are correct and truthful and thus not misleading to the public. This will ensure that the business is being conducted in compliance with the requirements of *Sharī'ah* at all times.

Copyright @ MTA 2022

CHAPTER 10	ASSESSMENT QUESTIONS

1. Replacement of Certificate (ROC) is defined as _____. Select the **MOST** appropriate answer.

A. to discontinue a certificate and then to effect a new one with the same Takaful Operator only.
B. to discontinue a certificate and then to effect a new one with another Takaful Operator or the same Takaful Operator.
C. to have a certificate made paid-up and then to effect a new one with another Takaful Operator only.
D. to discontinue a certificate or to have a certificate made paid-up and then to effect a new one with another Takaful Operator only.

2. Under the General Sales Principles, an agent ____. Select the statement below which is NOT TRUE.

A. should not make inaccurate or unfair criticisms of any Takaful Operator(s)
B. should not attempt to persuade a prospective participant to cancel any existing certificate(s) unless these are clearly unsuitable for the client's needs.
C. ensure that the certificate proposed is suitable to the clients' need and not beyond his financial resources;
D. share all information supplied by the prospective client with other agents to ensure the client gets the best advice for their needs.

3. Under the General Sales Principles, an agent ____. Select the statement below which is TRUE.

A. gives advice on all matters whether the agent is competent or not.
B. maintain all information supplied by the prospective client on a completely confidential basis.
C. when making comparisons with other types of policies only focus on those that are advantageous to the agent.
D. render service and follow-ups to the client on a needs basis only.

4. The intermediary shall on obtaining the completed proposal form or any other material must ….

A. avoid influencing the proposer and make it clear that all the answers or statements are the proposer's own responsibility.
B. personally complete all uncompleted questions in the proposal forms.
C. alter the unfavorable answers to ensure the proposal will be approved.
D. submit the proposal form only and all other supporting documents should be submitted later.

5. The Seven Principles Underlying the Code of Ethics and Conduct include all of the following EXCEPT

A. To settle all conflict with the client through personal negotiation.
B. To avoid misuse of position.
C. To prevent misuse of information.
D. To ensure completeness and accuracy of relevant records.

Copyright @ MTA 2022

GLOSSARY OF FAMILY TAKAFUL TERMS

Absolute Assignment
A non-revocable assignment that does not leave any residual rights to the assignor.

Accumulated Cash Value
This is the projected value of units at any particular point in time that is made to a participant when the certificate is surrendered

Adverse Selection
This refers to the tendency of higher-risk individuals to seek out more Takaful coverage on average in anticipation of a greater probability of experiencing the covered event(s).

Bancatakaful
Promotion and marketing of Takaful products by the banking institutions.

Basic Sum Covered
This is the minimum amount to be received upon death or when the Person Covered becomes disabled.

Conditional Assignment
An assignment that gives the assignor the right to revoke the assignment if certain conditions are not fulfilled.

Contributions
Monetary contribution provided once or periodically by a participant to a takaful operator for the purpose of investment and tabarru'.

Certificate Document
An evidence of a contract between a participant and a takaful operator which sets out the terms and conditions of the particular certificate.

Claims
Notification to a Takaful operator that a benefit payment is due under the terms of the certificate.

Claims Notification
A notification to a takaful operator that payment of an amount is due under the terms of the certificate.

Contribution holiday
A period where the participant does not have to pay the contribution for an investment linked plan. The period will depend on the accumulated value in the PIF.

Death Benefit
This is the amount that will be payable upon the death of the Person Covered.

Diversification
It involves investing the funds across a range of asset classes, industries, countries or even currencies to spread and reduce investment risk

Copyright @ MTA 2022

Endorsement
Endorsements can alter, delete or add coverage, terms, or provisions to a Takaful certificate.

Exclusions
List of conditions that are not covered under the certificate

Grace Period
A prescribed period, usually 30 days from the premium due date, during which a takaful contract is kept in force despite non-payment of contribution.

Group Family Takaful
Family takaful (usually without medical examination) on a group of people under a master Certificate. It is typically issued to an employer for the benefit of employees, or to members of an association.

Hazard
A circumstance that increases the likelihood or probable severity of a loss.

IFSA, 2013
Islamic Financial Services Act 2013

Investment Horizon
The investment horizon refers to the total length of time that an investor expects to hold on to an investment.

Investment-linked Takaful
A contract where the certificate benefits at any time vary according to the value of the underlying assets at the time.

Moral Hazard
In Takaful, moral hazard refers to the change in behavior of a participant in a way that raises costs for the Takaful Risk Fund. This happens since the participant no longer bears the full costs as he would were he not covered under Takaful. For example, a person with motor Takaful may drive with less caution

Muḍārabah
An agreement between the entrepreneur and the capital provider in a business venture to share profit based on an agreed profit sharing ratio. Losses are borne by the capital provider.

Notification of Claim
The beneficiary or claimant notifies the Takaful Operator upon the happening of a covered event that gives rise to a claim.

Net Investment Income
Returns on investments less rates and taxes.

Partial withdrawal
The amount of money (usually up to 50%) that can be withdrawn from the balance in the PIF.

Participant Investment Fund (PIF)
The Participant Investment Fund (PIF) is the investment proportion of the participant's Takaful contribution.

Copyright @ MTA 2022

Participant Risk Fund (PRF)
The Participant Risk Fund (PRF) is the participative portion (*tabarru'*) of the contribution. It will be used to fulfill the obligation of mutual help.

Person Covered
A takaful participant or other person in respect of whom the takaful participant enters the contract of takaful and in respect of whom takaful benefits are payable to the takaful participant or his beneficiaries on the occurrence of pre-agreed events under the contract of takaful (Section 2, Islamic Financial Services Act 2013).

Pre-Existing Condition
A coverage limitation included in many health takaful policies which states that certain physical or mental conditions, either previously diagnosed or which would normally be expected to require treatment prior to issue, will not be covered under the new policy for a specified period of time.

Proper Claimant
A person who claims to be entitled to the whole or part of the takaful benefits under a takaful certificate as executor of the deceased takaful participant, parent or guardian of an incompetent nominee or an assignee or who claims to be otherwise entitled to the takaful benefits under the relevant law (Section 2, Islamic Financial Services Act 2013).

Reinstatement
The reinstatement of a certificate that has lapsed.

Replacement of Certificate
It is the discontinuation of a certificate or to have a certificate becoming paid-up and then to effect a new one with another Takaful Operator or the same Takaful Operator

Rider
An attachment to a certificate that modifies its conditions by expanding benefits.

Risk Tolerance
Risk tolerance is the degree of variability in investment returns an investor is willing to take and tolerate in financial planning.

Sharī'ah
Islamic law derived from three sources: the Quran, the Hadith and the Sunnah. A "Shariah compliant" product meets the requirements of Islamic law.

Standard Risk
A participant who, according to a takaful operator's underwriting standards, is entitled to takaful protection without extra rating or special restrictions.

Sukuk
Islamic securities or bond.

Speculative risk
A risk that affects the whole community or a large number of people within the community.

Copyright @ MTA 2022

Sub-Standard Risk
A participant who is considered an under-average or impaired risk because of physical condition, family or personal history of disease, occupation, residence in unhealthy climate or dangerous habits.

Sum Covered
The amount of money that a Takaful Operator is obligated to cover in the event of a covered loss. It is dependent upon the contribution price that is being paid for the takaful coverage.

Switching
The flexibility for a participant to switch investment from one sub-fund to another sub-fund within the same umbrella fund.

Tabarru'
A portion of participant's contribution for the purpose of mutual helps and used to pay claims Submitted by eligible claimants. Takaful Mutual guarantee provided by a group of people against a defined risk or catastrophe befalling one's life, property or any form of valuable things.

Takaful Fund
A common fund contributed by takaful participants and maintained by a licensed takaful operator, which is separate from takaful operator's shareholders' fund.

Top-Up
The flexibility of increasing the investment portfolio under an investment linked plan to take investment opportunities in the market place

Underwriting
Selection of takaful participants according to the company's risk standards.

Utmost Good Faith
The principle of utmost good faith requires anyone seeking Takaful to disclose all relevant facts. These are facts that would influence the judgment of a prudent underwriter in fixing the contribution or determining whether they will take on the risk. Where material non-disclosure can be proven, a contract can be voided.

Wakālah
Agent-principal relationship, where a person nominates another to act on his behalf.

The above glossary and explanation do not necessarily bear their legal meanings as they are prepared strictly for the information of readers who are unfamiliar with certain terms and expressions used.

Copyright @ MTA 2022

ANSWERS TO SELF-ASSESSMENT QUESTIONS

Copyright @ MTA 2022

CHAPTER 1	1	2	3	4	5
	B	D	A	C	A
CHAPTER 2	1	2	3	4	5
	D	A	C	B	D
CHAPTER 3	1	2	3	4	5
	B	D	D	C	D
CHAPTER 4	1	2	3	4	5
	A or C	C	D	C	B
CHAPTER 5	1	2	3	4	5
	C	B	B	A	D
CHAPTER 6	1	2	3	4	5
	A	A	A	B	C
CHAPTER 7	1	2	3	4	5
	B	C	A	D	C
CHAPTER 8	1	2	3	4	5
	D	C	B	D	D
CHAPTER 9	1	2	3	4	5
	D	A	A	B	B
CHAPTER 10	1	2	3	4	5
	B	D	B	A	A

Copyright @ MTA 2022