TAKAFUL BASIC EXAMINATION (TBE) TEXTBOOK

Part C: Family and Investment-Linked Takaful

2018
Edition

CHAPTER C1: FAMILY TAKAFUL PRELIMINARIES

Learning Objectives

To understand the concepts and characteristics of a Family Takaful.

Learning Outcome

Able to describe the concepts and characteristics of Family Takaful to customer.

C1.1 INTRODUCTION

Family Takaful is a Takaful scheme that provides the participant with both a protection and long-term savings. A participant of a Family Takaful Plan agrees to contribute a certain amount of money to a Takaful fund. A part of the contribution will be apportioned to a fund (Participants' Risk Fund or PRF) as *tabarru'* (donation) and the other part will be for savings and investment (Participant's Investment Fund or PIF).

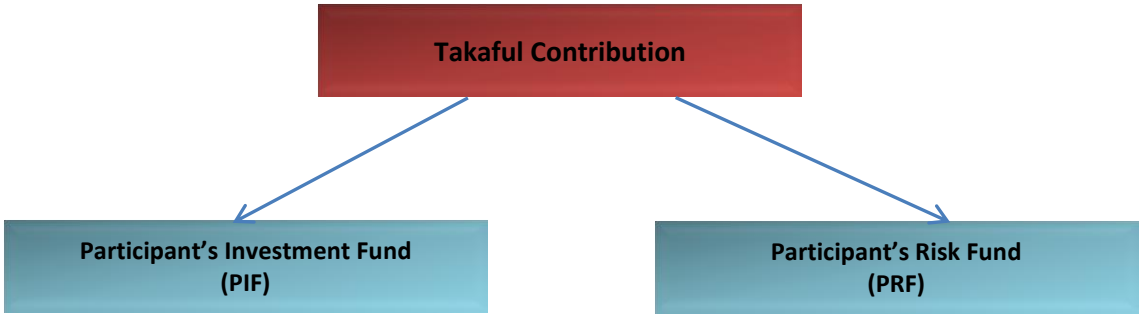


Diagram 1: Apportionment of Takaful Contribution

1.1.1 Participant's Investment Fund (PIF)

A Participant's Investment Fund (PIF) is an investment proportion of the participant's Takaful contribution that will be credited for the purpose of savings and investment. The Takaful Operator will invest the participant's saving in the PIF. The profit from the investment will be treated as follow:

- Under *Muḍārabah* Model

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

- Under *Wakālah* Model

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

1.1.2 Participant's Risk Fund (PRF)

A Participant's Risk Fund (PRF) is where the balance of the participant's Takaful contribution is credited as participative contribution (*tabarru'*). The portion that was apportioned to the PRF will be used to fulfill the obligation of mutual help, should any of the participants face a misfortune arising from death or permanent disability. In the case of the participant survives until maturity of the plan, the surplus from the PRF will be treated as follow:

- Under *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.

C1.2 CHARACTERISTICS OF FAMILY TAKAFUL PLAN

The main characteristics of the Family Takaful Plan are listed below:

No	Characteristics	Description
1	Long-Term Contracts with usually Level Contribution	Family Takaful contracts are long term contract with usually level contributions. The contribution/premium is calculated based on many factors. Principal amongst these factors are:- • mortality; • expenses; • rate of investment returns; • tax. As this is a long-term contract, the Takaful Operator has to properly manage the fund to ensure that sufficient reserves are maintained and available in the event of any claim.

2	Unilateral Contracts	Family Takaful is a unilateral contract which both the Takaful Operator and participants have certain rights and obligations. Contributions are made for mutual benefit among participants. In line with this principle, as long as the participant continues paying the contribution and do not breach Section 141 of the IFSA 2013, (i.e. suppression of material facts) the Takaful Operator does not have the right to cancel the contract.
3	Permissible Takaful Interest	The existence of Permissible Takaful Interest is a pre-requisite for a Family Takaful contract. Participants of a Family Takaful plan must have a Permissible Takaful Interest on the covered person. The following will elaborate the situation where the Permissible Takaful Interest exists:- • Every person is considered to have an unlimited interest in his own; • A parent has an interest in the life of a child below the age of majority; • A creditor has an interest in the life of a debtor to the extent of the debt; • An employer has an interest in the lives of its personnel; or • A business partner has an interest in his other partner(s), especially if there is an agreement to buy out the share of a deceased partner. Permissible Takaful Interest must exist at the beginning and at time of loss – otherwise, the Takaful affected is void.
4	Termination of Contract with Payment of A Claim	The settlement of a claim in the event of death or total permanent disability will cease or terminate the contract. Once the participant receives the claim settlement, the Family Takaful contract is deemed terminated.
5	Risk To Be Covered Increases with Time	Under Family Takaful, the covered risk increases with duration of the contract. The longer the duration of the contract, the higher the mortality risk as it increases with age. The older the participant, the higher the possibility he/she will be affected by illness, disease or death.

C1.3 RISKS COVERED BY FAMILY TAKAFUL PLAN

1. Risk of Premature Death

   Death is certain for everyone. However, nobody knows when they will die. Everybody is subject to the risk of premature death. The financial impact from the premature death of a breadwinner can be long-lasting. As such many family may face financial challenges for many years due to the loss of their breadwinners.

   A Family Takaful Plan can be an effective method to provide some measures of financial security in such a contingency.

2. Risk of Disability and Poor Health

   The risk of disability and poor health is mainly associated with:

   - Expensive medical expenses

     Medical costs could ruin a person's entire savings, due to continuous medical attention over a long period.

   - Loss and reduced earning capacity

     A person stricken by disability or poor health would be able to earn the same level of earning he used to prior to his disability or poor health. His movement could be limited to within close proximity, his thinking ability may not be as sharp as before. He probably could no longer work on a full-time basis as he needs to commute to hospital or medical centre for routine treatments. These factors will reduce the potential earning of a person.

3. Risk of Old Age/Longevity

   The major risk associated with old age or longevity of life is the possibility of insufficient income required to fund one's post retirement (example: health & medical cost, living cost, emergencies). On a positive note, some people look forward to retirement as a time to relax, travel and enjoy life.

   Family Takaful therefore is a useful long-term financial instrument to help a person in his financial planning needs.

C1.4 FAMILY TAKAFUL BENEFITS

Family Takaful benefits are divided into the following:

1. Death Benefit

   In the event the participant dies before the maturity of the Family Takaful, death benefits will be paid to the beneficiaries.

Death Benefit	Total Takaful coverage plus share of profits from investments will be credited to the Participant's Investment Fund (PIF).

2. Maturity Benefit

   If the participant is still living to maturity, the participant will be entitled to maturity benefit.

Maturity Benefit	Total accumulative fund of Participant's Investment Fund (PIF) plus Participant Risk Fund (PRF) surplus (if any) will be paid to participant.

3. Surrender Value

   If participants make early surrender, the participant will be entitled to the surrender value (if any).

Surrender Value	Total accumulative fund of Participant's Investment Fund (PIF) (if any) will be paid to participant.

CHAPTER C2: FAMILY TAKAFUL PLANS

Learning Objectives

To understand the types of Family Takaful plan features and benefits.

Learning Outcome

Able to identify the types of Family Takaful plan features and benefits to cater for the customers' needs.

C2.1 INTRODUCTION

The risk of death, disability or prolonged illness and/or old age can create a catastrophic financial burden on individual family members. Each of these situations creates a need for Family Takaful protection and Takaful Operators are finding ways and means to meet these needs mainly by introducing different types of coverage for family certificates. Each is designed to meet one or more of the needs created by these contingencies.

IFSA 2013 defines Family Takaful as a Takaful certificate by which Takaful benefits are payable on death or survival, including those Takaful benefits payables in respect of personal accidents, disease or sickness, and includes an annuity but excludes a personal accident Takaful certificate.

Currently in Malaysia, the Mortgage Plan forms the bulk of Family Takaful business written, followed by the Individual Protection Plan. The basic Family Takaful contracts are Term Takaful, endowment plans and annuities.

C2.2 TYPES OF FAMILY TAKAFUL PLANS

2.2.1 Individual Family Takaful Plan

The common type of plans, which fall under individual Family Takaful includes saving, education, mortgage, investment-linked, health and annuity. Participants and their beneficiary will receive financial benefits arising upon death or permanent disability, as well as accumulation of investment inclusive of profits, upon claims, maturity or early surrender.

a. Saving

Savings Takaful Plan comprises the elements of savings and returns on investment with individual protection. It is an investment type plan that participates in profit, which will be

distributed back to participants. This plan is designed to optimize the returns on investment to the participants. It utilises two key elements that will meet the obligation under the Savings Takaful:

i. Level Term Cover;
ii. Investment Account.

b. Education

This plan provides protection and long-term savings to finance a child's higher education expenses. The child will be provided with financial benefits in the event the payor suffer a setback covered under the plan. At the same time, the child will have the necessary funds required for his higher education upon maturity of the certificate.

c. Mortgage

Buying and owning a house is one of life's achievements, which essentially satisfy one of the basic human needs for shelter. However, unexpected events may lead to loss of income or a decreased ability to fulfill financing obligations. In the event of Death or Total Permanent Disability (TPD) of the participant, the participant's surviving family members may have to continue servicing the outstanding financing of the house.

With a Mortgage Reducing Term Takaful (MRTT) plan, the financial burden arising from this event (Death or TPD) is covered on a long-term basis. MRTT is a *Sharī'ah*-compliant single contribution plan. In the event of Death or TPD the plan provides a reducing Takaful benefit payable from the Risk Fund. The amount to be paid out is expected to match the outstanding mortgage/home financing.

d. Riders

Family Takaful riders are supplementary benefits added into basic Family Takaful plan participated by the participant.

List of common types of Family Takaful riders:

- Critical Illness coverage.
- Accidental Death and Disability Payor Benefit.
- Waiver of Contributions.
- Medical Coverage.
- Hospitalisation Benefit.

2.2.2 Group Family Takaful Plan

Group Family Takaful (commonly participated by employers, clubs, associations and societies) plans include group education, group medical, and group retirement scheme. A minimum number of participants are required to qualify as a 'group' under these plans. Participants

and/or their beneficiaries will receive compensation in the form of financial benefits arising from death or permanent disability of participating members.

a. Employee Benefits Scheme

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

- portrays a caring image of the employer/association.
- boost employees/members morale and productivity.
- attract and retain employees/members.
- enjoy tax relief.
- fulfill demand in labour negotiations.

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 as well as outpatient accidental, cancer or kidney dialysis treatment.

- Term Takaful which provides benefits upon death and total permanent disablement.

Example of Group Family Takaful Plan:

i. 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 surgical and hospitalization. Employers participate in this scheme as a means to provide for employees' welfare and goodwill.

ii. Group Retirement Scheme

This plan is designed to minimize selection of risk and provide a common base of Takaful for the covered group of employees (participants) with saving elements for retirement purposes. This plan is promoted on per unit basis based on the value set by the Takaful Operator.

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.

iii. Riders under Employee Benefits Scheme

A rider is something added to the basic certificate to confer additional benefits – sometimes requiring an additional payment. One can also combine a set of riders and append it 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. However, once a claim on this ground has been paid, additional claims on the same ground cannot be made at a subsequent date.

The other riders offered are the 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 room charges subject to certain ceiling on both the amount and the number of days in a year that the participant can avail of the benefit.

The rider overrides any conflict with the certificate. In other words, if there is a provision in the rider that is different than the same provision that was originally in the certificate, then the rider prevails.

b. Group Credit Takaful

This plan is designed to provide coverage to pay off 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 card balance will be settled by Takaful Operator in the event of death or Total Permanent Disablement of the member.

C2.3 IMPORTANCE OF FAMILY TAKAFUL PLANS

Islam promotes the essence of peace, economic well-being and convenience as well as the development of mankind at all levels: individuals, family, community, nation and the ummah. This is in line with the *"Maqasid Sharī'ah"* or the objectives of *Sharī'ah* which in essence is the manifestation of the purpose, reason and virtue underlining a *Sharī'ah* injunction which is to bring convenience, harmony and provide well-being as well as welfare to mankind.

The present-day financial need makes Family Takaful a necessity. The need for savings and investment as part of financial planning for the purpose of precautionary measures and pre-emptive preparations in the event of a catastrophe or disaster is in line with the practice of risk management as propagated in Islam. Any kind of loss due to death or disability of the family breadwinner may lead to a decrease or termination of a stream of regular income, besides any future income that he would have been able to earn, had normal circumstances prevailed. In this respect the main function of Family Takaful is to provide protection to the family, by ensuring continuity of income even after the death/disability of the breadwinner.

Similarly, providing a shelter to one's family is a basic necessity and a compelling requirement from standpoint of *Maqasid Sharī'ah.* Due to its high and expensive financial commitments, purchasing a house is always made through a financing facility. In this instance Mortgage Takaful plan is a necessity to protect the interest of both the financier and the home owner in the event of untimely death/disability of the latter during the period of financing.

For the corporate needs, Family Takaful provides employees with various benefits for their financial well-being under the group employee benefits plan. The plan is used in addition to the group medical and health Takaful plan as part of the fringe benefits provided to employees. This will ensure the welfare of employees are well taken care of towards nurturing a healthy relationship between employer and employee, and thus improving and boosting the morale of the employees resulting in improved productivity.

CHAPTER C3: FAMILY TAKAFUL PRACTICES: CERTIFICATE ADMINISTRATION

Learning Objectives

To identify the basic Family Takaful certificate administration processes.

Learning Outcome

Able to advise and communicate effectively basic Family Takaful certificate to customers.

C3.1 DESCRIPTION OF FAMILY TAKAFUL CERTIFICATES

Family Takaful provides cover to the participant with the benefit of financial protection and long-term savings. The participant or his beneficiary will be provided with financial benefits if the participant were to suffer a tragedy. At the same time, the participant will enjoy a long-term savings since a major portion of his contribution is set aside for savings and investments. Such investment returns will be shared on a pre-agreed ratio with the Takaful Operator.

It is important to understand that the words “certificate” and “contract” are not the same. The certificate is the medium (can be in the form of paper or otherwise) on which the agreement is written on. And the contract is intangible, a legally binding agreement between the concerned parties.

C3.2 CERTIFICATE TRANSACTIONS

Certificate transactions can be considered under the following headings:-

1. 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 from the participant, the following documents before a replacement certificate can be issued:-

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

   The replacement certificate would be stamped “Duplicate Certificate”, and becomes a valid legal document.

2. Assignment of a Family Takaful Certificate

It should be noted that Section 2 IFSA 2013 defined "Takaful Participant" as the person who has legal title to a Takaful certificate including the assignee, if such certificate has been assigned.

An assignment is the transfer of rights and liabilities by one person to another. In Takaful, the transfer of all rights and liabilities of the participant to another person is referred to as an assignment of certificate. An assignee, the person who takes over the assigned rights, will have the same rights as those enjoyed by the assignor. Thus, the legal rights vested under a Family Takaful certificate may be transferred by an assignment.

Assignment can either be absolute or conditional. Absolute assignment is one which does not leave any rights to the assignor. On the other hand, a conditional assignment will give the assignor the rights to revoke the assignment if the assignee dies before the payment of the Takaful benefits becomes due or if the participant survives until the maturity date of the certificate.

a. Assignment of Claim Amount

In Takaful, the term "assignment" is also used in the context of the assignment of certificate proceeds. An assignment of certificate proceeds arises when the participant instructs the Takaful Operator to pay the certificate proceeds to a third party.

For example, there is an assignment of certificate proceeds when a participant instructs the Takaful Operator to pay the amount of indemnity to which the participant is entitled to another party. In Family Takaful, assignment of the certificate proceeds occurs when the certificate owner names a beneficiary to receive the death benefit under his certificate. In such an assignment, the participant remains a party to the Takaful contract and continues to assume liabilities under it even after the assignment of certificate proceeds. All certificate proceeds are freely assignable unless the contract provides otherwise.

The Act also provides that only those aged eighteen (18) years and above can enter into a contract of Takaful, and may nominate a person to receive the certificate benefits upon his demised under the certificate by notifying the Takaful Operator in writing of the following nominee details:

- Name and date of birth,
- Identity card number or birth certificate number, and
- Address.

b. Delivery of Certificate Document

Agents are encouraged to actually hand-deliver the certificate documents to their respective clients and take the opportunity to explain further the salient features of the contract to them. This will ensure their clients fully understood the intention of their purchase, and that the certificate fulfills their financial requirements as discussed earlier. The client, as owner of the certificate, has to acknowledge receipt of the certificate document, which indicates to the Takaful Operator that the document has been duly delivered and received.

3. Certificate Endorsement/Alterations

Family Takaful contracts are essentially long-term contracts, often extending over 10 or more years' duration. It is possible that during this long period the certificate holder's circumstances may change. Flexibility in the structure of the contract is provided by allowing for certain forms of alterations to the certificate.

The standard certificate documents are often endorsed to take into account the differing aspects of individual circumstances and needs. Endorsements can be done either at:

a. the time of issuance of the certificate, or
b. after issuance of the certificate.

4. Endorsements at the Time of Issuance of Certificate

In general, the following four special conditions need endorsements:-

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

5. Endorsements after Issuance of Certificate

These give effect mainly to changes in the:-

a. mode of contribution payment,
b. alterations to the form of the contract,
c. imposition or removal of extra contributions.

6. Certificate Alterations

The most common form of alterations is:

a. change of address,

b. change of name (same original applicant / participant),
c. change in the mode of payment,
d. change in the sum covered,
e. change in beneficiary,
f. change in the term of cover, e.g. change from ten years to five years.

Each Takaful Operator shall have its own procedures for certificate alterations. In general, the certificate and the participant's written instructions must be sent to the office, as the alteration is endorsed onto the certificate document.

C3.3 PRIVILEGES AND CONDITIONS

The payment of the sum covered is subject to fulfillment of certain conditions included in the Family Takaful certificate. The conditions in the certificate can be broadly classified under three groups:

- Those adding to the benefits of the coverage known as privileges,
- Those limiting the scope of coverage known as restrictive conditions,
- Those explaining the nature of the contract.

1. Grace Period for Contribution Payment

   Thirty days (or one calendar month) are usually allowed as grace period for the payment of renewal contribution. The cover under the certificate continues during the days of grace for the full sum, but if the renewal contribution is not paid within the days of grace, the certificate ceases to have any further cover, subject to any non-forfeiture provisions, if applicable.

2. Surrender Value

   Surrender value is the value which attaches to a Family Takaful certificate after contributions have been paid for a certain minimum number of years. In a Family Takaful scheme, surrender value is understood as the value or cash money a participant will received when he 'surrenders' or terminate his participation before the certificate matures. 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).

3. Partial Withdrawal

   Participant is allowed to withdraw his own money to be consumed now, rather than kept in the fund for future use. Different operators will have their own set of guidelines on the amount of money that can be withdrawn, usually up to 50% of the balance available in their Participant's Account. Of course, no interest can be charged by the operator for such

withdrawal, except for a small one-time fee to administer the transaction. The participant may or may not payback the amount withdrawn.

4. Non-Payment Conditions

The non-payment conditions constitute a privilege to the participant who overlooks the payment of his contribution or is temporarily unable to meet it. The non-payment provision comes into play only after the certificate has acquired a cash value. It is the cash value built up in the Participant's Account that is used to provide the non-payment benefit.

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

- Automatic Advance from Participant's Investment Fund (PIF),
- Paid-Up Takaful,
- Extended Term Takaful.

5. Restrictive Conditions Suicide Clause

If a participant commits suicide within a stated period of time, the certificate becomes void and the Takaful operator is not liable to pay the claim except to refund all contributions paid from PA (Participant's Investment Fund (PIF)) subject to the terms and conditions of the Takaful operator.

6. Cooling-Off Period or Free-Look Period

Participants are allowed a 15-days period (from the date they received the certificate through their agent) to decide for themselves if the certificate issued fulfills their requirements. Should they felt otherwise, they are free to return the certificate to the Takaful operator for a full refund. This will ensure agents carry out their duty professionally in fulfilling the requirements of their clients.

7. Misrepresentation of Age and Incontestability Clause

An incontestability clause is commonly included in most Takaful certificates, which is in accordance with Schedule 9 (13) of Section 141 IFSA 2013, stipulates that no Family Takaful certificate shall be called in question by the Takaful Operator on the grounds of a misstatement of the age of the participant.

Likewise, 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.

8. Replacement of Family Takaful Certificates

"Replacement of Certificates" is defined as "any transaction involving participation of Family Takaful certificate if within 12 months before or after a new certificate is affected, an existing Family Takaful certificate has been:

- lapsed or surrendered,
- changed or modified into paid-up Takaful, continued as extended Term Takaful or automatic advance from participant's account, or under another form of non-payment provisions,
- changed or modified so as to effect a reduction in the amount of contributions paid arising from the reduction of sum covered and/or in the period of time the existing Family Takaful certificate will continue in force".

Replacement of certificates is detrimental to the participant's interest and if allowed to perpetuate, will adversely affect the Takaful Operator's long-term standing and image of the Takaful industry.

Measures to Detect Replacement of Certificates

In order to detect and curb replacement of certificates, BNM has put in place the following requirements:

- an effective control mechanism, preferably an automated system, to detect internal replacement of certificates whereby both the existing and new certificates are issued by the same Takaful Operator.
- a question in the proposal form whether the proposal is to replace or intended to replace any existing certificate with the current Takaful Operator or any other Takaful Operator.
- designated officers within the company to follow-up and advise the certificate owners in writing on the disadvantages of replacing a Takaful certificate and the alternative options available, within 7 days from the date a replacement of certificate is detected.

C3.4 EXCLUSIONS

The common exclusions that a Family Takaful certificate does not cover are listed:-

1. Death, disablement or medical expenses caused by:

   a. war, warlike operations, strike, riot, civil commotion,
   b. insanity, suicide or any attempt thereat,
   c. venereal disease, infection or parasites,
   d. intoxication by alcohol or drugs,
   e. childbirth, miscarriage or pregnancy.

2. Death, disablement or medical expenses sustained by the participant:

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

C3.5 CERTIFICATE SERVICING

1. Termination of Coverage

   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. Maturity Claims

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

   The Takaful Operator would forward an identity form, the survival form and a discharge voucher for completion and subsequently to be returned together with the original certificate contract.

   The following are usually required in settling maturity claims:

   Where the participant is the **person covered**:-

   a. proof of age,
   b. proof of survival,
   c. discharge voucher completed by the participant,
   d. the original certificate document/contract.

   Where the participant is **not the person covered**:-

   a. a deed of assignment or any other title document,
   b. a simple statement that the person covered is alive and is unable or not available to sign the survival certificate,
   c. partial withdrawal.

3. Surrender

In the event of a **surrender** of the Takaful certificate, the participant shall be paid the entire amount accumulated in the Participants' Investment Fund (PIF), but not the Participant's Risk Fund (PRF).

a. Calculation of Surrender Value

Certificates which carry the right to a surrender value would normally incorporate a table of such values in their Schedules. It then becomes a straightforward exercise to calculate such values, given a particular duration at which surrender occurs.

However, when surrender values are not pre-determined, the calculation of such values requires actuarial considerations. It is beyond the scope of this book to deal with such issues.

CHAPTER C4: FAMILY TAKAFUL PRACTICES: UNDERWRITING

We have discussed about underwriting in the following topics under Chapter A11 Medical and Health Takaful Underwriting.

- The Purpose of Underwriting
- Anti-Selection
- Adequacy of Contribution
- Sources of Underwriting Information
- Underwriting Process
- Issuance of Certificate

Candidates are strongly recommended to study Chapter A11 to understand the Family Takaful underwriting.

CHAPTER C5: FAMILY TAKAFUL PRACTICES: CLAIMS AND PARTIAL WITHDRAWAL

Learning Objectives

To understand the basic operational framework of Family Takaful claims processes and procedures.

Learning Outcome

Able to explain the basic operational framework of Family Takaful claims processes and procedures to customer.

C5.1 INTRODUCTION

The consummation of a Family Takaful contract is usually marked by the settlement of a claim. A claim can arise under any one of the following situations:-

1. death of the participant;
2. maturity of the Takaful certificate;
3. sickness or disability benefit claims;
4. claims arising under supplementary contracts.

It is expected that the agent and the Takaful Operator jointly serve the claimant towards a prompt settlement of the claim. The reputation of a Takaful Operator often lies on the promptness with which claims are settled. It is therefore important that the agent is well-versed with the procedures and documents needed for a claim to be settled promptly.

C5.2 NOTIFICATION OF CLAIMS

On the happening of an event that may give rise to a claim, the beneficiary or claimant should notify the Takaful Operator and provide all pertinent information such as:-

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

The operator would then inform the claimant on the procedures to be followed and the necessary documentation needed to provide proof of such event. As Takaful is essentially based on the tenets and requirements of *Sharī'ah,* Muslim participants are reminded that proceeds from their Takaful certificates (in the event of death claim) has to be distributed to the rightful heirs in accordance to *Fara'id Law* (which is inheritance law for the Muslims). Therefore, the

nomination of a person in his Takaful certificate only serves as the trustee to receive the proceeds, which forms part of the deceased estate and subsequently distributing it to the rightful heirs.

C5.3 DEATH CLAIMS

The claimant or beneficiary has to provide the Takaful Operator with documentary evidence which establishes the death of the participant beyond any doubt. In addition to the three items mentioned above, the Takaful Operator would accept any one of the following documents as proof of death:

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

The operator would also request for proof of age of the deceased participant, if this was not done at the commencement of the contract. The Takaful Operator has to ensure that the claim proceeds are paid to the person entitled to receive them.

Schedule 10 of Section 142 IFSA 2013, specifically mentions that such benefits payment can be made by the Takaful Operator to the lawful executor or administrator of the deceased estate.

C5.4 TOTAL PERMANENT DISABILITY CLAIMS

There are two types of total permanent disability claims; one is due to **natural causes** or illness and the other is due to **accidental causes**.

1. Documents required for total permanent disability claim due to natural causes are:

    - medical certificate by the attending doctor after the participant's disability;
    - certified true copy of the participant's identification card;
    - completed claim form.

2. Documents required for total permanent disability claim due to accidental causes are:

    - medical certificate by the attending doctor after the participant's accidental disability;
    - certified true copy of the participant's identification card;
    - completed claim form;
    - certified true copy of the police report.

C5.5 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 certain claim procedures.

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

The following are usually required in settling maturity claims:

1. when the participant is the person covered:-

    - proof of age;
    - proof of survival;
    - the original certificate document/contract;
    - discharge voucher completed by the participant.

2. when the participant is not the person covered:-

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

C5.6 PARTIAL WITHDRAWAL

Most Takaful Operators would allow their participants to make partial withdrawal on their Family Takaful certificates, subject to certain terms and conditions.

As contribution for Family Takaful is divided into two funds once paid to the Takaful Operator (Participants' Investment Fund (PIF) and Participant's Risk Fund (PRF)), partial withdrawal is allowable on the Participant's Investment Fund (PIF), but not more than certain percentage/amount in this fund can be withdrawn.

In the event of a surrender of the Takaful certificate, the participant shall be paid the entire amount accumulated in the Participants' Account, but not the Participant's Risk Fund (PRF).

C5.7 OTHER CLAIMS

For personal accident certificates, the principle of proximate cause is important, since there may be more than one condition that can operate leading to a claim. It is important to note that if the

Takaful Operator considers that the claim is brought about by an excluded peril, then the Takaful Operator has the responsibility to prove this.

It is customary for Takaful Operators to issue printed forms which if properly filled, to get all the needed information. These forms, in addition to requiring details of the accident or illness, also contain other questions which aim to establish whether or not the original basis of coverage is still maintained.

If the Takaful Operator is satisfied as to the validity of all the documents furnished and any other inquiries which have been conducted and there is no breach of the various certificate conditions, the Takaful Operator will then pay the claim amount. However, where anything is in doubt or is subject to special consideration, the Takaful Operator will have the right to carry out an investigation.

C5.8 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 these 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 card form or ledger sheet form or even in computer.

CHAPTER C6: KEY CONSIDERATIONS IN INVESTMENT

Learning Objectives

To understand the main considerations in making investment decision.

Learning Outcome

Able to advise prospect on the key considerations before making any investment decision.

C6.1 INTRODUCTION

Prospective participants have to consider various factors such as investment objective, available funds, risk, investment horizon, taxation and investment performance before making investment decision. Before making any investment decision, they have to look at their entire financial situation.

C6.2 KEY CONSIDERATIONS

Prospective participants must study and consider all key aspects before making any decision on investment.

Among the key considerations are:

1. Investment Objectives

   The first step to successful investing is figuring out the objectives of the investment. However, before determines the investment objective, the investor should consider what the investment objective are.

   a. Knowing the objectives will help the investor choose appropriate investment instruments and asset classes as certain investment will yield according to the desired purpose. For example, some people buy real-estate properties because of capital appreciation while some buy them for income purposes.

   b. Investment objectives can also change according to one's situation. For example is real estate investment; when people are younger, they buy a piece of real-estate property because they want to have capital growth. Many years after, say during retirement years, capital growth is now overshadowed by the need for regular income and the rental from the said property becomes the objective.

Following are some of the common investment objectives:

a. Income

Under this category, primary consideration of the investor is to focus on current income while at the same time preserving the capital.

b. Balanced

Primary consideration of the investor is on current income via diversification of asset classes for an equal blend of income and long term growth.

c. Growth & Income

Investor will look into a balance between capital appreciation and current income with the primary consideration being capital appreciation.

d. Long Term Growth

The primary focus of the investor under this category is long term capital appreciation of the investment.

e. Speculation

Maximum total return involving a higher degree of risk through investment in a broad spectrum of securities.

2. Availability of Funds

Investing even small amounts of money can really pay off over time. But the question is how to get the money and invest it. It is a norm if people give a reason that they don't have any money left over at the end of month as a reason for not investing.

There are some sources of fund that can be used to for the investment.

a. Income

Income can comes from wages, salaries, profits, interest payments, rents and other forms of earnings received in a given period of time.

b. Extra Money

Extra money may come from monetary gifts, money for working overtime, cash bonuses and incentive payments. That "found money" is a prime source of investment spending.

c. Investment "Bill"

Treat the investment account as just another bill that must be paid each month. Set a realistic monthly investing goal, and use the pay yourself first concept to put that money aside month after month.

3. Risk or Security

Because of the risk-return trade off, customer must be aware of their personal risk tolerance when choosing investments for their portfolio. Taking on some risk is the price of achieving returns; therefore, if customer wants to make money, he can't cut out all risk. The goal instead is to find an appropriate balance - one that generates some profit, but still allows you to sleep at night. If he wishes to earn a higher rate of return, he must be willing to assume a higher risk.

4. Investment Horizon

Investment horizon refers to the total length of time that an investor expects to hold a security or portfolio until he needs to sell his investment. It is used to determine the investor's income needs and desired risk exposure, which is then used to aid in security selection. An investor who doesn't need their money for decades can own a riskier portfolio compared to someone who needs the money next week. As investment horizons increase in length, equities represent a higher risk-adjusted return than fixed-income securities and cash. Across shorter investment horizons, equities become the riskier asset class because they carry higher levels of volatility.

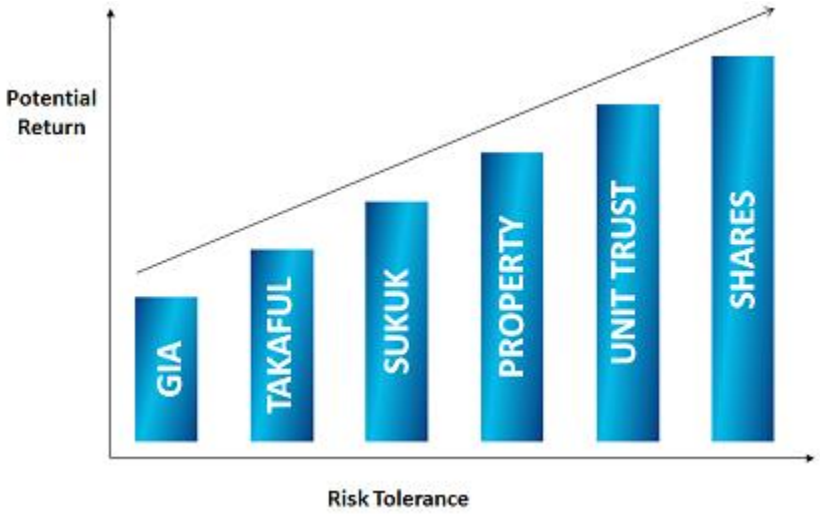


Diagram 2 : Investment Portfolios Horizon

Generally speaking, the investment time horizon can be called short, medium and long.

Term	Descriptions
Short Term	Less than 3 years Short-term funds should be kept in extremely low-risk investments such as certificates of deposit, savings bonds and Treasury securities.
Medium Term	3-10 years range Low-risk, intermediate-term bonds or a well-diversified mix of stocks and bonds weighted heavily toward low-risk bonds.
Long Term	10-years plus time horizon A portfolio of stock mutual funds or ETFs, exchange traded funds, contains a blue chip, large cap fund, a small or medium cap fund, and an international fund.

5. Taxation Treatment

One of the factors that need to be considered by the customers is taxation treatment. This is because different type of investment will attract different taxation treatment. It is important for the customer to know the different treatment for a different investment before he makes any decision on the investment.

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 different types of return.

a. Net versus Gross Return

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

b. Total Return versus Price Return

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

c. Money-Weighted Return versus Time-Weighted Return

Money-Weighted Return is appropriate if the manager determines the timing of inflows in or outflows from the portfolio while the latter is appropriate when the

manager is not responsible for the timing of cash inflows into and cash outflows from the portfolio.

The performance of the investment is depending on the following factors:

- The country economy;
- Regional and global economy;
- The competencies and capabilities of the fund manager;
- The invested company's level of costs;
- Past performance;
- History of the invested company;
- Life cycle of the investment.

7. Diversification

Diversification of investment is defined as the process of investing across the following:

a. Asset Classes

Share, *sukuk* and cash are all generally not correlated with each other so owning some of each will help diversify your investment portfolio.

b. Industry

There must be an adequate representation from different industries.

c. Country

Most investors tend to own too much equity in their home country which reduces their diversification.

It also means that an investor should buy investments that are not concentrated into one company, industry, country or even asset class. The famous saying is "Do not put all your eggs in one basket"?

The same principle applies to investing – put the investments into different baskets. Spreading the investments into different asset classes, industries, countries and even currencies will help guard against a major loss.

CHAPTER C7: CHOICE OF INVESTMENT VEHICLES

Learning Objectives

To understand the choice of Investment vehicles available in the market

Learning Outcome

Able to advise and communicate effectively where funds are invested in the market

C7.1 INVESTMENT CHOICES

The rapid development in financial industry for the past 15 years has seen the development and emergence of new and innovative product especially for the Islamic financial industry. This is in line with the government aspiration to make Malaysia as the hub for Islamic finance. There are various choices of investment vehicles for the Malaysian to choose from.

1. Cash and Deposit

   Cash and deposit refers to all type of liquid instrument with minimal risk or no risk of losing the principal amount. It includes the following:

   a. Government Investment Issue

      Government Investment Issue (GII) is the Islamic version of marketable debt instrument issued by the Government of Malaysia to raise funds from the domestic capital market to finance the Government's development expenditure and working capital. The central bank, Bank Negara Malaysia in its role as banker and adviser to the Government, advises on the details of Government securities issuance and facilitates such issuance through various market infrastructures that it owns and operates.

      GII were issued to allow Islamic financial institutions such as Islamic banks and Takaful Operators to hold liquid papers that meet their statutory liquidity requirements. The issuance of these papers also enabled them to invest their liquid funds in instruments that are issued based on *Sharī'ah* principles as they are unable to purchase or trade in Malaysian Government Securities (MGS), Malaysian Treasury Bill (MTB) or other interest-bearing instruments.

      It is the safest types of investment and regarded as non-risk unless the event of unstable country political situation.

b. Islamic Bank Accounts

Islamic bank accounts include general investment account, current account, saving account, investment account and offshore account. The profit rate of these accounts normally low thus did not protect the investment against inflation.

i. Profit Sharing Investment Account

Refers to a deposit product structured based on *Muḍārabah* contract. Profit realized from the investment will be shared between the accountholder and bank based on pre-agreed profit sharing ratio. However, losses (if any) will be borne by the accountholder.

- General Investment Account (GIA)

  It is also known as Unrestricted Investment Account. The account provides full discretion to the bank to utilize/invest the money in an income producing assets without restriction. Profit is payable on every interim profit payment date/at maturity (where applicable). The amount of actual profit will only be known on maturity date based on prevailing gross return for the contracted profit sharing ratio.

- Special Investment Account (SIA)

  SIA or Restricted Investment Account refers to profit sharing investment that meets specific investment mandate by the account holder to the Islamic bank in utilizing the SIA funds to finance and/or invest in specific income producing assets.

- Foreign Currency Deposit

  A form of investment based on currency. This is an alternative investment product for customers who wish to operate *Sharī'ah* based foreign currency account.

- Gold Account

  The account allows the accountholder to conveniently invest and trade in gold commodity. Accountholder can invest without holding the physical commodity.

- Current Account

  In general, it is a "non-profit" bearing bank account. The account allows the accountholders to write cheque against available money in the

account. It is offered to both by individual or company. Bank may also offer overdraft to the accountholder.

- Saving Account

  Savings Account is a form of bank's 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.

2. *Sukuk*

Sukuk refer to securities, notes, papers or certificates with features of liquidity and tradability. It is described as certificates of trust for the ownership of an asset, or certificates of usufruct.

AAOIFI in its *Sharī'ah* Standards – Standard 17 (2) defined *sukuk* as:

"Investment *sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the *sukuk*, the closing of subscription and the employment of funds received for the purpose for which *sukuk* were issued (2008)".

It is commonly refers to the Islamic equivalent of bonds. However, it differs from conventional bonds in that they do not pay interest since interest is not permissible in Islam. *Sukuk* securities are structured to comply with the *Sharī'ah* and its investment principles. Financial assets that comply with the *Sharī'ah* law can be classified in accordance with their tradability and non-tradability in the secondary markets.

There are three main clusters of *Sharī'ah* contract used for *sukuk:*

Cluster	Contracts
Sale based *sukuk*	• *Bay' Bithaman Ājil* • *Murābaḥah* • *Bay'Al-Salam* • *Istisna'*
Leased based *sukuk*	• *Ijārah*
Equity based *sukuk*	• *Mushārakah* • *Muḍārabah* • *Wakālah*

It can be issued by governments, as well as companies. In the case of corporate *sukuk,* the return is higher than government *sukuk.* However, higher return means higher risk.

From a *Sharī'ah* perspective, certificates of debt are not tradable (although a different view is held by many in Malaysia).

Advantages	Disadvantages
• It provides steady income to the investor. In the case of government *sukuk*, the risk is almost zero thus making it a very safe investment.	• However, the downside of the government *sukuk* is the return is lower than the inflation rate thus eroding the investment.

3. Shares and Investment

Shares, also known as stocks or equities, are the unit of investment in individual companies. They have a nominal value for example RM1.00, which when multiplied by the total number of shares issued forms the issued share capital. Islamic equities are shares of halal companies that is, securities of companies operating in activities permissible under *Sharī'ah* principles and approved and periodically reviewed by *Sharī'ah* scholars through a process known as Islamic stock screening.

For a company to be considered halal, the majority of its revenues must be primarily derived from activities other than the trading of alcohol, arms, tobacco, pork, pornography, or gambling or from profits associated with charging interest on loans.

With stocks and shares it's possible for investors to create wealth in three different ways:

- To receive an income from them in the form of dividend;
- To hopefully see a growth in their value and sell them at a profit;
- A combination of the above, known as balanced.

Shares offer as much variety as there are entrepreneurs and companies attempting to create profits in the economy. There are thousands of companies in Malaysian markets from high-risk, high-growth shares to steady blue chips companies. They are offered in a variety of different ways: investor can buy them in individual companies, investor can put different ones together and build their own portfolio or they can buy them through collective schemes such as funds or investment trusts.

a. Ordinary Shares

Ordinary share represents ownership rights to a company. Ordinary share can provide many perks, such as voting rights and dividend payments. Each ordinary share owned entitles the purchaser to one vote on certain issues within the company. The board of directors of a company will decide the amount of a dividend that will be paid, and this amount will vary from year to year. Ordinary shareholders are last in line for dividends behind all debtors and preferred shareholders; meaning that they will get what money is left over after all others have been paid.

Advantages	Disadvantages
• Ordinary shareholders have the right to vote and to elect the board of director.	• Dividend is not guaranteed.

b. Preferred Shares

As with ordinary shares, preferred shares give the holder part ownership of a company. The difference is that preferred share pays fixed dividends, before payments to owners of the ordinary shareholders. The downside is that preferred share does not give its owners voting rights and tends to grow less in value.

Advantages	Disadvantages
• Given priority in distribution of income over the ordinary shareholders.	• Preferred shareholders do not have the right to vote and elect the board of directors.

4. Unit Trust

Securities Commission Act 1993 defined “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;
- any other property.

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's manager. Islamic unit trust is similar to a conventional unit trust except that it invests only in *Sharī’ah* compliant securities.

The contract governing the exchange of units between the unit trust manager and the investor usually 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 pro rata with other investors in ownership of the assets held by the trust. 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 yourself;

- unit trust funds reduce the need to select and manage your investments.

Advantages	Disadvantages
• Management of the fund is handled by specialists who are expert in the fund management. • Flexibility to choose from many unit trust funds in the market. • Diversification of fund and risk. Reduced transaction costs.	• However, there are costs over and above those investors need to pay compare to investing directly.

5. Real Estate

Real estate investment involves purchase, ownership, management, rental and/or sale of real estate or profit. Investor purchases real estate with the intent of earning from it either capital gain through selling or income through rental. The usual types of real estate are office building, shopping complex, residential building, etc.

Real estate is an asset form with limited liquidity relative to other investments, it is also capital intensive and is highly cash flow dependent.

Apart from investing in the original form of real properties, investor can also invest in a new form of real estate investment, Real Estate Investment Trust (REITs).

a. Islamic Real Estate Investment Trust (I-REITs)

An Islamic REIT is a collective investment scheme constituted as a real estate investment trust that invests primarily in *Sharī'ah* compliant income-producing real estate and real estate related assets and uses the income from the properties, net of expenses, to provide returns to its unitholders.

I-REITs are similar to conventional REITs. It is typically structured as property trusts except that it must hold investments that adhere to the principles of *Sharī'ah.* It uses lease financing *(ijarah)* in lieu of an outright purchase of property. It invests primarily in physical real estate, but it may also hold other kind of investment such as *sukuk*, private companies whose main assets comprise real estate, *Sharī'ah*-compliant securities of property and non-property companies, and units of other I-REITS, *Sharī'ah* compliant short-term deposits, and cash.

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

Advantages	Disadvantages
• An investment that can give steady income for the rest of life. • Investor can buy properties without using his own money. One way of doing this is financing. • It has an intrinsic value to it. A share that investor buy can lose 99% of its value but it is almost impossible to buy a property and it loses 99% of its value.	• If investor buy a property and can't make the mortgage payments, he can lose the property and damage his credit. • Investor depends on a lot of people to do their part. If the people he is renting out to do not pay their rent, the investor will have to use the security money and find new people quickly or it can eat up his profits. • High maintenance cost.

6. Capital Protected Fund

Capital protected fund is defined as a type of mutual fund that guarantees an investor at least the initial investment, plus any capital gains, if it is held for the contractual term.

There are two main types of capital protected products available in Malaysia.

These can be broadly described as:

No	Product	Description
1.	Passive Type Products	In such a product, the bulk of the amount invested is used to buy low risk assets that are expected to accumulate in value over the term of the product to protect the full value of the original capital. The rest of the amount invested is then used to buy options, from which the potential upside of the product is expected to be obtained. However, it should be pointed that the influence of profit rates on these types of products. **Example:** An investor invest RM1,000 to this product. If the projected yields on three-year *sukuk* were 6.4% per annum (as against 3% per annum), then the manager would only need to invest RM830 in the low risk asset, leaving RM170 to buy option. However, if the projected yield is only 3%, then the investment in the option will only half i.e. RM85. Thus, it will reduce the potential upside of the product.

2.	Active Type Products	In a sense, these are similar in nature to the balanced products offered as normal investment products. The difference is that there is a guarantee given that the eventual return of the product will not be negative. We will now expand on each of these approaches. As indicated above, these products are similar in nature to traditional balanced funds. However, rather than trying to outperform a pre-set benchmark, the manager is focused on maximizing absolute returns. The guarantee on maturity of the product is that the return will not be negative. However, the guarantee must come from a third party i.e. not the issuer of the product as required by *Sharī'ah*.

7. Islamic Commodity Funds

An Islamic commodity funds are funds in that have direct holdings in commodities which comply with *Sharī'ah* principles. For example, a gold fund that holds gold bullion would be a true commodity fund.

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

- The 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).
- The commodity traded must be halal i.e. permissible.
- The seller must have physical of the commodity to be sold.
- The price of the commodity must be fixed and known to the parties involved as any uncertainty will renders the sale invalid.

Advantages	Disadvantages
• Good diversification strategy for people with equities and *sukuk* portfolios, because commodities tend to have negative correlation to *sukuk* and equities. • Hedging against the rising inflation, as equities and *sukuk* tend to perform badly during inflation while commodity tends to rise.	• Commodities market is often unstable, and price swings can fluctuate from extreme highs to extreme lows within just a few days. • Fees paid to these types of funds can also be high.

CHAPTER C8: INTRODUCTION TO INVESTMENT-LINKED TAKAFUL

Learning Objectives

To understand the differences between Investment-Linked Takaful and Ordinary Family Takaful plan

Learning Outcome

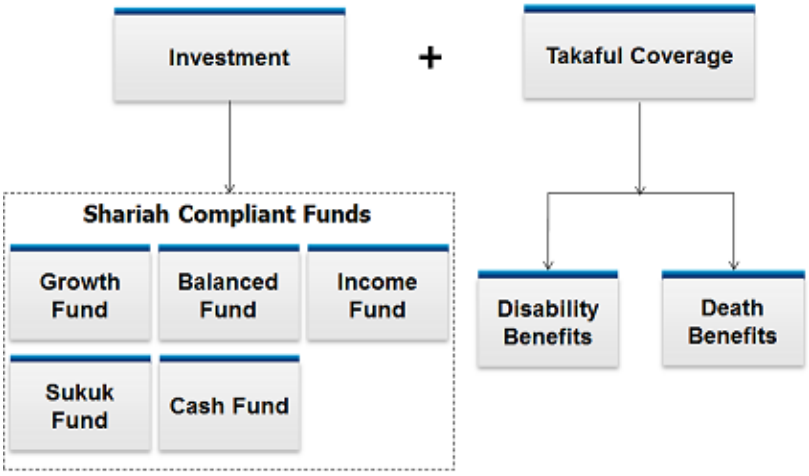
Able to differentiate and explain effectively to customer between Investment-Linked Takaful Plan and Ordinary Family Takaful Plan

C8.1 DEFINITION

Investment-Linked Takaful is a Family Takaful Plan that combines investment and Takaful cover.

Takaful contribution will give participant:

1. A Takaful cover, which includes death and disability benefits, and
2. An investment in a variety of *Sharī'ah*-approved investment funds of his/her choice.



Source: www.insuranceinfo.com.my

Diagram 3 : Composition of Investment-Linked Takaful

ILT provides the option to the Takaful participant to select the investment funds of his choice. The value of investments accumulated under the ILT is linked to the unit price of these investment funds. It must be stressed at the outset that the avenues and modes of investment must be *Shari'ah*-compliant.

C8.2 TYPES OF INVESTMENT-LINKED TAKAFUL PLAN (ILTP)

1. Single Contribution Investment-Linked Plan

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

Contributions	One single lump-sum payment.
Sum Covered	Usually a percentage of the single contribution (usually 125% of the single contribution paid, and is subject to a minimum amount (RM5,000). <u>For sub-standard live & older age</u> Minimum RM5,000 atau 105% of the single contribution, whichever is higher.
Benefit upon Death	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 to provide the investor choice of paying the contribution on regular basis i.e. on monthly, quarterly, half yearly or yearly basis.

Contributions	Monthly, quarterly, half-yearly or yearly
Sum Covered	Usually a multiple of the annual contribution. Based on the BNM latest guideline on investment-linked, the minimum Sum Covered Multiplier (SCM) for regular contribution plan based on individual Takaful Operator practise.
Benefit upon Death	Sum covered plus the value of investment-linked units.

C8.3 EXAMPLE OF INVESTMENT-LINKED TAKAFUL PLAN (ILTP)

1. Investment-Linked Individual Retirement Plan

   The Investment-Linked Individual Retirement Plan is a Takaful plan that is designed to provide a retirement income for life with the freedom to maximize your investment returns. Retirement plan normally requires high allocation from the contribution to accummulate sufficient fund until reaching the retirement age.

2. Investment-Linked Critical Ilness Plan

   The Investment-linked Critical Illness plan is a Takaful plan that is designed to provide a lump sum amount if the certificate owner contracted anyone of the critical illness such as heart attack, stroke, coronary bypass, renal failure, etc.

3. Investment-Linked Education Plan

   The Investment-Linked Education Plan is a Takaful plan specially designed as a savings tool to provide an amount of money when the child reaches the age for entry into college (18 years and above). The funds can be used to pay for child's higher education expenses. Under this plan, the child is the life covered, while the parent/legal guardian is the certificate owner.

C8.4 CHARACTERISTICS OF INVESTMENT-LINKED TAKAFUL PLAN (ILTP)

No	Characteristics
1.	Investment-Linked Takaful Plan has a multiple purpose i.e. it can be used either as an investment, regular saving, protection against total permanent disability and death or health Takaful.
2.	Investment-Linked Takaful Plan's exposure towards equity investment is higher compared to the traditional Family Takaful.
3.	Investment risk is borne by the certificate owner unlike traditional Family Takaful product where investment risk is borne by the Takaful Operator.
4.	Net Asset Value of the fund is subject to the performance of the investment.
5.	Cost of Protection is funded by explicit charges that depend on the age and level of protection is done by canceling the unit in the fund.
6.	Cash Value is the unit value apportioned to the certificate owner which is calculated on bid price.

C8.5 UNIQUE FEATURES OF INVESTMENT-LINKED TAKAFUL (ILT)

Investment-Linked Takaful has the following unique features:

No	Characteristics	Description
1.	Flexibility to choose the level of protection and investment	Investment-Linked Takaful provides the flexibility to choose the sum covered and investment ratio in the annual targeted contribution. It ~~is~~ depends on the needs of the customer. For example, if his needs and objectives are more toward investment, he can choose to lower the protection and increase the investment.
2.	Option to vary the amount of contribution according to changing financial circumstances	Investment-Linked Takaful also offers the flexibility of one time increase in investment portfolio, through top-ups to avail investment opportunity offered by external environment or own income flows.
3.	Option to switch current investment fund to other types of investment funds	Participant can switch his investment out from a sub-fund to another sub-fund, within the same umbrella fund. This allows the investor to take advantage of the market condition.
4.	Option to redeem part of investment-linked units at any point of time	To cope with unforeseen circumstances, the operator may offer the benefit of partial withdrawal. Participant may make withdrawal from the fund, retaining only the stipulated minimum amount.
5.	Freedom choose from a variety of investment funds (equities, *sukuk* or other financial instruments) to invest in	Investment-Linked Takaful offers a complete selection of high, medium and low risk investment options under the same plan. Participant can choose an appropriate option according to risk taking appetite, coupled with the opportunity to switch between fund options without any additional expense for specified number of switches.

C8.6 COMPARISON BETWEEN INVESTMENT-LINKED TAKAFUL VERSUS ORDINARY FAMILY TAKAFUL PLAN

Characteristic	Investment-Linked Takaful	Ordinary Family
Participant's Investment Fund (PIF)	Unitised. The PIF is kept and maintained in the form of units.	The PIF is maintained in the form of currency value.
Investment options	Yes. The participant may select funds of his choice in line with his investment strategy.	No. Investments are at full discretion of the Takaful Operator.
Investment returns and risks	The investment risk is higher and borne solely by the participants. The PIF values vary according to the values of the investment funds. As such, the benefits and risks of ILT accrue directly to the participants and no smoothing is made. The risk or volatility of returns depends on the investment strategy of the fund.	The returns depend on the Takaful operator's overall investment performance. The Takaful operator usually stabilise the investment returns by contributing into reserves in good investment years, and drawing from reserves in bad investment years. Hence investment returns are "stabilised".
Takaful contributions	Flexible. The participants are allowed to change contribution payments, to take contribution holidays and to add contribution top-ups.	Fixed and usually level throughout the period of Takaful.
Fees and charges	All fees and charges are fully disclosed to the participants. Takaful operator may vary some of the charges made under the certificate. If future experience diverges from what had been assumed when the product was priced initially, the Takaful operator may vary the charges. Hence, there is an initial pricing exercise and on-going review, comparing actual experience with what has been assumed.	Fees and charges are fixed throughout the period of Takaful.

Characteristic	Investment-Linked Takaful	Ordinary Family
Death benefit	Variable, based on performance of the investment account but there is a minimum death benefit payable upon the death of the life covered.	Fixed and level.
Death benefit options	Yes, usually two death options are available. Option 1 - PIF values + Sum Participated; or Option 2 - PIF values or Sum Participated, whichever is higher.	No options available.
Cash value	Depends on performance of the investment funds. 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	Most ILT allows partial withdrawal. Two options available: 1) by amount; 2) by number of units.	Some products allow partial withdrawal. Withdrawal is made by percentage/amount.
Contribution top-ups	Available on a regular basis as well as single top-up.	Not available.
Lapse risk	There is a potential risk of being lapsed if the PIF value~~s~~ is insufficient to pay for the *tabarru'* (risk charges), even if the participant pays his regular contributions on schedule.	If the contributions are paid on schedule, the certificate will not lapse.

C8.7 BENEFITS

No	Benefit	Description
1.	Diversification of Fund	The investment-linked funds are actively managed and invested in a diverse range of asset allocation, which individual investors without enough capital can hardly match. Investment-linked funds, similar to unit trust funds can be invested in a well-diversified portfolio of assets such as equity, *sukuk*, currency, properties, cash and deposits etc. This enables an investor to hold a diversified portfolio irrespective of his invested amount which the investors are unable to construct if they want to invest on their own.
2.	Diversification of Risk	As investments are made in well-diversified portfolios, the risk of investing directly in one or two shares or other debt instruments also gets reduced. Any loss in particular company or sector gets off-set by gains made in other companies or sectors.
3.	Dollar Cost Averaging	This allows an investor to invest regularly with whatever small amount one can invest, without worrying to time the market. Instead of investing assets in a lump sum, the investor works his way into a position by slowly buying smaller amounts over a longer period of time. This spreads the cost basis out over several years, providing insulation against changes in market price.
4.	Professional Management	Takaful Operators are highly regulated by Bank Negara Malaysia for the protection of the investing public. Their fund managers are professionals who have got the expertise, skills and resources of managing the money as well as technical tools and the much-needed research works behind them. The Takaful operator may also appoint registered investment advisers for its portfolio management.
5.	Reduced Transaction Costs	When investor invests directly, the investor has to bear all the costs such as brokerage or custody of securities. However, under investment-linked fund, the investor will reduce the cost because the funds enjoy

		"Economies of Scale", as the funds pay lesser costs due to large volumes transacted.
6.	Liquidity	Investment link like unit trust funds are highly liquid. Investors can withdraw their investment anytime. Net asset value (NAV) of the investment-linked fund is calculated and announced once at the end of the trading day based on the value of a portfolio's underlying securities. Normally prior day NAV is applicable for withdrawal application received before a cut off time.
7.	Wide Investment Objectives	The investor can opt for growth or dividend options from the same scheme of an investment-linked fund. If the investor intends to accumulate wealth, the investor may select the growth option and if the investor needs regular income out of the investment and can choose the dividend option.
8.	Various Services	Takaful Operators normally provide various services such as the following: a. Switching Participants can easily switch their investment from one fund to another depending on the market situation or their risk appetite. b. Top Up Option Participants have the option to top-up his investment to increase the investment portion to generate more return. c. Easy Accessibility of Fund Price in Media The participant can access the fund price in media like major daily newspaper, Takaful operators' website and financial magazines.

C8.8 RISK OF INVESTMENT

No	Risk	Description
1.	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 diversification of the fund's investments into different types (equity or non-equity etc.) and with different investment policies and strategies may help to mitigate its exposure to market uncertainties and fluctuations in the market.
2.	Liquidity Risk	Liquidity risk is the risk that the security/instrument invested in cannot be readily sold and converted into cash. This can occur when trading volume for the security is low and/or when there is a lack of demand for the security. In managing liquidity risk, the fund will employ liquidity or volume-traded analysis on primary and secondary markets for all security types. Where applicable, a fund will look into the historical volume transacted for the securities in question. Thereafter, the appropriate asset allocation can be made for each security with regard to reducing liquidity risk to a comfortable level in relation to the security's risk-return profile.
3.	Profit Rate Risk	Profit rate risk arises from the potential fluctuating values of profit-bearing assets, such as a financing or a *sukuk*, due to changes in profit rates, which in turn may affect the unit prices of the funds with *sukuks* as its underlying assets. In general, when profit rates rise, the price of *sukuk* will fall. This risk can be reduced by diversifying the durations of the Islamic income investments held at a given time.
4.	Credit/ Default Risk	Credit/default risk is the risk of losses from non-repayment of a financing or other line of credit (either the principal or profit or both). The risk is reduced by investing in high quality securities as these generally have a lower degree of credit risk.

5.	Investment Risk	This is the risk associated with investing in a particular asset. All investment assets carry risk albeit different investment assets have different level of risks. The value of an investment depends on its growth and earnings potential, sound management, as well as a myriad of other factors. Failure to achieve the expected earnings would result in declining investment value which in turn affects the performance of the fund. This could be minimized by diversifying a fund's portfolio. The manager will employ stringent selection criteria which would effectively filter its investment components to manage downside risk.
6.	Risk of Reclassification of *Sharī'ah* Status	It refers to the risk that arises from potential revision on the status of the the currently held *Sharī'ah*-compliant securities in the fund may be reclassified to be *Sharī'ah* non-compliant in the periodic review of the securities. If this occurs, then the value of the fund may be adversely affected where the manager will take the necessary steps to dispose of such securities in accordance with the fund's *Sharī'ah* compliant mandate. This risk may be mitigated by conducting periodic review by *Sharī'ah* Compliance Department (SCD) and *Sharī'ah* Committee (SC) of Takaful Operator.
7.	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.
8.	Currency Risk	Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital especially when investing in non-ringgit denominated unit trust funds. To mitigate risks, investments should be limited in a few countries so that the currency risk to a specific country is minimized. In addition, currency hedging may be applied to mitigate the risks.
9.	Country Risk	If the fund is investment in a specific country, the investments may be affected by risks specific to that country in which investments are made such as changes in a country's economic fundamentals, social and political stability, currency movements, foreign investment policies and etc. This risk may be mitigated by conducting thorough research on the respective markets, their economies, companies, politics and social conditions as well as minimizing or omitting investments in such markets.

CHAPTER C9: STRUCTURE OF INVESTMENT-LINKED TAKAFUL

Learning Objectives

To understand the basic structure of Investment-Linked Takaful plan.

Learning Outcome

Able to explain the basic structure of Investment-Linked Takaful plan to customers.

C10.1 INTRODUCTION

Contribution paid by the participant will be invested according to his written instruction. Investment-linked funds can be structured into two ways:

1. Accumulation units
2. Distribution units

C10.2 STRUCTURE OF INVESTMENT- LINKED FUND

1. Accumulation Units

   Under this structure, investment return is retained within the fund. As a result, the net asset value of the fund will increase over the long term.

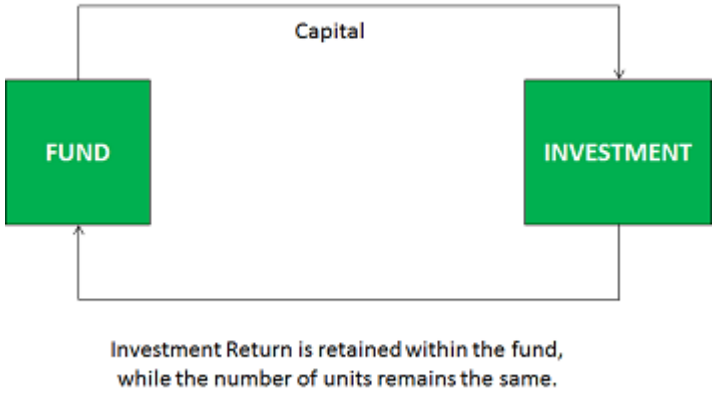


Diagram 4: Structure of Units Accumulation in Investment-Linked

2. Distribution Units

Under this structure, the investment income will be utilized to purchase additional units. The fund will then distribute the units to the certificate owners. Certificate owners will have more units but the net asset value will remain unchanged.

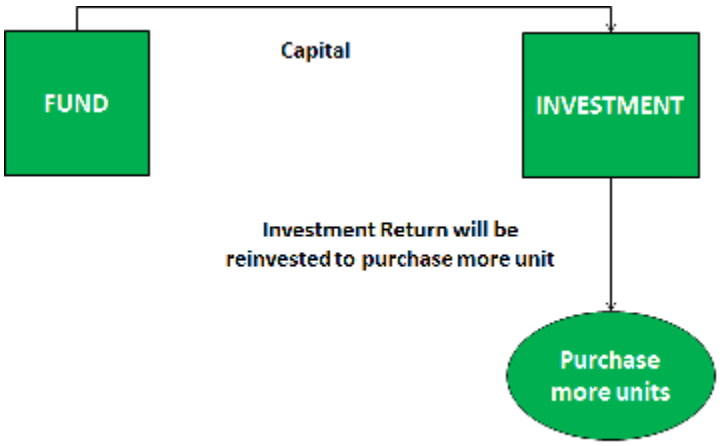


Diagram 5 : Structure of Units Distribution in Investment-Linked

C9.3 TYPES OF INVESTMENT-LINKED FUNDS

For their investment portfolio, the participants have a choice of funds to invest in depending on their risk appetite. Investing in an Investment-Linked Takaful means the participant buys units in a fund. The value of the units is linked to the performance of the underlying investments of the fund which can fluctuate. All investment funds behave in different ways and can be grouped into categories known as asset classes, for example, income, balanced, growth, property and sukuk. Different asset classes present different risks.

It is important that the participant select an investment fund that reflects the level of risk that he is comfortable with, as the investment risk will be borne solely by him.

1. Cash Fund

Objective	The Fund seeks to provide investors with a regular income stream and high level of liquidity to meet cash flow requirements while maintaining capital preservation.
Investment Strategy	The fund shall invest in Islamic money market instruments, including Islamic deposits, Islamic Negotiable Instruments and Islamic Accepted Bills.
Level of Risk	Very low.

2. Income Fund

Objective	The fund's primary objective is to provide a high level of current income consistent with preservation of capital.
Investment Strategy	The fund may invest in invest in a multitude of *sukuk*, either issued by the Malaysian Government or private companies.
Level of Risk	Low.

3. Balanced Fund

Objective	The primary objective of long term growth of capital and a reasonable level of income for investors.
Investment Strategy	The fund may invest in both equity and fixed income securities.
Level of Risk	Medium.

4. Property Fund

Objective	The primary objective is to provide the investor with a high income and long term capital appreciation.
Investment Strategy	The portfolio may invest in real estate securities and property securities, property related securities and participatory interests in collective investment schemes in property listed on exchanges, non-equity securities and assets in liquid form.
Level of Risk	Medium.

5. Managed Fund

Objective	The primary objective of the fund is to offer investors moderate to high long term total returns.
Investment Strategy	The portfolio may invest in multitude of asset classes such as shares, property and *sukuk.*
Level of Risk	High.

6. Growth Fund

Objective	The primary objective of the fund is long-term capital growth.
Investment Strategy	The fund may invest in invest in a portfolio of mixed assets. However, due to its relatively aggressive nature, the fund will be investing in a portfolio of growth biased equities to achieve capital growth.
Level of Risk	High.

7. Specialized Fund

Objective	The primary objective of the fund is to provide investors with capital appreciation through investment in a specific industry or sector.
Investment Strategy	The fund shall focus on nontraditional asset classes that allow investor to potentially gain exposure to very narrow segments of the market or very specific investing methodologies.
Level of Risk	Very high.

C9.4 RISK-RETURN TRADE OFF

Risk-return trade-off is defined as the principle that potential return rises with an increase in risk. Low levels of uncertainty (low-risk) are associated with low potential returns, whereas high levels of uncertainty (high-risk) are associated with high potential returns. According to the risk-return tradeoff, invested money can render higher profits only if it is subject to the possibility of being lost.

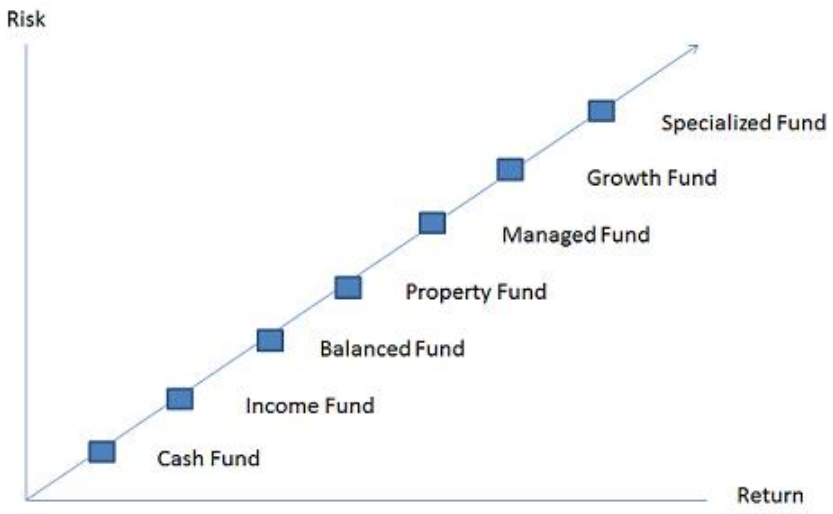


Diagram 6 :Risk Return Trade-Off

C9.5 FUND SWITCHING

Fund switching is defined as an investment activity in which units from one fund are sold and the proceeds from the sale are reinvested in another fund. It results from an investor's changed perception of investment opportunities. It may also result from an investor's change of risk profile.

The practice of switching differs from one Takaful Operator to another operator. Some of the options offered in the market:

1. Takaful Operator offers free of charge for any switching during the year.

2. Takaful Operator offers free of charge for a limited number of switches within a given period. For example, free of charge for the first switch each year. The subsequent switches will be charged.

3. Takaful Operator charge for each and every switch.

CHAPTER C10: HOW INVESTMENT-LINKED TAKAFUL PLAN WORK

Learning Objectives

To understand how Investment-Linked Takaful plan works.

Learning Outcome

Able to provide an efficient advice in respect to how an Investment-Linked Takaful Plan works for customers.

C10.1 THE WORKING 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:

Fund value	-	RM10,000,000
No. of units	-	10,000,000
Thus, value per unit	-	RM10,000,000/10,000,000 units
	=	RM1.00

What happen if the fund value increase from RM10 million to RM15 million with the same number of units?

Calculation

Fund value	-	RM 15,000,000
No. of units	-	10,000,000
Value per unit	-	RM15,000,000/10,000,000
	=	RM1.50

2. Investment

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 unit at the last declared unit price.

The number of unit purchased will be calculated as follow:

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

Example:

Monthly contribution	-	RM200
Unit price	-	RM1.25
Certificate charge	-	5%

Calculation

Certificate charged	-	RM200 x 5%
	=	RM10
No of unit purchased	-	(RM200 minus RM10)/RM1.25
	=	152 units

3. Protection

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

Example:

Monthly *Tabarru'*	-	RM125
Unit Price	-	RM1.25
No of unit to be redeemed	-	RM125/RM1.25
	=	100 units

4. Cash Value

Cash value of the fund will be calculated as follow:

(No. of Units x Unit Price) – (Mortality Charges + Certificate Fee)

Example

Number of units	-	10,000
Unit price	-	RM1
Tabarru' charge	-	1%
Certificate fee	-	RM 100
Tabarru' charge	-	(10,000 X RM1 X 1%)
	=	RM100
Cash value	-	(10,000 X RM1) - (RM100 + RM100)
	=	RM10,000 - RM 200
	=	RM9,800

C10.2 TOP-UPS

Participant can make top-up anytime during the duration of the contract. Top-up will be used to purchase additional units (after deducting top-up fee).

There will be no appropriation to the Participant Special Account (*tabarru'*).

C10.3 SINGLE CONTRIBUTION CERTIFICATE – METHODS OF CALCULATING BENEFITS

Based on the Guideline on Investment-Linked Takaful Business BNM/RH/GL 010-15 issued by Bank Negara Malaysia in 2010, the benefit under single contribution:

- RM 5,000 or 125% of the single contributions, whichever is higher.
- For older ages and for substandard lives, subject to a minimum of RM 5,000 or 105% of the single contributions, whichever is higher.

C10.4 CONTRIBUTION HOLIDAY

After the ILT certificate has been in force for a specified period the participant may request for the 'contribution holiday' facility where the participant does not need to pay his regular contribution for a certain period. The contribution holiday is usually allowed for a period depending on the PIF values accumulated. 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 fees and 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. Once the automatic deduction is in effect, Takaful Operators shall remind participant that riders are on automatic deduction mode in the annual statements to participant and highlight the possible consequences of continuing with such deductions. Takaful Operator is also required to provide advice on the options available to the participant for example reducing/terminating the coverage of the riders.

C10.5 WITHDRAWAL BENEFIT

The Participants may request a partial cash withdrawal at any time before maturity of their Certificate. They have the flexibility to withdraw their investments at any time to accommodate their varying financial needs at different life stages.

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

1. No. of Units

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

Example:

No of Unit	-	1,000 units
Unit Price	-	RM1.50

Thus, withdrawal amount is

1,000 units x RM1.50	=	RM1,500

2. Fixed Monetary Amount

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

Example:

Amount Withdrawn	-	RM2,000
Unit Price	-	RM1.20

Thus, unit to be sold is

$$\frac{\text{RM2,000}}{\text{RM1.20}} = \text{RM1,666}$$

C10.6 SURRENDER VALUE

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

C10.7 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.

C10.8 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. This will protect the participant should mis-selling happened at the point of sale.

The BNM 'Guidelines on Product Transparency and Disclosure', Schedule IV Para. 4.2b, prescribes that at the time of entering into a contract, the participant should be informed of the free-look period.

The BNM 'Guidelines on the Investment-Linked Insurance/Takaful Business' stipulates:

If a certificate is cancelled within the 15 days free-look period, the Takaful Operator shall refund:

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

The above guideline is in line with the provision of the IFSA 2013, Schedule 8 Para. 2.

C10.9 DEATH BENEFIT

There are 2 types of death benefits:

1. Unit Value plus Sum Covered

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

C10.10 SURPLUS DISTRIBUTION

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

This surplus sharing will be only paid if the participant does not make a claim during the period of Takaful. The surplus will be used to buy investment-linked units and be credited into the existing funds selected by the participant in their respective percentage. There is no deduction for allocation charges applicable.

C10.11 FUND PERFORMANCE REPORT AND STATEMENT TO PARTICIPANTS

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

Takaful Operators are also required to provide to each participant 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 where more frequent statements are provided. Each transaction during the period should be reported individually, together with the date on which the individual transaction occurred.

CHAPTER C11: TAXATION AND LAW COVERING INVESTMENT-LINKED TAKAFUL PLAN

Learning Objectives

To conversant with the relevant taxes and laws affecting the Investment-Linked Takaful.

Learning Outcome

Able to recognize the taxation and laws covering the Investment-Linked Takaful.

C11.1 INTRODUCTION

Taxation is one of the key considerations for the prospective investor before the investor can make any decision on the investment. Participant must also understand the provisions as per provided in the Islamic Financial Services Act 2013 and the guidelines issued by Bank Negara Malaysia.

C11.2 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.

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.

The maximum amount of relief for an ordinary Family Takaful is RM6,000 per year less any contributions paid to retirement benefit schemes i.e. Employees Provident Fund. For Medical and Education Plans, the tax relief is RM3,000 per year. Contribution paid by the participants is therefore deductible against income for the purpose of income tax.

Unlike unit trusts, Takaful Operators do not have the exemptions on gains of a unit from the realization of an investment. However, Takaful Operators are taxed at lower rates i.e. 8% on the chargeable income and realized capital gains of a Family Takaful fund. Since the surpluses generated from writing the Investment-linked Takaful products are already taxed at the Takaful

Operator level, the proceeds distributed to participants of Investment-Linked Takaful are tax-free.

When a certificate matures or when it is paid upon occurrence of covered event, it becomes a capital receipt, not an income. Thus, it is not taxable since there is no capital gain.

C11.3 LAW COVERING INVESTMENT-LINK TAKAFUL PLAN

In Malaysia, the regulation of Takaful business is achieved through the administration and its enforcement of the Islamic Financial Services Act 2013. The enforcement of the Act is carried out by the Governor of Bank Negara Malaysia.

The main purposes of regulation include:-

1	Protection of Public Interest	To ensure Takaful Operator is financially solvent and is able to meet its obligations to its certificate owner and claimants.
2	Promotion of Fairness and Equity	To ensure Takaful Operator, brokers and adjusters (collectively known as licensees under the Act) are fair and equitable in their dealings with their clients and claimants.
3	Fostering of Competence	To instill high level of professional competence and integrity among Takaful Operator, brokers and adjusters.
4	Playing a Developmental Role	Encourage the Takaful industry to take an active part in the economic development of the country.

The Islamic Financial Services Act 2013 sets out the broad standards and policies, leaving the detailed requirements to be prescribed by regulations or specified by way of guidelines, circulars and codes of good business practice.

Latest guideline on Investment-Linked Insurance/Takaful Business BNM/RH/GL 010-15 issued by Bank Negara Malaysia in 2010 and took effect from November 12, 2010.

Following are the pertinent areas of the guideline related to the Takaful agents:

No	Characteristics	Description
1.	Age Limit of Certificate Owners	The participant of an Investment-Linked Takaful Plan must be at least 18 years old. This is imposed for Investment-Linked Takaful business in view of the need to confine the sale of such plan to individuals who are mature enough to make an evaluation of the investment risks involved and make sound investment decisions.

2.	Free Look Provision	A participant shall have 15 calendar days from the date of delivery of the certificate to examine its terms and conditions. A participant may terminate the certificate within the 15-days free look period and shall be immediately refunded any contribution paid in respect of the certificate.
3.	Minimum Death Benefit	Investment-Linked Takaful product shall provide for minimum death benefits (excluding riders) as follows: a. for single contribution certificates - RM5,000 or 125% of the single contributions, whichever is higher; and b. for regular contribution certificates - RM5,000 or the prevailing multiple of annual contributions, whichever is higher. Takaful Operators may provide death benefits lower than the minimum specified above for older ages and for substandard lives, subject to a minimum of RM5,000 or 105% of the single contributions, whichever is higher.
4.	Minimum Contribution Payment	Single contribution plan must at least have a minimum contribution of RM3,000. This is to ensure a meaningful level of investment outlay for the benefit of the participant.
5.	Intermediation	Only agents and other intermediaries of Takaful Operators, who have passed the Takaful Basic Examination, or its equivalent, are allowed to market investment-linked Takaful products.
6.	Disclosure of Information	Sales Materials/Illustrations The sales/marketing illustration must meet the minimum content and other disclosure requirements specified in the Code and Guidelines on Family Takaful Products. In addition, the sales/marketing illustration for an Investment-Linked Takaful certificate shall also comply with the format provided in the Guidelines.

CHAPTER C12: IDENTIFYING AND ESTABLISHING CUSTOMER NEEDS

Learning Objectives

To recognize the importance of correctly identifying and establishing customers' needs.

Learning Outcome

Able to carry out the duties of identifying necessary recommendations in meeting customers' needs.

C12.1 INTRODUCTION

Takaful agent is facing new challenges which are very different as compared previously. The new financial landscape has made everyone more cautious before making any investment decision.

In order to identify and establish a customer's needs an agent is required to apply the relevant knowledge and understanding of Family Takaful coverage and scope. The agent is also expected to be conversant in the practice of giving financial advice in order to meet such needs.

The structured process of providing advice involves the following steps:-

1. Establishing and defining the client-agent relationship;
2. Gathering all relevant financial data, including goals;
3. Analyzing and evaluating the client financial status;
4. Developing and presenting recommendations;
5. Implementing the recommendations;
6. Monitoring the decisions made.

C12.2 ESTABLISHING AND DEFINING THE CLIENT-AGENT RELATIONSHIP

The foundation for successful Takaful sales is trust and if the prospect does not trust an agent, it will be very difficult to close the sale. Building a circle of trust is an essential part of client engagement for any successful and profitable Takaful professional.

Agents have to begin this process by establishing a relationship with their prospective clients. Establishing a trusting relationship will help the client gain confidence in their agents and subsequently discuss their financial needs.

The agent has to convince the client that he is in a position to assist in fulfilling the client's financial goals. This is an important step. The agent must ask the right questions to find what they are looking for, their current and future needs, in order to gain their confidence.

Such confidence will naturally position the agents as a trusted advisor whom they can rely to recommend the right product for the right reasons. In the end, the agent will have essentially built a group of quality prospects.

C12.3 GATHERING ALL RELEVANT FINANCIAL DATA INCLUDING GOALS

The next step is for the agent to gather all relevant data that will assist in analyzing what is needed in planning for the client. The agent has to conduct a thorough "fact-find" exercise and obtain all relevant data to enable him to move to the next step. The agent should ask for information about the client financial situation, personal and financial goals, and understand the client's time frame for results and discuss how this can be achieved.

Current practices have made it mandatory for agents to fill up the Customer Fact Find Form before submitting a new business proposal to Takaful Operator. The Customer Fact Find Form is an important document and it helps the agent obtain all the relevant information about the client to ascertain the client's financial situation and also to establish the client's needs.

The Customer Fact Find Form addresses the following areas:-

- Customer's Personal and Dependents details;
- Life and Financial Priorities and Goals;
- Risk Profile;
- Net Worth Analysis;
- Cash Flow Analysis;
- Recommendations and Record of Advice.

The above information will allow the agent to build a clear understanding of the customer's present situation and help the agent to formulate recommendations to achieve the customer's financial goals and objectives. The intermediary is also expected to maintain a systematic record- keeping of all the client's information and data as this is a long term contract.

C12.4 DEVELOPING PLANS AND STRATEGIES TO MEET THE GOALS

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 the goals. The analysis will provide recommendations that will satisfy the client's need in areas like;

- Adequate and sufficient coverage;
- Planning for children's education;

- Retirement planning;
- Asset accumulation;
- Estate planning.

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.

C12.5 DISCUSS POSIBBLE RECOMMENDATIONS

Once the plan has been developed, the agent will have to sit and discuss in detail, the plan with the client for a fine tune-up. The agent should offer a recommendation that addresses the client's goals, based on the information gathered. The agent should go over the recommendations with the client to ensure the client understands and subsequently able to make informed decisions. The agent should also listen to the client's concerns and revise the recommendations as appropriate.

Every client is different, so if an agent is thinking of duplicating one plan for multiple clients, then he is wrong. A plan that has been developed is unique only to a particular client and the agent must understand this.

C12.6 IMPLEMENTING THE RECOMMENDATIONS

The client and agent should agree on how the recommendations will be carried out. The agent may carry out the plan and put into effect all the recommendations as discussed and any changes to the amount of cover or contribution must be communicated to the client before it is put through.

C12.7 MONITORING THE RECOMMENDATIONS

Monitoring the recommendations that have been implemented is a very important function in an agent's scope of work. Regular monitoring must be done and the client should also be informed on the progress of such activities.

As we are dealing with Investment-Linked Takaful products, the operators are required to send a quarterly or yearly report to the client about the performance of the funds invested. The agent must be sure that the client gets these reports and also be at hand to help explain the report. The agent is also obligated to ensure that the funds growths are in tandem with the initial objectives established. The agent must assist the client to make the necessary switching and adjustments to ensure that the client gets the best returns from the certificate.

Agents must commit themselves to do a certificate review on a half yearly or yearly basis. Ad hoc reviews can also be done if there is a special need form the client or if there is a major change that might have happened to the client's investment account.

It is good to do these regular reviews as this will also be an avenue for the agent to obtain quality referrals from the clients to further expand their business. It also allows the agent to cross sell other Takaful related products whilst conducting these reviews.

CHAPTER C13: FAMILY TAKAFUL PRACTICES: MARKETING AND SERVICES, ETHICS AND CODE OF CONDUCT

Learning Objectives

To understand the importance of marketing & services and ethics & code of conduct relevant for Family Takaful agents.

Learning Outcome

Able to explain the practices of marketing & services and observe the ethics & code of conduct for Family Takaful agents.

C13.1 INTRODUCTION

The issues about ethics and Code of Conduct for agents have been an on-going concern for all stakeholders since the first Takaful Operator started operations way back in the mid-1980s. The growth of this industry has been nothing but impressive, out-performing their conventional counter parts consistently in the past ten years.

As the market is becoming more competitive due to new entrants, Takaful Operators are finding new ways and means to increase the penetration rate in Malaysia. And one of the strategies has been to improve and develop the skills of their agency force through intensive training on Marketing and Services as well as their understanding and observing a higher degree of ethics and Code of Conduct. The impact of a better agency force can create a positive and long-term impression, thus making it easier for Takaful products and services to flow.

C13.2 MARKETING

As beginners in this challenging industry, an agent needs to have their building blocks in place before they can give their career a good start. And the following information is indeed a 'must know' in their goody bag when facing their prospective clients:

1. Introduction

   The following general terminology must be understood and it means as follows:

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

      i. Home Service;
      ii. Ordinary Family;

iii. Annuities;
iv. Pension Scheme;
v. Investment-Linked Takaful;
vi. Permanent Health Takaful.

b. The Code applies to all intermediaries, i.e. all persons, including 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.

The Audit/Disciplinary Committee of the Takaful Operator is responsible for monitoring compliance by Family Takaful intermediaries. The Committee is also responsible for the submission of the quarterly report to Bank Negara Malaysia on breaches observed in a quarter and the corrective or punitive actions taken.

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.

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 and show the Registered Intermediary Authorisation Card;
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, 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 Operators;
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 practise Replacement of Certificate or otherwise known as 'twisting'. The member companies have also agreed to cooperate to eliminate this practice. In the event 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 made paid-up and then to effect a new one with another Takaful Operator or the same Takaful Operator.

The disadvantages to the client arising from Replacement of Certificate are:

a. Every time a participant moves the basic coverage from one Takaful Operator to another, the participant's certificate must commence again the qualifying period (usually two or three years) before the new contract will become eligible for a surrender value and come under the non-forfeiture mode.

b. The annual contribution under an existing certificate may be lower than the new one with similar benefits. Any replacement of the same type of certificate will normally be at a higher contribution rate based upon the participant's then attained age.

c. Since the initial costs of Family Takaful certificates are charged against the cash value in the earlier certificate years, the replacement of an old certificate with a new one results in the participant sustaining the burden of these costs twice.

d. The suicide clause and the incontestable clause (if any) starts all over again with the new certificate but which would have been paid / eligible under the certificate that was replaced.

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 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".

c. Where projected benefits are illustrated, it should be made clear that they are based on certain assumptions, and hence are not guaranteed, and these 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 up or down 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 on obtaining the completed proposal form or any other material:-

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 business concluded.

C13.3 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 business be operated and administered with the highest degree of integrity and ethics.

   b. It is a business 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.

   In pursuance of the above objectives and philosophy, the Takaful industry has endeavored to codify the ethics to provide guidance to those employed in the industry to promote and maintain uniform ethical standards, and to uphold the trust and welfare of participants at all times.

   The sections that follows provide summaries of the codified ethical rules which the **employees** of the Takaful Operator are expected to abide by at all times.

2. Coverage

   The guidelines cover all employees of the Takaful Operator undertaking business in Malaysia. The guidelines set out the minimum standards of conduct expected of all employees of the Takaful Operator. Takaful Operators, if they so desire, are free to formulate more comprehensive sets of rules for maintaining ethical standards amongst their employees.

3. 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 employees (existing and upon appointment in the case of new employees) to sign a declaration to observe the guidelines.

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

c. 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.

d. breaches observed are to be reported to an Audit / Disciplinary committee which reports directly to the Management Committee of MTA. In addition, the committee is required to submit quarterly reports to Bank Negara Malaysia, on breaches observed and the actions taken on these, during the quarter.

e. maintain centralised records of breaches.

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

C13.4 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 mandatory minimum training of 20 hours for Family Takaful and 12 hours for General Takaful within the first 6 months of appointment.

  For Family Takaful Agents:

Agency Level	Requirements
Agents	a. 30 CPD hours every year b. Including 30 training hours for Leadership Agency Management Program (LAMP)
Unit Managers	a. 30 CPD hours every year b. Including 30 training hours for LAMP
Agency Managers	30 CPD hours every year
Financial institution employees	30 CPD hours every year
Financial institution employees marketing mortgage reducing term Takaful and other credit-related products	8 CPD hours every year

Agents / Career Agents / Unit Managers / Agency Managers / Financial institutions employees who promote Investment-Linked Takaful	Minimum 5 CPD hours every year (will form and credited as part of the minimum 30 CPD hours as mentioned in the Balance Score Card (BSC)* requirement) **BSC refers to Chapter A6*

C13.5 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).

a. To avoid conflict of interest;
b. To avoid misuse of position;
c. To prevent misuse of information;
d. To ensure completeness and accuracy of relevant records;
e. To ensure confidentiality of communication and transactions between the Takaful Operator and its participants and clients;
f. To ensure fair and equitable treatment of all participants and others who rely on or who are associated with the Takaful Operator; and
g. To conduct business with the utmost good faith and integrity.

C13.6 COMMISSION WITHIN *WAKĀLAH* FEES AND ITS DISCLOSURE

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

Commission limits for Takaful agents post-BSC implementation from 1 January 2018 and thereafter are stipulated as below:

1. Ordinary Family Takaful products with contribution paying term of 20 years or more:

Certificate Year	Maximum % of annual contribution	
	Basic Commissions for Ordinary Agents/Corporate Agents	Overriding Commissions for Agency Leaders
1	40%	25%
2	30%	10%
3	20%	6%
4	15%	5%
5	10%	-
6	10%	-
Total	**125%**	**46%**

2. The maximum percentage of commissions (including overriding commission, if any) on single contribution ordinary Family Takaful products shall be 10% of the single contribution.

3. Investment-Linked Takaful products with contribution paying term of 20 years or more:

Certificate Year	Maximum % of annual contribution
	Basic and Overriding Commission (including production and persistency bonus)
1	40%
2	40%
3	25%
Total	**160%**

4. The maximum percentage of commissions (including overriding commission, production and persistency bonus) on single contribution Investment-Linked Takaful products and top-up contribution shall be 3.75% of the single contribution.

5. The maximum percentage of commissions (including overriding commission) on deferred annuity Takaful products shall be 3% of the annual or single annuity contribution.

6. These table of commissions may vary according to BSC application by respective Takaful Operators.

C13.7 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, perhaps by a few participants. Due to these and possibly other reasons, the Statement of Practice is not made mandatory.

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 proposal form, the client/proposer must also sign the “Customer Fact-Finding” 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 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.

C13.8 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.