



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Supplementary Information for Sources of Surplus Arising for Takaful Operators – Reporting Manual

Applicable to:

1. Licensed takaful operators carrying on family takaful business

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PART A OVERVIEW

1 Introduction

- 1.1 In order to improve consistency in the reporting of the sources of surplus arising as required under the policy document on Risk-Based Capital Framework for Takaful Operators (RBCT) and to better facilitate supervisory assessment, a licensed person carrying on family takaful business is required to provide supplementary information on sources of surplus arising by completing Form J_Supplementary (the supplementary information form).
- 1.2 This reporting manual sets out further guidance on completing Form J_Supplementary.

2 Applicability

- 2.1 This reporting manual is applicable to licensed takaful operators carrying on family takaful business for all RBCT reporting after 1 October 2018.

PART B GENERAL INSTRUCTIONS

3 General Specifications

Reporting form

- 3.1 With the introduction of Form J_Supplementary, a licensed person shall no longer be required to directly input information into Form J, as the information from the supplementary information form will automatically populate Form J.
- 3.2 For hardcopy submissions, Form J_Supplementary shall be submitted together with Form J.

Determination of actual and expected amounts

- 3.3 The reporting basis for quarterly reporting and financial year end reporting shall be in accordance with the Guidance Notes on Takaful Operators Statistical System Monthly / Quarterly / Annual Statistical Returns.
- 3.4 The actual amount for each source of surplus arising shall be consistent with the amount reported under other regulatory reporting requirements prescribed by Bank Negara Malaysia (the Bank).
- 3.5 The expected amount for each source of surplus arising shall be determined on a best estimate basis, with the exception of net liabilities. Net liabilities shall be valued in accordance with the RBCT Framework, and shall include a Provision of Risk Margin for Adverse Deviation (PRAD) where necessary.
- 3.6 Where retakaful credit is taken in computing liabilities, components B to G shall be reported net of retakaful. Otherwise:
 - (a) Components B to G, excluding the item specified in sub-paragraph 3.6 (b), shall be reported gross of retakaful;
 - (b) The actual impact of retakaful arrangements, calculated as retakaful recoveries *plus* retakaful commission *less* retakaful contributions, shall be reported under component G; and
 - (c) The expected amount that corresponds to the item specified in sub-paragraph 3.6 (b) shall be reported as zero.
- 3.7 For certificates with zeroised net liabilities, the expected amount for each source of surplus arising shall be quantified under a pre-zeroised basis. The zeroised amount that offsets the negative net liabilities shall be reported under component G.
- 3.8 Sub-component G4 shall be an amount that offsets the sum of all other expected components, in order to yield a total expected amount of zero.

- 3.9 The sources of surplus arising shall be quantified in the order of component A to G, as set out in the supplementary information form. The quantified amounts shall include the surplus arising from both the basic plans and the attaching riders.
- 3.10 A licensed person may apply approximations¹ to quantify the amount for a source of surplus arising. The methodology and assumptions adopted for any such approximations shall be described and justified.

Amounts reported for in-force business and new business

- 3.11 A licensed person shall report:
- (a) In-force business² under components A to E;
 - (b) New business³ under sub-component F1; and
 - (c) Renewal business of group yearly renewable products⁴ under sub-component F2.

Documentation

- 3.12 A licensed person shall clearly document the methodologies, assumptions and approximations⁵ applied in quantifying the amount for each source of surplus arising, and provide this information to the Bank upon request.

¹ For example, in apportioning the aggregate takaful benefit payout to each type of coverage specified in the supplementary information form, where actual payment data for each type of coverage is not available.

² Excludes renewal business of group yearly renewable products.

³ Includes new business of group yearly renewable products.

⁴ Includes guaranteed and non-guaranteed yearly renewable products.

⁵ As specified in paragraph 3.10.

PART C TECHNICAL SPECIFICATIONS FOR COMPONENTS OF SOURCES OF SURPLUS ARISING

4 Component A: Investment

- 4.1 A licensed person shall only report the investment returns earned on assets backing the net liabilities and unappropriated surplus of the Participants' Risk Fund under this component. The investment returns earned on assets backing other liabilities of the Participants' Risk Fund that contribute to surplus arising, if any, shall be reported under component G.
- 4.2 Component A consists of the following sub-components:
- A1. Return on assets backing net liabilities
 - A2. Return on assets backing unappropriated surplus
 - A3. Impact of change in discount rates on net liabilities
- 4.3 The actual amount of sub-components A1 and A2 shall capture the following:
- (a) Profit, coupons, dividends and rents;
 - (b) Net gain / (loss) on disposal of investments;
 - (c) Net accretion / (amortization) of investments;
 - (d) Gain / (loss) from changes in fair value;
 - (e) Impairment (loss) / reversal;
 - (f) Foreign exchange gain / (loss) on investments;
 - (g) Taxes on investments; and
 - (h) Direct investment-related expenses⁶.
- 4.4 For products where the net liabilities are valued under an undiscounted basis, the expected amount of component A for these products shall be zero.
- 4.5 The expected amount for sub-component A1 shall reflect the unwinding of discounting effect, net of tax.
- 4.6 If a yield curve is applied for discounting of net liabilities, the expected amount for sub-component A1 shall be estimated using a weighted average of forward rates where the weights are based on the present value of the cash flows.
- 4.7 In relation to paragraph 4.6, a different approximation may be used to determine the expected amount for sub-component A1, if it does not result in a materially different outcome.
- 4.8 Sub-component A3 shall capture the impact of any changes in discount rates on net liabilities, including changes arising from market movement.

⁶ As specified in paragraph 11.4 of the Guidelines on Takaful Operational Framework.

5 Component B: Takaful Benefits

- 5.1 Component B consists of the following sub-components:
- B1.1 Mortality & Total Permanent Disability (TPD) benefit payouts
 - B1.2 Tabarru' charge for B1.1
 - B2.1 Critical illnesses benefit payouts
 - B2.2 Tabarru' charge for B2.1
 - B3.1 Hospitalisation & Surgical Takaful (HST), Hospitalisation Income Benefit (HIB) and Personal Accident (PA) benefit payouts
 - B3.2 Tabarru' charge for B3.1
 - B4.1 Other takaful benefit payouts
 - B4.2 Tabarru' charge for B4.1
 - B5 Release of net liabilities for takaful benefit payouts
- 5.2 For sub-components where the expected amount is not readily available in the valuation model, the expected amount may be estimated as the actual amount of earned contribution *multiplied with* the valuation loss ratio.
- 5.3 Sub-components B1.2, B2.2, B3.2 and B4.2 shall capture the tabarru' charge that are deducted from the Participants' Investment Fund⁷.
- 5.4 Sub-components B4.1 and B4.2 shall capture payouts for benefits other than those reported under sub-components B1.1 to B3.2 and D1, including but not limited to maturity benefits and survival benefits.
- 5.5 Sub components B1.1 to B4.1 shall take into account direct claims related expenses⁸.
- 5.6 For short-term products which are reserved in accordance to the Guidelines of Valuation Basis for Liabilities of General Takaful Business, sub-component B5 shall only include the release of claims liabilities, as the release of contribution liabilities will be embedded in earned contribution income, which is reported under sub-component D3.

6 Component C: Expenses

- 6.1 Only the expenses⁹ borne by the Participants' Risk Fund shall be reported under this component.

⁷ As defined in paragraph 9.3 of the Guidelines on Takaful Operational Framework.

⁸ As specified in paragraph 11.4 of the Guidelines on Takaful Operational Framework.

⁹ Excludes direct investment-related expenses and direct claims related expenses, as specified in paragraphs 4.3 and 5.5 respectively.

7 Component D: Lapse

- 7.1 Component D consists of the following sub-components:
- D1. Surrender benefit payouts
 - D2. Release of net liabilities for lapse and surrender benefit payouts
 - D3. Contributions
- 7.2 Component D shall capture the following:
- (a) Surrender; and
 - (b) Reinstatements.
- 7.3 Sub-component D3 shall capture the following:
- (a) Contributions to Participants' Risk Fund for non-dripping takaful products; and
 - (b) Cash inflows to Participants' Risk Fund for investment-linked products and dripping takaful products.

8 Component E: Change in Valuation Basis

- 8.1 Component E consists of the following sub-components:
- E1. Model and methodology
 - E2. Mortality & TPD assumptions
 - E3. Critical Illnesses assumptions
 - E4. HST, HIB and PA assumptions
 - E5. Expense assumptions
 - E6. Lapse and surrender assumptions
 - E7. Other assumptions
- 8.2 The impact of changes in valuation bases on net liabilities shall be quantified in the order listed in paragraph 8.1.

9 Component F: New Business

- 9.1 Component F consists of the following sub-components:
- F1. New business for individual and group products
 - F2. Renewal business of group yearly renewable products
- 9.2 For financial year end reporting, new business shall include businesses acquired during the financial year; while for quarterly reporting, new business shall include businesses acquired between the beginning of the reporting calendar year and the end of the reporting quarter.
- 9.3 Sub-components F1 and F2 shall be calculated as cash inflows *less* cash outflows *less* change in net liabilities.

10 Component G: Others

- 10.1 Component G consists of the following sub-components:
- G1. (The top contributor to component G)
 - G2. (The second top contributor to component G)
 - G3. (The third top contributor to component G)
 - G4. Balancing item
- 10.2 The top three contributors to component G shall be reported under sub-components G1 to G3 and ranked in the order of the absolute value of the actual *less* expected amount. A licensed person shall input the names of the top three contributors under the Details of Sub-components G1 to G3 section of the supplementary information form.
- 10.3 In relation to paragraph 10.2, sub-components G1 to G3 may be different for each takaful sub-fund and for each reporting period.
- 10.4 Sub-components G1 to G4 may include:
- (a) Expected profit / (loss) for in-force business (expected profit);
 - (b) One-off expenses arising from distribution agreement;
 - (c) Options and guarantees (non-takaful in nature) that are not reported under component B;
 - (d) Bad and doubtful debts / allowance for impairments (e.g. for outstanding contributions, retakaful balances); and
 - (e) Other gain / (loss).
- 10.5 If expected profit is not one of the top three contributors to component G, the amount shall be reported under the Additional Reporting section of the supplementary information form.
- 10.6 Expected profit shall be calculated as expected cash inflows *less* expected cash outflows *less* expected change in net liabilities.
- 10.7 The expected amount of expected profit / (loss) shall be reported as a negative / (positive) amount, and the corresponding actual amount shall be reported as zero.
- 10.8 The items in expected profit as specified in paragraph 10.6 shall be valued on the following bases:
- (a) For financial year end reporting, using the valuation basis at the beginning of the financial year; and
 - (b) For quarterly reporting, using the valuation basis at the beginning of the calendar year.
- 10.9 For products specified in paragraph 5.6, the expected change in net liabilities shall include changes in both contribution and claims liabilities.

11 Additional Reporting

- 11.1 A licensed person shall report the following under the Additional Reporting section of the supplementary information form:
- (a) Expected profit, as specified in paragraph 10.5;
 - (b) The actual amount of acquisition expenses;
 - (c) The actual amount of investment returns earned on assets backing participants' deposited cash;
 - (d) The actual amount of profit declared or credited for participants' deposited cash; and
 - (e) The amount of expenses borne by the shareholders' fund, including acquisition expenses as specified in paragraph 11.1 (b).
- 11.2 Participants' deposited cash shall refer to monies which are left deposited¹⁰ with the licensed person in the Participants' Risk Fund, if any.

¹⁰ For example, cash benefits payable upon survival of the participants or advance payments of contribution.