

PRINCIPLES & PRACTICES OF **TAKAFUL**

1st Edition
Polytechnic Module

AHMAD YUSRI ABD NASIR
NOR IZZATI HAJI HASAN

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OF
TAKAFUL

1ST EDITION
POLYTECHNIC MODULE

AHMAD YUSRI ABD NASIR

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This book belongs to...

NAME

MATRIX NO.....

PROGRAMME / CLASS

PRINCIPLES & PRACTICES OF TAKAFUL

1ST Edition

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We also would like to thank our beloved parents, families and colleagues for giving us their supports all the time. We are very grateful for the prayers from both our families and friends. This piece of victory is dedicated specially to them. May Allah SWT bless all of you and grant with the best of life in this world and the hereafter.

Upon completion of this course, students should be able to get a clear understanding on the nature of Islamic Muamalat, Islamic Insurance (Takaful) and the differences between Takaful and Conventional Insurance in Malaysia. On top of that, students are able to describe and explain regarding on the legislation and supervision of Takaful and the structure of Takaful market in Malaysia as well as the types of Takaful products offered in current market.

Thus, we believe that with the earnestness to seek knowledge and study aided by this reference book, hopefully students would gain required knowledge and understanding smoothly and seamlessly in addition to succeeding with excellence in the process of graduating. Any suggestions and recommendations for improvement are highly welcome.

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CHAPTER 1

INTRODUCTION TO SHARIAH AND MUAMALAT

Learning Objectives

By the end of this chapter, students should be able to:

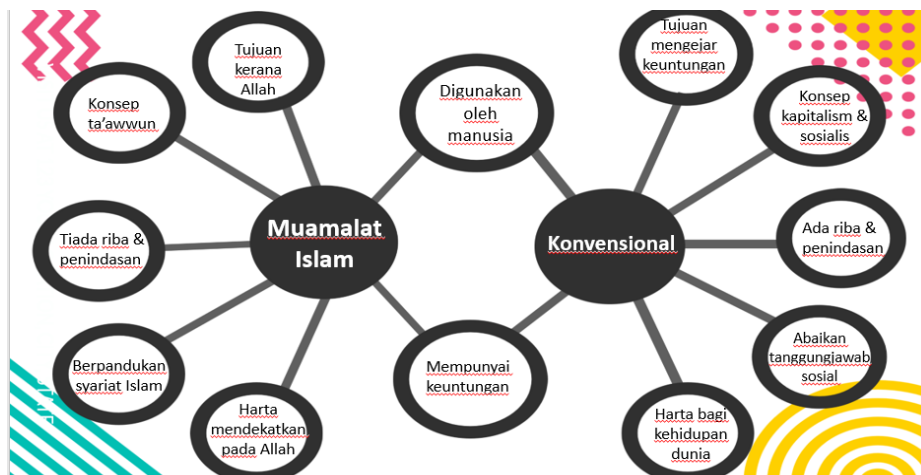
1.1 Explain the basis of Shariah and Muamalat

1.1.1 Identify the basis of Shariah

- concept of Shariah
- sources of Shariah
- Maqasid of Shariah

1.1.2 Identify the basis of Muamalat

- basic principle forming shariah ruling in Muamalat
- prohibited elements in Muamalat
- concept of contract in Muamalat



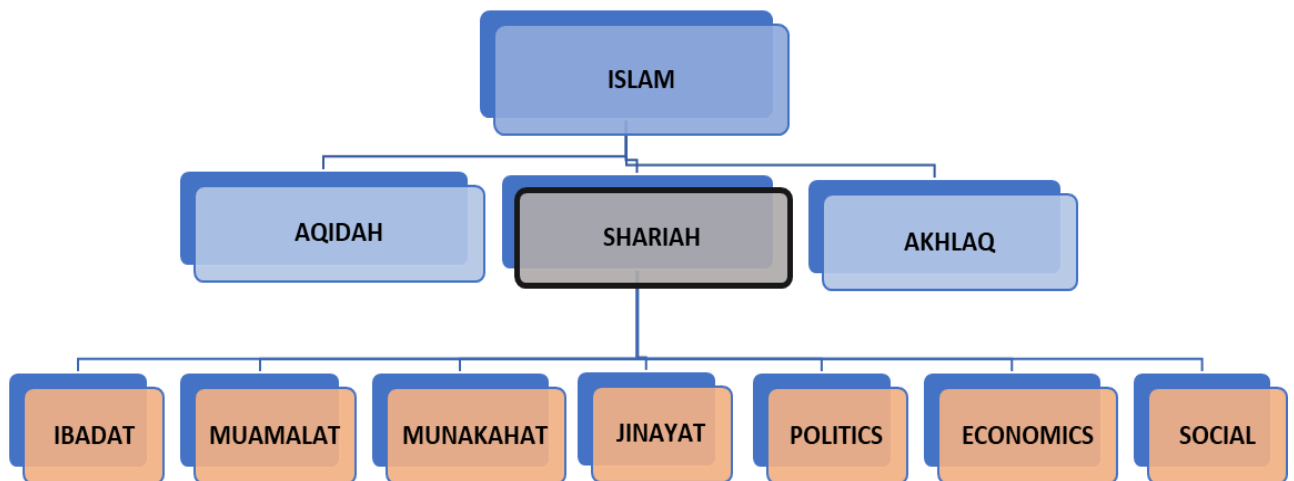
1.1 EXPLAIN THE BASIS OF SHARIAH AND MUAMALAT

1.1.1 IDENTIFY THE BASIS OF SHARIAH

What is Shariah?

- Shariah is derived from the root shin ra ‘ayn which **literally** means the road to the watering place or the straight path to be followed. As a **technical** term however, the word Shariah was defined by al-Qurtubi as “the canon law of Islam, all the different commandments of Allah to mankind.” In Islamic terminology, it means the legal system of Islam. Therefore, we can translate the word *shari’ah* as the laws of Islam or the **Islamic laws**.
- Some scholars defined this word as “the injunctions revealed to the Prophet’s of Allah related to law or belief.”
- In addition to the above definition, some scholars confined shariah to its linguistic meaning by saying that this word means, following strictly the injunctions of Allah or the way of Islam (*din*).
- The shari’ah is a complete way of life; no aspect of human life is outside its domain. Islam expects a Muslim to follow its laws in every aspect of life: personal and familial, religious and social, moral and political, economic and business, etc. After all, "Muslim" means one who submits to God.
- Shariah is a God-made law
 - Law from the creator
 - God as the creator of man and earth know better how the human being should live
- God-made laws are superior because of the following facts:
 - ✓ God is above class status
 - ✓ God is above racial prejudice

- ✓ God is above the general rivalry
- ✓ God as the creator, fully knows the humans as well as the world in which they live



Broken down to its bare elements, Islam comprises of Aqidah (a set of beliefs), Shariah (a set of laws) and Akhlak (a code of moralities).

- **AQIDAH** means a set of beliefs. From the Islamic point of view, Aqidah means strong belief in Allah s.w.t, His Prophets and the hereafter, also belief in the angels, the holy books and predestination.
- **SHARIAH** or Islamic law is also known as Fiqh . Fiqh is Islamic jurisprudence. Fiqh deals with the observance of rituals, morals and social legislation in Islam. Branches of Fiqh includes Ibadat, Muamalat, Munakahat and Jinayat.
- **AKHLAQ** is a term referring to the practice of virtue, morality and manners in Islamic theology and falsafah (philosophy). It refers to one’s disposition, nature, temper, ethics, morals or character (of a person). Akhlaq covers all aspects of Muslim behaviour, attitude and work ethics which influence his acts.

Branches of Syariah/Fiqh	Scope
Ibadat	<ul style="list-style-type: none"> • Rules of Worshipping • Ritual purification, prayer, pilgrimage, fasting, zakat, jihad etc
Muamalat	<ul style="list-style-type: none"> • Trade and commercial law • Rules relating to commercial/business transaction • Involving property, contracts, business organization, debts, etc
Munakahat	<ul style="list-style-type: none"> • Family law of Islam • Dealt with marriage, divorce, inheritance, guardianship etc
Jinayat	<ul style="list-style-type: none"> • Criminal law of Islam • Dealt with theft, murder, illicit sexual(zina) etc

a. Components & Concept of Shariah

The Shariah which contains all the different commandments of Allah to mankind can be divided into three fields:

i- *Al-Ahkam al-I'tiqadiyyah*

(Sanctions relating to beliefs) such as the belief in Allah and the Day of Judgement.

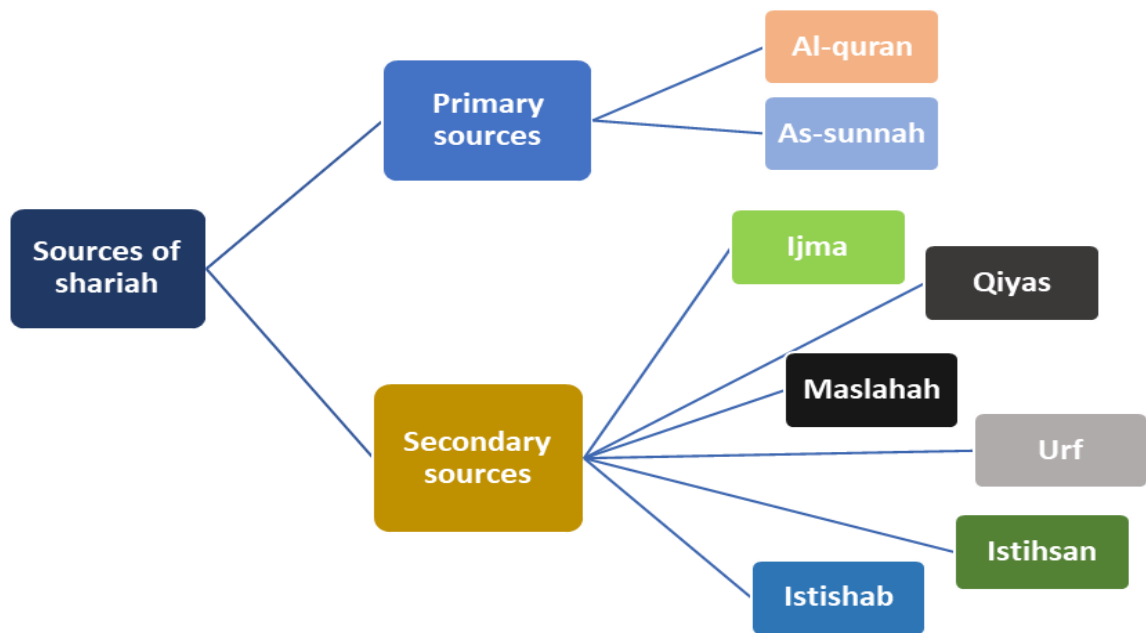
ii- *Al-Ahkam al-Akhlaqiyyah*

(Sanctions relating to moral and ethics) such as the injunction to tell the truth, sincerity and to be honest etc.

iii- *Al-Ahkam al-A'maliyyah*

(Sanctions relating to the sayings and doings of the individuals and his relations with others) which is also called Fiqh.

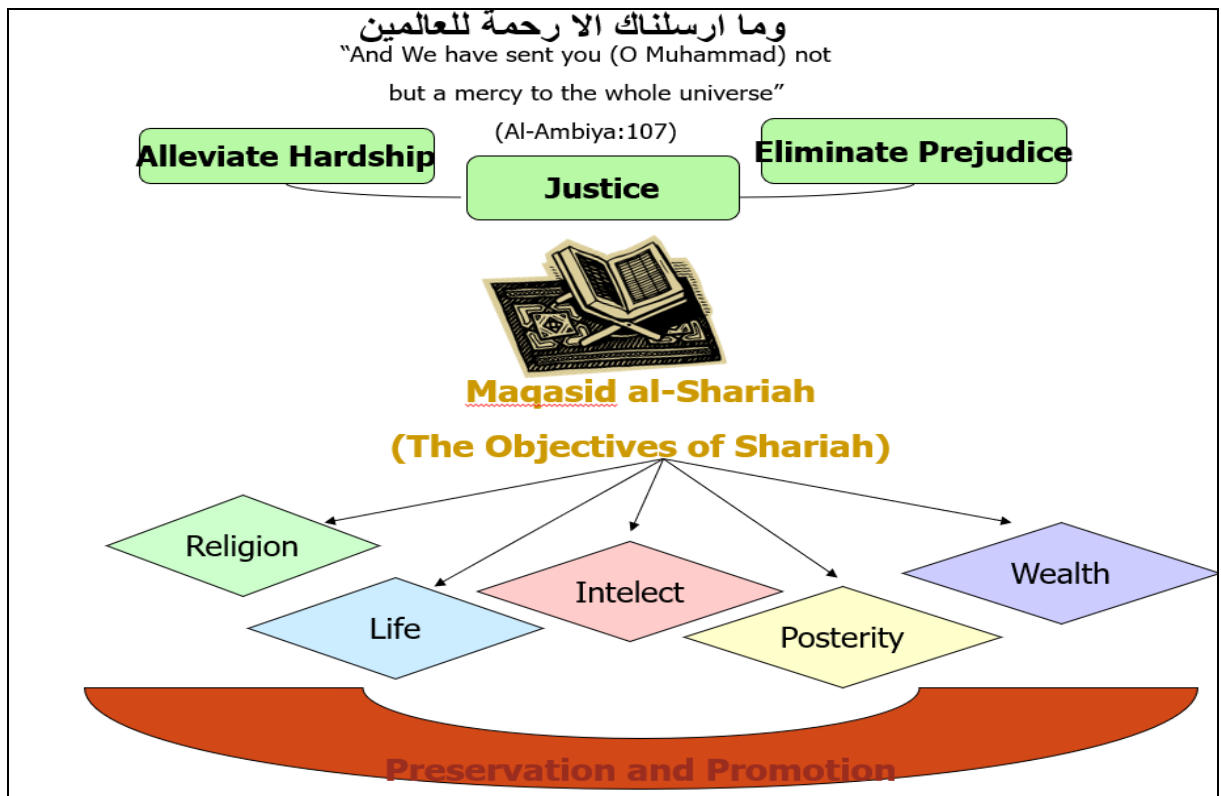
b. Sources of Shariah



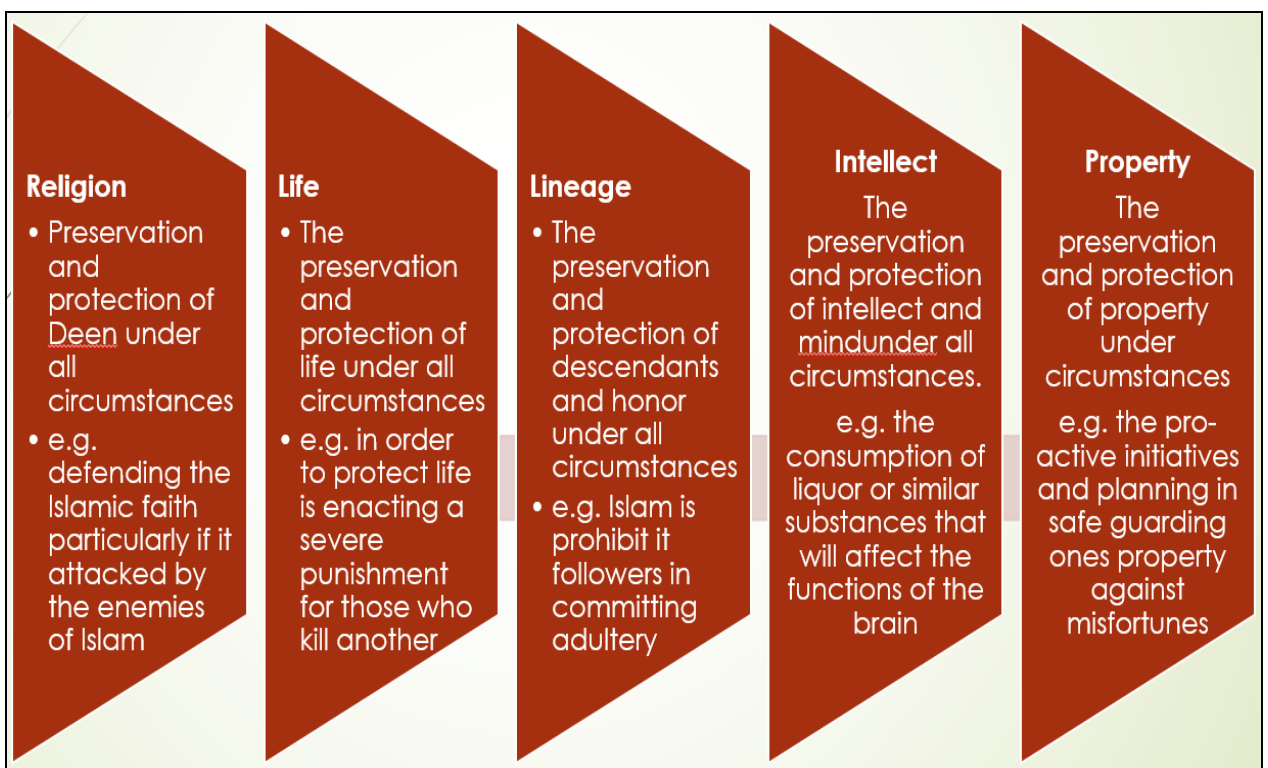
SOURCES	NATURE
AL-QURAN	<ul style="list-style-type: none"> • is the word of Allah SWT revealed to prophet Muhammad (saw) • in Arabic • conveyed by angel Jibril • is the plain statement and guidance for mankind in order for them to be successful in both world (dunya and hereafter)
AS-SUNNAH	<ul style="list-style-type: none"> • anything which came from the Prophet Muhammad (saw) • including his acts, sayings, tacit approval as well as physical attribute
IJMA	<ul style="list-style-type: none"> • unanimous agreement amongst the mujtahidun after the demise of Prophet Muhammad (saw)
QIYAS	<ul style="list-style-type: none"> • application of an original ruling (hukm) that has been established in the earlier case on the current issue on which the law is silent
MASLAHAH	<ul style="list-style-type: none"> • public interest • invoked to prohibit or permit something on the basis of whether or not it serves the public's benefit or welfare

URF	<ul style="list-style-type: none"> • A custom or knowledge of a given society leading to change in the fiqh • No explicit primary texts of the Quran and Sunnah specifying the ruling • also specify something generally established in the Quran and sunnah
ISTIHAAB	<ul style="list-style-type: none"> • Means presumption of existence or non-existence of facts • Can be used in the absence of other proof • Relates to the sense that the past accompanies the present without any interruption or change
ISTISHAN	<ul style="list-style-type: none"> • Means juristic “preference”. Muslim scholars may use it to express their preference for particular judgements in Islamic Law over other possibilities. It is one of the principles of legal thought underlying personal interpretation or ijtiḥad

c. Maqasid of Shariah (Objective of Shariah)



- Maqasid al-Shari’ah is the aims or goals intended by Islamic law for the realization of benefit to mankind.
- The primary objective of Islamic law is:
 - the realization of benefit to mankind, concerning their affairs both in this world and the hereafter.
- It is generally held that Islamic law in all its branches aims at securing benefit for the people and protecting them against corruption and evil.
- The Qur’an clearly states,
 - “And we have sent you (O Muhamad) not but as a mercy for the universe” (al-Anbiya’:107)
- The word mercy (rahmah) in the verse includes compassion, kindness, goodwill and beneficence. In explaining the above verse, Ibn Qayyum states that the Shari’ah aims at safeguarding the people’s interest and preventing them from harm in this world and the next: this is a necessity that is needed by all mankind.
- Thus, the main **objective of Islamic law** is:
 - to **bring benefits to mankind and to prevent them from harm (jalb manfa’ah wa dar’ al-mafsadah).**
 - All in all, there are 5 foundational goals (Maqasid).
Preservation & protection of:

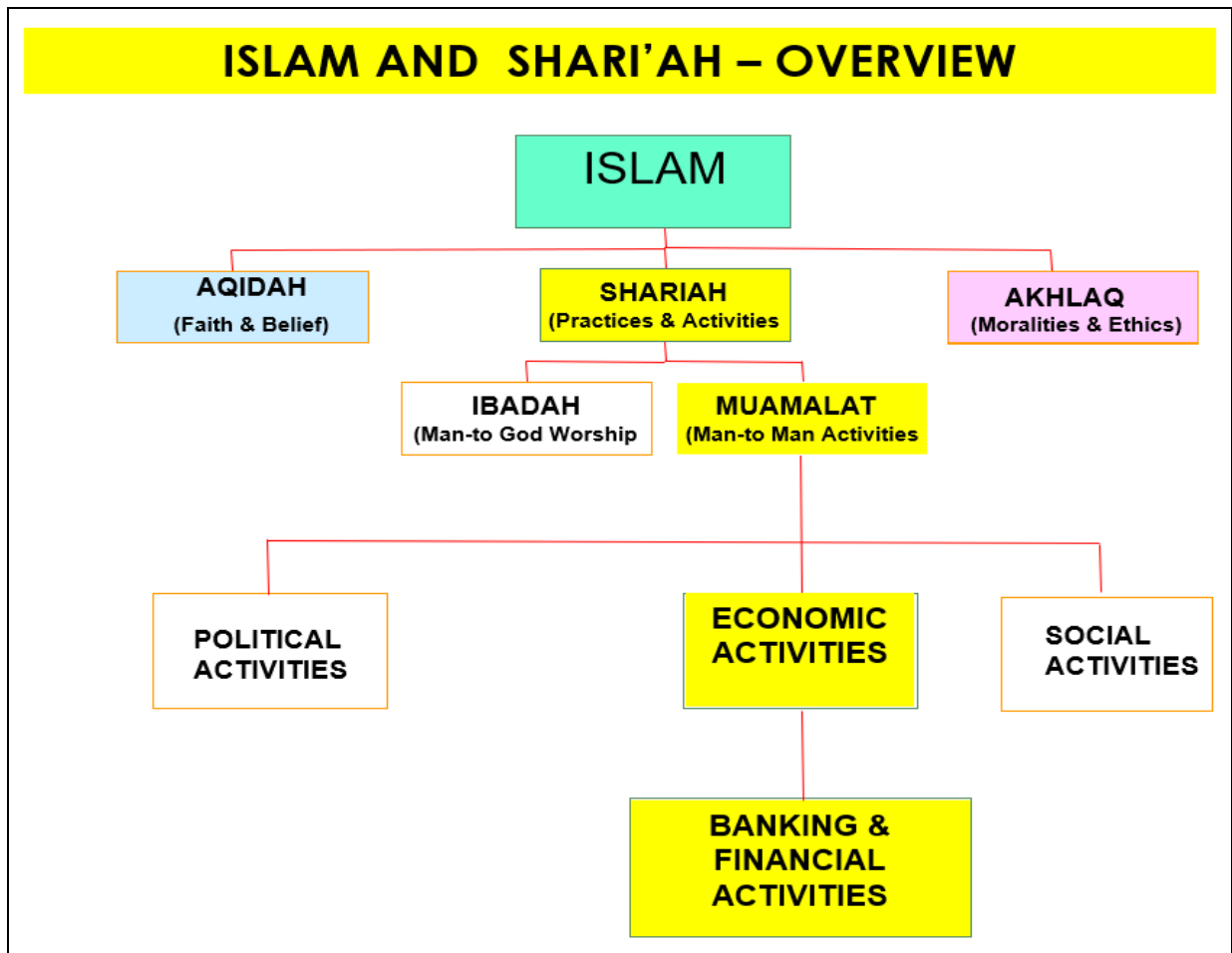


Hence, in Fiqh muamalat, Maqasid Al-Shariah is important when...

1. To carry out economics, banking and financial activities and services accordance with the Shariah principles which is free from riba and exploitation.
 2. To mobilize and consolidate resources in the economy through the development of individual's saving awareness.
 3. To direct fun into investment activities that serve the objectives of the economic and social development of the Islamic nation (ummah).
- Allah SWT gives Islam as *rohmah*, which is manifested through
 - i. Educating individual
 - ii. Establishing justice
 - iii. Realizing public welfare

1.1.2 IDENTIFY THE BASIS OF MUAMALAT

a. Basic principle forming syariah ruling in Muamalat



- Muamalat is plural and the singular is muamalah.
- Muamalah is from the verb “aamala” literally meaning to interact.
- Muamalat means interactions or transactions.
- Fiqh Muamalat refers to the understanding of commercial or business transactions which are concluded through contracts permitted by the Shariah as evidenced by the Quran, the Sunnah and other sources of Islamic Law.
- Fiqh Muamalat/adat (custom/practice) governs the relationship and interaction of humans among themselves. Meaning to say, it indicates every human actions and activities in general. It includes Munakahat (Family law), Muamalat (commercial law), jinayat (offences, crimes and punishments), siyasah shariyyah (constitutional law & administration), alaqah dawliyyah (laws on diplomatic relations).

b. Prohibited elements in Muamalat

Concept of God, Usury, Uncertainty, Gambling

The first and foremost reason Riba, Gharar and Maysir are haram is because Allah declared it so. It is based on Allah's infinite wisdom that He deems an action to be obligatory or prohibited, prescribing matters in man's best interests, in this life and in the Hereafter, as He is the All-Wise, All-Knowing.




Riba, Gharar and Maysir are the three most important principles according to the revealed texts and practices of the Prophet Muhammad (PBUH) and financial transactions must be free from these three elements otherwise transactions would be void. Engaging in Riba is a major sin which could lead to Hell.

“...but whoever returns (to dealing in riba), such are the dwellers of the Fire — they will abide therein.” Qur'an 2:275

We must remember that the life of this world is short and fleeting, and that the purpose of our existence is not to lust after beauty and wealth, but rather to worship Allah correctly and live by His rules.

Why conventional insurance is impermissible in Shariah?

Three (3) elements that lead to impermissible of conventional insurance.

 <p>Any increment incurred upon specific usurious items and upon debt, due to the deferred payment term.</p> <hr/> <p>In insurance:</p> <ul style="list-style-type: none">• Premiums paid ≠ compensation received• Interest (Automatic Premium Loan)• Investment (non-sharia compliant)	 <p>Uncertainty regarding the subject-matter being contracted.</p> <hr/> <p>In insurance:</p> <p>Uncertainty of risk; both insurer nor insured do not know when the peril will occur.</p>	 <p>A game of pure chance where any party might gain at the expense of the loss of the other party.</p> <hr/> <p>In insurance:</p> <ul style="list-style-type: none">• Insurer loses if there are too many claimants• Insured loses if nothing bad happened• Vice-versa
<p><i>Riba (Usury)</i></p>	<p><i>Gharar (Uncertainty)</i></p>	<p><i>Maisir (Gambling)</i></p>

c. Concept of contract in Muamalat (Contracts in Takaful)

<p>Tabarru'</p>	<ul style="list-style-type: none"> • Unilateral declaration of intent to give a favour to the recipient without any consideration in return. • In Takaful, participant commits to donate the contribution regularly. • It is a tabarru' with conditions: <ol style="list-style-type: none"> 1. In the event of misfortune, participant will get sum covered. 2. Tabarru' rate is based on risk carried by participant.
<p>Mudarabah</p>	<ul style="list-style-type: none"> • Profit-sharing agreement between two parties, the first is the provider of capital (rabb al-mal) and the second is the provider of expertise (mudharib). • The investment profit will be shared between Participants and the Takaful Operator based on a pre-agreed ratio. • Any losses will be borne by participants.
<p>Wakalah</p>	<ul style="list-style-type: none"> • An arrangement whereby one party (the principal) delegates another (agent) to act on its behalf in a known and permissible dealing. • Participants authorised the Takaful Operator to manage and invest the contribution. The Takaful Operator is entitled to receive fees as pre-agreed in the beginning of the contract.
<p>Ju'alah</p>	<ul style="list-style-type: none"> • A contract in which one party offers specified compensation to anyone who achieve a determined result in a known or unknown period. • In Takaful, Ju'alah concept is used in a situation where surplus is shared among Participants and Takaful Operator. Takaful Operator is entitled to the surplus if they can achieve the surplus in the Participant's Risk fund.
<p>Qard</p>	<ul style="list-style-type: none"> • Transfer of ownership in fungible wealth to a person on whom it is binding to return wealth similar to it without any increment in amount. • For the purpose of Takaful, in the event of deficit in the Participant's Risk Fund, Takaful Operator will arrange for Qard.
<p>Hibah</p>	<ul style="list-style-type: none"> • A unilateral voluntary contract that results in uncompensated ownership transfer between living individuals. • Hibah in Takaful is applied in nomination and benefits payable from Takaful Operator's fund.

Exercise Topic 1

Answer all questions:

1. Choose the correct answer for the following:
 - a. Shariah or Islamic law is also known as Fiqh
 - b. Shariah or Islamic law is also known as Muamalat
 - c. Fiqh Jinayat deals with marriage, divorce and etc.
 - d. Fiqh Muamalat deals with offences like illicit sexual (zina), theft (sariqah).

2. Which of the following discuss the practice of Gharar in insurance contracts.
 - a. Insurance company pay interest on their product
 - b. Insured could receive huge amount of money, without equivalent input
 - c. Premium collected exceeds the claims, Insurers could make huge profits
 - d. Both parties to the insurance contract do not know exactly what their obligations and responsibilities are to each other, neither the insurer or the insured knows the outcome of the contract.

3. The correct example for Riba is:
 - a. Sale of pearl in shell
 - b. Risking money in a game
 - c. Sale of a book before printed
 - d. Put extra charge for late payment of debt

4. In Takaful contract, Wakalah can be translated as:
 - a. Agency
 - b. Donation
 - c. Profit Sharing
 - d. Interest free

5. All the elements that can damage human mind are strictly forbidden in Islam, including drinking alcohol, taking drugs, and thinking about things that are beyond the reach of the human mind. Which of the following Maqasid Syariah relates this statement?
 - a. Religion
 - b. Lineage
 - c. Intellect
 - d. Property/Wealth

CHAPTER 2

INTRODUCTION TO TAKAFUL SYSTEM

Learning Objectives

By the end of this chapter, students should be able to:

2.1. Explain the history of Takaful system

2.1.1 Explain the historical background of Takaful system internationally

- a. Al-diyat
- b. Al- aqilah
- c. Al-khanz
- d. Al-qasamah
- e. Akad muwallah

2.1.2 Explain the history of Takaful industry locally

2.2 Interpret the concept of Takaful

2.2.1 Define Takaful

2.2.2 Describe the concept of Takaful

2.2.3 Identify the philosophy of Takaful

2.2.4 Explain the benefits of Takaful

2.2.5 Elaborate the model of Takaful business

2.2.6 Explain the fatwa on conventional insurance

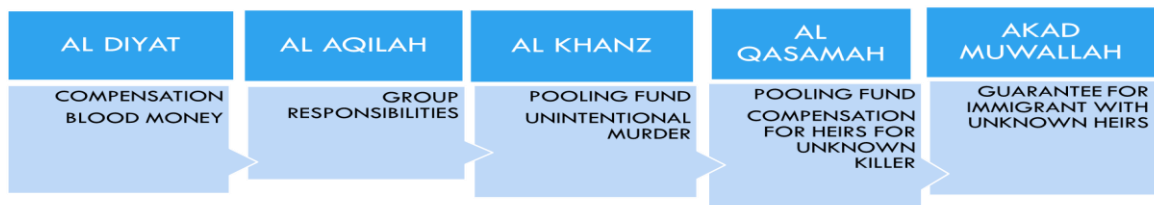
2.3 Explain the application of syariah contract commonly used in Takaful businesses

2.3.1 Describe the syariah contract commonly used in Takaful operation

2.3.2 Explain the basic principles of Takaful operation

2.1 EXPLAIN THE HISTORY OF TAKAFUL SYSTEM

2.1.1 EXPLAIN THE HISTORICAL BACKGROUND OF TAKAFUL SYSTEM INTERNATIONALLY



Al-Diat:

- The form of compensation
- Diya is the indemnity paid as “blood-money” to the next-of-kin of a murder victim
- It is considered as compensation to the family of the slain
- It was the right of the family of the deceased to demand compensation for the tribe or the family of the offender
- e.g., Where a person inflicts bodily injury or homicide (intentionally) it becomes incumbent upon him or, as mutual responsibility, upon a group of people representing him, to compensate the injured party in cash or kind. This compensation is called "diya".

Al-Aqilah (Covenant of Mutuality):

- Encouraged by the holy prophet (Muhammad SAW) and practiced by Muslims of Makkah and Medina at the time
- After the migration/hijrah of Muhajirin and Ansar
- The concepts relate to the principle of compensation and group responsibilities
- Through this covenant, all Muslims of Medina irrespective of their tribe became one community – so they are responsible for each other
- e.g. Where homicide is unintentional, a third party (aqila) pays blood money where it is offered by the aqila on a voluntary basis.
- This act shows the responsibilities are shared over by members in the community.

Al-Khanz:

- Al-khanz practiced in Al-Aqilah
- It is a pooling system where members will pay certain amount of money to the fund according to period agrees (e.g. monthly/annually contribution)
- The aims are to help the members who were involved with unintentional murdered – to pay to the enemy –in order to enable the member to be free

Al-Qasamah:

- The system in Al-Qasamah is related to human life
- It worked by pooling fund from its member
- Every member needs to pay certain amount of money to the fund
- The purpose of this fund is to pay to the victim's heirs when the killer is unknown or the witness's statement cannot be accepted

Akad muawallah:

- An agreement meant for people who migrate to another country
- It is a bond between two parties – the guarantor and the guarantee
- Guarantor will guarantee immigrant with unknown heirs
- The guarantor agreed to pay compensation if the guaranteed person performs a criminal act
- If the guarantee dies with no heirs, the guarantor shall possess the estate of the deceased

2.1.2 EXPLAIN THE HISTORY OF TAKAFUL INDUSTRY LOCALLY

Formation of Takaful Business

- The development of the takaful industry in Malaysia in the early 1980s was inspired by the prevailing needs of the Muslim public for a Shariah-compliant alternative to conventional insurance, as well as to complement the operation of the Islamic bank that was established in 1983.
- It was, to a large extent, triggered by the decree issued by the Malaysian National Fatwa Committee which ruled that life insurance in its present form is a void contract due to the presence of the elements of Gharar (uncertainty), Riba' (usury) and Maisir (gambling). A Special Task Force was established by the Government in 1982 to study the viability of the setting up of an Islamic insurance company. Following the recommendations of the Task Force, the Takaful Act was enacted in 1984 and the first takaful operator was incorporated in Malaysia in November 15th, 1984.

The History of Takaful Industry Locally

- The history of the takaful industry in Malaysia began on 25 October 1982 when a special task force was created to Study the possibility of establishing Islamic insurance companies in Malaysia.
- The study was undertaken based on the experience and progress of existing insurance companies in this country as well as work visits to several countries that have already implemented Islamic insurance. The committee concluded that, foremost, such companies must operate within Syariah law.
- As an outcome of the above committee's recommendations, Syarikat Takaful Malaysia Sdn. Bhd. was established and incorporated as a private limited company in accordance with the Companies Act 1965 on 29 November 1984.
- The Takaful Act 1984 was created to enable the establishment of this Takaful company as well as the introduction of takaful products. Subsequently, Syarikat Takaful Malaysia Sdn. Bhd. became a public listed company known as Syarikat Takaful Malaysia Berhad (STMB), listed on the Kuala Lumpur stock exchange (KLSE) on 31 July 1996.

- On 15 October 1993, another Islamic insurance company was established in Malaysia –Syarikat Takaful Nasional Sdn. Bhd. (STNSB) – which was formerly known as Malaysia Nasional Insurans Takaful Berhad (MNIT).
- In 2002, Mayban Takaful was established, At the end of 2007, a merger between Mayban Fortis, Malaysia National Insurance and Syarikat Takaful Nasional Sdn. Bhd, gave Birth to Etiqa Malaysia National Insurance, which became known as Etiqa Takaful Berhad
- In 2003, Syarikat Takaful Ikhlas Sdn. Bhd. was established. This company was a subsidiary to the Malaysian National Reinsurance berhad.
- Subsequently, in 2005 a fifth Takaful company was created in Malaysia known as Commerce Takaful Berhad. Commerce Takaful Berhad was incorporated on 23 March 2005 and began its operations on 2 January 2006. (A subsidiary company wholly Owned by Commerce International Group Bhd -which is a subsidiary of the Bumiputra-Commerce Holdings Bhd. (BCHB) group of companies)
- On 8 August 2007, Commerce Takaful changed its name to CIMB Aviva Takaful Berhad. However, in 14 April 2013, this operator was taken over by Khazanah Nasional Berhad and Sun Life Insurance to become Sun Life Malaysia Takaful Berhad.
- At first glance, there does not appear to be much difference between conventional insurance and Takaful. Indeed, in terms of concept, there is none as both subscribes to the long-established principle the “pool of the many to help the unfortunate few”. MTA is dedicated in promoting the interest of its members and to supervise the exercise of self-regulation within the Takaful industry. The MTA Road Map introduced in 2006 set the direction and focus of the association. The focus, among others, is on branding, awareness and communication, shared services through leveraging of technology, investment opportunities and relations with regulators. These strategies are deemed achievable and close co-operation among members to make it work was the key to its success.

2.2 INTERPRET THE CONCEPT OF TAKAFUL

2.2.1 DEFINE TAKAFUL

TAKAFUL: A Shariah Compliant Insurance Solution

Definition	The word of Takaful derives from an Arabic root word “ <i>kafala</i> ” which means to guarantee – Takaful means to guarantee each other .
Basis of Takaful	“And cooperate in righteousness and piety , but do not cooperate in sin and aggression” Al-Maidah: 2
Takaful Pooling Concept	As per defined in Islamic Financial Services Act 2013: Takaful means an arrangement based on mutual assistance under which Takaful participants agree to contribute to a common fund providing for mutual financial benefits payable to the Takaful participants or their beneficiaries on the occurrence of pre-agreed events .

2.2.2 DESCRIBE THE CONCEPT OF TAKAFUL

Concept of Takaful

Takaful is an alternative to conventional insurance, however the objective of providing protection may be similar but the actual workings of the Takaful concept are different compared to conventional insurance. In other words, Takaful is a Shariah-compliant concept.

Underlying concept under Takaful is:

1) Kafalah

Derived from an Arabic word which means joint guarantee or take care of one's need, whereby a group of participants agree to jointly guarantee among themselves against a defined loss. It is a scheme that upholds the principles of shared responsibility, mutual help and co-operations.

2) Tabarru

- ✓ Tabarru' means donation, gift or contribution. Participant in a takaful scheme agrees to relinquish, as a donation, a certain proportion of the contribution into a takaful fund to assist other participants faced with difficulties; -
- ✓ It embraces the elements of shared responsibility, joint indemnity and mutual protection; and
- ✓ It is the core of the takaful system that makes the uncertainty element allowable under the takaful contract.

3) Mudharabah/Wakalah: -

- ✓ The takaful operator is the administrator of the fund and manages the fund in trust on behalf of the participants, and the contract between the participants and the operator is governed under the contract of mudharabah (profit-sharing) or wakalah (agency);
- ✓ Mudharabah gives the right to the contracting parties to share the profit, while liability for losses is borne by the participants; and
- ✓ Under the wakalah model, the takaful operator earns a fee for services rendered while liability for losses is borne by the participants. The fee may be varied based on the performance of the takaful operator.

2.2.3 IDENTIFY THE PHILOSOPHY OF TAKAFUL

- In principle, Takaful system is based on mutual co-operation (ta'awun-risk sharing), responsibility and assurance (provide certainty), mutual protection between groups of participants.

1. Basis of Co-operation (*ta'awun-risk sharing*)

Takaful, is based on the concept of *ta'awun* meaning mutual assistance. Participants of the Takaful scheme mutually agree to assist each other financially in case of certain defined needs (as defined in the Takaful contract) by contributing to a common fund.

- This concept is based on Allah (SWT) command in the following verse:

Meaning:

"... Cooperate ye one another in righteousness and piety but help ye not one another in sin and rancor"

(al-Maidah: 2)

- Prophet Muhammad (saw) reaffirmed it in the following hadith:

Meaning:

"Allah will always help His servant for as long as he helps others"

(Reported by Ahmad and Abu Daud)

2. Basis of Responsibility

In tandem with the *shariah* discipline on Takaful (which means shared responsibility and shared guarantee), the participants mutually agree to provide compensation in the event of a misfortune.

Meaning:

The place of relationships and feelings of people with faith, between each other, is just like the body; when one of its parts is afflicted with pain, then the rest of the body will be affected.

(Reported by Bukhari and Muslim)

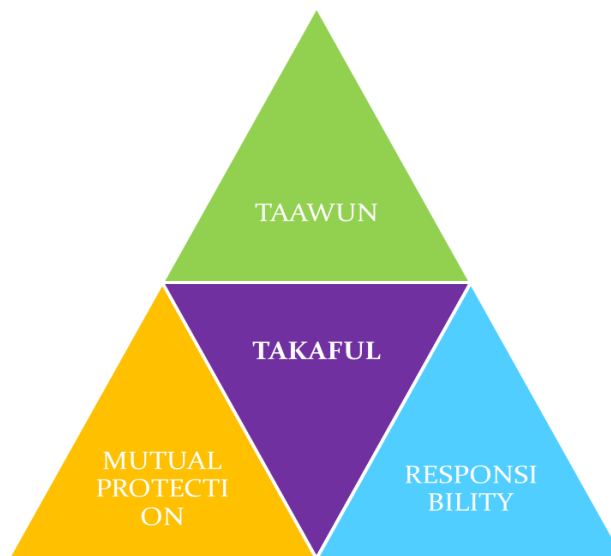
3. Basis of Mutual Protection

The participants of the Takaful Scheme agreed to be mutually responsible or shared responsibility.

Meaning:

By my life, which is in Allah's power, nobody will enter Paradise if he does not protect his neighbour who is in distress.

(Reported by Ahmad)



What are the functions of Takaful???

The primary & secondary functions of takaful are shown below. The primary functions of takaful is to provide protection against the uncertainty of a financial loss arising from the happening of an unplanned and unforeseen event. Participants contribute an equitable contribution into a common pool where claim of financial loss is made against the pool.

Primary Function	Secondary Function
<ul style="list-style-type: none"> • Provides protection (Basis of mutual protection) • Provides certainty (Basis of responsibility) • Ta'awun (Basis of cooperation, risk sharing) 	<ul style="list-style-type: none"> • Cost Stabilization • Peace of mind • Reduction of losses • Means of saving • Sources of capital for investment • Provides employment

2.2.4 EXPLAIN THE BENEFITS OF TAKAFUL

- Takaful offers both the monetary profits through this protection scheme and the rewards in the spiritual sense. Some of the benefits are as follow:
 - 1) It allows the participant to fulfill his social obligation towards community and family.
 - 2) Takaful also enables financial assistance for the unfortunate and needy through the concept of tabarru' where a portion of contribution will be apportioned to the risk fund. Tabarru' donations also allow participants to achieve self-purification and peace of mind.
 - 3) Promotes moral values and ethical dealings in all its business activities and operations as it is free from prohibited elements such as *riba*, *gharar* and *maysir* and other similar prohibited elements within financial dealings.
 - 4) It provides protection and security for the family and the group against any misfortune.

2.2.5 ELABORATE THE MODEL OF TAKAFUL BUSINESS

Mudharabah Model :

A mudharabah contract is a commercial profit sharing contract between the provider or providers of fund for a commercial venture and the entrepreneur. In a mudharabah model the takaful operator acts as a mudarib and the participant as rab ul mal. The takaful operator manages the operations of the fund in return for a share of the surplus. The surplus is shared in a pre-agreed proportion between the operator and the participant.

In a pure mudharabah model, the management expenses and any other direct expenses for management of the fund will be borne solely by the operator from the shareholders fund and its share of the surplus of the underwriting and investment returns. Under the modified mudharabah model, the management expenses direct or otherwise will be charged to the takaful fund. The surpluses from the fund which is a combination of the underwriting surplus and the investment surplus will be shared between the participants and the operator in the pre-agreed proportion.

Wakalah Model:

In a wakalah model, the takaful operator acts as the agent on behalf of the participants. The operator is paid a pre-agreed management fee for the services rendered in respect of underwriting, management and investment of the fund. The operator does not share in the underwriting surplus.

In underwriting, the takaful operator act as an agent on behalf of the participants to manage the takaful fund. Any liabilities for risks underwritten are borne by the fund and any surplus arising from belongs exclusively to the participants. The operator is not liable for any deficit of the fund. The operator is being paid a management fee termed as wakala fee which is usually a percentage of the contributions paid by the participants.

This normally deducted upfront from the contributions. As for the management of the investment activities of the fund, the operator is also paid a wakala fee based on an agreed percentage.

Waqaf Model:

In a waqaf model, a waqaf fund is established by the shareholders of the takaful company through the contribution of ‘ceding amount’ to compensate the beneficiaries or participant of the takaful scheme. The ceding amount of the waqaf will remain invested.

The takaful fund, consisting of the contributions paid as tabarru’, will be further invested by the company based on the principle of Islamic modes of trades. Any person by signing the proposal from contributing to the Waqaf and subscribing to the policy documents shall become the member of the waqaf fund.

2.2.6 EXPLAIN THE FATWA ON CONVENTIONAL INSURANCE

SHARIAH VIEWS OF INSURANCE:

Opinion of Scholars:

- ✓ Majority of scholars having an opinion that the conventional insurance practiced today is not Shariah compliant;
 - ✓ However, many do not object to the concept of insurance per se but rather the contract;
 - ✓ According to Dr. Yusuf Qardhawi:
- “Our observation that the modern form of insurance companies and their current practices are objectionable Islamically does not mean that Islam is against the concept of Islam itself; not in the least – it only opposes the means and methods. If other insurance practices are employed which do not conflict with Islamic forms of business transaction; Islam would welcome them”.

“The Lawful & the Prohibited in Islam” (pg. 276)

- **A Fatwa issued by a committee comprising of leading scholars for the Saudi Arabia Government have said:**

“From the point of view of most Muslim jurists, cooperative (or mutual) insurance is not only permissible by the Shariah but also encouraged especially when looked at from the aspect of cooperation towards welfare. As such it is permissible for a bank to set up a cooperative (mutual) insurance company to function for the benefit of many activities but there is a need to state as clearly as possible in the contract of insurance that the amount of money to be paid by the participant is on the basis of donation to the said company which can be used for the purpose of assisting fellow participants who require assistance according to the terms agreed as long as these terms are not in conflict with the Shariah”

- **The National Fatwa Committee Malaysia deliberated on the question of life insurance (15th. June 1972) and below is a translation of an extract from the minutes recorded:**

“Life insurance as presently practiced by insurance companies is a fasid transaction as it is contrary to the Shariah principles of contract because it contains the following elements:

- Gharar ;
- Maisir ;
- Riba.

As such from the Shariah point of view, insurance is haram”.

2.3 Explain the application of syariah contract commonly used in Takaful businesses

2.3.1 DESCRIBE THE SYARIAH CONTRACT COMMONLY USED IN TAKAFUL OPERATION (Refer to 1.1.2 c)

2.3.2 EXPLAIN THE BASIC PRINCIPLES OF TAKAFUL OPERATION

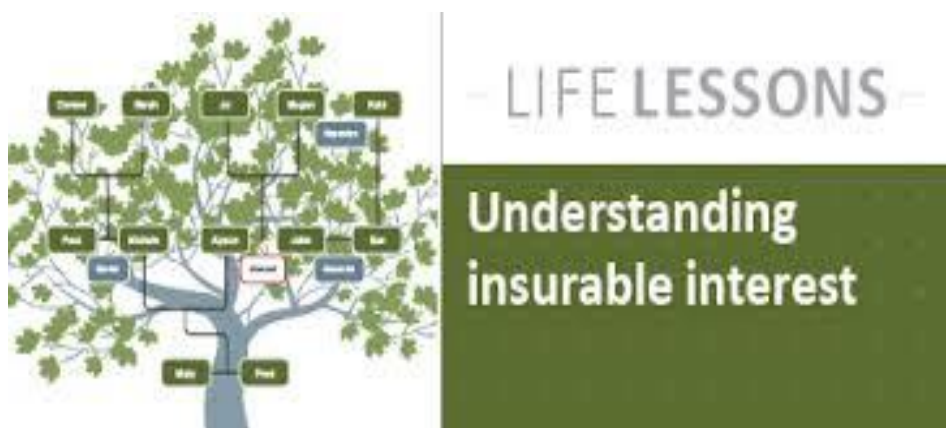


a. Permissible Takaful Interest / Insurable Interest

The principles of permissible takaful interest state that the insured must be in a position to lose financially if a covered loss occurs. For example, for general takaful you have an permissible takaful interest in your motorcycle because it may result your losses if your motorcycle is stolen. In case for family takaful, if you wish to buy takaful certificate of other person, you must have an permissible takaful interest with that particular person.

All takaful contracts must be supported by permissible takaful interest for the following reasons:

- To prevent gambling
- To reduce moral hazard
- To measure the amount of the participant loss in property takaful.



So, permissible takaful interest can be defined as the right to insure arising out of legally recognized financial interest, which a person has in the subject matter of insurance. Therefore, a thief cannot insure the motorcycle he stole because he does not have a **legally** recognized interest in the goods.

In general, interest must exist at the time of inception of the takaful contract and at the time of loss for all classes of takaful except:-

- Family takaful where permissible takaful interest must exist at the time of inception
- Marine takaful where insurable interest must exist at the time of loss.

An assignment is the transfer of rights and liabilities by one person to another. In insurance, the transfer of all rights and liabilities of the insured to a new insured is referred to as an assignment of policy. An assignee, the person who takes over the assigned rights will have no better rights than those enjoyed by the assignor. Thus, if the insurer is able to repudiate liability on any grounds against the assignor, the same grounds may be used against assignee.

b. Utmost good faith

The principle of utmost good faith is a higher degree of honesty is imposed on the applicant for takaful. Thus all important facts regarding the risk covered has to be disclosed. This duty can be defined **as the duty to disclose fully and accurately all material facts relating to the proposed risk that a proposer knows or is reasonably expected to know, whether asked or not.**

Material fact which is important in this principle can be defined as a fact, which would influence the prudent underwriter accepting the risk or fixing the contribution. Therefore, the materiality of a fact in question will be determined by the prudent underwriter and not the fund manager nor the participant concerned. The duty to disclose material facts last until the completion of the takaful contract.



In case the changes occur after they have been intimated to the fund manager but before the completion of the contract, the proposer is required to notify the changes to the fund manager otherwise the contract would voidable.

This principle is breached if a proposer reasonably expected to know the fact but he failed to provide the fund manager with the information. So, contract is voidable

irrespective of whether the breach is committed innocently or fraudulently. However fraudulent non-disclosure and misrepresentation may further entitle the insurer to sue for damage.

Example: En. Aziman, the proposer, had purposely failed to provide details of his lung cancer to the insurer in the application form. If En Aziman dies 3 months shortly after the policy being issued due to lung cancer, the operator could contest the death claims as material misrepresentation.

c. Indemnity

The principles of indemnity states that the fund manager agrees to pay no more than the actual amount of the loss; stated differently, the covered person should not profit from a loss. Most property and casualty insurance contracts are contracts of indemnity. If a covered loss occurs, the operator should not pay more than the actual amount of the loss. For example if you are insured your house with value of RM150,000, unfortunately your house are under fire which caused loss of RM70000, the insurer only will pay you RM70,000.



There are four methods used by insurance company such as:

- ✓ Cash
- ✓ Repair
- ✓ Replacement
- ✓ Reinstatement

Cash method used as a method of indemnity for liability claims and property damage. Replacement and reinstatement used for own property damage claims and will be measured according to market value of a property similar to the one destroyed, while repairs will be used of the property only partially loss.

Two fundamental under the principle of indemnity

- i. The first purpose to prevent the participant from profiting from a loss
- ii. The second purpose is to reduce moral hazard. If dishonest insured could be profit from losses, they might deliberately cause losses with the intention of collecting takaful.

d. Subrogation

The principle of subrogation are strongly supports the principle of indemnity. Subrogation means substitution of the insurer in place of the participant for the purpose of claiming indemnity from a third party for a loss covered by takaful. Therefore, the operator is entitled to recover from a negligent third party of any loss payment which made to the participant. It also can be defined as the taking over of rights belonging to an insured by the operator after the latter has indemnified the participant.

For ways in which subrogation rights may arise:

- i. **Subrogation arising out of tort**; a frequent cause of subrogation is negligence.
- ii. **Subrogation arising out of contract**; if a third party is bound by a contract to make pay for a loss suffered by another person who has an takaful certificate recovering the same loss. The operator may take over his right against the third party after indemnifying the loss.
- iii. **Subrogation arising out of a statute**; a statute may provide covered person with an additional right of recover for a loss suffered.
- iv. **Subrogation arising out of salvage**; a salvage is the wreckage of an insured object.

Legally, the salvage belongs to the participant. However, if the participant wishes to be paid on a total loss basis, the fund manager may take over his right in the salvage.



2 basic purposes of subrogation:

- Subrogation prevents the insured from collecting twice for the same loss.
- Subrogation is used to hold the negligent person responsible for the loss.
- Subrogation helps to hold down takaful rates.

Examples: Assume that Ms. Siti Sleha failed to stop at red light while driving her Honda CRV and hit into Ms. Siti Saleha's car, and causing damage of RM10,000. If Ms Siti Saleha has collision insurance on her card, her insurer will the repaired fees on her car, then will attempt to collect from negligence driver who caused the accident, Ms Siti Saleha.

e. Contribution

The principle of **contribution is the amount, which each insurer has to contribute to the cost of a loss when two or more operators cover the loss.**

Or, the contribution principle of takaful states that if a risk is insured by multiple carriers, and one carrier has paid out a claim, that carrier is entitled to collect proportionate coverage from other carriers. An operator who has indemnified the participant may call upon the other operators who are similarly liable for the loss to contribute towards the payment of indemnity

Contribution is necessary as, from the principle of indemnity that if the participant is allowed to recover from more than one operator for the same loss, the participant would be recovering more than his loss. Thus, this principle is to support the principle of indemnity.

Therefore, contribution applies only when:

- ✓ Two or more policies of indemnity exists
- ✓ The policies must cover a common interest i.e. the loss relates to an interest covered under policies.
- ✓ The policies cover a common peril which gives rise to the loss i.e. the loss must be caused by a peril insured under the policies.
- ✓ The policies must cover a common subject matter for example the loss must relate to a property that is covered under the policies.
- ✓ Each policy must be liable under the policies.



Example: Mr Remy Isahak has insured his RM500,000 penthouse in Bukit Kiara with 3 different takaful company. His penthouse has been robbed and estimated of the losses are RM50,000. However, he only can received his claim with the total amount of RM50,000 as according to principle of contribution, these 3 insurer proportionate contribute accordingly.

f. Proximate cause

The principle of proximate cause means the active efficient cause that acts in motion a train of events which brings about result, without intervention of any force started and working activity from a new and independent source.

Or, it is designed to provide compensation only for such losses as are caused by the perils which are stated in the policy. When the loss is the result of two or more causes, the proximate cause means the direct, the most dominant and most effective cause of which the loss is natural consequence. In case of mishap should loss arising out of any mishap, the most proximate cause of the mishap should be taken into consideration.

Exercise Topic 2

Answer all questions:

- 1) Which of the following is the correct answer about Al-Diat?
 - a. All payments from the members will be put into the fund according to the period agreed
 - b. The purpose of this fund is to pay the victim's heirs when the killer is unknown or the witness statement cannot be accepted
 - c. It was a custom of pagan Arab for a killer to have to pay blood money (diyat)
 - d. An agreement meant for people who migrate to another country

- 2) Which of the following is the correct word that is close to the meaning of maslahah?
 - a. Knowledge
 - b. Analogy
 - c. Dalil
 - d. Public interest

- 3) A participant suffers from gallstones, is knocked down by a motorcar and dies, although but for the gallstones, he would not have died. His death is not an accident within the policy. This situation refers to:
 - a. Utmost good faith
 - b. Subrogation
 - c. Proximate cause
 - d. Insurable interest

- 4) Following are the examples of a person having insurable interest, EXCEPT?
 - a. Employer covering employee's life
 - b. A creditor can cover the life of debtor but not debtor on the life of creditor
 - c. A person with their future wife or husband
 - d. Spouse have insurable interest in each other's live and property

- 5) The word 'Maisir' can be define as:
 - a. Increase or addition into anything
 - b. Clarity regarding the subject-matter being contracted as "uncertainty"
 - c. Getting something too easily or getting a profit without working for it
 - d. Donation which is given by one in favor of someone without seeking any consideration.

CHAPTER 3

LEGISLATION AND SUPERVISION OF TAKAFUL INDUSTRY IN MALAYSIA

Learning Objectives

By the end of this chapter, students should be able to:

3.1 Elaborate the regulation of Takaful based on Islamic Financial Services Act 2013

3.1.1 Describe the establishment of Takaful operator before and after the Islamic Financial Services Act 2013

3.2 Interpret the role of Bank Negara Malaysia in Takaful industry

3.2.1 Describe the regulatory framework of Bank Negara Malaysia

3.2.2 Describe the supervisory power of Bank Negara Malaysia

3.3 Elaborate the nature of Syariah Supervisory Council

3.3.1 Identify the nature of the Syariah Advisory Council

3.3.2 Identify the nature of Syariah Committee



3.1 ELABORATE THE REGULATION OF TAKAFUL BASED ON ISLAMIC FINANCIAL SERVICES ACT 2013

The development of the Takaful industry in Malaysia started when Takaful Act was enacted by Parliament in 1984. This Act (Takaful Act 1984) provides for the regulation of Takaful business in Malaysia.

On June 30 2013, the Islamic Financial Services Act 2013 replacing the Takaful Act 1984. It empowers BNM to regulate and supervise Islamic financial institutions towards achieving financial stability and compliance with *shariah*. The new act is considered comprehensive and stringent compared to the previous Acts that were replaced. It also provides BNM with the necessary tools for intervention and remedial action.

Section 5 (1), IFSA 2013;

Takaful business shall be divided into two classes—

- (a) family takaful business, which in addition to all takaful business concerned with family takaful certificates shall include any type of takaful business carried on as incidental only to the family takaful operator's business; and
- (b) general takaful business, which means all takaful business which is not family takaful business.

Section 5 (4), IFSA 2013;

For the purposes of this Act—

- (a) a reference to carrying on takaful business includes all or any of the following activities carried on by way of business:
 - (i) receiving proposals to participate in takaful arrangements;
 - (ii) negotiating on proposals to participate in takaful arrangements on behalf of a takaful operator;
 - (iii) issuing of takaful certificates for takaful arrangements;
 - (iv) collection or receipt of takaful contributions on takaful certificates for takaful arrangements; or
 - (v) settlement or recovery of takaful claims on takaful certificates for takaful arrangements,

Establishment of Takaful Operator

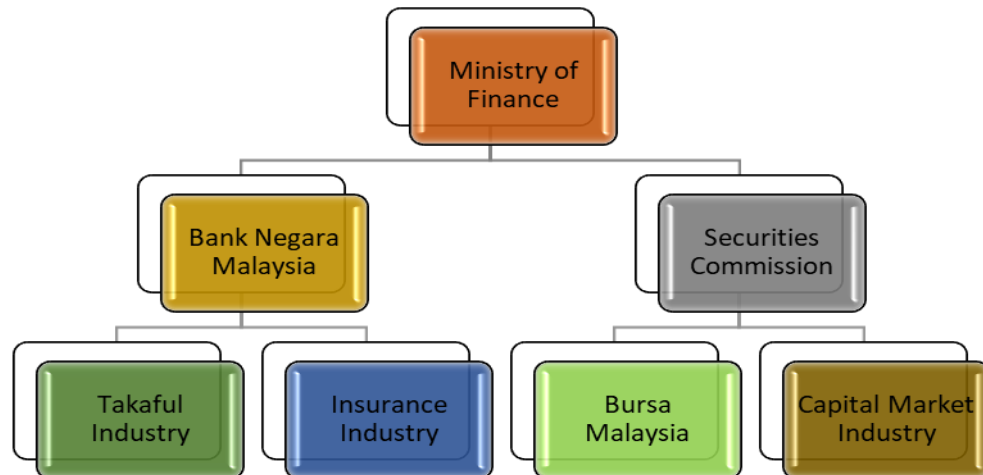
Issues	1984	2013
Products	Limited product mainly confined to motor, fire and mortgage takaful. General products dominated the market with 63% share (in terms of contributions)	Broad range of product mix with sophisticated
Customers	Mainly Muslims	Muslims and non-Muslims with different expectations, preference and demands
Distribution channel	Branches and marketing officers and takaful desks	Branches, marketing officers, agency force, bancatakaful, brokers, internet, strategic alliances
Investment avenues	Confined to Islamic deposits and government Islamic securities	Wider range of shariah-compliant investment instruments issued by the Government and the private sector

3.2 INTERPRET THE ROLE OF BANK NEGARA MALAYSIA IN TAKAFUL INDUSTRY

- **HOW BNM RELATE TO TAKAFUL INDUSTRY?**

Takaful Industry in Malaysia is under the **regulation** of Islamic Financial Services Act 2013 and under the **supervision** of Bank Negara Malaysia.

Public regulations under Ministry of Finance



- **Section 6**

The principal regulatory objectives of the Act are to promote financial stability and compliance with Shariah.

In pursuing these objectives, the Bank shall—

(a) foster—

- (i) the safety and soundness of Islamic financial institutions;
 - (ii) the integrity and orderly functioning of the Islamic money market and Islamic foreign exchange market;
 - (iii) safe, efficient and reliable payment systems and Islamic payment instruments;
- and
- (iv) fair, responsible and professional business conduct of Islamic financial institutions; and

(b) strive to protect the rights and interests of consumers of Islamic financial services and products.

- **Scope of Regulation and Supervision:**

- Formulate regulations and prudential policies as well as supervise the industry to ensure that the takaful business is managed prudently.
- Govern the conduct of the takaful operators through the enactment of Islamic Financial Services Act 2013
- When undertaking a supervisory role, BNM issues various circulars and guidelines aimed at raising the professional standards and accountability of Takaful intermediaries/agents as well as to protect the participants' interests.
 - ✓ This will ensure that prospective clients are able to make an informed decision when participating in any Takaful schemes

- **Objective of regulation & supervision by BNM:**

- Preserve the stability of Takaful Industry;
- Instill public confidence in the Takaful Industry;
- Promote strong governance standards in the management of Takaful Operators;
- Ensure that consumers are well informed for decision making;
- Integrate supervision across borders and sectors.

3.3 ELABORATE THE NATURE OF SYARIAH SUPERVISORY COUNCIL

- ❖ **SHARIAH ADVISORY COUNCIL (SAC) & SHARIAH COMMITTEE (SC)**

Shariah Advisory Council for Islamic Banking and Takaful was established by BNM in May 1997. Its objective is to look after the shariah decision and harmonize shariah interpretation of Islamic Banking and Takaful business under its supervision.

- **Shariah Advisory Council (SAC) of Bank Negara Malaysia**

- For the record, BNM Act 1958 and Takaful Act 1984 were amended in 2003 to further strengthen the role of Shariah Advisory Council.
- The amendment provides the recognition to the council as an authoritative body that has the right over *shariah* matters that relate to Takaful.

- The status of the council was upgraded as a reference point for the Malaysian court on *shariah* issues which relates to Takaful cases.
- To effectively play its role the SAC operates as an independent body of high integrity.
- There is a difference between SAC and *shariah* bodies which act as advisers in Takaful industry.
- A *shariah* body in Takaful industry is known as the Shariah Committee (SC) and plays a complementary role to the SAC of Bank Negara Malaysia.

➤ **Shariah Committee (SC) of Takaful operator**

BNM has issued Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions in April 2005 to govern the Shariah Committee for the Takaful industry.

The objective of the guideline: -

- To set out the rules, regulations and procedures in the establishment of a Shariah Committee
- To define the role, scope of duties and responsibilities of a Shariah Committee
- To define relationship and working arrangement between a Shariah Committee and the SAC of Bank Negara Malaysia

This guideline requires every Takaful Operator to establish Shariah Committee. This is also in line with Section 30 of IFSA 2013.

➤ **The Detailed Guidelines on The Governance of Shariah Committee (SC):**

1. Appointment of Membership

The Board of Directors upon recommendation of its Nomination Committee shall appoint the members of the SC. The appointment of SC members shall obtain prior written approval of Bank Negara Malaysia. The appointment of a SC member is valid for a renewable term of 2 years.

2. Qualification

The proposed member of the SC must at least either have qualification or possess necessary knowledge, expertise or experience in the areas of:

- Islamic jurisprudence (*usul al-fiqh*)
- Islamic transaction/commercial Law (*fiqh al-mu'amalat*)

However, paper qualification is not mandatory as long as the candidate has the necessary expertise or experience in the above areas.

3. Composition

The composition of the SC shall consist of a minimum of five (5) members. In addition to the SC, a minimum of one officer should preferably be a person with knowledge in *Shariah*, who will serve as the secretariat to the SC.

4. Restrictions on SC

In line with Section 16B (6) of the Central Bank of Malaysia Act 1958, a Takaful Operator is not allowed to appoint any member of the Shariah Advisory Council to serve in its SC.

➤ **Duties and Responsibilities of SC**

SC members must not be involved in the management of the Takaful Operator. The management and policies are the responsibility of the Board of Directors.

To ensure the smooth running of the Takaful operation, the **roles and responsibilities of the SC are as follows:**

1. To submit its annual report and certification of the company's adherence to *shariah* in the Annual General Meeting of the Shareholders.
2. Audit and supervise the actual application of contract operation in line with the spirit of the Fatwas.
3. Respond to enquiries from the operator regarding Takaful issues related to Islamic Law and the decision must be by consensus (*syura*) and not by majority.
4. To provide justification and to advise on matters to be referred to the Shariah Advisory Council.

Example of SC @ Takaful Operator:

Great Eastern Takaful Berhad
Shariah Committee



Shariah Committee


Dr. Akhtarzaite Abdul Aziz
Chairman
Assistant Professor, IUM


YBhg Prof. Dato' Dr. Wan Sabri Wan Yusof
Member
Deputy Vice Chancellor, SASU Perak


Dr. Mohamad Sabri Zakaria
Member
Assistant Professor, IUM


Dr. Siti Salwani Razali
Member
Associate Professor, IUM


Dr. Suhaimi AB Rahman
Member
Associate Professor, UPM


Dr. Mohamad Firdaus Mohamad Hatta
Member
Senior Lecturer, UITM

Exercise Topic 3

Answer all questions:

1. Which of the following is the previous ACT for Takaful
 - a. Islamic Banking Act 1983
 - b. Islamic Financial Service Act 1984
 - c. Payment Systems Act 2003
 - d. Takaful Act 1984

2. Takaful operator can be described as:
 - a. A company or society who carries on takaful business as takaful operator
 - b. A company who carries out family takaful product
 - c. Conventional bank and insurance company
 - d. A company who carries out family and general takaful product

3. Choose the correct answer for the following:
 - a. The Financial Services Act (Act 758) and the Takaful Act 1984 were published in the Government Gazette on the 22nd of March 2013.
 - b. The Financial Services Act (Act 758) and the IFSA 2013 were published in the Government Gazette on the 22nd of March 2013
 - c. Insurance Act (Act 758) and the IFSA 2013 were published in the Government Gazette on the 22nd of March 2013.
 - d. The Financial Services Act (Act 758) and the IFSA 2013 were published in the Government Gazette on the 23rd of March 2013

4. Which of the following describes the role of Bank Negara Malaysia in Takaful industry?
 - a. Promote monetary and financial stability conducive to the sustainable growth of the economy
 - b. Determine the amount of contribution and Staff's salary
 - c. As the reference body and advisor to Bank Negara Malaysia on Shariah matters
 - d. To assist related parties on Shariah matters for advice upon request

5. Which of the following is the guidance issued by the Bank Negara Malaysia to help Financial Institution achieve Shariah Compliance Status?
 - a. Muamalat Guidance
 - b. Shariah Governance Framework
 - c. Basic Takaful Practice
 - d. Written Shariah Opinions

CHAPTER 4

STRUCTURE OF TAKAFUL MARKET

Learning Objectives

By the end of this chapter, students should be able to:

4.1 Discuss the structure of Takaful market

4.1.1 Identify the components of Takaful industry

4.1.1.1 Main components

- a. Takaful operator
- b. Participant
- c. Takaful intermediaries

4.1.1.2 Other components

- a. Retakaful operator
- b. Takaful industry associations
- c. Takaful support organization
- d. Support Service Specialist



4.1 DISCUSS THE STRUCTURE OF TAKAFUL MARKET

MAIN COMPONENTS:

1) TAKAFUL OPERATOR

A company / society who carries on Takaful business which agreed to cover the risk of participant for an exchange of contributions to a pool or Takaful fund.

Takaful operator charges an agreed-upon fee to cover costs of managing and administering Takaful fund including sales and marketing, underwriting, and claims management.

An Islamic insurance company operating a Takaful fund must operate under the following principles:

- It must operate according to Islamic cooperative principles.
- A reinsurance commission may only be received from or paid out to Islamic insurance and reinsurance companies.
- The insurance company must maintain two separate funds: a participant and policyholder fund, and a shareholder fund.

How many Takaful Operator in Malaysia?

Check it out!

<https://www.malysiantakaful.com.my/about-mta/members-listing>

2) PARTICIPANT

An individual / company who agreed to pay contributions to a pool or Takaful fund in exchange of Takaful operator covers their risks.

3) TAKAFUL INTERMEDIARIES

- Agent
- Broker

AGENT	BROKER
<ul style="list-style-type: none"> ➤ Appointed by Takaful operator ➤ Could be either part time or full time basis ➤ Explain with correct information, terms and condition, nature of policy to the buyer before the buyer sign the proposal form ➤ Assist in collecting contributions from the policyholder/participants ➤ Assist in maintaining a good relationship and reputation between operator and policyholder ➤ Earns commission 	<ul style="list-style-type: none"> ➤ Appointed by participant/policyholder ➤ Advice participant/policyholder in choosing the best available Takaful product including negotiating the policy and finding a better market with lower contribution ➤ Simultaneously work for Takaful operator by promoting the Takaful operator through finding and convincing the policyholder to buy the policy from operator ➤ Earns brokerage

OTHER COMPONENTS:

1) RETAKAFUL OPERATOR

Retakaful is the Islamic alternative to the reinsurance industry. In the conventional insurance industry, an insurance company reduces its risk of paying large claims by insuring a portion of its risk with another insurance company. The third party is called a reinsurer, and it helps the insurance company in situations involving natural disasters, widespread fires, riots, and other major events that significantly affect many policyholders at once. In general, there are two basis of retakaful arrangements adopted by takaful operator which are treaty retakaful and facultative retakaful.

2) TAKAFUL INDUSTRY ASSOCIATIONS & TAKAFUL SUPPORT ORGANIZATION

The following **Educational Associations** play a vital role in providing takaful and insurance knowledge in Malaysia:

- a) The Actuarial Society of Malaysia (ASM)
- b) Malaysia Insurance Institute (MII)
- c) Asian Institute of Finance (AIF)
- d) Finance Accreditation Agency (FAA)
- e) Islamic Banking & Finance Institute Malaysia (IBFIM)

While, **Takaful & Insurance Associations** are as follows:

- a) Persatuan Insurans Am Malaysia (PIAM)
- b) Life Insurance Association of Malaysia (LIAM)
- c) Malaysia Takaful Association (MTA)
- d) Malaysian Association of Risk & Insurance Management (MARIM)
- e) Malaysian Insurance & Takaful Brokers Association (MITBA)
- f) Association of Malaysian Loss Adjustors (AMLA)
- g) National Association of Malaysian Life Insurance and Financial Advisors (NAMLIFA)
- h) National Insurance Association of Malaysia (NIAM)
- i) Motor Insurers' Bureau (MIB)
- j) Insurance Services Malaysia Berhad (ISM)
- k) Malaysia Financial Planner Council (MFPC)

3) **SUPPORT SERVICE SPECIALIST**

Service specialist- They provide support services to the insurers and the insured.

➤ **Loss adjusters**

They are independent parties appointed to survey any loss that has occurred. They investigated the cause and extent of the loss and report their findings and recommendations to the insurers who would then decide whether the loss is covered and if so, the amount of compensation required.

➤ **Loss assessors**

They are generally employed by insured when it is difficult to assess the extent of the loss. The assessor does not deal with claims. He is specialist in calculating loss settlement figures.

➤ **Actuary**

A business professional who analyses the financial consequences of risk. Actuaries use mathematics, statistics and financial theory to study uncertain future events especially those of concern to insurance, takaful and pension programme. An Actuary is a fellow of the professional groups called Society of Actuaries (SOA) working in life and health insurance, family takaful, employee benefits and pensions.

➤ **Engineers**

Engineering firms are generally retained by insurance companies to report on risk or claims on boilers, pressure vessels, lifts, crane and etc.

➤ **Marine and cargo surveyors**

They are specialist appointed by insurers to survey ships and cargoes that have been damaged and to report on the cause and extent of loss.

➤ **Medical Practitioner**

Medical practitioner, both general practitioners and specialist, are involved in areas such as medical opinions, certification of Medical Conditions and providing medical referral. They may be asked to complete the attending physician statement on the illness declared/identified by the proposer, the medical examiner or the underwriter.

➤ **Advocate and Solicitor**

In the event when that claim dispute can still not be settled. Usually high costs are involved for claim settlement via court litigation involving advocate/solicitor.

Exercise Topic 4

Answer all questions:

1. Which of the following describe "Participant"
 - a. Those who enter into an agreement with takaful operator for the purpose of takaful
 - b. Those who registered with BNM to be agents and broker
 - c. Those who represent the takaful operator promote the product.
 - d. Those who represent the customer to find the best takaful protection for the proposed subject matter.

2. Which of the following discusses the role of Syariah Supervisory Council.
 - a. Responsible for validating all Islamic banking and takaful products to ensure their compatibility with Shariah principles
 - b. Requirements relating to shareholders' fund in respect of takaful funds
 - c. Establishment and maintenance of takaful funds
 - d. Strive to protect the rights and interests of financial consumers

3. The example of Support Service Specialist is,
 - a. Pilot
 - b. Taxi driver
 - c. Teacher
 - d. Risk surveyor

4. Which of the following is the member of PIAM
 - a. Broker Company
 - b. Loss Adjuster comp
 - c. Family Takaful Operator
 - d. General Takaful Operator

5. Which of the following discuss the roles of Loss Adjuster
 - a. Assist Takaful Operator to determine the amount of risk
 - b. Assist Takaful Operator to deal with the agent for the underwriting process
 - c. Provide medical claim report to the Takaful Operator
 - d. Assist Takaful Operator to investigate the circumstances and extent of a substantial loss

CHAPTER 5

RETAKAFUL

Learning Objectives

By the end of this chapter, students should be able to:

5.1 Describe the nature of Retakaful

- 5.1.1 Clarify the concept of Retakaful
- 5.1.2 Describe the syariah view on Retakaful
- 5.1.3 Explain the fundamental principle of Retakaful contract
- 5.1.4 Identify the functions of Retakaful



5.1 DESCRIBE THE NATURE OF RETAKAFUL

5.1.1 Clarify the concept of Retakaful

Retakaful is a risk aversion method to hedge against possible incapability in case of Takaful Fund that was managed by the Operator faced limited financial resources in which Takaful Operator appoint a Retakaful Operator to cover a large proportion of the participant's risk sharing.

Definition:

“A contract whereby one for a consideration agrees indemnify another wholly or partially against loss liability by a risk the latter has covered under separate and distinct contract as operator of third party.”

Therefore, retakaful refers the contract of risks sharing between a takaful company and another takaful (a retakaful) company or insurance (and reinsurance company). With an effective retakaful arrangement, a takaful company may increase its capacity and stabilise its underwriting performance, as well as able to preserve the takaful fund from a significant financial burden should there be unexpected volume of claims.

Parties to Retakaful

i. Ceding Company

The ceding company which desires to relieve the participants from the part of risk insured. This party we call it as Takaful Operator

ii. Takaful Operator / Insurer

The company which accept that portion of risk, which is reinsured. This party we call it as Retakaful Operator

Basis of Retakaful

1) Treaty Retakaful

- Annual contract whereby Retakaful Operator automatically accept any cessions falling within the terms of agreement
- Need renewal each year
- Subject to time period and restrictions such as types of risk or value involved.
- Usually arranged on portfolio basis involving a bouquet of risks ceded to the Retakaful, over and above the retention limits of the cedant.

2) Facultative Retakaful

- Contract placed on case to case basis
- Useful when Takaful cover is unusual or large and the Takaful Operator is concerned about the exposure
- Takaful Operator may offer the all or part of risks but the Retakaful Operator has an option whether to accept or decline the offer
- Enable Takaful Operator to dispose of risk sharing particularly large risk which beyond the scope of treaty facilities available
- Can be used to cover an extra hazardous nature of claim

5.1.2 Describe the syariah view on Retakaful

In line with the scholars' resolution on the permissibility of Takaful as a system of Islamic Insurance, relatakul likewise has been resolved to be syariah compliance along with the same principles of Takaful. The resolution of the Fiqh Academy (Resolution No. 9, December 1985) of the Organisation of Islamic Cooperation (OIC) on this subject is as follows:

“...Commercial insurance contract commonly used by the commercial insurance companies is a contract which major elements of risks which is prohibited according to syariah. The alternative for both insurance & reinsurance should be based on the principles of cooperative insurance...”

Types of Retakaful:

1) Inward Retakaful

The takaful company accepts risks from another takaful (and retakaful) company or other conventional insurance (and reinsurance) company;

2) Outward Retakaful

The takaful company distributes or cedes its underwritten risks to another takaful (and retakaful) company or other conventional insurance (and reinsurance) company.

Retakaful with Conventional Insurance and Reinsurance Company

The SAC, in its 47th meeting dated 14 February 2005, has resolved the following:

- A takaful company is not allowed to accept inward retakaful whether on treaty or facultative basis from a conventional insurance company and reinsurance company; and
- A takaful company is given the flexibility to distribute its risks based on outward retakaful to conventional insurance company and reinsurance company subject to the following conditions:
 - i) Priority shall be given to a takaful company and retakaful company
 - ii) Non-existence of a takaful company and retakaful company, either locally or internationally, that is viewed as capable to absorb the distributed risks
 - iii) The strength of the takaful company and retakaful company, either locally or internationally, is doubtful

5.1.3 Explain the fundamental principle of Retakaful contract

Principles of Retakaful

Eventhough Retakaful Operator agrees to indemnify a ceding company (Takaful Operator), but it does not discharge the ceding company from its liability to participants. In this respect:

- ♣ The original participant has no rights against the Retakaful Operator in whatever circumstances
- ♣ If the Retakaful Operator becomes insolvent, the ceding company remains liable under the terms of contract
- ♣ If the ceding company becomes insolvent, the Retakaful Operator is still liable under the terms of contract
- ♣ The Retakaful Operator has no contractual right against any wrong doing of the original participant

5.1.4 Identify the functions of Retakaful:

- ✓ **Enhance Underwriting Capacity**

Risk sharing by allowing Takaful fund received business exceed its underwriting capacity. It will enable the Takaful Operator to fulfil the needs of the public, in particular of large industrial or mega risks.

- ✓ **Stabilization Cost of Claim**

Help the Takaful funds against fluctuation of aggregate claim costs arising from the frequency and/or severity, because the cost of claims against the Takaful fund will be limited to retention capacity.

- ✓ **Expansion**

Retakaful can provide additional expertise to an operator in areas where the operator has limited experience, expertise and knowledge. By providing this assistance and accepting part or all the risk, the Retakaful Operator helps the Takaful Operator to produce more products in market.

- ✓ **Accumulation**

A Takaful Operator could incur losses on business to cover number of different risks which results from a single event. For example: Takaful Operator may cover group of peoples working in many different companies who, at any one time could be travelling on same aircraft. If the aircraft crashes and all those killed, the resulting claims could far exceed the maximum losses that were predetermined acceptable. Retakaful assists the operator to limit such losses to an amount which ceding company can afford.

Exercise Topic 5

Answer all questions:

1. In Retakaful concept, the amount of risk borne by the takaful fund for its own account called.....
 - a. Retention limit
 - b. Automatic transfer
 - c. Non-proportional
 - d. Personal Accident

2. Which of the following is the right concept of Retakaful?
 - A. It is a risk management method used if the takaful operator faces bankruptcy.
 - B. It is the backup if there is financial deficiency during pandemic.
 - C. It is a transaction where two or more takaful operator share the same subject matter or peril together.
 - D. It is one of the risk management tools used by the takaful operator to share part of the risk proposed by the participants.

3. Which of the following is the function of retakaful?
 - a. To review takaful industry on Shariah matter
 - b. To protect against catastrophe
 - c. To increase takaful operator's income
 - d. To give licence to general Takaful Operator

4. Which of the following is the right concept of treaty retakaful?

- A. It is usually based on annual agreements.
- B. It is offered and accepted on a case.
- C. The arrangement is optional.
- D. The retakaful company is not obligated to join.

5. offered and accepted on a case.

- A. General retakaful
- B. Family retakaful
- C. Treaty retakaful
- D. facultative retakaful

CHAPTER 6

TYPES OF TAKAFUL CERTIFICATE

Learning Objectives

By the end of this chapter, students should be able to:

6.1 Explain the types of Takaful certificate

6.1.1 Describe the types and scope of cover of general Takaful certificate

6.1.2 Describe the types and scope of cover of family Takaful certificate



6.1 EXPLAIN THE TYPES OF TAKAFUL CERTIFICATE

6.1.1 Describe the types and scope of cover of General Takaful Certificate

General takaful certificate provides cover against risks usually not covered by family takaful and are usually made for a period of **one year or less**. At the end of the period, it is renewable by mutual consent of the participant and operator.

Besides that, general takaful certificate contracts are contracts of indemnity. The aim is to place the participant in the same financial position as that occupied before the occurrence of the insured risk, subject to maximum limits of the insured amounts.

A payment of a claim does not terminate a general takaful certificate contract. Meaning to say is more one claim can be made in each year of issuance. In general takaful certificate, the insured risk may not increase with the duration. In fact, may decrease due to better safety measures taken by the participant. For example, installation of water sprinklers.

General takaful certificate contracts can be arranged to provide cover against the following forms of risk to the insured and/ or third parties in respect of:

- ✓ Lost or damage to property eg: motor vehicle, ship, building, stock in trade
- ✓ Legal liability caused by products or goods sold or the process carried out
- ✓ Death or injury to a person by an accident.

The basic principles of general takaful certificate are as follow:

- ✓ Insurable interest
- ✓ Utmost good faith
- ✓ Subrogation
- ✓ Contribution
- ✓ Indemnity
- ✓ Proximate Cause

There are several products of General Takaful offered by Takaful Operator in Malaysia namely:

1. Motor Takaful

Definition

Motor Takaful covers you against loss or damage to your vehicle due to accidental fire, theft or accident. It also covers bodily injury or death of a third party as well as loss or damage of a third party's property.

Type of Cover	Description
1-Act	<p>This form of cover provides:</p> <ul style="list-style-type: none"> • the participants' legal liability for death or bodily injury to any third party (excluding passengers carried out of and in pursuance of a contract of employment) arising out of the use of the participant's motor vehicle on a road <p><i>Note: This is the least form of cover required under the Road Transport Act 1987.</i></p>
2-Third Party Cover	<p>This form of cover provides the above Act Only cover plus:</p> <ul style="list-style-type: none"> • legal liability for loss or damage to third party property arising out of the use of the motor vehicle • legal liability refers to tortious liability, not contractual liability, e.g. arising due to the participants' negligent or reckless driving
3-Third Party, Fire and Theft Cover	<p>This form of cover provides the above Act Only cover plus:</p> <ul style="list-style-type: none"> • legal liability for third party bodily injury and third party property damage cover • accidental loss of or damage to the vehicle as a result of fire or theft

<p>4- Comprehensive Cover</p>	<p>In addition to the Third Party cover mentioned above, the Comprehensive plan covers loss or damage to the participant's vehicle, spare parts or accessories arising out of the following events:</p> <ul style="list-style-type: none"> • accidental collision or overturning • collision or overturning caused by mechanical breakdown • collision or overturning caused by wear and tear • impact damage caused by falling objects provided not resulted from convulsion of nature • fire explosion or lightning • burglary, housebreaking or theft • malicious act • while in transit – including the processes of loading and unloading incidental to such transit) by: <ul style="list-style-type: none"> <input type="checkbox"/> road, rail, inland waterway, lift or elevator <input type="checkbox"/> direct sea route across the straits between the island of Penang and the mainland <input type="checkbox"/> impact damage caused by falling objects provided no convulsion of nature is involved
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2. Marine Takaful

Definition

Marine Takaful covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination. Marine also includes Onshore and Offshore exposed property (container terminals, ports, oil platforms, pipelines); Hull; Marine Casualty; and Marine Liability.

Basic Cover	<p>Loss of or damage to property and interest by maritime perils which include:-</p> <ul style="list-style-type: none"> ✓ perils of the sea ✓ heavy weather ✓ stranding or collision ✓ fire and like perils ✓ pilferage
Subject Matter of Takaful	<p>The following may form the subject matter of a Takaful:</p> <ul style="list-style-type: none"> ✓ Hull and machinery ✓ Legal liability arising out of collision ✓ Cargo and freight <p>With the exception of the collision liability which is covered under a marine hull, different marine certificate are generally used to cover the different subject matter.</p>

Types of Certificate

Type	Subject Matter
Marine Hul	Vessel, machinery and limited collision liability
Marine Cargo	Goods carried on the vessel
Marine Freight	Freight (money, free charged for carriage of goods by the vessel)
Marine Building	Vessel under construction/repair

3. Fire Takaful

Definition

This type of Takaful provides cover against loss of or damage to property caused by fire and other specified perils.

<p>Basic Cover</p>	<p>Loss of or damage to buildings (of factories, shops, offices, private dwellings, etc.), and contents (for example, furniture, fixtures & fittings, plants & machinery, office equipment, stocks-in-trade, personal effects and household goods) caused by the following perils:</p> <ul style="list-style-type: none"> ✓ fire ✓ lightning ✓ explosion of gas used for illuminating and domestic purposes only 																		
<p>Extended Peril</p> <p>In addition to the basic Fire Takaful, a further range of perils may be extended under the standard cover but subject to additional contribution.</p>	<p>Under this extension the following perils are commonly covered:</p> <table border="1" data-bbox="730 1406 1382 1977"> <thead> <tr> <th>Dry Perils</th> <th>Wet perils</th> <th>Miscellaneous Perils</th> </tr> </thead> <tbody> <tr> <td>Aircraft and aerial devises</td> <td>Storm and tempest</td> <td>Impact damage</td> </tr> <tr> <td>Explosion</td> <td>Flood</td> <td>Subsidence and landslip</td> </tr> <tr> <td>Riot, Strike, malicious damage and Civil Commotion</td> <td>Bursting of pipes</td> <td>Subterranean fire</td> </tr> <tr> <td>Bush, lallang fire</td> <td>Overflowing of water tanks</td> <td>Spontaneous combustion</td> </tr> <tr> <td>Earthquake and Volcanic Eruption</td> <td>Sprinkler leakage</td> <td>Loss of rent</td> </tr> </tbody> </table>	Dry Perils	Wet perils	Miscellaneous Perils	Aircraft and aerial devises	Storm and tempest	Impact damage	Explosion	Flood	Subsidence and landslip	Riot, Strike, malicious damage and Civil Commotion	Bursting of pipes	Subterranean fire	Bush, lallang fire	Overflowing of water tanks	Spontaneous combustion	Earthquake and Volcanic Eruption	Sprinkler leakage	Loss of rent
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Earthquake and Volcanic Eruption	Sprinkler leakage	Loss of rent																	

<p>Property/Asset Can Be Covered under Fire Takaful</p>	<p>The following items may be covered under Fire Takaful:</p> <ul style="list-style-type: none"> ✓ Buildings, to include out buildings such as walls, fences, garages, etc. ✓ Plant and Machinery ✓ Stock and stock in trade ✓ Loss of Rent ✓ Furniture, Fixtures and Fittings ✓ Goods Held in Trust or Commission ✓ Professional Fees ✓ Removal of Debris
<p>Rating and Underwriting Criteria</p>	<p>Fire Takaful is normally rated and underwritten based on the following criteria:</p> <ul style="list-style-type: none"> ✓ Construction of building – bricks, wood, steel, etc. ✓ Type of building – detached, attached complexes, etc. ✓ Value of building - cost of rebuilding; (excluding value of land) ✓ Use of building – residential house, shop house, factories, office complex, commercial complex, etc. ✓ Location of building – towns, villagers, industrial areas, residential areas, flood-prone areas ✓ Additional risks covered

4. Liability Takaful

- Workmen’s Compensation Takaful

Basic Cover	Indemnifies the employer (participant) to pay compensation under Workmen's Compensation Ordinance to all employees who are 'workmen' in respect of death or injuries due to accidents or occupational diseases arising out of and in the course of employment
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- Foreign Workers’ Compensation Scheme (FWCS)

Basic Cover	<p>This covers:</p> <ul style="list-style-type: none"> • death, permanent total or partial disablement resulting from any injury arising out of and in the course of employment • hospitalization and medical expenses • occupational diseases, e.g. lung cancer caused by asbestos • repatriation expenses – compensation payable to repatriate remains to the country of origin of the worker in the event of death or permanent total disablement • personal accident (off - work hours)
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- Public Liability Takaful

Basic Cover	The Public Liability certificate is designed to protect a business firm in respect of its legal liability to pay compensation for death or injury to third parties and damage to property of third parties caused by or through negligence of the firm or its employees or by defects in its premises.
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	The cover includes legal costs incurred by the firm, with the prior consent of insurer.
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- Professional Indemnity Takaful

Basic Cover	Professional Indemnity Takaful protects a professional (for example, an accountant, engineer or doctor), in respect of liability arising out of professional negligence committed by him, or his predecessors, or his employees. The cover includes legal costs incurred by the professional, with the insurer's prior consent.
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- Product Liability Insurance

Basic Cover	<p>A Product Liability Takaful provides cover to a manufacturer or seller against his legal liability for death or injury or damage to property caused by defects in the goods supplied or sold by the insured.</p> <p>Examples of products that may give rise to product liability include electrical appliances, machinery, pharmaceutical products, cosmetics and toys. The cover includes legal costs incurred by the firm, with the insurer's prior consent.</p>
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- Directors' and Officers' Liability (D&O)

Basic Cover	<p>A directors' and officers' liability certificate provides cover for:</p> <ul style="list-style-type: none"> • an indemnity to the company in respect of the costs it incurs in indemnifying a director against the successful defense of a claim
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	<ul style="list-style-type: none"> • an indemnity to the director in circumstances where this cannot be obtained from the company because the defense has not been successful
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5. Personal Accident Takaful

Definition

Personal Accident (PA) Takaful is an annual plan that provides compensation in the event of death, disablement or injuries arising *solely* from an accidental cause. Participation in a PA Takaful can be for an individual or group plan for the family, company or any registered groups. PA Takaful is also available for short durations, like for travelling abroad; to cover should any accident occurring during the travel.

Cover for PA Takaful is usually provided in respect of accidents occurring anywhere in the world, 24 hours a day, subject to the terms and conditions of the certificate. Companies covering their employees may want to save contribution by restricting cover to business hours plus business travels and activities only.

Basic Cover	<p>The basic cover of a PA Takaful includes death and disablement arising from accidents. The coverage may also include medical expenses, hospitalization benefits, corrective surgery and funeral expenses, if required.</p> <p>A person may choose to either take up a PA Takaful for himself or join a group plan for his family. Employers can purchase PA Takaful for their employees and in such cases; payment of compensation to the employees is at the discretion of the employer, unless PA benefits has been specifically mentioned in their letter of employment. Certain PA Takaful plans specify the range of age limits that can be covered.</p>
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6. Fidelity Guarantee

Definition

Fidelity Guarantee can be offered to employers to cover infidelity of their employee(s) who hold positions of trust like handling cash, stocks, store-keeping, etc. This certificate is designed to provide coverage against the risk of misappropriation or embezzlement committed by permanent and authorized employee(s) of the Participant during the course of their employment.

There are essentially 3 types of fidelity certificate issued by Takaful Operator:

Certificate	Explanation
Individual Certificate	This certificate covers a named employee for a stated amount.
Collective Certificate	<ul style="list-style-type: none">• Named Collective This certificate incorporates a schedule containing the names and duties of guaranteed individuals. The amount of guarantee is set against each name, and this can be an individual sum or a floating sum over the whole schedule.• Unnamed Collective This certificate covers the employer against loss arising from dishonest or fraudulent acts committed by employees belonging to certain specified categories, for example managers, cashiers, store-keepers and clerks.• Blanket Certificate: This certificate covers employers against loss arising from dishonest or fraudulent acts of all employees, without showing names or positions.

7. Fidelity Bonds

Definition

A fidelity bond is a form of takaful protection that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. It usually covers a business for losses caused by the dishonest acts of its employees.

While called bonds, these obligations to protect an employer from employee-dishonesty losses are really takaful policies. These takaful policies protect from losses of company monies, securities, and other property from employees who have a manifest intent to cause the company to sustain a loss and obtain an improper financial benefit, either for themselves or another party.

There are also many other coverage extensions available through the purchase of additional insuring agreements. These are common to most crime insurance policies (burglary, fire, general theft, computer theft, disappearance, fraud, forgery, etc.) and are designed to further protect specific company assets.

8. Aviation Takaful

Definition

Aviation Takaful is a coverage geared specifically to the operation of aircraft and the risks involved in aviation. Aviation Takaful certificates are distinctly different from those for other areas of transportation and tend to incorporate aviation terminology, as well as terminology, limits and clauses specific to aviation insurance. Most aviation certificates are issued on an “all-risks” basis subject to certain restrictions. The participants of these certificates are the large commercial airlines, the corporate or business aircraft owners, private aircraft owners and flying clubs.

Basic Cover	<p>Usually a comprehensive certificate is issued to cover:</p> <ul style="list-style-type: none"> ✓ the aircraft itself (the hull) ✓ liability to passengers and others <p>In addition, the following certificates are also available:</p> <ul style="list-style-type: none"> ✓ Public Liability Cover <p>This coverage, often referred to as <i>third party liability</i> covers aircraft owners for damage that their aircraft does to third party property, such as houses, cars, crops, airport facilities and other aircraft struck in a collision. It does not provide coverage for damage to the insured aircraft itself or coverage for passengers injured on the insured aircraft. After an accident an insurance company will compensate victims for their losses, but if a settlement cannot be reached then the case is usually taken to court to decide liability and the amount of damages.</p> <ul style="list-style-type: none"> ✓ Passenger Liability Cover <p>This cover protects passengers riding in the accident aircraft that are injured or killed. In many countries this coverage is mandatory only for commercial or large aircraft. Coverage is often sold on a "per-seat" basis, with a specified limit for each passenger seat.</p> <ul style="list-style-type: none"> ✓ Combined Single Limit (CSL) <p>CSL coverage combines public liability and passenger liability cover into a single coverage with a single overall limit per accident. This type of coverage provides more flexibility in paying claims for liability, especially if passengers are injured, but little damage is done to third party property on the ground.</p> <ul style="list-style-type: none"> ✓ Freight Liability <p>This protects the aircraft operator against legal liability to refund freight to cargo owners.</p>
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	<p>✓ Personal Accident</p> <p>This protects pilot and crew members in the event of personal injury or death arising out of an accident.</p> <p>✓ Loss of License</p> <p>This protects pilots, flight navigators, flight engineers against financial losses as a result of the loss of their licenses.</p>
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9. Miscellaneous Accident Takaful

Definition

This class of Takaful comprises all the types of Takaful that do not fall within the Marine, Fire, Engineering and Motor classes.

Basic Cover	<ul style="list-style-type: none"> • Money Takaful (Cash in Safe/Cash in Transit) • Fidelity Guarantee • All Risk Contents • Third Party Liability • Plate Glass • Personal Accident • Workmen Compensation • Travel Accident • Hajj & Umrah Takaful
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6.1.2 Describe the types and scope of cover of family Takaful certificate

Several products under family takaful:

1. Family Takaful

Definition

Family takaful provides you with both a protection policy and long term savings for your peace of mind. You or your beneficiary will be provided with financial benefits if you suffer a tragedy. At the same time, you will enjoy an investment return because part of your contribution will be deposited in an account for the purpose of savings. You have a choice of maturity periods and there is no forfeiture in the event of cancellation. You are also entitled to personal tax relief when you participate in family takaful.

Salient Features

- Open to all individuals aged 18 to 55 years
- A choice of maturity periods
- No forfeiture in event of cancellation
- Facility for part-withdrawal
- Surplus sharing with takaful operator
- Provide long term savings and investment

Basic Types of Family Takaful

- Ordinary family
 - Individual family takaful
 - The plans include education, mortgage, health and riders. You and your beneficiary will receive financial benefits arising from death or permanent disability, as well as long-term savings (investment), and investment profits that are distributed upon claim, maturity or early surrender.
 - Group family takaful
 - This policy is for employers, clubs, associations and societies. The plans include group education, group medical, health and riders. A minimum number of

participants are required to qualify under these plans. You will receive protection in the form of financial benefits arising from death or permanent disability.

- Retirement Annuity
 - A plan that provides regular income upon your retirement.

- Investment-linked Takaful
 - A portion of your contribution is used to buy investment units, such as units in equity or fixed income securities. The takaful protection covers death and permanent disability. A family takaful rider is an extension of the basic family takaful. The rider provides coverage against personal accident and disability, medical and health.

2. Investment Linked Takaful

Definition

An investment-linked takaful is a family takaful plan that combines investment and takaful cover. Your contribution gives you a takaful cover, which includes death and disability benefits and also an investment in a variety of Shariah approved investment funds of your choice.

Salient Features

- You have the flexibility to choose your own level of protection and investment
- You can vary the amount of your contribution according to your changing financial circumstances
- You can switch your current investment fund to other types of investment funds.
- You can claim part of your investment-linked units at any point in time.
- You can choose from a variety of investment-linked funds (equities, bonds or other financial instruments) to invest in.

Types of Coverage

Single Contribution Plan	Regular Contribution Plan
With this plan, you invest one single lump-sum payment.	This plan lets you make your contributions either monthly, quarterly, half-yearly or yearly.
The sum assured is usually a percentage of the single contribution, while the benefit payments are the sum assured and the value of the investment-linked units.	The sum assured is usually a multiple of the annual contribution.
This plan is more suited to you if you have a substantial sum ready for investment.	The benefit payment is the sum assured and the value of your investment-linked units.

3. **Child Education Takaful**

Definition

Child Education Takaful Plan (CETP) provides you with protection and long term savings to finance the higher education expenses of your child. The plan will provide your child with financial benefits if you suffer any set back covered under the plan. The plan also gives your child long-term savings (or education fund), that your child can use to continue his or her studies.

Participating in a CETP also makes you eligible for personal tax relief of up to a maximum of RM3, 000 per year for the combination of both medical and education plans. A family takaful rider or an extension of basic coverage for both you and your child is also available. The rider provides coverage against personal accident and disability, hospitalization benefits, funeral expenses and critical illnesses.

Salient Features

- Open to all individuals aged 18 to 55 years and children aged between 15 days to 17 years
- Limited choice of maturity periods

- No forfeiture in the event of cancellation
- Facility for part withdrawal
- Surplus sharing with takaful operator
- Provide long term savings and investment

Basic Types of Plans

- Ordinary Child Education Takaful
 - You and your child will receive financial benefits arising from death or permanent disability, as well as long-term savings (education fund), and investment profits that are distributed upon claim, maturity or early surrender.
- Investment-linked Child Education Takaful
 - A portion of your contribution is used to buy investment units, such as units in equity or fixed income securities. In addition to the ordinary takaful protection, which covers death and permanent disability, the investment units will be sold upon claim, maturity or early surrender.

4. Medical and Health Takaful

Definition- Medical and health takaful gives you cover for the cost of private medical treatment, like hospitalisation, surgery and treatment, if you are diagnosed with certain illnesses or are involved in an accident. The cover acts as a stand-alone policy or can be added to a basic family takaful plan, providing better coverage and benefits from both policies.

Example medical and health takaful products:

- a. Medical expenses takaful
- b. Hospitalization cash benefit
- c. Critical illness takaful
- d. Disability income takaful

a. Medical expenses takaful

Medical expense takaful certificate designed intended to pay the cost of treatment on disability, subjected to the limitations and conditions contained in policy. Sometimes, additional benefit such as Daily Hospital Cash benefits also will be provided.

There are takaful certificates expenses pay medical expenses for every RM amounts or operator may use a particular approach such as deductibles or payment method together. Hospitalization takaful certificate and basic case surgery, operators usually pay expenses for each RM will apply. While in major medical policy, the operator usually pays the amount that exceeds the limit as per pre-agreed amount. These include hospitalization charges, physician fees and other necessary expenses incidental to the injuries. The amount paid for each items is subjected to certain percentage of ach costs incurred up to a certain maximum amount.

i.e; Hospitalization Takaful and Surgery

Hospitalization and surgery takaful designed to make payment of the cost of treatment when undergo as a patient at insured hospital (hospitalization) or to undergo surgery. Surgical treatment in form of daily operation (not included hospitalization) may also be given takaful protection.

- **BENEFITS**
 - Hospital and Surgical Benefits
 - Intensive Care Unit
 - Operating Theatre
 - Hospital Miscellaneous
 - Services
 - Anesthetist's Fees
 - Pre-Hospital Diagnostic Test
 - In-Hospital Physician"s Visit
 - Post-Hospitalization Treatment

- **OUT PATIENT BENEFITS**
 - Emergency Out-Patient Treatment
 - Accidental Only Emergency
 - Accidental Dental Treatment
 - Ambulance Fees
 - Cancer Treatment
 - Kidney Dialysis

There are also policies that offer an additional protection such as: -

- i. Hospital Daily Cash Allowance
- ii. Outpatient Treatment of Cancer
- iii. Outpatient Dialysis for kidney patients
- iv. Organ Transfer
- v. Daily Allowance Child Care

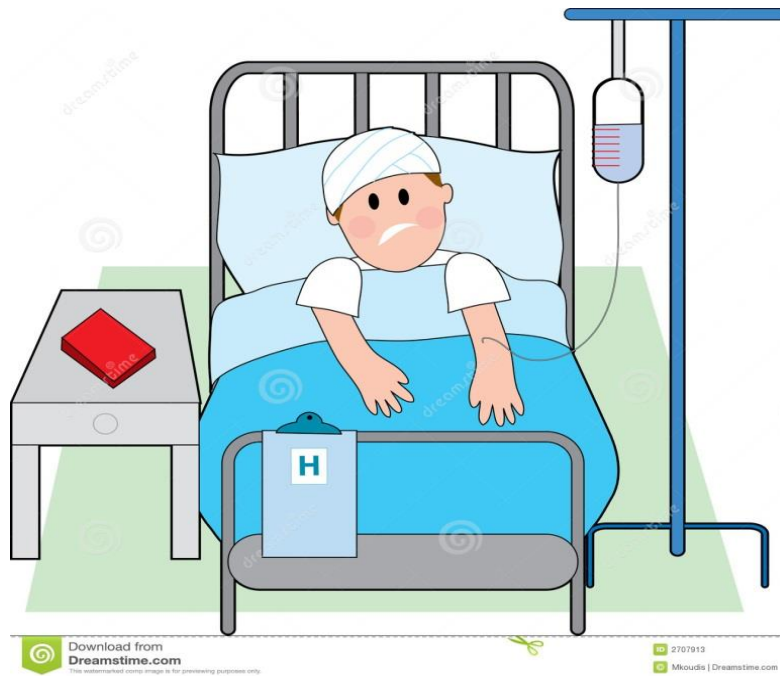
Service tax normally not charged, unless the terms of the policy states it must be paid.

b. Hospitalization cash benefit

Takaful operator will pay you a specified sum of money on a daily, weekly or monthly basis, subject to an annual limit, if you have to stay in a hospital due to covered illness, sickness or injury. The Hospitalization cash benefit comes in handy when the insured has a sudden hospitalization on his/her hands. In the event of hospitalization during the term of the family takaful certificate, a daily hospital cash amount is payable to the insured if she/he is hospitalized for more than two/three days due to any injury, sickness or disease. The amount of reimbursement could be a proportion of the room charge in hospital or the eligible daily hospital cash amount, whichever is lower.

Example of Hospitalization Cash Benefit offered by RHB Personal Insurance:

Benefits	Plan	Plan
	Gold	Diamond
Daily Hospital Cash (Up to 180 days)	RM100 per day	RM200 per day
Daily Intensive Care Cash (Up to 30 days)	RM200 per day	RM400 per day
Extra Lump Sum Cash (Hospitalisation exceeding 15 consecutive days)	RM500	RM1000



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c. Critical illness takaful

Provides you a lump sum benefit upon diagnosis of any of the 36 dread diseases or specified illnesses. Critical illnesses such as cancer, heart attack, stroke, coronary heart disease and kidney failure today rank as high risk diseases in Malaysia. And the risk level rises as we age.

List of critical illness are per below:-

AIDS as a result of a blood transfusion	Multiple Sclerosis
Heart Attack	Chronic Liver Disease
Alzheimer's Disease	Muscular Dystrophy
Heart Valve Replacement or Repair	Chronic Lung Disease
Aorta Surgery	Other Serious Coronary Artery Disease
Kidney Failure	Coma
APALLIC Syndrome	Paralysis
Loss of Limbs	Coronary Artery Disease Requiring
Aplastic Anaemia	Parkinson's Disease
Loss of Speech	Surgery
Bacterial Meningitis	Poliomyelitis
Major Organ Transplant	Deafness
Benign Brain Tumour	Primary Pulmonary Arterial
Major Burns	Hypertension
Blindness	Encephalitis
Major Head Trauma	Stroke
Brain Surgery	Full Blown AIDS
Motor Neurone Disease	Terminal Illness
Cancer	Fulminant Viral Hepatitis

d. Disability income takaful

Provides periodic payments when the insured is unable to work because of sickness or injury. The amount payable is normally a percentage of the participant's monthly income.



Exercise Topic 6

Answer all questions:

1. Money Takaful provides coverage for,
 - a. Death or bodily injury to a third party
 - b. Damage to participant's vehicle
 - c. Damage to participant's property
 - d. Loss of money in the personal custody and cover of the participant's authorized employees whilst in direct transit between the said premises and bank(s).

2. Which of the following is the answer for investment link takaful?
 - a. A plan that provides regular income upon your retirement
 - b. The plans include education, mortgage, health and riders.
 - c. The plans include group education, group medical, health and riders
 - d. A portion of the contribution is used to buy investment units, such as units in equity or fixed income securities.

3. Which of the following is the type of scheme under fire takaful
 - a. Marine cargo Takaful
 - b. Houseowner takaful
 - c. Fidelity guarantee Takaful
 - d. Personal accidents takaful

4. Following are the example of schemes under Fire takaful, EXCEPT:

- a. storage tanks
- b. Machinery breakdown
- c. Erection all risk
- d. Business interruption

5. Section A comprehensive motor takaful covers:

- a. Legal fee
- b. Liability to third party
- c. Liability to passenger
- d. Loss or damage to participants vehicles

CHAPTER 7

COMPARISON BETWEEN CONVENTIONAL INSURANCE & TAKAFUL

Learning Objectives

By the end of this chapter, students should be able to:

7.1 Compare between conventional insurance and Takaful

7.1.1 Describe the nature and characteristics of conventional insurance and Takaful



7.1 COMPARE BETWEEN CONVENTIONAL INSURANCE AND TAKAFUL

Basis / the nature of Conventional Insurance

Insurance is an agreement whereby a group of individuals facing similar risks can share the fortuitous losses of the unlucky few by the transfer of such risks to the insurer who agree to compensate the losses. Conventional insurance can be defined as a contract whereby one person called the insurer, undertakes in return for an agreed consideration, called the premium to pay to another person, called the insured, a sum of money, on the happening of a specific event during a specific period.

Financial Services Act 2013 provides that:

For the purposes of this Act, insurance business shall be divided into two classes:

- a. **Life business**, which in addition to all insurance business concerned with life policies shall include any type of insurance business carried on as incidental only to the life insurer's business; and
- b. **General business**, which means all insurance business which is not life business.

Differences Between Takaful and Insurance

No	Pertinent Issues	Takaful	Insurance
1	Essence of Intention	Intention is to create both spiritual and legal relationship	Intention is to create legal relation only
2	Subject Matter	Subject matter must be <i>Shariah</i> justified	Subject matter must be Common Law justified.
3	Guarantee	The Takaful Operator is only the Fund Manager. The Participant mutually guarantees each other	The company provides the guarantee
4	Fund	The fund belongs to the Participant and managed by the Takaful Operator for a legitimate consideration for the services rendered	The fund belongs to the Company though separation of assets and is maintained between the Shareholders and the policy holders
5	Payment of contribution/ premium	Contribution is treated as donation (tabarru')	Paid premium creates an obligation against the insurer on a sale and purchase contract

6	Forbidden Elements	Islamic model is based on Islamic principles and free from any of the forbidden elements	Insurance policy revolves around the element of Gharar, Riba and Maisir
7	Profits	The profit is shared between the Participant and the Operator	In insurance the profit is at the discretion of the Company
8	Contract	A combination of tabarru“ contract (donation) and agency or profit-sharing contract	An exchange contract (sale and purchase) between insurer and insured
9	Risks Treatment	Risks sharing concept among Participants	Concept of risks transfer from insure to insurance company

10	Benefits /Indemnity	Paid from the defined funds under joint indemnity borne by the participants	Paid from the fund legally owned by the company
11	Profits /Bonus	Specifies from the outset how the profits are to be shared between the participants and the operator	May offer bonus or profit in general terms only especially with profit participating policies
12	Investment of Fund	Assets of the Takaful funds are invested in <i>Shariah</i> -compliant instruments	There is no restriction apart from those imposed for prudential reasons
13	Syariah Supervisory	Shariah supervisory is made mandatory by the Act	No Shariah supervisory required by the Act
14	Regulation	Islamic Financial Services Act 2013	Financial Services Act 2013
15	Taxation	Taxation or zakat	Taxation
16	Formalities	Unilateral contract	Bilateral contract
17	Account treatment	In General Takaful contributions wholly credited to the PSA In Family, it is usually	For general insurance, the paid-premium is credited into the general insurance

		credited to the both PA and PSA	account. In life insurance policy similarly, the collected premiums are credited into the life insurance account or fund
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Exercise Topic 7

Answer all questions:

1. Choose the correct differences between Takaful and Insurance.

No	Pertinent issues	Takaful	Insurance
A.	Subject matter	Must Shariah justified	Must common law justify
B.	Risk treatment	Concept of risk transfer.	Risk sharing concept among participants.
C.	Investment of fund	Asset of the takaful funds are the invested in Shariah-compliant instruments.	There is no restriction apart from those imposed for prudential reason.
D.	Operational principle	Operational principle must Shariah Compliance.	Operational principle in Insurance is Shariah Compliance as well.

2. Choose the characteristics of takaful contract.

- A. Bilateral contract
- B. Risk Sharing
- C. No religious supervisory
- D. Risk transfer contract

3. The subject matter under Takaful must be:
- A. Legal justified
 - B. Common law justified
 - C. Shariah justified
 - D. High court justified.
4. Choose the **CORRECT** answer for the following:
- A. Conventional insurance need to pay zakat
 - B. The payment paid by the participant called premium
 - C. Conventional insurance using risk sharing concept
 - D. In, takaful the takaful operator need to pay tax and zakat.
5. Following are the correct statement regarding insurance and takaful, **EXCEPT**:
- A. In takaful, religious supervisory is mandatory
 - B. Conventional insurance using sale and purchase contract
 - C. Operational in conventional insurance is Shariah compliance
 - D. Assets of the takaful fund are invested in Shariah compliant instrument



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ISSUES AND CHALLENGES IN TAKAFUL

On challenges facing the takaful industry in Malaysia, Jaffer, S., Farzana, Jabran, Unwin, L. (Jaffer, 2015) listed the following key challenges;

I. Competition with The Takaful Industry is Immense

The competitive elements are in the form of groups of experienced players that are determined to sustain their market share and new players with strong financial support, backed with existing resources and international network. On the one hand, the entrance of more players means that competition will be steeper, but on the other hand customers could enjoy better services and pricing for the takaful products;

II. Takaful Operators Must Effectively Respond to Customers' Needs and Demands

Takaful operators must be able to effectively respond to customers' needs and demands as consumers have increasingly becoming more discerning and demanding better product choices, more efficient delivery channels and more customer friendly practices from takaful operators;

III. The Malaysian Government Roles in Promoting Takaful

The Malaysian government is committed to promote takaful and to make Malaysia a takaful and retakaful hub in South-east Asia. Efforts are in place including the establishment of strong legal, regulatory and shari'ah framework governing the industry and the International Centre for Education in Islamic Finance or INCEIF to enhance capacity building. The takaful industry must chart clear strategic direction in order to achieve and sustain success especially on the enhancement of human capital, collaboration among operators in order to achieve common objectives of further enhancing the resilient and expansion of the industry including venturing overseas. In addition, Shankar (] Laws of Malaysia Act 312 Takaful Act, 1984) identified business process as among the key challenges facing conventional insurers in dealing with takaful.

Firstly, adoption of either mudarabah (profit sharing) or wakalah (agency) models instead of adopting a single business model as in conventional insurance where profit maximization for shareholders is key therefore require specialized IT system in addition to their existing IT set-up; secondly, the need for special accounts for participants i.e. the tabarru fund and investment fund and the need for the participants' contributions to be distributed into these two accounts thus the need for adequate and specific parameters, to

cover claims to be considered, contributions received, payment models as well as long term policies; and in understanding Shariah principles and driving business based on them. Shankar (Laws of Malaysia Act 312 Takaful Act, 1984) suggests that ‘it may be wise for conventional insurers to consider joining forces with existing takaful operators.

The latter could be valuable in terms of leading the former in designing new takaful products.’ In the context of the construction industry, Puteri Nur Farah Naadia (Fauzi, 2010) listed the challenges facing the takaful industry to include the lack of knowledge among the key players of the construction industry on the concepts and principles of takaful as a consequent of the lack of promotion on takaful by the takaful operators. In the context of the global takaful industry, Ernst and Yong (EYGM, 2014) observed that the key challenge lies in the fact that profitability is under unprecedented stress due to the recent global financial crisis. Takaful operators are coping with depressed capital levels, distressed asset values and difficult capital markets. They observed that many operators are reviewing their strategies and financial plans focusing on;

1. Understanding risk-return implication of the chosen business model and aligning the with evolving and unique shari’ah regulatory frameworks,
2. Business diversification and specialization with a view to improve risk understanding and pricing;
3. Strengthening underwriting capacity and including new products, especially as customers move from variable structures to more traditional products;
4. Investment discipline in the wake-up of steep decline in value of securities and returns; Enhancing operating efficiency through cost management around customer acquisition, retention and servicing, and structured claims management process.

IV. Lack of Consumer Awareness

Despite the introduction of takaful, the increase in the level of penetration anticipated has yet to be realised. Many consumers are still unaware of takaful as an alternative and some view takaful as commercialisation of conventional insurance into the Islamic world and reject the notion that it is a Shariah compliant instrument. In addition, many individuals tend to downplay the importance of security and retirement planning and many are also heavily dependent on the social security systems. Similar to conventional insurance, takaful coverage is typically a proposition that needs to be sold to consumers (instead of one that is bought by consumers). There is a need to fundamentally address educational issues surrounding takaful and individual risk management amongst the Muslim societies, to develop consumer awareness. Most of the current education on takaful is among interested or related practitioners and investors and very few awareness campaigns are aimed at or designed for the target population.

V. Scarcity of Human Resources with Both Insurance and Shariah Expertise

Future growth may also be hampered by the currently narrow pool of professionals with sufficient takaful knowledge in areas such as law, sales and actuarial services. Most operators would typically employ human resources, such as legal advisors and actuaries with conventional insurance experience. These resources would typically tend to learn the Shariah aspects of takaful and adapt their previous experience to incorporate Shariah compliance rules in their new role. Hence the mind set of most operators tends to be driven by conventional thoughts and solutions and as a result there has been limited original thinking in the industry. Recently, there have been various takaful courses offered,

including one offered by the Chartered Insurance Institute (CII), which will assist in the development and creation of human resources with both insurance and Shariah expertise.

VI. Corporate Governance

The current relationship between the Shariah Supervisory Board and the board of directors of the takaful operator is typically one of deep trust and integrity. However, it is still necessary to set clear, written guidelines on the scope and the responsibilities of the Shariah board. Compliancy should cover all aspects of the operation, including the takaful model adopted, product offerings, surplus sharing and fee structures, Islamic investment, contract wording and marketing material. At present, the industry does not have compliance manuals and standard terms of reference for Shariah boards and there are additional issues around the role of the Shariah board and the potential conflicts of interest between Shariah scholars. There is a risk that the Shariah board may focus on Shariah related issues at the expense of key technical issues such as actuarial, underwriting and wider risk management. On the other hand, it is in the management's interest to maximise shareholders' value, which would create further potential conflicts from a Shariah compliance aspect. There is also the conflict of interest and risk management issues around the concentration of assets invested in related companies.

VII. Treatment of Underwriting and Claims Management

Although most underwriting and claim related issues are similar to conventional practices, there are some subtle key differences and issues that are being debated and need to be addressed in the takaful industry. Most underwriting practices are in line with conventional methodologies but different Shariah opinions exist in dealing with selection

issues and discrimination based on gender and medical evidence. Takaful operators would typically use the same underwriting approach as conventional insurers by pricing the contributions based on the key risk factors such as age and gender and charging fully for substandard risks.

Occupational classification may be an issue in underwriting. For example, participants or industries under group life policies dealing exclusively in alcohol, pornography, tobacco or gambling related activities may be declined as these activities are deemed to be forbidden in Islam.

FUTURE PROSPECTS OF TAKAFUL

In order to become a game changer, takaful must be able to penetrate the large market and enough audience. According to DeSilver and Masci (2017), Muslims will form 29.7 percent of the world's population and will reach 2.76 billion by 2050. Whilst takaful is marketed as an Islamic alternative to conventional insurance, increasing number of Muslim populations will give an added advantage, so as to increase takaful market share. In Malaysia, there were approximately 19.5 million Muslim adherents, made up 61.3 percent of the population. Thus, there's huge opportunity to tap the market. Statistically, the percentage of Internet users in Malaysia has increased from 76.9 percent in 2016 to 87.4 percent in 2018, with smartphone is the most popular device used (Malaysian Communications and Multimedia Commission, 2018).

Specifically, the penetration rate of smartphone users in Malaysia grew by 7.2 percent from 68.7 percent in 2016 to 75.9 percent in 2017 (Malaysian Communications and Multimedia Commission, 2017). This shows that consumers are becoming more digitally-

savvy making the marketing, offering and participating to takaful products easier. Thus, takaful operators need to pay full attention to the digitalization strategy and taking advantage of consumers' evolving behaviour. By adopting digitalization strategies, this will not only encourage productive innovation that will drive costs down but at the same time, improve the quality of service to customers. To illustrate the digitalization strategy, one can look into the effort made by Salaam Bank which working on “an Islamic finance platform that will give people from the United States to Jakarta, Dubai and London access to Islamic finance options that are technologically innovative while creating a bank beyond borders” (Islamic Financial Services Board, 2017).

According Md Husin (2019), several strategies can be implemented in reducing the gap of issues happened in takaful. First, further efforts should be taken in educating potential consumers and promoting the takaful market. One of the ways is incorporating takaful education syllabus with the aim to educate the youngsters on the important of having financial protection. This initiative not only able to enhance takaful awareness but also increase future takaful penetration rate. Second, as number of smartphone users increases over time, promoting takaful market and creating takaful awareness via smartphone advertising, or also known as mobile advertising, may help. Third, in order to reduce the gap in talent shortage, the industry players must play greater role in designing and strategizing human capital.

One way to increase the number of talent is by offering competitive remuneration. As spoken by Tan Sri Muhammad bin Ibrahim, the 8th and current Governor of the Central Bank of Malaysia in his remarks at the Takaful Annual Dinner and Awards 2018, the remuneration of employees of takaful operators is not competitive. He further mentioned that among the highly skilled employees, those working in takaful earn 15% less

than those in conventional. Therefore, as long as this gap exist, shortage of takaful talent will remain.

Another possible effort that should be taken to minimize the shortage of talent is to ensure graduates from the certified programs such as the Chartered Professional in Islamic Finance, Certified Shariah Advisor and Certified Shariah Practitioner is ready and able to join the takaful workforce. Moving forward, the sustainability for Malaysia's takaful industry will demand the adoption of best practices and rapid adaptation to change in meeting customers' needs.

CONCLUSION

Takaful is an insurance scheme that is Shariah compliant. Takaful in Malaysia and elsewhere is relatively young when compared to other sectors of the financial industry but it has enjoyed robust growth. However, despite the robust growth, the penetration rate for takaful in Malaysia and elsewhere remained small and this indicates that there is significant opportunity for future growth. There are challenges facing the takaful industry in Malaysia and elsewhere. The challenges range from competitive elements, business model and processes, changing customers' needs and demands for better product choices, more efficient delivery channels and more customer friendly practices from takaful operators, and having to cope with serious threat on profitability arising from the recent global financial crisis.

In the context of Malaysia, the government is committed to promote takaful and to make Malaysia a takaful and re-takaful hub in South-east Asia. This paper provided a brief on the takaful industry in Malaysia and elsewhere. Consequently, further and in-depth study is required.

ANSWERS

TOPIC 1

1. A
2. D
3. D
4. A
5. C

TOPIC 2

1. C
2. D
3. C
4. C
5. C

TOPIC 3

1. D
2. A
3. B
4. A
5. B

TOPIC 4

1. A
2. A
3. D
4. D
5. D

TOPIC 5

1. A
2. D
3. B
4. A
5. D

TOPIC 6

1. D
2. D
3. B
4. C
5. D

TOPIC 7

1. A
2. B
3. C
4. D
5. C

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