

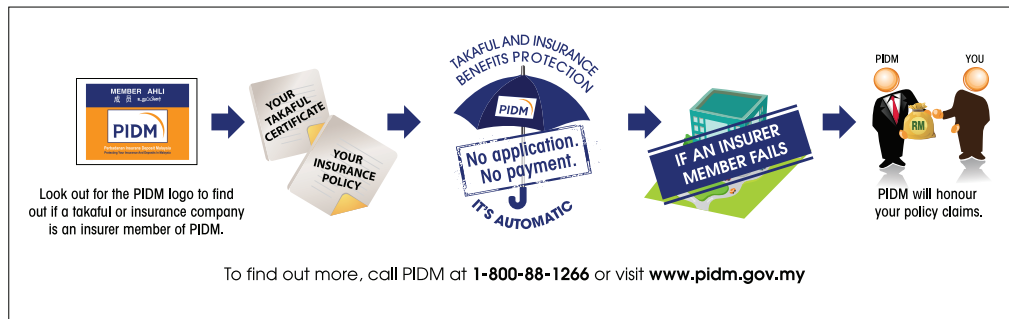
Takaful And Insurance Benefits Protection System Handbook



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

TABLE OF CONTENTS

2	INTRODUCTION
3	THE TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM
9	MEMBERSHIP
11	COVERAGE
11	<i>Who is covered</i>
12	<i>Limits and scope of coverage</i>
17	<i>Merger or acquisition of insurer members</i>
18	FUNDING
20	PAYMENTS TO TAKAFUL CERTIFICATE AND INSURANCE POLICY OWNERS
24	GLOSSARY OF USEFUL TERMS
28	CONTACT DETAILS



INTRODUCTION

The Takaful and Insurance Benefits Protection System (TIPS) is a financial consumer protection system administered by Perbadanan Insurans Deposit Malaysia (PIDM).

As part of an enhanced financial consumer protection package following the enactment of Akta Perbadanan Insurans Deposit Malaysia 2011 (PIDM Act), TIPS was implemented on 31 December 2010 to provide takaful certificate and insurance policy owners with an explicit protection against the loss of part or all of their benefits in the event of an insurer member failure. TIPS also benefits the takaful and insurance industry by levelling the playing field with the banking industry, which is already covered by the Deposit Insurance System (DIS).

The takaful and insurance industry is an integral part of the financial system and the introduction of TIPS is consistent with international developments. A number of jurisdictions in Europe and Asia have established insurance compensation schemes of one form or another to protect policy owners, including the United Kingdom, France, Germany, Spain, Korea and Japan. The United States of America and Canada also have similar schemes.

TIPS was designed specifically to meet the needs of Malaysians. Among its unique features is the coverage of both takaful and insurance benefits under one organisation. In line with its expanded mandate, PIDM administers both TIPS and DIS in an effective and efficient manner to promote public confidence in the financial system. TIPS is also administered in a manner to promote sound risk management among takaful operators and insurance companies.

THE TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM

1. What is the Takaful and Insurance Benefits Protection System (TIPS)?

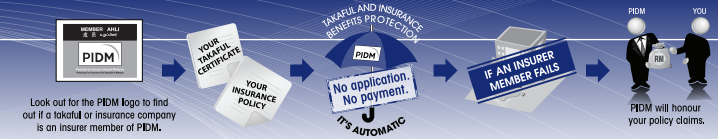
TIPS is a system established by the Government to protect owners of takaful certificates and insurance policies from the loss of their eligible takaful or insurance benefits in the event that an insurer member¹ fails and is unable to honour the takaful or insurance benefits. This system was introduced in Malaysia on 31 December 2010. TIPS is administered by PIDM.

2. What is PIDM?

PIDM is a Government agency established in 2005 under Akta Perbadanan Insurans Deposit Malaysia (PIDM Act). PIDM administers two financial consumer protection systems, namely the DIS to protect bank depositors and the TIPS to protect owners of takaful certificates and insurance policies. PIDM also provides incentives for sound risk management in the financial system, and promotes and contributes to the stability of Malaysia's financial system.

For more information on PIDM and DIS protection, refer to PIDM's website at www.pidm.gov.my.

¹ See section on "Membership" in this Handbook.



3. What is PIDM's mandate?

- (a) Administer two financial consumer protection systems - DIS and TIPS;
- (b) Provide protection against the loss of deposits in member banks; and the loss of takaful or insurance benefits in respect of insurer members;
- (c) Provide incentives for sound risk management in the financial system; and
- (d) Promote or contribute to the stability of the financial system.

4. What are PIDM's main functions?

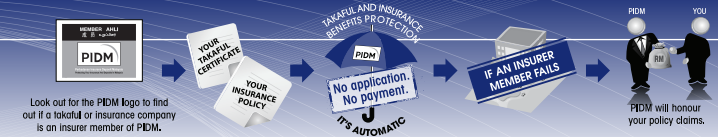
- Administer the DIS and TIPS in Malaysia.
- Assess and collect premiums or levies from member institutions comprising banks, and takaful operators and insurance companies.
- Manage six separate and distinct funds – two for deposit insurance and four for takaful and insurance benefits protection.
- Undertake resolution of a non-viable member institution.
- Reimburse depositors' protected bank deposits should a member bank become bankrupt or make payments to takaful certificate and insurance policy owners for eligible protected benefits should an insurer member become bankrupt.
- Comply with Shariah principles in respect of Islamic deposits and takaful protection funds.
- Implement public awareness and education initiatives to enhance understanding of the DIS, TIPS as well as the role of PIDM.

5. Who governs PIDM?

PIDM is governed by a board of directors drawn from the public and private sectors, and led by a non-executive Chairman. Two board members are ex officio, namely the Governor of Bank Negara Malaysia, and the Secretary General of the Treasury. The Chairman and all non ex officio members are appointed by the Minister of Finance.

The Chief Executive Officer (CEO) is responsible for the management of the daily operations of PIDM. The management role of the CEO is supported by the Chief Operating Officer (COO) and Executive Management Committee represented by the Heads of Divisions in PIDM.

Further information on the governance of PIDM is available at www.pidm.gov.my.



6. What are the benefits of TIPS to the takaful certificate and insurance policy owners?

- PIDM provides explicit protection for takaful certificate and insurance policy owners against the loss of eligible takaful or insurance benefits should an insurer member fail.
- Protection is provided automatically and no payment is required for the protection.
- There is no charge to takaful certificate and insurance policy owners.
- Should an insurer member become bankrupt, PIDM will make payment on eligible takaful and insurance benefits. Alternatively, PIDM may take measures to secure continuity of coverage for certificate or policy owners by transferring the takaful certificates or insurance policies to another insurer member.

7. What are the benefits of TIPS to the financial system?

- Promotes public confidence in Malaysia's financial system by protecting takaful certificate and insurance policy owners against the loss of their benefits.
- Reinforces and complements the existing regulatory and supervisory framework by providing incentives for sound risk management in the financial system.
- Minimises costs to the financial system by finding least cost solutions to resolve a non-viable insurer member.
- Contributes to the stability of the financial system by dealing with non-viable insurer members expeditiously.

8. With TIPS in place, what is the difference between the role of PIDM and Bank Negara Malaysia (BNM)?

BNM is the primary regulator and supervisor of the financial system and continues to be responsible for maintaining the stability of the financial system. PIDM works closely with BNM and complements BNM's role in contributing to the stability of the financial system by administering TIPS and promoting prudent risk management by insurer members.

Our working relationship is mandated in the PIDM Act and detailed in a Strategic Alliance Agreement. Our partnership with BNM ensures timely exchange of information on member institutions and collaboration in all significant activities.

MEMBERSHIP

9. How does PIDM contribute to the stability of the financial system?

PIDM complements the existing regulatory and supervisory framework by providing incentives for insurer members to implement sound risk management practices. PIDM is empowered with a wide range of legislative tools to intervene early to reduce or avert losses to the financial system.

Under the PIDM Act, PIDM's intervention and resolution powers are wide and include powers to acquire assets from insurer members, make loans or advances to insurer members (except for purposes of the provision of liquidity assistance), acquire the shares of insurer members, and take all other necessary actions to reduce the cost of failures to the financial system. Once BNM notifies PIDM that an insurer member is no longer viable, PIDM has another array of powers, including the ability to assume control over the insurer member, set up a bridge institution and restructure or liquidate the insurer member to implement a least-cost resolution and may transfer the takaful certificates or insurance policies of that insurer member to other healthy insurer members.

1. Which takaful operators and insurance companies are PIDM's insurer members?

Insurer members of PIDM are all takaful operators licensed under the Islamic Financial Services Act 2013 (IFSA) to conduct family or general takaful business in Malaysia, as well as insurance companies licensed under the Financial Services Act 2013 (FSA) to conduct life or general insurance business in Malaysia. Membership is compulsory as provided under the PIDM Act.

2. How do you identify a PIDM insurer member?

A list of PIDM's insurer members is available on PIDM's website at www.pidm.gov.my or contact PIDM at 1-800-88-1266.

All insurer members are required to display this logo or membership representation at the main entrance to their offices.



COVERAGE

3. Which institutions are not insurer members of PIDM?

Institutions that are not insurer members of PIDM include:

- Reinsurance companies and retakaful operators
- International takaful operators licensed under the IFSA
- Financial guarantee insurers such as Danajamin Nasional Berhad
- Offshore or Labuan takaful operators and insurance companies
- Other players in the insurance industry, such as insurance brokers and adjusters.

Who is covered

1. Are TIPS protection provided to all takaful certificate and insurance policy owners?

Yes, all takaful certificate and insurance policy owners are eligible for protection under TIPS if their takaful certificates or insurance policies are issued in Malaysia by an insurer member and denominated in Ringgit Malaysia.

Please refer to Table 1 under “Limits and scope of coverage” in this Handbook for details.

2. Are takaful certificate and insurance policy owners required to apply or register for TIPS protection?

No, they do not need to apply or register. They are automatically protected for eligible takaful and insurance benefits.

Limits and scope of coverage

1. Which takaful and insurance benefits are protected under TIPS? What are the limits and scope of coverage provided under TIPS?

The takaful and insurance benefits protected under TIPS and their related limits are set out in Table 1 below.

Table 1: Protected Takaful or Insurance Benefits and related limits

TABLE 1	
Protected Benefits	Limits of Protection (Individual or Group Policies/Plans)
Death and related benefits arising from death	RM500,000
Disability and related benefits arising from disability	RM500,000
Illness and related benefits arising from illness	RM500,000
Maturity and related benefits arising from maturity*	RM500,000
Surrender and related benefits arising from surrender*	RM500,000
Income*	RM500,000
Healthcare	100% of amount payable
Pecuniary loss	RM500,000
Value of that family takaful certificate or value of that life policy	RM500,000 for one or more family takaful certificates or life policies

TABLE 1	
Protected Benefits	Limits of Protection (Individual or Group Policies/Plans)
Refundable prepaid contribution or premium	For medical and health takaful certificates or insurance policies - 100% of amount prepaid
	For takaful certificate or insurance policies which are required under the Road Transport Act 1987 and Workmen's Compensation Act 1952 - 100% of amount prepaid
	For other takaful certificates or insurance policies - RM500,000 per takaful certificate or insurance policy
Loss of or damage to property and consequential loss	RM500,000 for each property
Loss of or damage to property of any third party and consequential loss	RM500,000 for each property
Death of any third party and related benefits arising from death	RM500,000
Disability of any third party and related benefits arising from disability	RM500,000
Illness of any third party and related benefits arising from illness	RM500,000
Injury of any third party and related benefits arising from injury	RM500,000
Healthcare of any third party	100% of amount payable
Pecuniary loss of any third party	RM500,000

* Maturity, surrender and income benefits payable from the unit portion of investment-linked takaful certificates or insurance policies are not protected under TIPS.



2. What types of takaful and insurance benefits are not protected under TIPS?

Takaful or insurance benefits not protected under TIPS include benefits under takaful certificates and insurance policies denominated in foreign currency, as well as maturity, surrender and income benefits payable from the unit portion of investment-linked certificates or policies. However, misfortune benefits (such as death benefits) payable from the unit portion of the investment-linked certificates or policies are protected under TIPS.

3. How were the limits and scope of coverage set?

TIPS was designed to protect the majority of takaful certificate and insurance policy owners. Based on the limits and scope of coverage set, at least 96% of all takaful certificate and insurance policy owners would be protected in full. The level of coverage under TIPS is consistent with the level of protection under the DIS.

4. If I have an individual certificate or policy, would my group certificate or policy benefits be protected separately under TIPS?

Yes. The benefits protected under an individual certificate or policy and a group certificate or policy will be calculated separately in arriving at the maximum limit of protection. This allows certificate and policy owners to enjoy more protection.

5. If I have purchased takaful certificates or insurance policies with the same benefits from several insurer members, will all my takaful or insurance benefits be added up for purposes of determining my coverage under TIPS?

No. The same takaful and insurance benefits with different insurer members are protected separately.

6. Under what circumstances would the protected benefits under TIPS be aggregated?

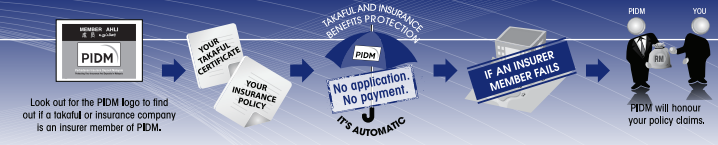
The protected benefits under TIPS will be aggregated only if they relate to the “same insurer member, same risk event, same life insured or insured property, and same takaful certificate or insurance policy owner”.

Example

Mr Lim is employed with Troton Bhd and is insured under his employer’s Group Term policy for RM200,000. He also has a Whole Life policy and an Endowment policy for himself (sum insured of RM300,000 under each policy). All the policies were bought from XYZ Insurance Bhd. In January 2021, he died in an accident.

	Group Term Policy	Whole Life Policy	Endowment Policy
Policy Owner	Troton Bhd	Mr. Lim	Mr. Lim
Insurer Member	XYZ Insurance Bhd.	XYZ Insurance Bhd.	XYZ Insurance Bhd.
Risk Event	Death	Death	Death
Life Insured	Mr. Lim	Mr. Lim	Mr. Lim
Aggregation rule applies?	NO	Will be aggregated based on “same policy owner, same insurer member, same risk event and same life insured”.	

POLICY	SUM INSURED	AMOUNT PROTECTED UNDER TIPS
Group Term Policy	RM200,000	RM200,000
Whole Life Policy	RM300,000	Capped at RM500,000
Endowment Policy	RM300,000	



7. How can I know what is protected under TIPS if I have purchased several family takaful certificates or life insurance policies for myself and my family?

Each life insured is separately protected. This means if you have purchased several takaful certificates or insurance policies for different family members from the same insurer member, you will be protected based on your individual family members who are insured.

Example

Mr. and Mrs. Tan purchased several life insurance policies for their family from the same insurer member.

Policy Owner: Mr. Tan		Policy Owner: Mrs. Tan	
Life insured	Amount insured	Life insured	Amount insured
Policy 1 - Son (Adam)	RM200,000	Policy 4 - Son (Adam)	RM100,000
Policy 2 - Daughter (Alice)	RM150,000	Policy 5 - Son (Adam)	RM50,000
Policy 3 - Mr. Tan	RM600,000	Policy 6 - Mrs. Tan	RM400,000
Scenario 1: Death of Adam			
Amount claimable under Mr. Tan's policies		RM200,000 (Policy 1)	
Amount claimable under Mrs. Tan's policies (RM100,000 + RM50,000)		RM150,000 (Policy 4 and 5)	
Total amount claimable under TIPS		RM350,000	
Scenario 2: Death of Mr. Tan			
Amount claimable under Mr. Tan's policies		RM600,000 (Policy 3)	
Total amount claimable under TIPS		RM500,000*	

* Maximum limit under TIPS

8. Can I purchase additional insurance to get more coverage for my takaful or insurance benefits?

No. Protection for your takaful and insurance benefits under TIPS is not a commercial takaful certificate or insurance policy that can be purchased. Protection is provided by the Government through PIDM. There is no need to register or apply for protection under TIPS since it is provided automatically for eligible takaful or insurance benefits.

Merger or acquisition of insurer members

1. What happens to my takaful certificates or insurance policies if two insurer members merge, or if one insurer member is acquired by another insurer member?

The takaful or insurance benefits will continue to be protected separately until the fulfilment of all obligations by the insurer members, including payment upon the occurrence of the claims event, maturity or surrender of the takaful certificate or insurance policy.

FUNDING

1. How is PIDM funded?

PIDM is funded by annual premiums and levies paid by member institutions. Member institutions are prohibited to transfer the premiums or levies payable to PIDM to their customers. Hence, there is no direct cost to takaful certificate and insurance policy owners for protection under TIPS and they do not need to pay for this protection. In the event PIDM is required to make a claims payout, PIDM's funds will be used to pay certificate and policy owners for their takaful or insurance benefits protected under TIPS.

2. How are levies calculated?

The annual levy is calculated by multiplying the actuarial valuation liabilities or total net contributions or net premiums with the applicable levy rates determined under the Differential Levy Systems (DLS) Framework or the Differential Levy Systems Framework for Takaful Operators (DLST).

The prescribed levy rate applicable to an insurer member under the DLS or DLST framework will be based on the insurer member's risk profile. An insurer member with a higher risk profile is subject to a higher levy rate as compared to an insurer member with a lower risk profile.

For further clarification, refer to the "Guidelines on Differential Levy Systems Framework for Insurance Companies" and "Guidelines on Differential Levy Systems Framework for Takaful Operators" available at PIDM's website (www.pidm.gov.my).

3. When do insurer members pay annual levies?

The insurer members will pay annual levies by 31 May of each assessment year.

4. What happens to levies paid by insurer members?

Levies paid by insurer members are used to fund the operations of PIDM or to build reserves to meet future obligations to takaful certificate and insurance policy owners in the event of an insurer member failure.

Since TIPS protects both takaful and insurance benefits, PIDM maintains and administers four separate TIPS funds:

- Family Takaful Protection Fund
- Life Insurance Protection Fund
- General Takaful Protection Fund
- General Insurance Protection Fund

PIDM funds have reached the level where we have achieved operational self-sufficiency. The investment income generates sufficient revenue to cover its operational costs.

5. How are surplus funds invested?

Surplus funds are accumulated to build reserves to meet future obligations to takaful certificate and insurance policy owners. The objective of PIDM's investment policy is to achieve capital preservation and maintain funds to meet future obligations.

PIDM's current investment policy is in line with the requirements of the PIDM Act and it invests primarily in short-term Ringgit-denominated Government or BNM securities of varying maturities. The investments made from the Family Takaful Protection Fund and General Takaful Protection Fund are managed in accordance with Shariah principles.

PAYMENTS TO TAKAFUL CERTIFICATE AND INSURANCE POLICY OWNERS

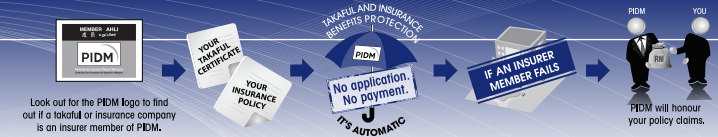
1. What happens to protected takaful or insurance benefits in the event an insurer member fails?

If an insurer member fails and is unable to honour the takaful or insurance benefits under TIPS, PIDM will make a payment of the protected benefits to the certificate or policy owners. PIDM may also arrange for transfer of takaful certificates or insurance policies from the failed insurer member to another insurer member to secure continuity of coverage for takaful certificate or insurance policy owners.

2. In what circumstances are payments to takaful certificate or insurance policy owners made?

In the event of an insurer member failure which necessitates a payment for the protected benefits, PIDM will make payment to takaful certificate or insurance policy owners upon occurrence of the claims event, maturity or surrender of the takaful certificate or insurance policy provided the claims are made within a specified time frame, under the following circumstances:

- **Obligatory payments** – where a winding-up order has been made in respect of the insurer member, PIDM will make payment for the protected benefit.
- **Discretionary payments** – with the Minister of Finance's approval, where:
 - (i) The insurer member that issued the certificate or policy is unable to make payment for the protected benefits because of:
 - a court order;
 - an action taken by a regulatory body or PIDM; or
 - an action taken by a receiver and/or manager while the insurer member is in receivership;
 - (ii) A petition for winding up against the insurer member has been presented to the court; or
 - (iii) The insurer member has its PIDM membership cancelled or terminated.



3. From which funds will the payments be made?

The payments for protected insurance benefits will be made from the Life Insurance Protection Fund or the General Insurance Protection Fund depending on whether it is a life insurance or general insurance policy, while the payments for protected takaful benefits will be made from the Family Takaful Protection Fund for family takaful benefits or the General Takaful Protection Fund for general takaful benefits.

4. How and when will the payments be made?

PIDM will make public announcements to notify takaful certificate and insurance policy owners on how and when payments for their takaful or insurance benefits protected under TIPS will be made. PIDM will also make available communications channels, including the Call Centre and website, for the general public to find out about the status of their protected benefits.

5. Do takaful certificate and insurance policy owners have to make a claim for payment of the protected benefits?

In the event that a petition for winding up of an insurer member is filed, claims must be lodged with PIDM upon occurrence of the claims event, maturity or surrender of the takaful certificate or insurance policy within a specified time frame. Takaful certificate and insurance policy owners will be notified of this time frame by PIDM in writing and by newspaper advertisement.

6. What about the portion of the takaful and insurance benefits that are not protected under TIPS?

In the event of the liquidation of the insurer member, takaful certificate and insurance policy owners may file a claim with the liquidator of the insurer member to recover any amount exceeding the maximum limit set for benefits protected under TIPS and other takaful and insurance benefits that are not protected under TIPS.

GLOSSARY OF USEFUL TERMS³

Akta Perbadanan Insurans Deposit Malaysia 2011 (PIDM Act)

Also known as the Malaysia Deposit Insurance Corporation Act 2011 which came into operation on 31 December 2010. This Act replaces the PIDM Act 2005, under which PIDM was established in 2005.

Bank Negara Malaysia (BNM)

The Central Bank of Malaysia is a statutory body which started operations on 26 January 1959, and governed by the Central Bank of Malaysia Act 2009.

Certificate Owner

The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Claim

Any demand, action or claim whatsoever made against an insurer member in respect of the takaful or insurance benefits under a takaful certificate or insurance policy to which an insurer member is liable, or made against PIDM in respect of payment of the eligible protected benefits under TIPS, as the case may be.

Financial Services Act 2013

An Act to provide for the regulation and supervision of financial institutions, payment systems and other relevant entities and the oversight of the money market and foreign exchange market to promote financial stability and for related, consequential or incidental matters.

Foreign Currency

Any currency other than Ringgit, the Malaysian currency.

Group Certificate/Group Policy

A takaful certificate or an insurance policy under which there are three or more participating lives or lives insured at the time of issuance of the certificate or policy.

Individual

A natural person.

Insurance Benefits

The amounts paid under the coverage of a policy for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Insurance Company

An insurer licensed to carry on insurance business under the Financial Services Act 2013, other than an insurer licensed to carry on solely reinsurance business and Danajamin Nasional Berhad.

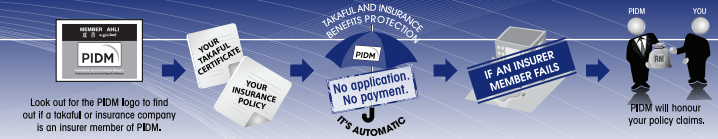
Insurance Policy

A life policy or a general policy.

Insured Person

A person entitled to an insurance benefit, whether or not the person is the policy owner.

³ Where applicable, the definitions in this section are based on the PIDM Act 2011.



Islamic Financial Services Act 2013

An Act to provide for the regulation and supervision of Islamic financial institutions, payment system and other relevant entities and the oversight of the Islamic money market and Islamic foreign exchange market to promote financial stability and compliance with Shariah and for related, consequential or incidental matters.

Life Insured

The person in respect of whom an insurance policy provides coverage on the occurrence of his death or survival; or the person in respect of whom an insurance policy provides coverage on the occurrence of an accident, a disease or sickness, whether or not the person is the policy owner.

Perbadanan Insurans Deposit Malaysia (PIDM)

An independent statutory body that provides protection for depositors against the loss of part or all of their deposits in the unlikely event of a member bank failure as well as provides protection for takaful certificate and insurance policy owners against the loss of part or all of their benefits in the unlikely event of an insurer member failure.

Policy Owner

The person who has the legal title to an insurance policy and includes the assignee, the personal representative of a deceased policy owner and the annuitant.

Risk Event

Any event in relation to which a takaful certificate or insurance policy provides for a takaful or insurance benefit.

Shariah

The law of Islam, based upon the Quran, Sunnah (sayings and deeds of the Prophet Muhammad s.a.w.), Ijma' (consensus of Muslim scholars) and Qiyas (analogy).

Takaful Benefits

The amount paid under the coverage of a takaful certificate for which a takaful operator is liable to any person in the usual course of the business of the takaful operator.

Takaful Certificate

A contract in respect of family takaful or general takaful.

Takaful Operator

A takaful operator licensed to carry on takaful business under the Islamic Financial Services Act 2013, other than a takaful operator licensed to carry on solely retakaful business and an international takaful operator.

Third Party

A person, not being a takaful beneficiary or an insured person, against whose claim a takaful beneficiary or an insured person is indemnified under a general takaful certificate or general insurance policy.

CONTACT DETAILS

For more information:

- Call PIDM's toll-free information line: **1-800-88-1266** available Mondays to Fridays, 8.30 a.m. to 5.30 p.m.
- Email to **info@pidm.gov.my**
- Visit PIDM's website at **www.pidm.gov.my**
- Write to PIDM at the following address:

Communications and Public Affairs Division

Perbadanan Insurans Deposit Malaysia
Level 12, Axiata Tower
No. 9, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

Perbadanan Insurans Deposit Malaysia

Level 12, Axiata Tower, No. 9, Jalan Stesen Sentral 5,
Kuala Lumpur Sentral, 50470 Kuala Lumpur.

Telephone : 603-2173 7436

Fax : 603-2173 7527 / 2260 7432

Toll Free : 1800 88 1266

Website : www.pidm.gov.my