



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Takaful Operational Framework

Applicable to:

1. Licensed takaful operators including professional retakaful operators

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PART A OVERVIEW

1. Introduction

- 1.1 A licensed takaful operator carrying on takaful business has the duty to manage the takaful operations in accordance with Shariah and in the best interest of the takaful participants. This includes operating the business in a sound and prudent manner.
- 1.2 Accordingly, the 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.
- 1.3 The requirements in this policy document are developed in accordance to the Islamic Financial Services Act 2013 (IFSA), whereby the licensed takaful operator acts as the manager and administrator of the takaful funds on behalf of the takaful participants. Based on this takaful business model, this policy document outlines the operational requirements on the application of *wakalah* (agency-based) and *mudarabah* (profit sharing) contracts, the two Shariah contracts currently being used by the industry to govern the relationship between the licensed takaful operator and takaful participants. Notwithstanding this, the licensed takaful operator may adopt other policy documents on Shariah contracts issued by the Bank¹ beyond *wakalah* and *mudarabah*, or subject to prior approval of the Shariah Advisory Council and the Bank, explore new Shariah contracts for its takaful business model.
- 1.4 The Bank also recognises that in response to the changing operating environment and advancements in technology, the licensed takaful operator may rethink the takaful business model in order to respond to the needs of takaful participants and compete more effectively. In this regard, the licensed takaful operator may explore new business model which extends beyond the existing role of the licensed takaful operator as the manager and administrator of takaful business. Subject to prior approval of the Shariah Advisory Council and the Bank, the licensed takaful operator may adopt any new takaful business model.

2. Applicability

- 2.1 This policy document is applicable to licensed takaful operators including professional retakaful operators.

3. Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to sections 29(2), 57, 90, 93, 94, 95 and 155 of the IFSA.

¹ For example, policy documents on *Musyarakah*, *Kafalah*, *Qard* and *Hibah*.

- 3.2 The guidance in this policy document is issued pursuant to section 277 of the IFSA.

4. Effective date

- 4.1 This policy document shall come into force on **1 July 2020**.

5. Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the IFSA and Financial Services Act 2013 (FSA) as the case may be, unless otherwise defined in this policy document.

- 5.2 For the purpose of this policy document –

“**S**” denotes a standard, obligation, requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**board**” refers to the board of directors of a licensed takaful operator. For licensed takaful operators operating as a foreign branch in Malaysia, board shall refer to the governing body of the foreign branch or any of its committees;

“**Participant Individual Fund**” or “**PIF**” refers to a takaful fund established to allocate a portion of a takaful participant’s contributions for the purpose of investment or savings;

“**Participants Risk Fund**” or “**PRF**” refers to 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;

“**PIF Investment**” refers to a takaful fund established for the purpose of investment where the principal amount is not protected and risk from the investment is borne by the individual takaful participant. For an investment-linked takaful, PIF Investment shall refer to the unit fund(s);

“**PIF Savings**” refers to a takaful fund established for the purpose of savings where the principal amount is protected;

“**senior management**” refers to the chief executive officer and senior officers of a licensed takaful operator; and

“**additional takaful fund**” refers to creation of PRF(s) or PIF(s) in addition to the minimum requirements for the establishment of PRF and PIF.

- 5.3 A glossary of Arabic terminologies used in this policy document is set out in Appendix 1.

6. Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular those listed in Appendix 2.

7. Policy documents superseded

- 7.1 This policy document will supersede the following:
- (a) *Guidelines on Takaful Operational Framework* issued on 26 June 2013;
 - (b) paragraphs 2.1, 2.2 and 2.3 of *Guidelines on Family Takaful Products* issued on 12 July 2007; and
 - (c) paragraph 9.1(d) of *Introduction of New Products by Insurers and Takaful Operators* issued on 15 May 2015.

PART B POLICY REQUIREMENTS

8. Establishment of operational framework

- S 8.1** The board has the overall oversight over the effective management of takaful operations that support a licensed takaful operator'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.
- S 8.2** In relation to paragraph 8.1, the senior management must ensure that the operational framework is commensurate with the nature and complexity of the takaful business and considers the types of funds being managed and relevant Shariah contracts adopted in managing the takaful business. In this regard, the operational framework must include, at the minimum, policies and procedures on –
- (a) application of Shariah contracts;
 - (b) establishment and maintenance of takaful funds and shareholders fund, including, where applicable, establishment of additional takaful funds or consolidation of additional PRF(s);
 - (c) product structuring;
 - (d) management of underwriting;
 - (e) management of retakaful;
 - (f) management of investments;
 - (g) management of claims;
 - (h) remuneration for management of takaful funds;
 - (i) management of operating costs;
 - (j) management of surplus in PRF; and
 - (k) management of deficiency and loss rectification.
- S 8.3** In relation to paragraph 8.2(a), the senior management must ensure that the policies consist, at the minimum, the following:
- (a) provide for the underlying Shariah principle of mutual assistance among takaful participants;
 - (b) clearly set out the contractual relationship between a licensed takaful operator and the pool of takaful participants; and
 - (c) clearly set out the contractual relationship between a licensed takaful operator and individual takaful participants, where relevant.
- S 8.4** The senior management must ensure that the Shariah contracts and Shariah matters in relation to the operational framework are endorsed by the Shariah committee.
- S 8.5** In relation to paragraphs 8.2(h) and (j), the policies must specify that the approval of the board is obtained on the proposed amount of profit distributable from PIF or surplus distributable from PRF, if any.
- S 8.6** The senior management shall be responsible to ensure effective implementation of the operational framework which include having in place –
- (a) reliable infrastructure and information technology (IT) system;

- (b) adequate human resources with relevant skills and competencies;
- (c) appropriate internal controls system; and
- (d) a clear communication plan of the policies and procedures to personnel involved in the day-to-day management of takaful operations.

S 8.7 The senior management must maintain documentation for policies and procedures on all aspects of the operational framework as specified in paragraph 8.2.

S 8.8 The senior management must 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 the Bank upon request.

9. Establishment and maintenance of takaful funds

G 9.1 Section 91 of the IFSA imposes an obligation on a licensed takaful operator to establish general takaful funds or family takaful funds separate from its shareholders fund.

G 9.2 As takaful funds are owned by takaful participants², section 92 of the IFSA also imposes an obligation for a licensed takaful operator to ensure that the funds are established and managed in a manner that preserve the interest of the takaful participants at all times.

S 9.3 Pursuant to paragraph 8.2(b), a licensed takaful operator must establish and implement policies and procedures governing the establishment of the takaful funds which must include, at the minimum, the following:

- (a) the establishment of PRF under the general takaful funds or family takaful funds;
- (b) where relevant, the establishment of a PIF Investment or PIF Savings under the family takaful funds; and
- (c) where relevant, the creation of additional PRF(s) or PIF(s) in addition to the establishment of funds as specified in paragraphs 9.3(a) and (b).

S 9.4 In relation to paragraph 9.1, a licensed takaful operator must maintain takaful funds for its Malaysian takaful certificates separate from the foreign takaful certificates.

G 9.5 Notwithstanding paragraph 9.4, a licensed takaful operator may maintain a single takaful fund for its Malaysian and foreign takaful certificates.

S 9.6 For the purposes of maintaining a single takaful fund in line with paragraph 9.5, the licensed takaful operator must obtain prior written approval of the Bank subject to the fulfilment of the following:

² Under *tabarru'*, PRF is collectively owned by the pool of takaful participants as per the SAC ruling.

- (a) for general takaful business, the gross takaful contributions in respect of foreign takaful certificates does not exceed RM5 million or 5% of total gross takaful contributions, whichever is lower; or
- (b) for family takaful business, the total family takaful funds in respect of foreign takaful certificates does not exceed RM5 million or 5% of the total takaful protection³ fund, whichever is lower.

S 9.7 In relation to paragraph 9.3(a), a licensed takaful operator carrying on family takaful business must maintain PRF for annuity takaful certificates separate from PRF for non-annuity takaful certificates.

Creation of additional PRF(s)

S 9.8 Pursuant to paragraph 9.3(c), a licensed takaful operator creating additional PRF(s) must develop and implement policies which include, at the minimum, the following:

- (a) objective/purpose of establishing and maintaining the additional PRF(s);
- (b) investment and risk strategies of the additional PRF(s);
- (c) impact of the additional PRF(s) to the management of other PRF(s) and overall business strategy;
- (d) process to assess performance of the additional PRF(s) and its long-term sustainability; and
- (e) arrangement to report to the board and relevant stakeholders⁴ on paragraphs 9.8(a) to (d).

G 9.9 In developing policies relating to paragraph 9.8(a), a licensed takaful operator may consider the following:

- (a) differentiated pricing methodology for a specific type of takaful product due to business consideration or market practices;
- (b) nature of the risks, which can affect the pattern and predictability of claims; or
- (c) different surplus distribution method.

Management of takaful funds

S 9.10 A licensed takaful operator must manage each takaful fund and additional takaful fund(s) separately from each other. In the case of PRF(s) and additional PRF(s), a licensed takaful operator must ensure that –

- (a) such funds are managed separately from each other throughout the term of the takaful certificates, including when determining surplus and deficit; and
- (b) any surplus of such funds is utilised only for the respective PRF(s) or additional PRF(s). Any cross-subsidisation of surplus between these funds is not allowed.

S 9.11 In relation to paragraph 9.10, a licensed takaful operator must have in place and implement proper accounting system to ensure that assets, liabilities, income and expenditure are properly accounted for under the respective takaful funds or additional takaful funds.

³ Refers to takaful business of non-annuity certificates, i.e. ordinary family takaful and investment-linked takaful.

⁴ Such as takaful participants, Shariah committee and appointed actuary.

Consolidation of additional PRF(s)

- G** 9.12 Subject to paragraph 9.15, a licensed takaful operator may consolidate any additional PRF(s) that have been established in paragraph 9.8, if the licensed takaful operator is of the view that the consolidation will improve the long-term sustainability of the takaful funds to the benefit of takaful participants.
- S** 9.13 Pursuant to paragraphs 8.2(b) and 9.12, a licensed takaful operator must establish and implement policies and procedures for the consolidation of additional PRF(s) that include, at the minimum, the following:
- (a) requirement to conduct assessment on sustainability of the PRF(s) to meet future claims;
 - (b) requirement to conduct assessment on impact of the consolidation on fair treatment to takaful participants, for example in terms of surplus distribution;
 - (c) a summary of the appointed actuary's assessment on the impact of the consolidation on the financial condition of the PRF(s) and the interest of takaful participants, and recommendations, if any; and
 - (d) requirement to verify that the affected PRF(s) have no outstanding *qard*.

Notification to the Bank and the Bank's evaluation

- S** 9.14 A licensed takaful operator must notify the Bank in writing not later than 30 days from the date of any consolidation or creation of takaful fund(s).
- S** 9.15 A licensed takaful operator shall maintain separation of the takaful fund(s) or create additional takaful fund(s) as may be required by the Bank where the Bank deems it is necessary to protect the interests of takaful participants and ensure sustainability of takaful fund(s).

10. Product structuring

- S** 10.1 A licensed takaful operator must structure takaful products in accordance with the applicable Shariah contracts. While this policy document focuses on the operational requirements of Shariah contracts that are currently adopted by licensed takaful operator including for *wakalah*, *mudarabah*, *qard* and *hibah* as part of its product structure, the Bank encourages the licensed takaful operator to adopt other policy documents on Shariah contracts issued by the Bank. In applying these other Shariah contracts, the licensed takaful operator must observe the requirements in the policy documents on Shariah contracts and other requirements specified by the Bank accordingly.
- S** 10.2 In relation to paragraph 10.1, where a licensed takaful operator adopts new Shariah contract⁵ for the takaful product structuring, the licensed takaful operator must obtain prior approval from the Shariah Advisory Council and the Bank.

⁵ This is a case where the Bank has not issued any operational requirements on such contract for licensed takaful operator.

- S 10.3** A licensed takaful operator must incorporate, at the minimum, the following elements in its product structuring:
- (a) a *tabarru'* element for the PRF of family or general takaful products;
 - (b) where relevant, an investment element for family takaful products; and
 - (c) where relevant, a savings element for family takaful products.
- S 10.4** In relation to paragraph 10.3(a), a licensed takaful operator must ensure that the main takaful benefits payable from PRF consist of the following:
- (a) benefits to cover for financial loss or misfortune arising from specified events; or
 - (b) survival or maturity benefits.
- G 10.5** A licensed takaful operator may include additional takaful benefits payable from PRF, but are not limited to the following:
- (a) distributable surplus from PRF;
 - (b) payment arising from surrender of takaful certificate; or
 - (c) cash payout benefit.
- S 10.6** Where a licensed takaful operator includes additional takaful benefits from PRF, such additional benefits shall be related and supplementary to the main takaful benefits as specified in paragraph 10.4.
- S 10.7** A licensed takaful operator must ensure that the takaful benefits including additional takaful benefits payable from PRF are fully consistent with Shariah and objective of takaful⁶.
- S 10.8** Where a licensed takaful operator offers additional takaful benefits payable from the shareholders fund to the takaful participants in the form of a *hibah*, such additional takaful benefits shall be related and supplementary to the main takaful benefits as specified in paragraph 10.4.
- G 10.9** In relation to paragraphs 10.3(b) and (c), a licensed takaful operator may include a partial cash withdrawal option from the PIF Investment or PIF Savings as part of the takaful product design.
- S 10.10** In the case where takaful participants are given the option to make a partial cash withdrawal, the licensed takaful operator must –
- (a) clearly disclose the withdrawal option and the terms and conditions for withdrawal in the takaful certificate;
 - (b) conduct a sustainability test prior to withdrawal to ensure that the withdrawal is not detrimental to the individual takaful participant's future takaful benefits, and that the future takaful contributions in the PIF are sufficient to cover *tabarru'* and any other charges throughout the term of takaful certificate. The results of the sustainability tests must be disclosed and communicated to the takaful participants; and

⁶ Refers to providing mutual assistance amongst the takaful participants against specific events or risks through the concept of risk pooling.

- (c) ensure withdrawal charges, if any, are justified in accordance with the costs⁷ in managing the partial cash withdrawal.

S 10.11 In relation to paragraph 10.10(b), in the event where the sustainability test indicates that the takaful certificate will not be sustainable following the partial cash withdrawal, a licensed takaful operator must –

- (a) clearly inform the takaful participant the impact of the partial cash withdrawal on the takaful cover if such takaful participant chooses to proceed with the withdrawal; and
- (b) advise the takaful participant not to exercise the partial cash withdrawal option or recommend other alternatives for example, reducing takaful certificate term or takaful coverage.

G 10.12 Pursuant to paragraph 10.3(b) and the policy document on *Investment-linked Business*⁸, a licensed takaful operator may provide an injection of seed money from the shareholders fund to assist in the establishment of the PIF of an investment-linked fund.

S 10.13 In providing the seed money under paragraph 10.12, a licensed takaful operator adopting –

- (a) *musyarakah* must specify the profit sharing ratio; and
- (b) *qard*⁹ and *wakalah* must not make the placement of seed money conditional to the agreement entered between the licensed takaful operator and takaful participant.

Legal documentation

S 10.14 A licensed takaful operator must ensure that the terms and conditions stipulated in the legal documentation of a takaful product fulfil the requirements of the adopted Shariah contracts and are enforceable.

S 10.15 In relation to paragraph 10.14, where applicable, the legal documentation shall clearly stipulate the terms and conditions associated with the application of Shariah contracts in a takaful product which include, at the minimum, the following:

- (a) ***tabarru`***
 - (i) a statement that the *tabarru`* takes into effect when a takaful participant contributes to the PRF;
 - (ii) a statement that the PRF is collectively owned by the pool of takaful participants;
 - (iii) a statement that a licensed takaful operator may revise *tabarru`* charges subject to notification being made to takaful participants, for products with non-fixed *tabarru`* charges; and
 - (iv) types and amount of benefits payable from PRF;

⁷ Refers to costs that are directly related to the partial cash withdrawal, either based on actual or estimated amount, without any profit or mark-up element.

⁸ Appendix IX Investment limits of policy document on *Investment-linked Business*.

⁹ Refers to the licensed takaful operator (shareholders fund) as the lender.

- (b) **wakalah**
 - (i) description of the subject matter or task to be delegated by takaful participants to a licensed takaful operator;
 - (ii) details of the agreed *wakalah* fees as follows:
 - (A) types of fees and the corresponding tasks or services to be undertaken by the licensed takaful operator;
 - (B) basis in determining fees, for example as a percentage of the takaful contributions; and
 - (C) terms in which fees shall be paid, for example fees are taken upfront upon payment of takaful contributions;
 - (iii) circumstances that would be deemed as mismanagement or negligence by the licensed takaful operator and remedial action that will be undertaken accordingly;
 - (iv) a statement that the principal amount of takaful contributions placed under PIF Investment is not guaranteed by the licensed takaful operator; and
 - (v) conditions for dissolution of the *wakalah*, which include –
 - (A) circumstances in which the contract will be dissolved; and
 - (B) treatment of the *wakalah* fees in the event of a dissolution;
- (c) **mudarabah**
 - (i) profit or surplus sharing ratio; and
 - (ii) a statement that principal amount of takaful contributions placed under PIF Investment is not guaranteed by the licensed takaful operator;
- (d) **qard¹⁰ for PIF Savings**
 - (i) specified amount of takaful contributions placed as *qard*;
 - (ii) a statement that the principal amount of *qard* is guaranteed by a licensed takaful operator;
 - (iii) specified events for *qard* payment, for example payable upon maturity of takaful certificate; and
 - (iv) a statement that any benefits from the *qard* PIF Savings is based on the licensed takaful operator's discretion and not made conditional to the *qard*; and
- (e) **hibah¹¹**
 - (i) amount and specified events for *hibah* to be given¹²; and
 - (ii) a statement that any *hibah* from shareholders fund is at the discretion of the licensed takaful operator.

¹⁰ Refers to the contract where the takaful participant acts as the lender of money and the licensed takaful operator as borrower.

¹¹ Not applicable for conditional *hibah*.

¹² For example, meeting certain academic achievements in the case of a takaful certificate participated for education purposes.

Infrastructure supporting product structuring

- S 10.16** For products with PIF where allocation of *tabarru`* charges from PIF to PRF is made on a periodic basis, a licensed takaful operator must have effective processes in place, supported by adequate infrastructure, systems and capabilities including IT support for fund accounting to –
- (a) ensure the amount of takaful contributions are accurately allocated to the respective funds, which includes detection of any delays or errors in *tabarru`* charges to PRF; and
 - (b) identify the amount of PIF of each individual takaful participant at any point of time.

Product pricing

- S 10.17** In determining the pricing of takaful products, a licensed takaful operator must–
- (a) exercise prudence and due care to ensure the price of the takaful product is appropriate and reasonable;
 - (b) ensure adequate *tabarru`* charges into the PRF to cover risks and obligations associated with the takaful certificate;
 - (c) ensure that the takaful contributions are sufficient to cover the *tabarru`* charges throughout the term of the takaful product; and
 - (d) consider future market fluctuations and uncertainties.

11. Underwriting of takaful risks

- S 11.1** A licensed takaful operator must manage underwriting process effectively to avoid adverse selection¹³ and to ensure that the takaful funds are sustainable in the long run.
- S 11.2** In relation to paragraph 8.2(d), a licensed takaful operator must have in place and implement underwriting policies which includes –
- (a) parameters for takaful risks evaluation;
 - (b) categorisation of takaful risks;
 - (c) types of takaful risks that can be accepted in the takaful funds; and
 - (d) circumstances under which further investigation or documentation is required prior to acceptance of takaful risks.
- S 11.3** In evaluating the takaful risks, a licensed takaful operator shall ensure that the–
- (a) takaful risks to be accepted are consistent with the licensed takaful operator's risk appetite and underwriting capacity;
 - (b) takaful risks to be accepted are in line with the assumptions used in determining the pricing of the takaful product; and
 - (c) rating differentials (such as takaful contributions loadings), benefit exclusions or limitations on takaful coverage are applied when accepting takaful participants with higher risk profile.

¹³ Refers to tendency of individuals to participate in takaful arrangement where risks of these individuals to experience a loss are more likely than an average individual.

12. Retakaful

- S 12.1** A licensed takaful operator must establish and implement a retakaful management strategy that is consistent with the risk appetite of its takaful business.
- S 12.2** In relation to paragraph 8.2(e), the licensed takaful operator must establish and implement policies and procedures for selecting and monitoring retakaful arrangements that include, at the minimum, the following:
- (a) risk tolerance level of the takaful funds;
 - (b) risk retention levels appropriate to the risk tolerance level of the takaful funds;
 - (c) types of retakaful arrangements most appropriate to manage the risk exposure in relation to its risk tolerance;
 - (d) criteria and process for selecting a panel of takaful operators or retakaful operators, which shall include considerations for level of risk tolerance, diversification and financial strength of takaful operators or retakaful operators; and
 - (e) process for monitoring, reviewing and updating the retakaful arrangement in response to changes in the market and the risk profile of the takaful funds.
- S 12.3** A licensed takaful operator shall only cede out takaful risks to other takaful operators or retakaful operators which may be a licensed takaful operator or foreign institution.
- S 12.4** Where risks are ceded to a takaful operator or retakaful operator which is a foreign institution, the licensed takaful operator must ensure that such takaful operator or retakaful operator is conducting its business in compliance with Shariah.
- S 12.5** A licensed takaful operator must not cede out risks to an insurer or reinsurer¹⁴ except under unavoidable circumstances, as per applicable rulings by Shariah Advisory Council.
- S 12.6** Pursuant to paragraph 12.5, a licensed takaful operator must establish and implement internal policies and procedures that clearly outline the unavoidable circumstances to allow cession(s) to an insurer or reinsurer which shall include the following:
- (a) no takaful operator or retakaful operator is known to accept the particular risk;
 - (b) no takaful operator or retakaful operator has the capacity or expertise to accept the particular risk; or
 - (c) a retakaful arrangement with takaful operator or retakaful operator creates potential detrimental effects to the takaful funds.

¹⁴ For avoidance of doubt, “insurer or reinsurer” in this paragraph and hereinafter refers to a licensed insurer under the FSA, professional reinsurer licensed under the FSA, insurer which is a foreign institution or reinsurer which is a foreign institution.

- S 12.7** In relation to paragraph 12.6(c), a retakaful arrangement is deemed to create detrimental effects to the takaful funds where the takaful operator or retakaful operator is unable to meet its financial obligations towards the takaful funds, including where the takaful operator or retakaful operator is –
- (a) not established or incorporated in accordance with the laws of its home regulator;
 - (b) not properly regulated or supervised by its home regulator;
 - (c) not managed by a competent board and senior management;
 - (d) not financially strong, as may be evidenced by its financial statements or financial rating; or
 - (e) based in a country that is experiencing political or financial instability which has the potential to affect the takaful operator, retakaful operator or industry.
- S 12.8** A licensed takaful operator shall observe similar requirements as per paragraph 12.7 in selecting a suitable insurer or reinsurer for ceding out takaful risks.
- S 12.9** The senior management must provide justification and evidence for each cession to an insurer or reinsurer in demonstrating that all possible efforts have been undertaken in line with the internal policies established under paragraph 12.6. The justification and evidence supporting the cession to the insurer or reinsurer must be documented and properly kept by the licensed takaful operator.
- S 12.10** In relation to paragraph 12.9, the senior management of a licensed takaful operator must report to the board on each cession to the insurer or reinsurer.
- S 12.11** A licensed takaful operator must not accept reinsurance inwards from an insurer or reinsurer except for risk that is permissible under Shariah and the inward arrangement is based on a retakaful contract between the licensed takaful operator and that insurer or reinsurer, as per applicable rulings by Shariah Advisory Council. Pursuant to paragraph 8.2(e), the licensed takaful operator must establish and implement policies on permissible risk for accepting reinsurance inwards which shall be endorsed by Shariah committee and approved by the board.
- S 12.12** In line with the concept of mutual assistance and collective ownership of the retakaful PRF, a licensed takaful operator must ensure that any form of performance-based payment to a cedant of a retakaful arrangement from the retakaful PRF shall only be made based on the overall performance of the fund, as per applicable rulings by Shariah Advisory Council.
- S 12.13** A licensed takaful operator must ensure that any commission, profit sharing or performance-based payments arising from the retakaful arrangement are fairly redistributed to the relevant funds taking into consideration the source of the retakaful contributions and the performance of the funds leading to such payments.

- S** 12.14 A licensed takaful operator must monitor, review and update the retakaful management strategy on a regular interval in response to changes in the takaful funds' risk profile or external environment.

13. Investment of takaful funds

- S** 13.1 A licensed takaful operator must manage investments of takaful funds in a sound and prudent manner, in line with Shariah requirements and takaful participants' reasonable expectations as specified in the *Guidelines on Investment Management for Takaful Operators*.
- S** 13.2 A licensed takaful operator must have in place robust system to support the investment management of the takaful funds. In this regard, the licensed takaful operator must ensure that the system is able to –
- (a) earmark specific investments to the relevant funds; and
 - (b) precisely determine and account for the distribution of investment profits accrued to individual takaful participants and the licensed takaful operator for PIF Investment.
- S** 13.3 For a product with PIF Investment, a licensed takaful operator must ensure that the policies on investment management established under paragraph 8.2(f) includes method for calculating investment profits and that method is applied consistently for all takaful certificates with PIF Investment throughout the financial year.
- G** 13.4 In managing investments, a licensed takaful operator may conduct cross trading between the funds, including with other licensed persons¹⁵.
- S** 13.5 Where a licensed takaful operator conducts cross trading between the funds in line with paragraph 13.4, the licensed takaful operator must establish and implement clear policies and procedures which govern the conduct of cross trading between the funds as to ensure the sustainability of affected takaful funds and that the best interest of takaful participants is preserved. The licensed takaful operator must ensure that the policies and procedures specify, at the minimum, the following:
- (a) trading and investment objectives and strategies;
 - (b) types of Shariah-compliant investment asset which can be cross traded;
 - (c) process for executing cross trade which shall be conducted at arm's length¹⁶ and on a fair value basis¹⁷;
 - (d) control and monitoring mechanism; and
 - (e) escalation process and information disclosure to the board which include assessment on the impact of cross trade on takaful funds and takaful participants.

¹⁵ For avoidance of doubt, "licensed persons" refer to licensed persons under the IFSA and FSA.

¹⁶ Arm's length refers to the price that would have been determined if such transactions were made between independent entities under the same or similar circumstances (*Transfer Pricing Guidelines* by Lembaga Hasil Dalam Negeri).

¹⁷ Fair value as defined by Malaysian Accounting Standard Board.

- S 13.6** Pursuant to paragraph 13.5, a licensed takaful operator must ensure that an independent review¹⁸ is conducted at least annually by persons with sufficient expertise and relevant experience, to provide the board with an assessment on compliance to the cross trading policies and procedures, as well as the effectiveness of the cross trading activities in achieving the investment objectives.

14. Payment and charges on surrender of takaful certificate

- S 14.1** A licensed takaful operator must determine the surrender value, including the cost of any applicable surrender charge, in a manner consistent with ensuring the fair treatment of takaful participants and in accordance with generally accepted actuarial principles.
- S 14.2** A licensed takaful operator must ensure that the amount payable to takaful participants upon surrender is made from the appropriate funds. For example, in relation to takaful product adopting *wakalah*, and where the surrender value is determined based on gross contributions basis, the surrender value shall include the amount of unexpired *wakalah* fees which shall be payable from the shareholders fund.
- S 14.3** In the case of single contribution for a long-term takaful product that is allocated only in the PRF as *tabarru`*, the surrender value shall include the unexpired *tabarru`* amount and accrued¹⁹ surplus due to takaful participants in PRF, where applicable.
- S 14.4** For a takaful product with PIF features, the surrender value shall include the balance of PIF and accrued surplus due to takaful participants in PRF, where applicable.
- S 14.5** Where a licensed takaful operator imposes a surrender charge for the surrender of takaful certificate, the surrender charge shall reasonably reflect the expected incurred expenses which have not yet been recouped by other charges levied up to the point of surrender.
- G 14.6** For purposes of paragraph 14.5, the surrender charge may also include administrative expenses incurred in processing the surrender of takaful certificate.
- S 14.7** In relation to paragraph 14.5, a licensed takaful operator which inadvertently imposes a surrender charge greater than the expected incurred expenses to mitigate the risks of surrender, must maintain the excess amount in the PRF.

¹⁸ Independent review can be conducted by an internal function, which is not the business function performing the cross trading transactions.

¹⁹ Accrued surplus refers to surplus that is declared to individual participants but yet to be transferred out of the PRF. The accrued surplus becomes a liability of the PRF and will be paid to takaful participants at a pre-determined time as per the takaful contract.

- S 14.8** For general takaful products which are not subject to the requirements under the policy document on *Introduction of New Products by Insurers and Takaful Operators*, the licensed takaful operator must document the computation for the cancellation basis and shall make the documents available to the Bank upon request.

15. Claims management

- S 15.1** In relation to paragraph 8.2(g), a licensed takaful operator must have in place and implement internal policies, procedures, system and controls to manage claims, in line with the requirements in Schedule 10 of the IFSA for family takaful and personal accident benefits or the Guidelines on Claims Settlement Practices (Consolidated) for general takaful benefits.
- S 15.2** In the claims handling procedures, the licensed takaful operator must –
- (a) assess the validity of claims and claims settlement amount; and
 - (b) ensure that the processing and payments of claims are done in accordance with its internal policies and procedures.
- S 15.3** Pursuant to paragraph 15.2(a), the licensed takaful operator must ensure that claims are paid from the relevant funds as stipulated in the takaful certificates.
- S 15.4** A licensed takaful operator must establish and implement appropriate measures to prevent fraudulent claims or payment of invalid claims.

16. Remuneration for the management of takaful funds

- G 16.1** A licensed takaful operator may be remunerated in consideration for the services rendered, costs incurred and performance outcome in managing takaful funds. Any such remuneration may include elements of fixed remuneration (i.e. upfront *wakalah* fee), performance-based remuneration and compensation for direct costs incurred.
- S 16.2** In relation to paragraph 16.1, the remuneration shall be made in accordance with the requirements of the relevant Shariah contracts.
- S 16.3** In relation to paragraph 8.2(h), a licensed takaful operator must establish and implement remuneration policies which ensure that –
- (a) the remuneration structure reflects the specific work or services undertaken and commensurate with the nature, scope and complexity of the work or services; and
 - (b) the remuneration is consistent with prudent risk-taking, preserves the interest of the takaful participants and ensures the long-term sustainability of the takaful funds.
- S 16.4** Where a licensed takaful operator is remunerated under paragraph 16.1, any remuneration for work undertaken or services provided by the licensed takaful operator must be charged only once in a takaful certificate.

- S** 16.5 For general takaful products which are not subject to the requirements under the policy document on *Introduction of New Products by Insurers and Takaful Operators*, the licensed takaful operator must document the approach and justification of the remuneration for such product and shall make the documents available to the Bank upon request.

Upfront wakalah fee

- G** 16.6 A licensed takaful operator adopting a *wakalah* may be remunerated based on a fixed upfront fee which may be charged as a percentage of the takaful contributions.
- S** 16.7 The upfront *wakalah* fee must be used to cover mainly for the commissions and management expenses incurred in managing the takaful funds. Any residual margin in the *wakalah* fee intended for profits must be reasonable and appropriate.
- S** 16.8 Where *wakalah* is arranged with PIF Savings based on *qard*, a licensed takaful operator must ensure that the upfront *wakalah* fee as a percentage of the takaful contribution is determined after deducting the value of *qard* from the takaful contribution, as per applicable rulings by Shariah Advisory Council, and the remuneration for managing the PIF Savings shall be in accordance with paragraph 16.18.

Remuneration from PRF

- G** 16.9 A licensed takaful operator adopting a *wakalah*²⁰ or *mudarabah* may be remunerated based on the performance of the PRF.
- S** 16.10 In relation to paragraph 16.9, the remuneration shall be determined based on a proportion of the distributable surplus in PRF or a proportion of the component of the distributable surplus in PRF, as specified in paragraph 18.3.
- S** 16.11 In relation to paragraph 16.10, a licensed takaful operator must ensure that—
- the shareholders' portion of the surplus is only distributed after the takaful participants' portion of the surplus has been paid or accrued²¹ to the takaful participants;
 - the surplus payable to a licensed takaful operator must be capped at 50% of total distributable surplus; and
 - remuneration is in line with the licensed takaful operator's policies on surplus management and the requirements as specified in paragraph 18.
- S** 16.12 Notwithstanding paragraph 16.11(b), in the case where a licensed takaful operator adopts solely *mudarabah* for its takaful business model and intends to increase the surplus payable to the licensed takaful operator beyond the 50% cap, the licensed takaful operator must obtain prior written approval from the Bank. In this regard, the licensed takaful operator must submit the

²⁰ This is considered as an incentive fee for managing the PRF to be in surplus position in line with policy document on *Wakalah*.

²¹ Please refer to footnote 19.

application to the Bank together with endorsement by Shariah committee and approval by the board.

Fee on risk fund

- G** 16.13 A licensed takaful operator adopting the *wakalah* may be remunerated based on the proportion of the takaful contributions allocated to the PRF in the form of fee on risk fund.
- S** 16.14 The fee on risk fund must be maintained in the PRF and shall not be distributed to the licensed takaful operator unless the following conditions are fulfilled:
- (a) PRF is in surplus position as determined under paragraph 18.3(a);
 - (b) the quantum of the distributable fee must be recommended by the appointed actuary based on the requirements stipulated in paragraph 18.4; and
 - (c) the distribution of such fee is in conformance with the requirements outlined in paragraph 16.11. For purposes of meeting the requirement in paragraph 16.11(b), the fee to be distributed as income shall form part of the total amount of remuneration from PRF.
- S** 16.15 Pursuant to paragraph 16.14, a licensed takaful operator shall not carry forward the fee that is not distributed to the licensed takaful operator for a particular financial year to the subsequent financial years.

Remuneration from PIF Investment

- G** 16.16 A licensed takaful operator adopting the *wakalah bi al-istithmar*²² or *mudarabah* may be remunerated based on an agreed profit sharing ratio from the PIF investment.
- S** 16.17 For the remuneration from PIF Investment, a licensed takaful operator must ensure that –
- (a) financial accounts of the licensed takaful operator have been audited by an external auditor;
 - (b) the amount to be remunerated to the licensed takaful operator is within the profit sharing ratio as stated in the takaful certificate; and
 - (c) the amount to be remunerated to the licensed takaful operator shall not affect the future ability of PIF Investment to meet the *tabarru`* charges to PRF and take into consideration takaful participants' reasonable expectations.

Compensation for direct costs

- G** 16.18 In managing PIF Savings based on *qard*, a licensed takaful operator may be remunerated based on the compensation for the direct costs incurred.

²² For investment-linked family takaful products adopting the *wakalah bi al-istithmar*, a licensed takaful operator may be remunerated in the form of annual fund management charges as specified in the policy document on *Investment-Linked Business*.

- S 16.19** In relation to paragraph 16.18, a licensed takaful operator must establish and implement appropriate policies and procedures for identifying the eligible actual or estimated direct costs in line with policy document on *Qard*.

17. Management of operating costs

Operating costs incurred by shareholders fund

- S 17.1** As manager of the takaful funds, the operating costs incurred by a licensed takaful operator in carrying out the takaful operations must be borne by shareholders fund.
- S 17.2** The operating costs shall include commissions, related expenses payable to the distribution channels, management expenses and other operational expenses.
- S 17.3** A licensed takaful operator must give rebate to the takaful participants for savings on acquisition costs²³ by the licensed takaful operator, where the takaful certificates are arranged via direct distribution channels²⁴.
- S 17.4** A licensed takaful operator must establish effective controls to ensure expenses incurred by the shareholders fund do not lead to cost overruns which can affect the viability of the licensed takaful operator and hence its ability to manage the takaful funds effectively.
- S 17.5** A licensed takaful operator must ensure that the remuneration received under paragraph 16 is prudently managed to cover operating costs incurred in managing the takaful funds for the full contractual obligation of the takaful certificate. In this regard, a licensed takaful operator must establish appropriate and adequate provisions to meet the expense liabilities of the shareholders fund as specified in the *Guidelines on Valuation Basis for Liabilities of Family Takaful Business* or *Guidelines on Valuation Basis for Liabilities of General Takaful Business* to ensure all remuneration received is sufficient to meet the operating costs incurred.

Expenses charged to takaful funds

- S 17.6** A licensed takaful operator must not pay expenses out of the takaful funds except for –
- (a) direct claims-related expenses which refer to fees or costs directly associated with settling of claims such as adjustor and legal fees; and
 - (b) direct investment-related expenses which refer to transaction costs directly attributable to the acquisition, issuance or disposal of a financial asset of the takaful funds.

²³ Savings on acquisition costs refers to acquisition costs that have been priced in the takaful product but no or minimal acquisition costs actually incurred.

²⁴ Examples of direct distribution channels are head office and branch premises, tele-marketing and online through websites.

- S 17.7** In relation to paragraph 17.6, a licensed takaful operator must ensure that the—
- (a) amount charged to the takaful funds is limited to the actual amount of expenses incurred; and
 - (b) expenses incurred are not factored into the determination of any forms of remuneration to the licensed takaful operator.
- S 17.8** Where expenses charged to the takaful funds are deemed inappropriate by the Bank, a licensed takaful operator shall apply retrospective adjustments and repay the expenses to the takaful funds as may be required by the Bank.

18. Management of surplus in PRF

- S 18.1** A licensed takaful operator must manage the operations of takaful funds to ensure that the funds' experience is within that assumed in the pricing of takaful products.
- S 18.2** In relation to paragraph 8.2(j), a licensed takaful operator must establish and implement policies to manage surplus in PRF which shall consist of the following:
- (a) manner for the utilisation of the surplus, including surplus distribution and the level of surplus to be retained to cushion future volatility of the PRF;
 - (b) preservation of the long-term viability of the PRF and fair treatment to takaful participants, including monitoring of cross-subsidisation among different group of takaful participants;
 - (c) requirement that the surplus in PRF and where applicable, the additional PRF(s), is managed separately from each other; and
 - (d) the mode in which surplus is to be distributed to the takaful participants.
- S 18.3** For distribution of surplus in PRF, a licensed takaful operator must ensure that the –
- (a) surplus is determined –
 - (i) based on a full valuation of liabilities as certified by the appointed actuary and the financial accounts of the licensed takaful operator that are fully audited by an external auditor;
 - (ii) only after claims and other outgo of the funds such as retakaful contributions being met;
 - (iii) only after observing any other prudential requirements specified by the Bank; and
 - (iv) based on generally accepted actuarial principles and is in a manner which ensures fair treatment of different groups of takaful participants;
 - (b) surplus to be distributed is recommended by the appointed actuary;
 - (c) surplus distribution is in line with the policies as specified in paragraph 18.2 and the underlying Shariah contract;
 - (d) surplus distribution is made only if there is no deficit as defined in paragraph 19.2(a); and
 - (e) surplus distribution will not create adverse financial implications on the PRF or result in a deficit in the PRF.

- S 18.4** In relation to paragraph 18.3(b), in determining the amount of surplus to be recommended for distribution, the appointed actuary must –
- (a) assess the strength of the takaful funds to ascertain the extent to which it would be appropriate for surplus to be distributed such that the long-term sustainability of the takaful funds is not affected; and
 - (b) refrain from recommending the distribution of surplus if in the appointed actuary’s professional judgment, the surplus should remain in the PRF as a buffer to maintain the ability of the takaful funds to meet future liabilities or takaful participants’ reasonable expectations not specifically provided for in the actuarial valuation.
- S 18.5** A licensed takaful operator shall not retain or accumulate the distributable surplus allocated to the shareholders in the PRF.
- G 18.6** Pursuant to 18.2(d), surplus may be distributed to takaful participants in a manner that may include, but not limited to the following:
- (a) retain the distributable surplus in PRF, where the amount shall be made available and to be paid upon claim, maturity or surrender;
 - (b) accumulate the distributable surplus in PIF Investment or Savings of the individual takaful participants and payable upon claims, maturity or surrender;
 - (c) pay the distributable surplus directly to the bank account of each individual takaful participant; or
 - (d) donate to charitable organisation, in the case where takaful participants agree to forgo their rights to the distributable surplus.
- S 18.7** In relation to paragraph 18.6, the mode of surplus distribution shall be clearly stipulated in the takaful certificates.

19. Deficiency and loss rectification

Deficiency and loss in PRF

- G 19.1** Section 95 of the IFSA imposes an obligation on a licensed takaful operator to provide *qard*²⁵ or other forms of financial support to the takaful fund which would include PRF, from the shareholders fund for an amount and on such terms and conditions as may be specified by the Bank.
- S 19.2** For purposes of paragraph 19.1 –
- (a) a deficit in the PRF occurs when assets of the PRF are insufficient to meet the liabilities of the PRF, where assets and liabilities refer to the total assets of the PRF and the sum of actuarial liabilities and other liabilities²⁶ of the PRF, respectively, as reported in the balance sheet of the takaful funds; and
 - (b) licensed takaful operator must immediately rectify the deficit in PRF.

²⁵ Refers to the contract where the licensed takaful operator (shareholders fund) acts as the lender of money and PRF as the borrower.

²⁶ “Other liabilities” shall exclude the amount of outstanding *qard* in PRF.

- S 19.3** Where the deficit is to be rectified by *qard*, a licensed takaful operator must ensure that the *qard* is repaid from excess of assets over liabilities as defined in paragraph 19.2(a) arising in the PRF in the future years.
- S 19.4** Where the deficit is to be rectified by *qard*, a licensed takaful operator must establish and implement policies to rectify any deficiency in the PRF as specified in paragraph 8.2(k) which shall include, at the minimum, the following:
- (a) the manner in which the *qard* provided by shareholders will be repaid. The repayment of *qard* must take into account the ability of the PRF to meet future liabilities and takaful participants' reasonable expectations;
 - (b) the manner in which the surplus will be distributed to takaful participants during the period where *qard* has not been fully repaid by the PRF, for example, whether the distribution of surplus shall be continued, reduced or put on hold;
 - (c) the time period during which *qard* shall be repaid and where the *qard* shall be deemed irrecoverable beyond the specified time period; and
 - (d) the circumstances under which the *qard* is not repayable.
- S 19.5** In relation to paragraph 19.4(c), in determining the time period to repay *qard*, a licensed takaful operator must take into account the following:
- (a) likelihood of *qard* being repaid over the foreseeable future;
 - (b) the expected future experience of the PRF in generating a surplus; and
 - (c) the potential adverse impact to the viability of the PRF should the *qard* persist.
- S 19.6** Notwithstanding paragraph 19.4(c), a licensed takaful operator shall write-off the *qard* prior to the time period specified by the licensed takaful operator as may be required by the Bank.
- G 19.7** A licensed takaful operator may provide *hibah* as other form of financial support to rectify the deficiency in PRF by way of actual transfer of the assets from the shareholders fund to the PRF with no obligation for repayment to the shareholders fund.
- S 19.8** In the event that there is a deficit or loss in the PRF due to mismanagement or negligence, a licensed takaful operator must immediately rectify the deficit or loss through an outright transfer of assets from the shareholders fund to the PRF. Pursuant to paragraph 8.2(k), the licensed takaful operator must establish policies that specify circumstances of mismanagement or negligence by the licensed takaful operator.
- S 19.9** Pursuant to paragraph 19.8, a licensed takaful operator must explain and provide the following information to the Bank:
- (a) reasons for the deficit or loss;
 - (b) remedial measures to avoid recurrences of deficit or loss and the expected duration to implement such measures; and
 - (c) implications of the deficit or loss to the takaful participants.

- S** 19.10 Notwithstanding paragraph 19.8, a licensed takaful operator shall rectify the deficit or loss in the PRF through an outright transfer of assets from the shareholders fund as may be required by the Bank where the Bank determines that the deficit or loss is due to mismanagement or negligence.

Deficiency and loss in PIF Investment

- S** 19.11 A licensed takaful operator must ensure sufficient and relevant information is disclosed to takaful participants to facilitate their understanding of market performance and its implications including potential shortfall of the PIF Investment and possibility of takaful certificate to lapse.
- S** 19.12 Where the deficiency and loss in the PIF Investment is due to mismanagement or negligence, a licensed takaful operator must immediately rectify the loss through an outright transfer of assets from shareholders fund. Pursuant to paragraph 8.2(k), the licensed takaful operator must establish policies that specify circumstances of mismanagement or negligence by the licensed takaful operator.
- G** 19.13 In relation to paragraph 19.12, mismanagement and negligence may include, but not limited to the following:
- (a) poor disclosure of the investment risk that is borne by takaful participants;
 - (b) non-compliance with the investment strategy or improper execution against approved policies;
 - (c) investment strategy adopted by licensed takaful operator is inconsistent with the strategy that had been agreed with takaful participants at the point of entering into the takaful certificate; and
 - (d) misleading information disclosed in the product disclosure sheet.

20. Other requirements

Assets of takaful funds

- S** 20.1 A licensed takaful operator must secure any documents evidencing the licensed takaful operator's title to assets of the takaful funds or any licensed professional retakaful operator's deposit held by the licensed takaful operator to meet liabilities of takaful funds.
- S** 20.2 A licensed takaful operator shall keep the documents referred to in paragraph 20.1 in Malaysia under its custody or the custody of the following persons:
- (a) a licensed Islamic bank or a licensed bank; or
 - (b) any other person on behalf of the licensed takaful operator subject to the licensed takaful operator notifying the Bank in writing of the identity of such person and the reasons for the appointment of such person as the custodian and of any change in that custody and the reason for it.
- S** 20.3 Notwithstanding paragraph 20.2, a licensed takaful operator may keep the documents –
- (a) outside Malaysia in the custody of a person at such place subject to obtaining the prior written approval from the Bank and compliance with any conditions that may be specified by the Bank; or

- (b) in the custody of licensed takaful operator, or a bank, in the country where it is carrying on business to the extent the assets relate to its business in that country.

- S** 20.4 Pursuant to paragraph 20.3(b), the licensed takaful operator must notify the Bank in writing of the custodian of its documents and where the Bank so requires, the licensed takaful operator must produce a certificate from the custodian or its auditor verifying the existence of the documents.
- S** 20.5 A licensed takaful operator must not pledge, mortgage or charge any of the assets or securities of takaful funds or shareholders fund except with the prior written approval from the Bank.
- G** 20.6 The assets or securities pledged or charged for which the Bank's prior written approval is required under paragraph 20.5 include those pledged for a Shariah-compliant repurchase agreement (Shariah-compliant repo) entered into by a licensed takaful operator. The Bank may grant a one-off approval for all subsequent Shariah-compliant repos undertaken by the licensed takaful operator. However, any approval granted to licensed takaful operator may be reviewed by the Bank from time to time, taking into account the adequacy and appropriateness of the licensed takaful operator's risk management as well as internal governance to manage risks associated with such transactions.

Liabilities of takaful funds

- S** 20.7 A licensed takaful operator must ensure that the valuation of takaful liabilities shall be determined as specified in the *Guidelines on Valuation Basis for Liabilities of Family Takaful Business* or *Guidelines on Valuation Basis for Liabilities of General Takaful Business*. In this regard, the licensed takaful operator must appoint a person with the appropriate qualification and technical skills to conduct the valuation of its takaful liabilities as specified in the policy document on *Appointed Actuary: Appointment and Duties*.

Registers of takaful certificates and claims

- S** 20.8 A licensed takaful operator must maintain a separate register for its Malaysian and foreign takaful certificates, and a separate register for takaful claims under its Malaysian takaful certificates and for takaful claims under its foreign takaful certificates, as follows:
 - (a) information relating to takaful certificates and claims to be recorded in the registers shall include the information necessary for identification of the liabilities underwritten as well as the processing and validation of the liabilities and takaful claims against the takaful certificates, respectively; and
 - (b) information for register of takaful certificates shall be recorded upon issuance or transfer of the takaful certificates. Whereas for the register of takaful claims, the information shall be recorded upon the licensed takaful operator becomes aware of the takaful claims.
- S** 20.9 A licensed takaful operator must, at the request of any person having an interest in the takaful certificate or claim, inform that person whether the takaful certificate or claim is entered in the register.

- S 20.10** A licensed takaful operator must keep the registers of takaful certificates and claims in Malaysia at all times and maintain these registers as long as the licensed takaful operator is under any liability in respect of any takaful certificates or claim registered.

Free-look period and advanced contributions

- S 20.11** For family takaful contributions received during free-look period in line with *Guidelines on Product Transparency and Disclosure*, a licensed takaful operator must allocate the contributions in the PRF or PIF Savings.
- S 20.12** Notwithstanding paragraph 20.11, in the event of cancellation of takaful certificate by takaful participants during free-look period, a licensed takaful operator must return the full amount of takaful contributions to the takaful participants and deduction is only allowed for expenses incurred for the medical examination of takaful participants²⁷.
- S 20.13** In relation to paragraph 20.12, for takaful contributions received as advanced takaful contributions²⁸, a licensed takaful operator must similarly return the full amount of advanced takaful contributions to the takaful participants in the event of surrender or claims by the takaful participants.

²⁷ For investment-linked takaful product, a licensed takaful operator shall observe the requirements on free-look period as specified in the policy document on *Investment-linked Business*.

²⁸ Refers to takaful contributions received by the licensed takaful operator for takaful certificates which have already been incepted but where the takaful contributions are not yet due for payment.

Appendix 1: Glossary

Terms	Definition
<i>Hibah</i>	Transfer of ownership of an asset from a donor to a recipient without any consideration
<i>Mudarabah</i>	Profit-sharing contract
<i>Musyarakah</i>	Joint venture contract
<i>Qard</i>	Loan
<i>Tabarru`</i>	Donation
<i>Wakalah</i>	Agency contract
<i>Wakalah bi al-istithmar</i>	Agency contract for investment

Appendix 2: Related legal instruments and policy documents

1. Shariah Governance Framework for Islamic Financial Institutions issued on 22 October 2010.
2. Risk-Based Capital Framework for Takaful Operators issued on 17 December 2018.
3. Guidelines on Valuation Basis for Liabilities of General Takaful Business issued on 15 May 2012.
4. Guidelines on Valuation Basis for Liabilities of Family Takaful Business issued on 16 May 2012.
5. Guidelines on Investment Management for Takaful Operators issued on 20 April 2009.
6. Appointed Actuary: Appointment and Duties issued on 28 April 2014.
7. Introduction of New Products by Insurers and Takaful Operators issued on 15 May 2015.
8. Guidelines on Product Transparency and Disclosure issued on 31 May 2013.
9. Investment-Linked Business issued on 11 January 2019.
10. Guidelines on Family Takaful Products issued on 12 July 2007.
11. Guidelines on Medical and Health Takaful Business issued on 17 September 2007.