

The top half of the page features a vibrant background image of numerous open umbrellas in various colors including red, blue, yellow, orange, and pink, viewed from a low angle looking up towards the sky.

PIDM's Islamic Protection Systems

Part 5: PIDM's Takaful Benefits Protection System

Friday, 27th August 2021

As we have shared with you in [Part 1](#) of this series, PIDM was established in 2005 with the mandate of protecting depositors in Malaysia against the loss of their deposits in the unlikely event a PIDM member bank fails, or in other words, becomes bankrupt. At the end of 2010, PIDM's mandate was expanded to include the administration of the Takaful and Insurance Benefits Protection System ("TIPS"). Under TIPS, PIDM provides protection to takaful certificate and insurance policy owners against the loss of their eligible takaful or insurance benefits in the unlikely event that an insurer member (i.e., a takaful operator ("TO") or insurance company) fails and is unable to honour its obligation to pay the takaful or insurance benefits.

Takaful benefits are benefits that a certificate owner or beneficiary would receive from a takaful operator upon the occurrence of specified events (such as claim events, maturity or surrender of takaful certificates), subject to the relevant terms and conditions. These benefits, along with the terms and conditions, are set out in the takaful agreement entered into between the certificate owners and the TO.

The protection of takaful benefits is administered by PIDM under its Takaful Benefits Protection System ("TBPS"), which operates alongside the Insurance Benefits Protection System. When a TO fails, PIDM will ensure that protected takaful certificate owners or beneficiaries will have continued access to their takaful benefits.

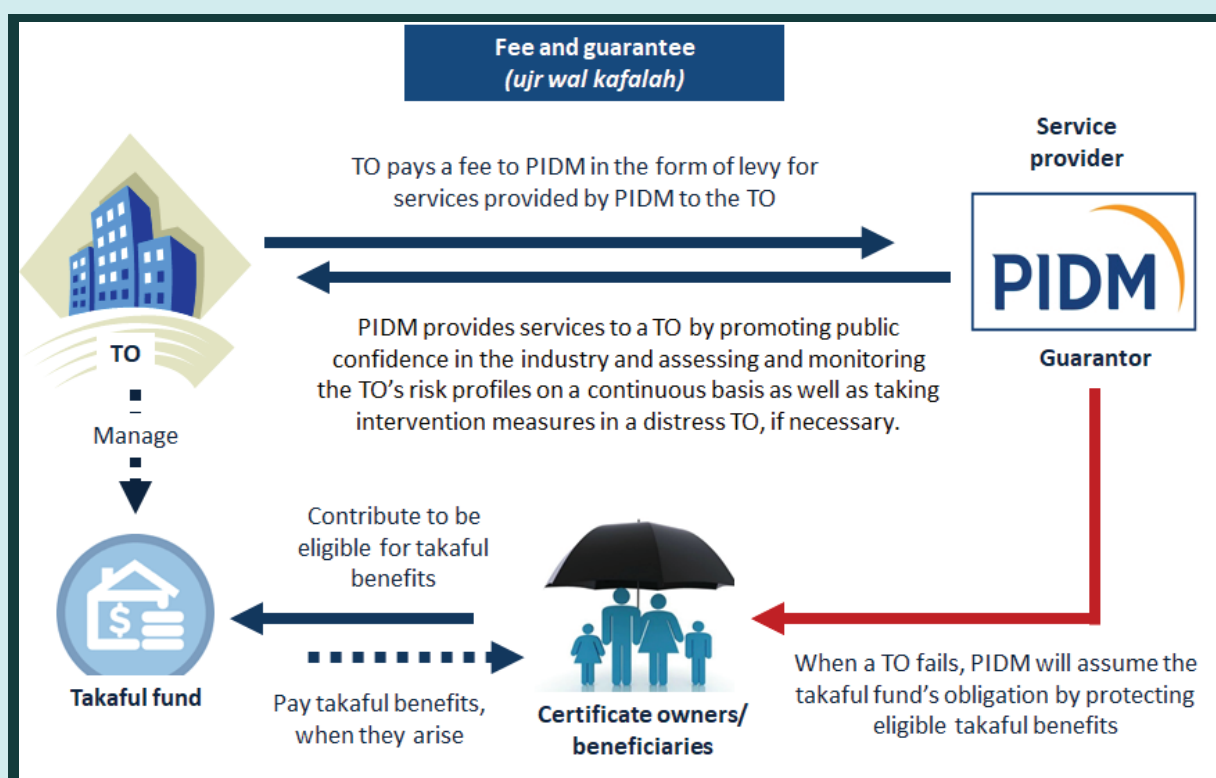
To give a simple illustration, let's say Lisa has made a claim to a TO after being involved in a car accident. While waiting for her claim to be paid, the TO becomes bankrupt. In this situation, if her claim is an eligible benefit under TBPS, Lisa does not need to worry since she will continue to have access to her takaful benefits.

In Malaysia, all takaful benefits under family and general takaful certificates are protected by PIDM up to RM500,000, with exceptions of maturity, surrender and income benefits payable from the unit portion of any investment-link plans or certificates. Do take note that PIDM also DOES NOT protect takaful certificates that are in foreign currency and not issued by a TO in Malaysia. Further information on eligible takaful benefits and the coverage limits are available [here](#).

TBPS is administered by PIDM in accordance with Shariah requirements, pursuant to the rulings issued by the Shariah Advisory Council of Bank of Negara Malaysia ("SAC"). The SAC is the highest Shariah authority that provides rulings on Islamic banking and takaful in Malaysia.

The administration of TBPS is based on a Shariah concept which governs and sets out, among others, the terms of the takaful benefits protection, the roles of each party, and how the protection will be carried out. The SAC ruled that PIDM can adopt the Shariah concept of "fee and guarantee" (or *ujr wal kafalah* in Arabic) for TBPS, which works as follows:

- ◆ The TOs pay a fee to PIDM for its services in administering TBPS. Under TBPS, the TOs do not pay a fee to PIDM for its protection commitment. This is because the TOs do not have financial obligations towards certificate owners. Under the takaful contract between a TO and its certificate owners, the financial obligation rests on the takaful risk fund into which the certificate owners contribute or donate to.
- ◆ The fees collected from the TOs are accumulated in PIDM's Takaful Protection Funds for the guarantee of takaful benefits. Under this Shariah concept, the funds are owned by PIDM.
- ◆ When a TO fails, the guarantee commitment takes effect and PIDM will make sure that the owners or beneficiaries of protected takaful certificates will continue to have access to their takaful benefits.



For PIDM to administer TBPS, the TOs pay an annual levy to PIDM. Takaful certificate owners are the beneficiaries and are not required to make any payment to PIDM for the protection of eligible takaful benefits. The TOs are not allowed to impose any fees on the takaful certificate owners for this protection.

The levy payable to PIDM depends on a TO's valuation liabilities (for family takaful business) or net contributions (for general takaful business) and its risk profile. The objective of incorporating a TO's risk profile into the levy computation is to provide incentive for sound risk management. The higher the risk profile, the higher the levy rate is, thus motivating TOs to aim for a lower risk profile.

Levies collected by PIDM from general TOs are channelled to its General Takaful Protection Fund, while levies collected from family TOs are channelled to its Family Takaful Protection Fund. These funds are maintained separately from PIDM's General and Life Insurance Protection Funds as well as the Islamic and Conventional Deposit Insurance Funds. Hence, PIDM maintains six (6) separate funds.

In the case where a TO fails, PIDM will protect eligible takaful benefits by utilising the relevant takaful protection fund. Where the fund is inadequate, PIDM may raise funds externally from the market or the Government.

For its day-to-day operations, PIDM utilises its Takaful Protection Funds to pay its expenditures, including expenditures relating to the development of the necessary human capital and infrastructure to get itself ready for the resolution of a TO, as well as for promoting TBPS for public awareness. Any surplus from the funds are invested or placed in Shariah-compliant instruments.

So, what about the governance, you may ask?

We shall share insights on this in our next and final part of the series, Part 6.