

# **MANAGEMENT OF FAMILY TAKAFUL PARTICIPANT RISK FUNDS FOR FAMILY TAKAFUL PRODUCTS**

By

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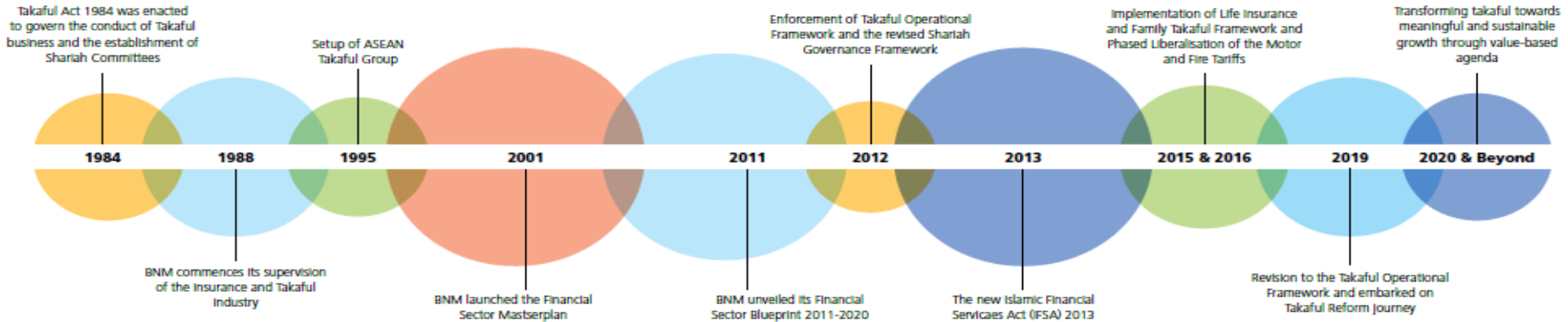
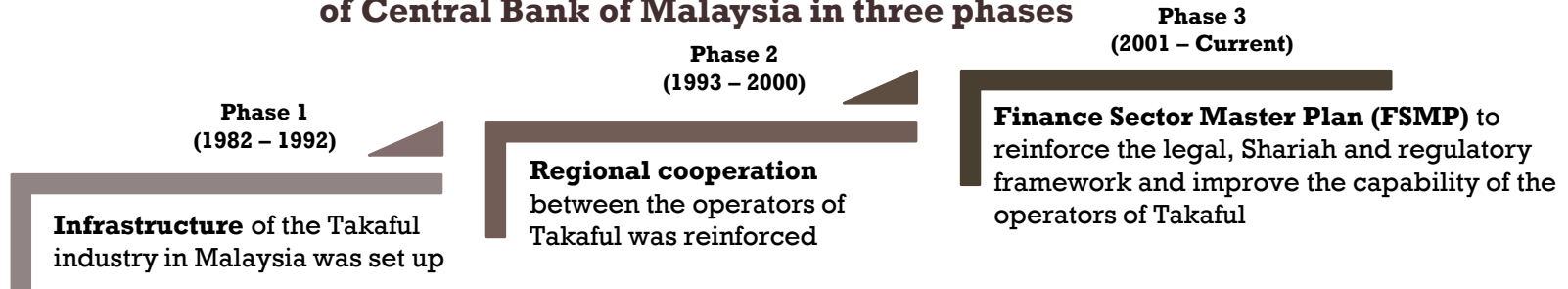
# TOPICS

- **Introduction of Family Takaful Business**
  - **Shariah Governance**
  - **Overview of the models and types of products**
- **Takaful Operational Framework requirements in the management of the Participant Risk Fund/Tabarru` Fund – discussion on the need to manage the Fund in the “best interest of the Takaful Participants”.**
- **Takaful Nomination**



# “EMERGENCE & GROWTH” FOR MALAYSIA

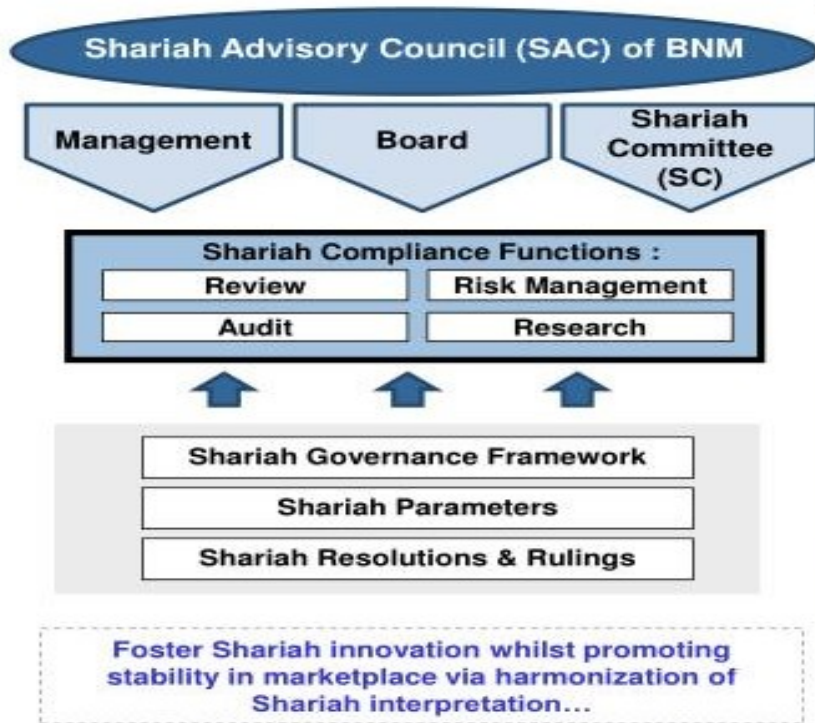
Malaysian Takaful industry created in 1984 was expounded based on the master plan of Central Bank of Malaysia in three phases



Takaful industry in Malaysia has become a vital prime hub in the Malaysian economy to support Malaysia as a global Islamic financial center

Source: *Takaful in Malaysia: Emergence, Growth and Prospects*

# SHARIAH GOVERNANCE



## Shariah as overarching principle in Islamic finance

Proper governance provides assurance on Shariah compliance & confidence on takaful operation:

1. SAC's legislative stature as highest authority accorded under Central Bank of Malaysia Act 2009
2. SC of takaful operator **accountable on decision, views & opinions**
3. Board & senior management with **sufficient expertise & capability** on takaful (Islamic finance) issues
4. Function of Shariah risk management, research, review & audit to **provide check & balance**
5. SC member of another takaful operator shall not be appointed – **avoid conflict of interest & maintain info confidentiality**
6. Shariah parameters provide **guidance on main features, principles & rulings**
7. **Institutionalise mutual respect** by recognising differences of Shariah interpretations

Demonstrate Shariah governance arrangements are operating effectively and appropriate to their size, nature of business, complexity of activities and structure.

Demonstrate better alignment in promoting a strong Shariah compliance risk culture within IFIs in line with the more active roles expected of the Board, Shariah committee and Senior Management.

Source: Bank Negara Malaysia

*Aims to strengthen effectiveness of Shariah governance implementation and reinforce a closer integration of Shariah considerations in business and risk strategies of IFIs*

## Strengthen oversight accountabilities of Board

- **Ultimately accountable for overall Shariah governance and compliance**
  - Have “due regard” on Shariah committee decision/advice
  - Establish conflict resolution mechanism to resolve differences in views with Shariah committee
- **Improve quality and frequency of engagement with Shariah committee to foster greater understanding and appreciation on Shariah matters**
- Ensure performance assessment of senior officers reinforce Shariah compliance risk culture to incentivise Shariah compliance practices
- Provide disclosure on oversight accountability for Shariah governance implementation and IFI’s compliance in annual report

## Reinforce professionalism and independence of Shariah committee

- Accountable for quality, accuracy and soundness of own decision or advice
- Establish robust methodology for sound decision-making process, take into account relevant business and risk practices
- Demonstrate consistency in providing decision or advice on application of SAC rulings – IFI to notify Bank for additional restrictions placed
- Provide disclosure on state of IFI’s compliance with Shariah in annual report, with adoption of materiality concept
- Strengthened assessment for appointment/reappointment of Shariah committee member on candidate’s expected contributions and action plan to address Shariah committee’s knowledge and skills gaps
- Maximum 9-year tenure limit for every appointment – Renewed composition can contribute towards strengthening Shariah deliberation



## Improve quality and implementation of internal control functions

- Clear scope of responsibilities from business lines, with competent officers to perform control functions effectively
- Senior officers overseeing IFI’s risk management, compliance and internal audit must be responsible for Shariah risk management, Shariah review and Shariah audit respectively



# Introduction – Family Takaful Business

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;  
*[Section 2(1) of the Islamic Financial Services Act 2013]*

“family takaful business” means the business relating to the administration, management and operation of a takaful arrangement under a family takaful certificate.  
*[Section 2(1) of the Islamic Financial Services Act 2013]*

Takaful is derived from Arabic word ‘kafala’ which means “joint guarantee” or guaranteeing each other.

Takaful literally means **responsibility, guarantee, collective assurance and mutual undertaking**. Broadly speaking, takaful is founded on the **cooperative arrangement (ta`awun)** based on principles of **mutuality and solidarity**, encompassing the elements of **joint indemnity and common interest**.

## Types of Takaful Model

Pure Wakalah

Wakalah with Incentive Fee

Wakalah-Mudarabah

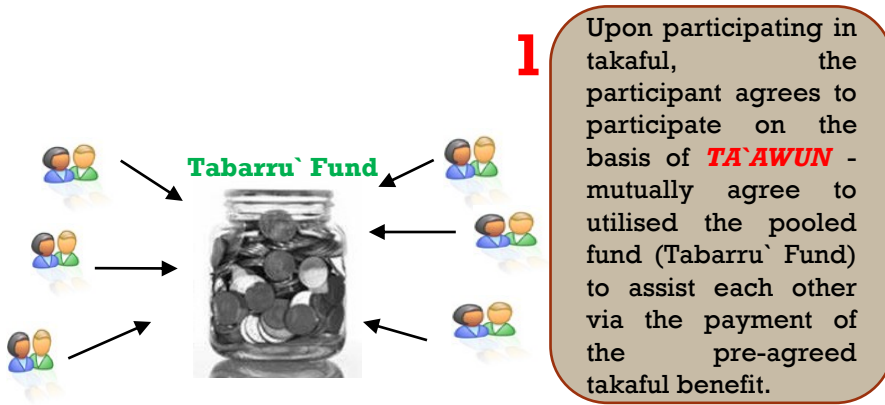
Wakalah-Waqf

Mudarabah

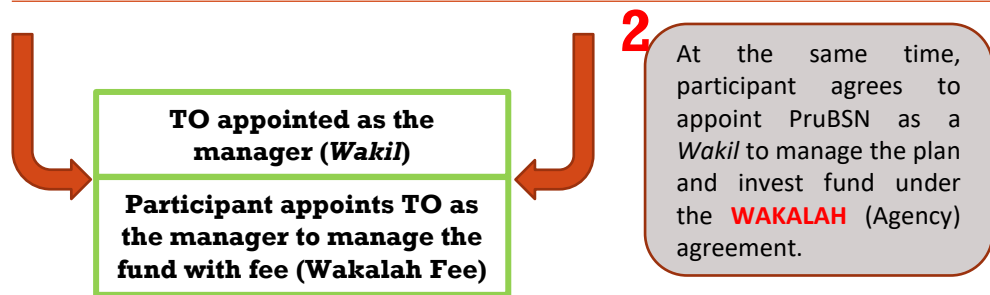
Modified Mudarabah

Cooperative

**In brief, there are 2 main contracts in our main Investment-linked takaful model**



The **reality is** that.....  
In takaful, the **expectation of benefit is the main element of the subscription/participation. Having said that, it remains to be a ta`awuni (mutual assistance) arrangement which is tabarru`at (charitable in nature)**





## Some main Roles & Responsibilities of Takaful Operator as a *Wakil*

9.1 BNM Wakalah PD: *“The inherent nature of Wakalah is the delegation of powers to, or authorization of, the agent by the principal which gives rise to the agent having fiduciary duties (amanah) towards the principal within what he has been authorized to do”*

To establish good governance and maintain the stability of the takaful business.

To safeguard the takaful fund and protect the interests of the stakeholders.

To ensure proper segregation of takaful funds from the shareholders' fund.

To ensure fair and reasonable treatment to the takaful participant during the surrender process.

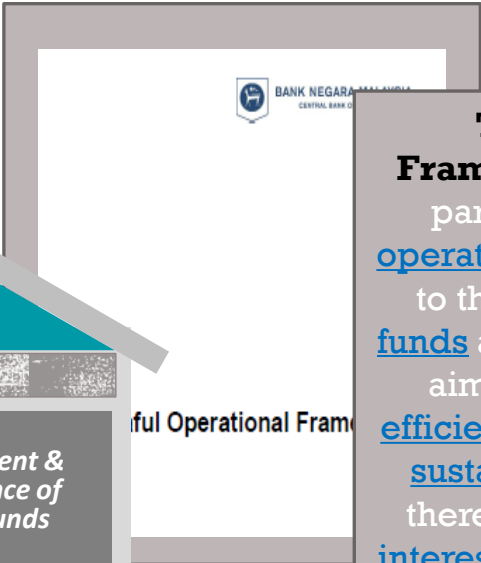
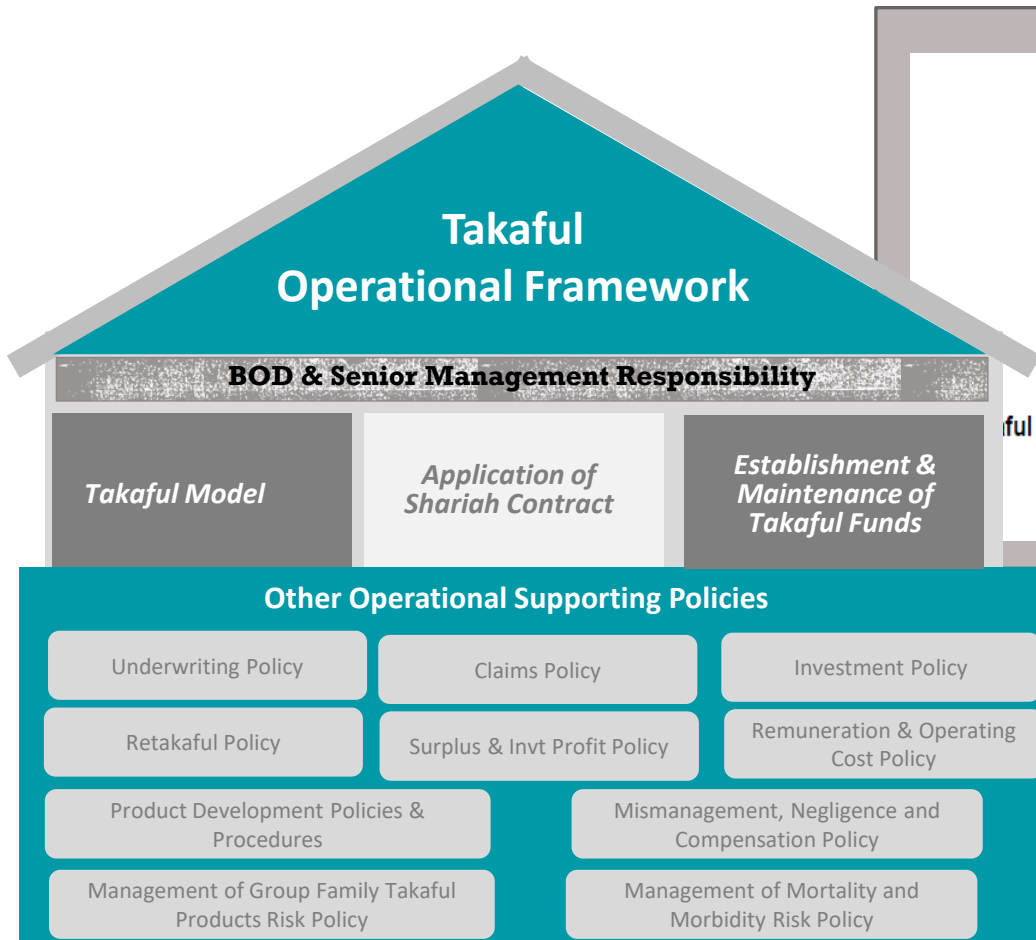


To perform *qard* from shareholders' fund during the event of takaful fund insolvency.

To ensure long-term sustainability of the takaful fund in meeting future liabilities.

To promote full disclosure and transparency in its contractual duties.





**Takaful Operational Framework (TOF)** outlines the parameters that govern the operational requirements relating to the management of takaful funds and shareholders fund. TOF aims to achieve operational efficiency of takaful business and sustainability of takaful funds, thereby safeguarding the best interest of the takaful participants

**Board's responsibility:**  
To oversee the effective management of takaful operations that support PruBSN's business and risk strategies. In fulfilling this role, the board must approve an operational framework governing the management of takaful operations that complies with Shariah and promotes sustainable takaful operations.

# SENIOR MANAGEMENT RESPONSIBILITIES

1. Ensure the business, affairs and activities of PruBSN are compliant with Shariah.
2. Ensure that the operational framework is commensurate with the nature and complexity of PruBSN's business and considers the types of funds being managed and relevant Shariah contracts adopted in managing its business.
3. Establish operational framework – policies and procedures as required under TOF paragraph 8.2.
4. Ensure that the policies consist the minimum requirements as specified in TOF.
5. Ensure that the Shariah contracts and Shariah matters in relation to the operational framework are endorsed by the Shariah committee
6. Ensure effective implementation of the operational framework which include having in place: reliable infrastructure and information technology (IT) system; adequate human resources with relevant skills and competencies; appropriate internal controls system; and a clear communication plan of the policies and procedures to personnel involved in the day-to-day management of takaful operations.
7. Maintain documentation for policies and procedures on all aspects of the operational framework as specified in(3).
8. Review the operational framework on a regular interval in response to changes in the business and operating environment to ensure its continued relevance. Any changes that have material impact on the operational framework must be approved by the Board and be made available to BNM upon request.

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# 2 TYPES OF TAKAFUL



Family takaful provides financial protection to participant from illness, disability and death



General takaful provides financial protection to participant for losses arising from perils such as accident, fire, flood, liability and burglary

## Dynamic Market Players

### Family Takaful



### General Takaful



### Retakaful



# FAMILY TAKAFUL BUSINESS

- “family takaful business” means the business relating to the administration, management and operation of a takaful arrangement under a family takaful certificate;
- “family takaful certificate” means a takaful certificate by which takaful benefits are payable on death or survival, including those takaful benefits payable in respect of personal accidents, disease or sickness, and includes an annuity but excludes a personal accident takaful certificate;

# Example – Suite of Family Takaful Products and the propositions

2mil+ Customers

**Value Proposition & Concept:**

- Hibah legacy/ High protection
- All-in-one protection with various riders
- Women specific protection for various female conditions

- PruBSN WarisanPlus
- PruBSN AnugerahPlus
- PruBSN AsasLink
- PruBSN Anggun
- EPF Lindung



- PruBSN Sinar: **NEW** Crisis TotalCare
- Crisis Protector
- Crisis Shield
- Cancer Protector
- EPF Cegah

**Value Proposition & Concept:**  
Income Replacement

**Value Proposition & Concept:**

- Flexible entry
- 2<sup>nd</sup> medical plan with high deductible
- High medical limits

- PruBSN Damai: **NEW** Medic TotalCare + Medic BoostCare
- HealthProtector
- Medic Protector + Medic Booster

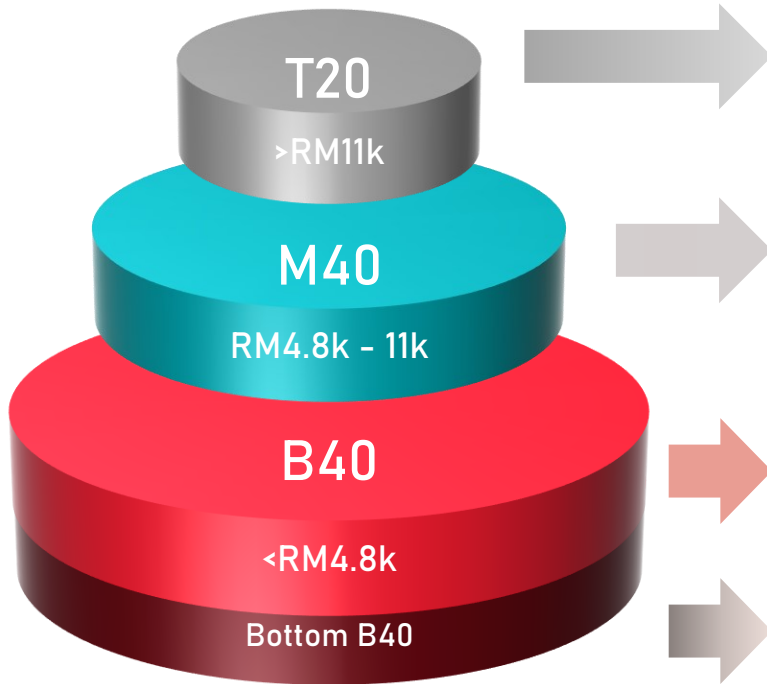
- PruBSN Aspirasi
- Smart Aspire Takaful **NEW**
- Takaful Saver
- ESG Fund

**Value Proposition & Concept:**

- Wealth Accumulation
- Gift of Love
- Golden Retirement
- Pilgrimages
- Education

**PruBSN's mission: Securing the future of Malaysian families through innovative solutions built on Islamic values**

Malaysian Income Group and Household Income\*



**Product Solutions**

Legacy  
Wealth Accumulation

**PruBSN WarisanPlus**  
**PruBSN Aspirasi / Smart Aspire Takaful / Premier Vantag**

Hibah Legacy  
All-in-one Protection  
Medical Protection  
Critical Illness Protection  
Exclusive for Women  
Wealth Accumulation

**PruBSN WarisanPlus**  
**PruBSN AnugerahPlus/AsasLink**  
**PruBSN Damai** NEW  
**PruBSN Sinar** NEW  
**PruBSN Anggun**  
**PruBSN Aspirasi / Smart Aspire Takaful / Premier Vantag**

All-in-one Protection  
Essential Protection  
Donation

**PruBSN AnugerahPlus/AsasLink**  
**BSN Takaful Sakinah / EPF**  
**Ihsan rider**

Community Engagement

**Microtakaful Jariyah**

\*Source: Household Income And Basic Amenities Survey Report 2019, Department Of Statistics, Malaysia

# Income Protection is a MUST with PruBSN WarisanPlus

<b>Launch Date</b>	July 2020
<b>Channel</b>	Agency
<b>Target Segment</b>	Young family & Mature Adults

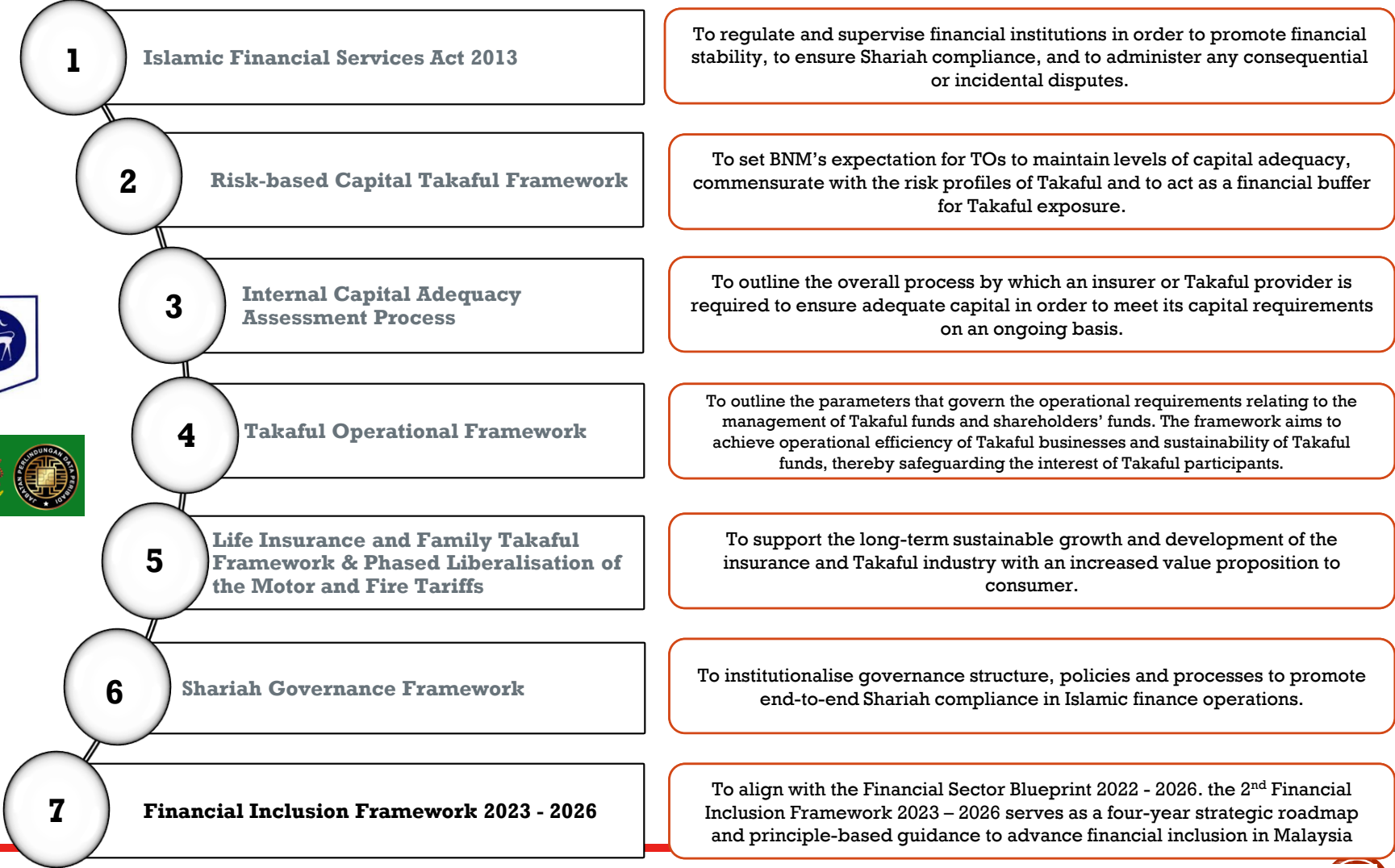


Target: Affluent & HNW Segments  
**ACE: 210mil (22% of portfolio)**

**Income Replacement & Hibah Legacy proposition**

Death/TPD* (BSC)	Accidental Death* (ADB) Upto 400%	Various Illnesses
<p><b>Basic Sum Covered from RM350,000*</b></p> <p><b>Khairat Benefit RM3,000</b></p> <p><b>Death Coverage</b> Higher of: Basic Sum Covered; or PUA Cash Value</p>	<p><b>200% Death Coverage</b> Death due to accident</p> <p><b>300% Death Coverage</b> Death due to accident while travelling in public conveyance, in an elevator car, or due to burning of public building</p> <p><b>400% Death Coverage</b> Death due to accident outside of Malaysia</p>	<p><b>Infectious Disease*</b> RM5k / 10k upon diagnosis / hospitalisation for 14 selected diseases</p> <p><b>Crisis Protector/ Crisis Shield^ (optional)*</b> Lump sum amount upon diagnosis of any of 43 listed Critical Illnesses</p> <p><b>Contributor (optional) Contribution payment assistance</b> if diagnosed with Critical Illness/ TPD</p>
<p><b>100% Death Coverage</b> Death due to all causes</p>		

# KEY RULES & REGULATIONS FOR TAKAFUL OPERATORS





# TAKAFUL CONTRACTS

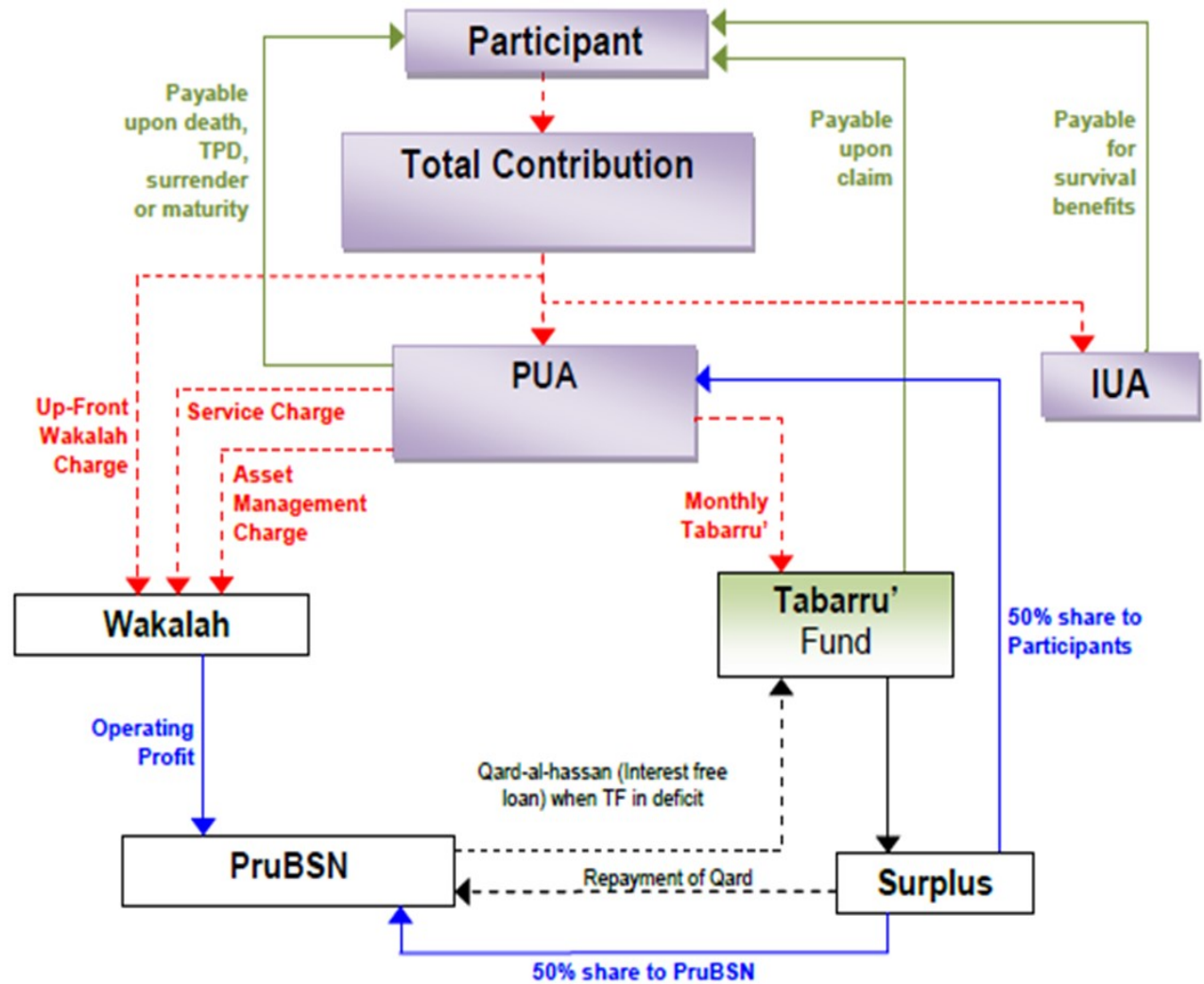
Tabarru'

Iltizam bil Tabarru'

Wakalah

Qard

Mudharabah



# MANAGEMENT OF TAKAFUL/PARTICIPANT RISK FUND

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# Takaful Funds

In line with Takaful Operational Framework, PruBSN has the following fund type:

**a) Participants Risk Fund (PRF)**

- This is a takaful fund established to pool a portion of a takaful participant's contributions for the purpose of meeting takaful claims associated with events or risks specified in the takaful certificate as takaful benefit.

b) Participant Investment Fund or Savings (PIF); and

- This is a takaful fund established to allocate a portion of a takaful participant's contributions for the purpose of investment or savings.

c) Shareholders fund

- This fund is to account for the fees remunerated from the takaful funds. Management expense and commission are paid from this fund.

In addition, PruBSN maintain the operating fund as part of the overall business operations.

d) Operating fund

- This fund is to account for contribution and allocation for each certificate. There should not be any fee earned for this fund.

## Requirements relating to takaful funds

**92.** (1) A takaful fund established under section 90 shall be maintained and managed by a licensed takaful operator on behalf of and in **the best interests of the takaful participants** and the licensed takaful operator shall—

(a) pay into a takaful fund all receipts in respect of takaful certificates to which the takaful fund relates and which are issued by it or under which the takaful fund has undertaken liability, including all income of that takaful fund;

(b) maintain at all times assets in a takaful fund of a value equivalent to or higher than the liabilities of that takaful fund;

(c) apply the assets of a takaful fund **only to meet the liabilities and expenses properly incurred by that takaful fund**; and

(d) comply with such other requirements as may be specified by the Bank under paragraph 57(2)(g) including requirements on the types of assets to be, or not to be included, as assets of a takaful fund.

In essence, **fairness among the Takaful participants via mutual assistance and risk sharing under a Takaful arrangement** mainly relates to all the following aspects:

- 
- (a) **Concerning the act of participation via payment of risk charge/contribution into the *Tabarru`* Fund on the basis of *iltizam bi al-Tabarru`*.** Fairness at this point, deals with the fact that each participant is made to fairly contribute into the *Tabarru`* Fund.
- (b) As a result of takaful participation mentioned under paragraph (a) above is the entitlement of the participants to receive financial assistance as stipulated in the Takaful contract. **Ensuring that the *Tabarru`* Fund is sustainable to ensure smooth claims experience throughout the tenure of all the plans also relates to the basic preservation of participants' interest.** Although the requirement to provide *qard* by the Takaful operator shall ensure claims are honoured even if the *Tabarru`* Fund is in a deficit position, the same is considered to be a back-up or supplementary arrangement as far as the Takaful model is concerned.
- (c) Surplus entitlement of each of the participants upon the implementation is also an important aspect in assessing fairness towards the participant.

*Note: Although the surplus sharing provision is clearly stated in the contract, it will only crystalize into an entitlement for each of the participants when there is a declaration of distributable surplus. In certain circumstances and depending on the advice from the Appointed Actuary relating to the sustainability of the fund, the disbursement of surplus can also be deferred if deemed necessary.*

# Shariah Considerations for Underwriting

## Upholding *Maqasid Shariah* through underwriting

### Underwriting is consistent with Shariah

1. It preserves fairness among the participants during the process of underwriting and determination of contribution. Fairness is sought after in Islam, as mentioned in the Quran:

*Allah SWT says: "O believers! Stand firm for Allah and bear true testimony. Do not let the hatred of a people lead you to injustice. Be Just! That is closer to righteousness. And be mindful of Allah. Surely Allah is All-Aware of what you do". (al-Ma'idah:8)*

2. Underwriting is encouraged since there is no argument against it. In *Muamalat*, everything is encouraged for as long as there is no obvious argument against the act itself. This is parallel with Islamic legal maxim which says: The original ruling for everything that is beneficial is *mubah* (permissible), until there is evidence of its prohibition.
3. Underwriting is a common practice in the Takaful industry and is not against the principle of Shariah. This common practice is consistent with the Islamic legal maxim of "Custom is of force".



# Shariah Considerations for Underwriting

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Issue – **SOURCE OF INCOME** (Where the contributor is an **individual**)

Consideration	Decision	Justification
Individual employed with a company that carries out <i>haram</i> business.	Allowed	<p>The Takaful protection is for the individual and should not be considered as interconnected with the employment of that individual.</p> <p>We should not stop the intention of any individual to participate in <i>Tabarru`</i> contribution and whether or not the contribution is actually from the salary is not within our knowledge. Even if the monthly/periodic contribution is by way of salary deduction, it should not be an issue.</p> <p>Note: Shariah considers the practices of individual lifestyle to be irrelevant for assessment from Shariah perspective. In line with the nature of the coverage, Shariah however stresses the importance of the assessment in terms of medical and health perspective. GRO for example should be considered as high-risk occupation and a strict</p>

# Shariah Considerations for Underwriting

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## Issue – **SOURCE OF INCOME** (Where the contributor is an **individual**)

Consideration	Decision	Justification
When the covered person and/or the person making the contribution is a non-muslim.	Allowed – no issue.	Islam acknowledge the freedom of religion. Islam does not prohibit for non-Muslim to participate in giving the contribution/donation ( <i>Tabarru'</i> ) and to benefit from the donation/financial assistance from others in particular during the unexpected calamities or particular loss.



# Issue – **SEXUAL LIBERALISM** e.g LGBT, change of gender, etc) & medical condition that relates to HIV and AIDS cases

Consideration	Decision	Justification
When the covered person is found to be liberal in his/her sexual orientation.	Allowed	<p>Only allow for basic death takaful cover on grounds that the cover is to assist their next of kin. This foregoing stance does not in any way reflect the acknowledgement of the non-Shariah compliant individual lifestyle of the participant. Those categorized under the said group should not be supported in terms of other benefit within his/her lifetime such as medical benefit.</p> <p>Underwriting approach would be to only offer Death cover for individual under this category. Embedded benefits into the Basic Plan that is not for the next of kin will be declined/excluded.</p> <p>Eg. Basic plan that covers Death, Total and Permanent Disability (TPD) and Accidental Death Benefit (ADB) or Infectious Disease. Where terms are offerable, only allow for Death and ADB. TPD and Infectious Disease will need to be declined.</p> <p>Pursuant to the above understanding, underwriting department will also determine which embedded benefits in future product's basic plan will be offered to these individuals.</p>
When the covered person is a LGBT personality and is known to be advertising his/her lifestyle to the public	Not allowed	TO should not be seen as supporting such lifestyle and practices. In cases of doubt, consultation with the Shariah Department and/or Shariah Committee will be carried out.

# Shariah Considerations for Underwriting

## Issue – **SOURCE OF INCOME** (Where the contributor is a **corporation**)

Consideration	Decision	Justification
The revenue of the company is wholly from <i>haram</i> business.	NOT Allowed	<p>It is taken that the monies to be contributed and paid by the company with Shariah non-compliance core business would be funded by its Shariah non-compliant revenue/income hence will not be accepted. All companies' sources of income shall be assessed based on the list of Shariah non-compliance activities as stated in the Underwriting Policy.</p> <p>Any issues or further clarification in relation to the core business assessment shall be referred to Shariah Department.</p>
When the income is a mixture of <i>halal</i> and <i>haram</i> .	Subject to Shariah Committee's decision	<p>Note that prior approval from the Shariah Committee is required from case to case basis.</p> <p>Consultation with the Shariah Department is to be carried out and relevant information is to be tabled to the Shariah Committee in the Shariah Committee Meeting.</p>

**It is to be observed that the approach in assessing the 'source of income' of an individual and a company differ. Core business of the company must be Shariah compliant in order for the company to participate in Takaful.**



# Shariah Considerations for Underwriting

The SC allowed the relaxation on the 'source of income' requirement of corporate participants for Group Employee Benefit application based on the following grounds:

- a) *The intention of the family takaful coverage is **to assist the next of kin/ family of the deceased** (when death occurs) and to assist the participant (when participant suffers any of the defined illnesses); and*
- b) *Although the employees contribute to the haram or mixed income business activities, the need to **provide Shariah-compliant solutions to individual employees and their next of kin should prevail**. Not disregarding the fact that supporting any haram business (either directly or indirectly) should be avoided, *maslahah* is to be applied having in mind the interest of the individual employees.*

Having said the above, **stricter assessment would still be suitable** if the following factors are found:

- a) **The element of haram Ightisab.** *Ightisab refers to unethical and haram practice of taking away people's rights by way of force that is not approved by the owner of the rights. Under the current context, the risk of this is low since the activities that relate to manipulations, theft, treachery etc., are considered illegal; or*
- b) **The issue of Shariah reputational risk.** *The SC agreed that there is subjectivity concerning this issue hence continuous support to the business by the Shariah team is required. The SC agreed that gambling business and a business that manufactures liquor/intoxicants shall be excluded as it poses high Shariah reputational risks if PruBSN is found to be covering its employees.*



# Shariah Considerations for Underwriting

## Issue – purpose of takaful

Consideration	Decision	Justification
The covered asset is <i>Halal</i> by way of attribute.	Allowed.  There is no issue if the acquisition of the asset is by way of conventional loan.	It is not an issue if it is acquired via conventional loan because the coverage is not for the loan but for the mutual indemnity with regards to the assets. The decision is according to the principle of <i>Fiqh</i> : “Latitude should be afforded in the case of difficulty”.
Usage of the asset is specifically for the production of <i>Haram</i> products e.g. machine for the production of liquor.	NOT allowed.  However, if the usage is not clearly specified, it is allowed.	If we do not have specific information, the contract or arrangement between the owner/customer with any third parties is to be considered as separate and independent from the Takaful arrangement.  It is not within our control and knowledge. We are not obliged to inquire or monitor the activities carried out in the building.

# Shariah Considerations for Underwriting

## Issue – purpose of takaful

Consideration	Decision	Justification
It is known that the building is used for activities that consist of <i>Halal</i> and <i>Haram</i> activities.	Allowed provided that the core business is <i>Halal</i> .	The protection should not include the area within which the <i>Haram</i> activities are being carried out. However, if it is not possible to segregate and the information is not within our knowledge, we are not obliged to investigate.
If the asset possess a bad image from the Shariah perspective.	NOT allowed.	<p>This is to be considered as an additional screening that requires certain extent of discretionary assessment.</p> <p>Not allowed as it will indirectly affect our reputation. Example is a cinema building. Cinema is closely associated with social hazard and has somewhat a negative image. Hence, it is recommended if Takaful protection is not granted on a cinema building.</p>

# Shariah Considerations for Underwriting

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## Issue – **purpose of takaful**

Consideration	Decision	Justification
Purpose is for the settlement of outstanding sum due from conventional loan	NOT Allowed.	TOs should filter the purpose of the Takaful coverage. It is the obligation of the TOs as the manager to ensure (if possible) that the benefit is not utilised for <i>Haram</i> purposes including the payment of <i>Riba</i> based loan (particularly the interest portion).

# A SAMPLE OF RESOLUTION OF SC OF PRUBSN

## THE IMPERMISSIBILITY OF OFFERING MORTGAGE REDUCING TERM TAKAFUL (MRTT) FOR CONVENTIONAL HOME LOAN

### Background:

In 2012, the SC was consulted with the issue of MRTT for conventional home loan. There were prolonged discussions on the matter as it was considered as an industry issue. In light of the foregoing, feedback from a research body, i.e., ISRA was also obtained.

The discussions we had with the SC have taken into account many factors. Among others, the arguments by both sides are as summarised below:

No.	Argument by the Business	Feedbacks from the SC
1.	The MRTT will not cover the interest portion. As the financing amount will be reduced on monthly basis and the interest portion also will be settled on monthly basis, therefore, the outstanding financing amount that we cover is not inclusive of the interest portion.	Although the reducing amount will never exceed the financing amount, it is not possible to consider the principal and the interest amount as segregated. Should we want to cover only the principal, monthly installments serviced by the customer should then be directly and wholly taken to reduce the principal amount.

# A SAMPLE OF RESOLUTION OF SC OF PRUBSN

## ISSUE 2: THE IMPERMISSIBILITY OF OFFERING MORTGAGE REDUCING TERM KAFUL (MRTT) FOR CONVENTIONAL HOME LOAN

### Background:

No.	Argument by the Business	Feedbacks from the SC
2.	<p>Making available MRTT for customers that intend to take Islamic coverage despite not having Islamic financing for certain valid reasons. In the event that a customer is not given an option to get Islamic financing, instead, he is given a conventional loan, he should at least be given an opportunity to have Islamic cover for his loan, and otherwise he is exposed to another conventional arrangement.</p>	<p>Since Islamic financing opportunities now are many and competitive, the assumption should be that Islamic finance is available for them. The SC is not agreeable with the assumption that many customers are not able to take Islamic financing. The SC believes that the cases of customers being denied Islamic financing are minority cases hence general assumption on that basis can't be formed.</p>



# A SAMPLE OF RESOLUTION OF SC OF PRUBSN

## ISSUE 2: THE IMPERMISSIBILITY OF OFFERING MORTGAGE REDUCING TERM TAKAFUL (MRTT) FOR CONVENTIONAL HOME LOAN

### Background:

No.	Argument by the Business	Feedbacks from the SC
3.	Attempt was made to explain that putting the conventional loan aside, the aim of MRTT is to help next of kin so that the family is not left with debt upon death of the customer. Ultimately, MRTT will ease the burden of the deceased next of kin.	Whilst the SC understand the outcome or impact on the deceased family, PruBSN is still not allowed to offer when it is a clear-cut case that the amount to be covered arises from a riba' transaction.
4.	To a certain extent, taking into account the prevalent practice in the industry, the issue of necessity is still relevant.	The SC is not convinced that necessity can still be applied.

# A SAMPLE OF RESOLUTION OF SC OF PRUBSN

## THE IMPERMISSIBILITY OF OFFERING MORTGAGE REDUCING TERM TAKAFUL (MRTT) FOR CONVENTIONAL HOME LOAN

### Resolution

The SC has unanimously resolved that the offering of MRTT on conventional home loan is prohibited. The general rule is that takaful operators should filter the purpose of takaful coverage. Accordingly, it is the obligation of PruBSN to ensure that the takaful benefit is not utilised for Haram purposes which includes payment of riba' based loan (particularly the interest portion).

The SC acknowledged that the main issues relating to the matter can be broken into the following:\*

a. Purpose of the takaful:

Generally, it is the obligation of the Takaful operator as the manager to ensure, as far as possible, that the Takaful fund/benefit is not utilised for haram purposes. If the purpose of the takaful is interpreted as covering the outstanding loan arises from the riba' based contract, the offering can never be permissible. Participation of a takaful operator in the offering of coverage would also be deemed impermissible;

b. Interpretation on the proviso of the SAC resolution.\*\*

It is very much relevant in this case to discuss the practical application of the proviso to the Shariah Advisory Council of Bank Negara Malaysia resolution on the matter that states "...provided that it is offered separately and not as a package."<sup>6</sup> How should we construe whether or not both transactions are separated or not packaged together would be depending on case to case basis. The existence of a strategic collaboration or partnership would work against the argument that the offering was separate.

# A SAMPLE OF RESOLUTION OF SC OF PRUBSN

## THE IMPERMISSIBILITY OF OFFERING MORTGAGE REDUCING TERM TAKAFUL (MRTT) FOR CONVENTIONAL HOME LOAN

### Justification

#### a. Prohibition of Riba in Surah An-Nisa' verse 160-161

*“For the wrongdoing committed by the Jews, We forbade them certain good things that had been permitted to them before: for having things that had been permitted to them before: for having frequently debarred others from God’s path; for taking usury when they had been forbidden to do so...”*  
(Surah An-Nisa: 160 – 161)

#### b. Prohibition of Riba in Surah Al-Imran verse 130-132

*“O you, who believe, do not gorge yourselves on usury, doubling and re-doubling it, but remain conscious of God so that you might attain to a happy state; and beware of the fire which awaits those deny the truth! And pay heed unto God and the Apostle so that you might be graced with mercy.”* (Surah Al Imran: 130-132)

#### c. Prohibition of Riba in Surah al-Baqarah: 275

*“Those who gorge themselves on usury behave but as he might behave whom satan has confounded with his touch for they say “Buying and selling is but a kind of usury – whereas God has made buying and selling lawful and usury unlawful. Hence, whoever becomes aware of his Sustainer’s admonition and thereupon desists (from usury) may keep his past gains, and it will be for God to judge him; but as for the fire, therein to abide! God deprives usurious gains of all blessing, whereas He blesses charitable deeds with manifold increase. And God does not love anyone who is stubbornly ingrate and persists in sinful ways. Verily, those who have attained to faith! Remain conscious of God and give up all outstanding gains from usury, if you are (truly) believers; for if you do it not, then know that you are at war with God and His Apostle. But if you repent then you shall be entitled to (the return of) your principal; you will do no wrong and neither will you be wronged.”* (Surah al Baqarah: 275)

# A SAMPLE OF RESOLUTION OF SC OF PRUBSN

## THE IMPERMISSIBILITY OF OFFERING MORTGAGE REDUCING TERM TAKAFUL (MRTT) FOR CONVENTIONAL HOME LOAN

### Justification

The Quranic injunction confirms two important matters: First, the term *riba'* has a linguistic meaning which reflects customary practice of the Arabs; it means interest attached to a loan on the due date. The Quranic text prohibits this practice and the Prophet (peace upon him) interpreted the term *riba* in the Quran as *riba al jahiliyyah* (the pre Islamic interest based loan). Second scholars unanimously agree that any loan.\* Thus, covering conventional loan is helping towards expansion of *riba*.

Allah has stated in Surah Al-Maidah:

*“And cooperate in righteousness and piety, but do not cooperate in sin and aggression.” (Surah al Maidah: 2)*

The takaful operator and the policyholder should not cooperate with each other in committing sin or promoting what is unlawful such as *riba'*.

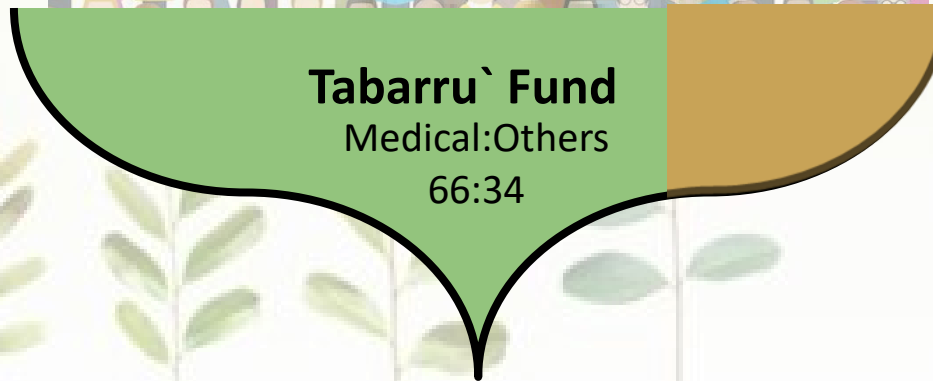
# MEDICAL INFLATION & THE NEED FOR RE-PRICING

## SAMPLE ILLUSTRATION



<b>Total Tabarru`</b>	RM1 million
<b>Cost of Medical</b>	RM10,000
<b>Number of people can be supported</b>	100 people

<b>Total Tabarru`</b>	RM1 million
<b>Cost of Medical</b>	<b>RM20,000</b>
<b>Number of people can be supported</b>	<b>50 people</b>



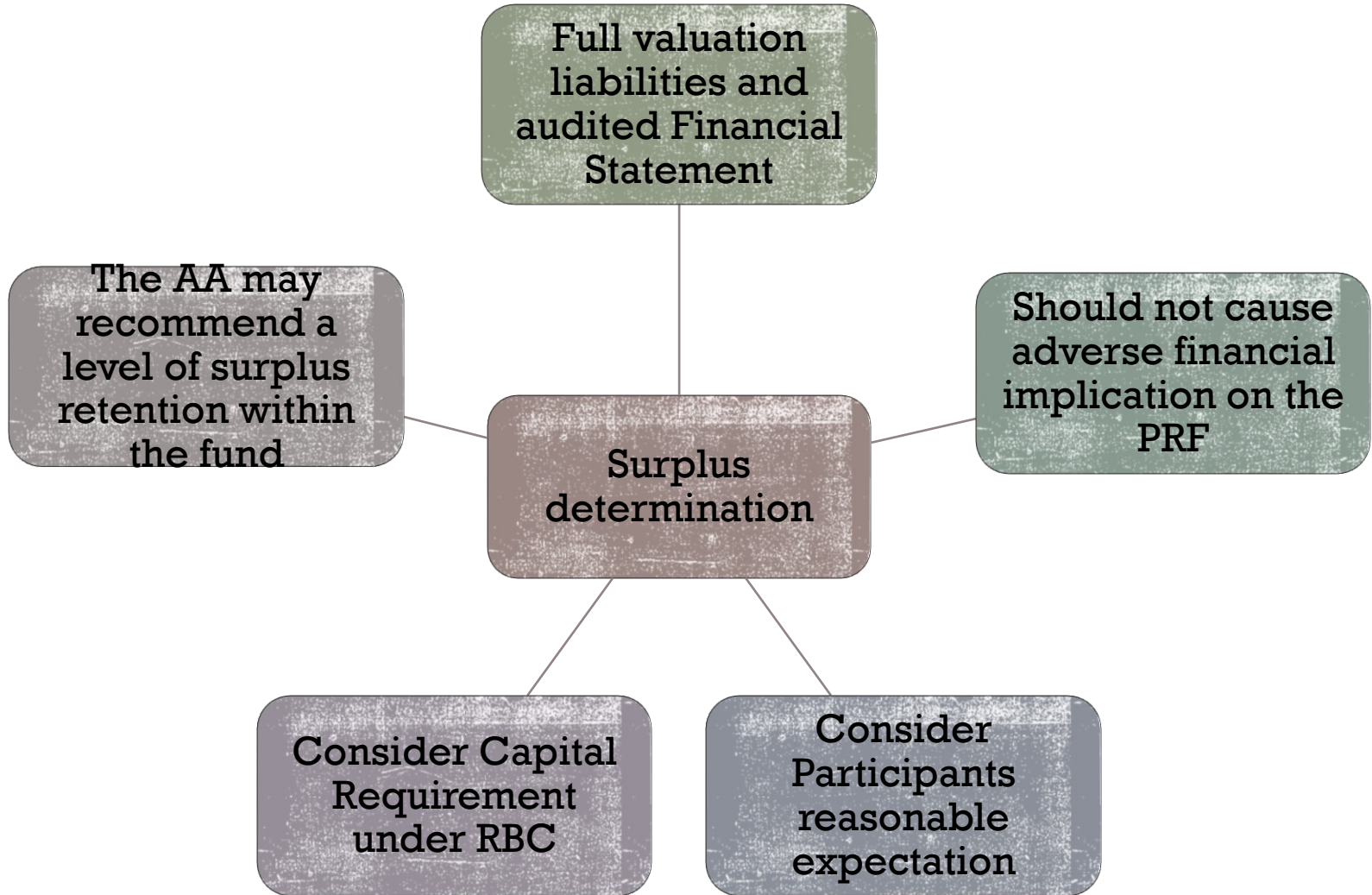
Future medical inflations reduces future customers' needs of protection

**Support all future claims**



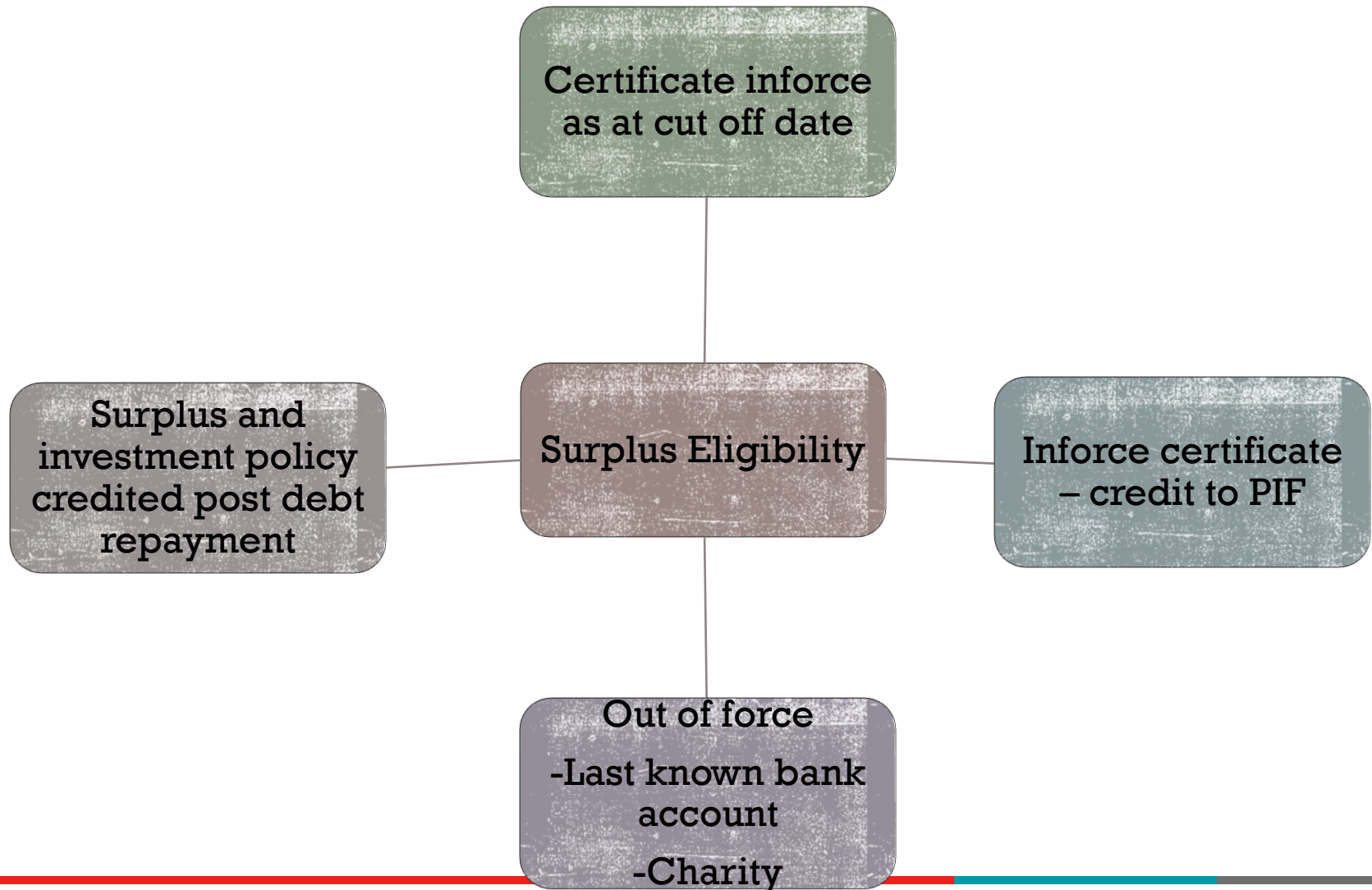
# Family Takaful Surplus

## Key Principles



# Family Takaful Surplus

## Surplus Eligibility & Distribution



# Minimum Allocation Rate (MAR)

## Background:

- Minimum Allocation Rate (MAR) is prescribed in the BNM ILP Business Management Policy Document, effective 1 Oct 2020
- It refers to revision to the distribution of Allocation Rate for ILP, with **higher allocation to the customers especially during the early certificate years**

## Implication

- MAR affects viability of ILP business – it has significant impact on **New Business (NB) Strain** and **CAR** including **profitability of ILP products**

Cert Year	Before MAR				Upon MAR			
	Customer Allocation	Cumulative	Agent Commission	Balance	Customer Allocation	Cumulative	Agent Commission	Balance
1	40%	40%	40%	20%	60%	60%	40%	0%
2	40%	80%	40%	20%	60%	120%	40%	0%
3	60%	140%	25%	15%	60%	180%	25%	15%
4	75%	215%	25%	0%	80%	260%	25%	-5%
5	90%	305%	15%	-5%	80%	340%	15%	5%
6	95%	400%	15%	-5%	80%	420%	15%	5%
7	100%	500%	-	-	95%	515%	-	5%
8	100%	600%	-	-	95%	610%	-	5%
9	100%	700%	-	-	95%	705%	-	5%
10	100%	800%	-	-	95%	800%	-	5%

○ Upon MAR, customers get more allocation, especially in the early certificate years

○ Same level of allocation at year 10

○ Agents get the same % of commission, before & after MAR

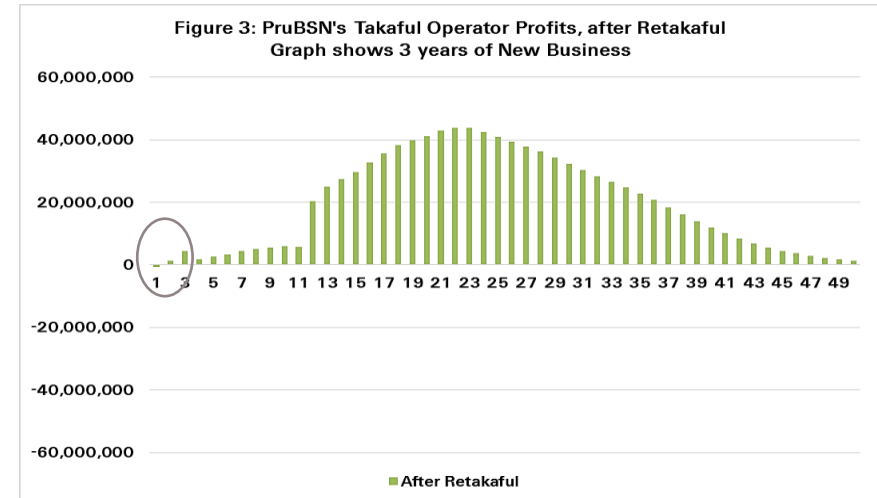
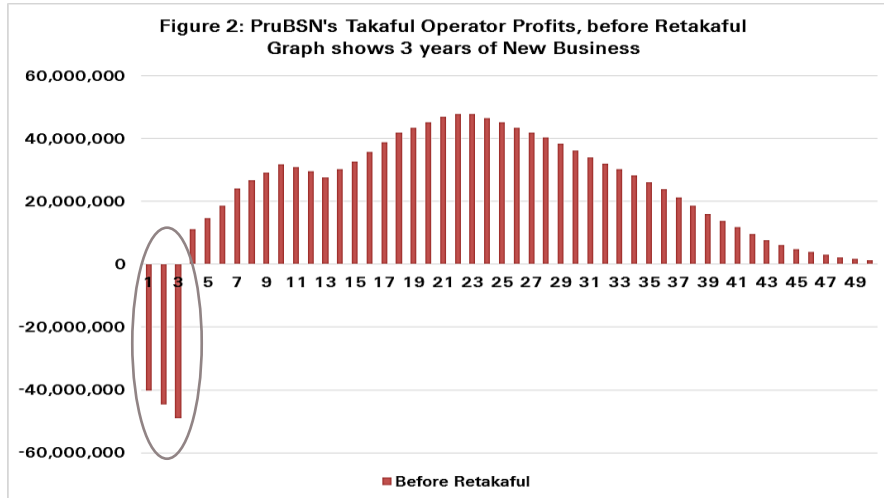
○ Upon MAR, 0% for company for the first 2 years

Note: The above allocation / rates are based on a sample product with 20 years or full contribution payment term



# FINANCIAL RETAKAFUL

Ilustrasi ringkas berkenaan paras keuntungan sebelum dan selepas solusi 'Musyarakah Financial Re adalah seperti di bawah:



- Kekangan daripada perniagaan baru akan lebih berkurang selepas Financial Retakaful diperkenalkan
- Kedudukan solvensi PruBSN dapat dikekalkan
- Sekiranya Financial Retakaful tidak berlaku, PruBSN terpaksa menaikkan harga dengan tinggi untuk sijil-sijil takaful bagi menampung masalah kekurangan modal permulaan
- Peserta mendapat lebih manfaat dengan Financial Retakaful kerana sumbangan tidak perlu dinaikkan

# **PAYMENT OF TAKAFUL BENEFIT - NOMINATION**

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# NOMINATION

Two types of nomination:

1. Wasi (Executor) or
2. Beneficiary under Conditional Hibah (Gift)

as stated under the Islamic Financial Services Act

## When?

- Nomination can be made:
  - ✓ during proposal submission or
  - ✓ anytime after the proposal is approved



- Can be amended / revoked anytime as well

The image shows a Prudential BSN Takaful Nomination Form. The form is titled 'PRUDENTIAL BSN TAKAFUL' and 'NOMINATION FORM (please complete in CAPITAL LETTERS using BLACK INK only)'. It contains various sections for personal information, nomination details, and a declaration. The form is partially filled out with handwritten information.

Nomination Form



# NOMINATION - DIFFERENCES

<b>Wasi (Executor)</b>	<b>Conditional Hibah (Gift)</b>
Nominees act as executors	Nominees act as beneficiaries
Monies received will be distributed according to Islamic Law of Inheritance or Probate and Administration Act 1959 (whichever applicable).	The certificate monies are the property of the nominee



# NOMINATION

*“A takaful participant who has attained the age of sixteen years may nominate **an individual** to receive takaful benefits, payable upon his death under the takaful certificate, either as an executor, or as a beneficiary under a conditional hibah by notifying the licensed takaful operator in **writing the name, date of birth, national registration identify card number or birth certificate number and address of the nominee.**”*

*Clause 2(1) , Schedule 10 of the Islamic Financial Services Act 2013 (IFSA)*



# NOMINATION – CONDITIONAL HIBAH

*“A nomination by a takaful participant for a nominee to be a beneficiary under a conditional hibah, shall, notwithstanding any written law, have the effect of transferring ownership, and shall transfer ownership, of the takaful benefits payable to the nominee upon the death of the takaful participant and such takaful benefits so transferred shall not form part of the estate of the deceased takaful participant or be subject to his debts.”*



# IMPACT ON DEATH CLAIMS (IFSA 2013)



A nominee receiving these moneys as a *hibah* or gift is entitled to the full proceeds and has **no obligation to distribute** it to any other beneficiaries of the estate



The moneys received “shall not form part of the estate of the deceased Takaful participant or be subject to his debts”



This effectively makes the death claim benefits a “creditor proof” source of funds for the named nominee



In life insurance contract this privilege was given only to trust policies

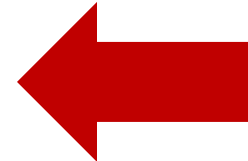
# EXCERPTS FROM SCHEDULE 10 OF THE FSA 2013

Trust of policy moneys 5. (1) A nomination by a policy owner, other than a Muslim policy owner, shall create a trust in favour of the nominee of the policy moneys payable upon the death of the policy owner, if—

- (a) the nominee is his spouse or child; or
- (b) where there is no spouse or child living at the time of nomination, the nominee is his parent.

(2) Notwithstanding any written law to the contrary, a payment under subparagraph (1) shall not form part of the estate of the deceased policy owner or be subject to his debts.

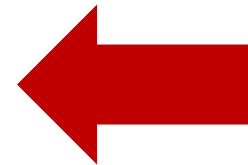
Trust of policy moneys is only applicable to non-Muslim policy owners



Nominee other than nominee under subparagraph 5(1) 6. (1) A nominee, other than a nominee under subparagraph 5(1), shall receive the policy moneys payable on the death of the policy owner as an executor and not solely as a beneficiary and any payment to the nominee shall form part of the estate of the deceased policy owner and be subject to his debts and the licensed insurer shall be discharged from liability in respect of the policy moneys paid.

(2) The nominee referred to in subparagraph (1) shall distribute the policy moneys in due course of administration of the estate of the deceased policy owner in accordance with the will of that policy owner or the law relating to the distribution of the estate of deceased persons as applicable to that policy owner.

- Muslim nominees will receive money as executors
- Nominees will distribute the money according to the policy owner's will





## What are the main differences between nomination on conditional *hibah* and the method of absolute assignment?

### Conditional Hibah

- Dealing with the provision of the takaful benefit to the beneficiary upon the death of the participant
- Nomination is basically the act of naming nominee(s) as beneficiary of the takaful benefit
- At any point of his/her life, the participant can revoke the nomination and make amendments/substitution as he/she wishes without the need to obtain consent from the earlier named nominee(s).

### Assignment

- Immediately transfers the whole rights over the takaful certificate to the assignee.
- Assignee shall be recorded as the owner of the certificate and changes to the certificate could no longer be effected by the participant unless with the Assignee's consent. The Assignment could not be revoked to reassign the certificate unless with consent by the Assignee.

**THANK YOU**