



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**RESPONSE TO THE
CONSULTATION PAPER ON THE
PROPOSED ENHANCEMENTS TO THE SCOPE AND
LIMITS OF COVERAGE FOR THE TAKAFUL AND
INSURANCE BENEFITS PROTECTION SYSTEM (TIPS)**

ISSUE DATE : 1 JULY 2019



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1.0 BACKGROUND

- 1.1 On 20 March 2019, Perbadanan Insurans Deposit Malaysia (“PIDM”) issued a consultation paper (“CP”) on the proposed enhancements to the scope and limits of coverage for the Takaful and Insurance Benefits Protection System (“TIPS”).
- 1.2 Written comments were received from a total of 22 respondents, comprising 19 insurer members (“IMs”) and three (3) industry associations. As part of the consultation process, PIDM is publicly disclosing its responses to the comments received.
- 1.3 PIDM wishes to thank the respondents who have provided their written comments on the CP. PIDM has carefully considered these comments and our responses to the detailed comments are set out in Section 3. Given that some of the comments are similar, we have grouped the comments under broad topics and provided our responses on that basis.

2.0 OVERVIEW OF COMMENTS RECEIVED

- 2.1 The respondents were generally supportive of the proposed enhancements discussed in the CP.

Key changes

- 2.2 After assessing the views and feedback received, PIDM proposes to increase the limit of refundable prepaid contributions or premiums for certain general takaful certificates or insurance policies (“collectively known as certificates or policies”) from RM25,000 to RM500,000.
- 2.3 A summary of the existing and final proposals for scope and limits of coverage for TIPS are set out in the *Appendix* for ease of reference.



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3.0 DETAILED COMMENTS RECEIVED AND PIDM'S RESPONSES

3.1 Proposal 1: Simplify current eligibility conditions for coverage

PIDM proposed to simplify and streamline one (1) of the eligibility conditions with the IM's reporting to Bank Negara Malaysia ("BNM") to ease their administrative burden. Certificates or policies that are reported by an IM to BNM as "Malaysian takaful certificate or Malaysian policy" will be eligible for protection.

Comments Received

General takaful and general insurance business

A large majority of the respondents were agreeable to the proposal as it is aligned with the definitions in the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA). Further, they do not foresee significant operational challenges with the implementation of the proposal. However, a respondent highlighted that the information needed to confirm that the policy meets the definition of "Malaysian policy" is not readily available in its existing system.

Another respondent sought confirmation on the rationale for the proposal.

Family takaful and life insurance business

The respondents largely concurred with the proposal. One (1) respondent was of the view that the term "Malaysian policy" may be construed as only Malaysian citizens are protected by PIDM, and suggested to use the term "policy issued in Malaysia" for clarity. Another respondent sought clarification on the manner to determine the residency status of a "foreigner".

There was another suggestion to adopt a principle-based definition as an eligibility condition, for example, a certificate or policy is eligible for protection if it meets the objective of protecting Malaysian certificate or policy owners.

PIDM's Response

PIDM wishes to reiterate that the proposed enhancements aim to minimise unproductive administrative burden on the IMs. We have received feedback in the past from the IMs that the categorisation of the certificate or policy that fulfilled the current eligibility conditions is not consistent with their reporting to BNM, and this pose operational challenges to the IMs. In this regard, the terminology "Malaysian takaful certificate or Malaysian policy" for BNM's reporting and the information requirement for PIDM purposes will be aligned.



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PIDM wishes to clarify that there will be no change to other eligibility conditions, including the requirement for a certificate or policy to be issued in Malaysia. The proposed eligibility conditions for coverage under TIPS for life and general certificate or policy are as follows:

- (a) the certificate or policy is issued in Malaysia by an IM;
- (b) the certificate or policy is denominated in Ringgit Malaysia (“RM”); and
- (c) the certificate or policy is reported by an IM to BNM as a Malaysian takaful certificate or Malaysian policy.

In summary, RM-denominated certificate or policy issued in Malaysia by an IM that is reported to BNM as a “Malaysian takaful certificate or Malaysian policy” will be eligible for protection by PIDM. The proposed enhancement aims to provide clarity and certainty about PIDM’s protection, and facilitate communication to the public about TIPS protection. The IMs are expected to provide their customers with relevant information about PIDM’s protection under TIPS, including eligibility of a certificate or policy, at the point of sale, so as to enable them to make informed decisions.¹

3.2 Proposal 2: Enlarge the scope of coverage and enhance the protected benefits categories

Currently, certain takaful or insurance benefits are not included in the TIPS scope of coverage. It is proposed that PIDM extends TIPS protection to all takaful or insurance benefits that are currently excluded from the scope of coverage, except an investment-linked certificate or policy.²

The description of the protected benefits categories will be enhanced to reflect this proposal. This will also clarify the position with regard to the description of some protected benefits categories (for family certificates or life policies).

Comments Received

General takaful and general insurance business

All respondents accepted the proposal to enlarge the scope of coverage, as it will simplify reporting to PIDM and provide a wider coverage for the benefits of the certificate or policy owners. A number of respondents sought confirmation on the impact of the proposal on

¹ A requirement under the draft regulations and guidelines on provision of information on protected benefits (“TIPS Information Regulations and Guidelines”).

² For an investment-linked certificate or policy, maturity benefits, surrender benefits and income benefits that are payable from the unit portion of investment-linked certificate or policy will continue to be excluded from the scope of coverage. However, misfortune benefits (for example, death and disability benefits) will continue to be protected regardless of where they are payable from.

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levies and the target fund.³ One (1) respondent also suggested that all requirements for validation to be performed by an external auditor in relation to the Differential Levy Systems Framework for Insurance Companies (DLS) and Differential Levy Systems Framework for Takaful Operators (DLST) (for example, validation procedures on “non-qualified policies”) be removed.

The respondents also concurred that the description of the proposed protected benefits categories is appropriate and relevant for most certificates or policies currently offered by the IMs. However, clarification was sought on the definition of “pecuniary loss”, and whether the description of the proposed protected benefits categories would cater for certain takaful or insurance benefits offered by the IMs, such as travel insurance and loss due to involuntary unemployment (for example, to cover outstanding loan instalments).

One (1) respondent asked whether the examples provided for protected benefits categories in Appendices 3 and 5 of the CP were exhaustive. A few respondents highlighted that some of the examples provided for protected benefits categories were “exclusions” in the certificates or policies offered by the IMs. For example, losses due to act of fraud or professional negligence, and hormone replacement therapy.

Family takaful and life insurance business

Most respondents agreed to the proposals. There were also views that the scope should not be extended to pecuniary loss due to kidnapping, non-guaranteed surplus from takaful certificates, and investment-linked certificates or policies. One (1) respondent commented that the enhanced scope may be more relevant to riskier products or non-essential benefits (such as cosmetic surgery coverage) and the higher risks should be reflected in the levy assessment. A few respondents also sought clarification about the impact of the scope enlargement on the levy.

Clarification was also sought on the definitions of “pecuniary loss” and “value of that family takaful certificate or value of that life policy”. There was also a misunderstanding that the category of “refundable prepaid contributions or premiums” was to be replaced with “value of that family takaful certificate or value of that life policy”. Similarly, some respondents sought clarification whether the description of the proposed protected benefits categories would cater for certain takaful or insurance benefits offered by the IMs, such as outpatient medical reimbursement (due to sickness) and survival benefits.

³ It was stated in the CP that the proposal would not have significant impact on the levy paid by the IMs to PIDM as levy is already charged on certificates or policies that have at least one (1) protected benefit (“qualified policies”).



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There was a suggestion for PIDM to have in place appropriate communications to raise the awareness of the certificate or policy owners about the enlarged scope of coverage.

PIDM's Response

PIDM wishes to stress that the proposed expansion of the scope of coverage is to provide clarity and certainty about protected takaful or insurance benefits. Granular exclusions of certain takaful or insurance benefits as suggested by some respondents may be an operational burden for the IMs e.g. with levy calculations and consumer disclosures. PIDM will therefore retain the proposals. PIDM has also given due consideration to the additional levy that the proposal could pose on the IMs. PIDM wishes to highlight that, based on the levy data for assessment year 2018, the additional levy to be paid by each IM, will be less than 0.1% of profit before tax for each IM.

PIDM takes note of the feedback in relation to the validation procedures. PIDM is currently conducting a holistic review of the validation programmes under the Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation.

With regard to the queries from the respondents on the definitions and the categorisation of certain takaful or insurance benefits offered by the IMs, we have included the explanations and examples under the relevant protected benefits categories in the *Appendix*. PIDM wishes to clarify that the examples provided for protected benefits categories in the CP are not exhaustive. PIDM may issue, from time to time, a note or guidance that will provide more clarity on the definition of the protected benefits and the categorisation of new takaful or insurance benefits offered by the IMs following any product innovation to the protected benefits categories. If you are in doubt, please contact Puan Suhaida Mohd Sulaiman at 03 2265 6418 or Ms. Hoh Li Yun at 03 2173 7561 for clarification.

PIDM takes note of the comments in relation to "exclusions" in the certificates or policies issued by the IMs. PIDM wishes to inform that the protected benefits under TIPS are subject to the terms and conditions of the certificate or policy contract issued by the IMs. The benefits would therefore not be protected under TIPS if it is an exclusion in the certificates or policies issued by the IMs. For example, loss of money as a result of acts of fraud of any employee is covered under the fidelity guarantee insurance and is therefore eligible for protection under TIPS. On the contrary, fraud and dishonesty under the professional indemnity insurance is an exclusion and is therefore not protected under TIPS.



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PIDM recognises the importance of communication to the public on PIDM's protection, and is adopting a two-prong approach to promote awareness on the benefits protected under TIPS, namely generic awareness and targeted engagement approach. Other than the broad awareness and engagement initiatives undertaken by PIDM via advertisements and roadshows, PIDM will be issuing the TIPS Information Regulations and Guidelines in 2020. The IMs are expected to make targeted disclosure on PIDM's protection to prospective certificate or policy owners that are specific to the products to be purchased, to facilitate informed financial decision-making at the point of sale.

3.3 Proposal 3: Maintain maximum coverage limit at RM500,000, except for refundable prepaid contributions or premiums for certain general certificates or policies at RM25,000

PIDM proposed to retain the maximum coverage limit at RM500,000, and impose a cap for refundable prepaid contributions or premiums for certain general certificates or policies at RM25,000.

Comments Received

General takaful and general insurance business

A large majority of the respondents agreed to the proposal to maintain the maximum coverage limits at RM500,000. Some respondents commented that the limits would be sufficient to cover a majority of the Malaysian policy owners. Some respondents sought clarification on the basis of coverage of RM500,000, while another was of the view that the coverage limit for TIPS should be higher than the deposit insurance system. Further, there were suggestions for PIDM to monitor the adequacy of the coverage limit vis-à-vis inflation rate and residential property prices post implementation.

Five (5) respondents were of the view that the proposed refundable prepaid contributions or premiums for general certificates or policies of RM25,000 may not be sufficient for larger insureds and may create operational challenges.⁴

Family takaful and life insurance business

All respondents agreed with the proposal. There was a suggestion for PIDM to cap the assessment base for the levy, i.e. the actuarial valuation liability, to RM500,000.

⁴ For example, certificate or policy owners may negotiate for an instalment payment instead of a lump sum contribution or premium payment. This may increase the administrative tasks for the IMs to monitor and collect the contribution or premium payment.



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PIDM's Response

The limit of RM500,000 was proposed after considering that it would fully cover 98% of individual certificate or policy owners for general takaful and general insurance, and 99% of all certificate or policy owners for family takaful or life insurance. These percentages were calculated based on the statistics on takaful or insurance benefits provided by the focus group participants, comprising IMs carrying on conventional and takaful business with various assets sizes and portfolio mix. The level of coverage is also consistent with the level of protection of up to RM250,000 accorded under the deposit insurance system that protects 97% of all depositors in full.

PIDM takes cognisance of the impact of the residential property prices and inflation rate on the adequacy of the protected benefits and limits. In our review, we took into consideration the residential property prices, and the limit of RM500,000 was found to be sufficient to protect up to 75 percentile of the residential property prices in Malaysia.⁵ PIDM will continue to monitor the development to ensure that the scope and limits of coverage provide sufficient level of protection to certificate or policy owners.

After considering feedback from the respondents, PIDM proposes to streamline the coverage limit for refundable prepaid contributions or premiums (for general takaful and general insurance) with other protected benefits at RM500,000. For the avoidance of doubt, refundable prepaid contributions or premiums for medical and compulsory certificates or policies will continue to be protected in full.⁶ The proposed limit of RM500,000 will be sufficient to protect in full all individual policy owners⁷ and a large majority of other policy owners. Any amounts of prepaid contributions or premiums in excess of RM500,000 should be claimed against the liquidator of the failed IMs.

PIDM takes note of the suggestion on the levy assessment basis for family takaful or life insurance. We have received feedback in the past from the IMs that the calculation of actuarial valuation liability at a maximum of RM500,000 posed operational challenges to the IMs. We will take the suggestion into consideration in the next review of levy assessment base.

⁵ Based on statistics released by the National Property Information Centre (NAPIC) for third quarter 2018.

⁶ Certificates or policies which are required under the Road Transport Act 1987 and Workmen's Compensation Act 1952.

⁷ The percentage is calculated based on average contributions per certificate (or average premiums per policy) and based on maximum refund amount for contributions or premiums prepaid by the certificate or policy owners for a full year period.



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4.0 GOING FORWARD

- 4.1 The draft regulations and order in respect of the proposed enhancements, as well as the draft TIPS Information Regulations, will be submitted to the Minister of Finance for approval. The regulations, order and Information Regulations will be published on PIDM's website once they come into force.
- 4.2 The proposed scope and limits of coverage discussed in this paper will not apply to the levy assessment for the assessment year 2020.

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Appendix

Summary of the Existing and Final Proposals for Scope and Limits of Coverage for TIPS

A. Existing and final proposals for general takaful and general insurance business

(I) Eligibility conditions for coverage

| | Existing eligibility conditions | Final proposal |
|----|--|---|
| 1. | The certificate or policy is issued in Malaysia by an IM; | Retain |
| 2. | The certificate or policy is denominated in RM; and | Retain |
| 3. | Other eligibility conditions as specified in sub-regulations 4(3) to 4(8) of the Malaysia Deposit Insurance Corporation (Protected Benefits) Regulations 2011. | [REVISED] The certificate or policy is reported by the IM to BNM as a Malaysian takaful certificate or Malaysian policy. |

(II) Protected benefits category and limit

| Existing protected takaful or insurance benefits category and limit | Final proposal |
|---|--|
| Own damage | |
| Loss of or damage to: 1. Immovable property <i>[RM500,000 per property]</i> 2. Movable property (save and except a motor vehicle, waterborne vessel or aircraft) <i>[RM500,000 per property]</i> 3. Motor vehicle <i>[RM500,000 per property]</i> 4. Waterborne vessel or aircraft <i>[RM500,000 per property]</i> | 1. Loss of or damage to property ⁸ and consequential loss ⁹ <i>[RM500,000 per property]</i> |
| 5. Death and related benefits <i>[RM500,000]</i> | 2. Death and related benefits arising from death ¹⁰ <i>[RM500,000]</i> |

⁸ Property includes tree, livestock, crop and money (under money takaful or insurance). For the avoidance of doubt, each building, motor vehicle, waterborne vessel and aircraft is protected separately.

⁹ Consequential loss includes loss of gross profit or increased cost of working arising from loss of or damage to a property.

¹⁰ Related benefits include bereavement or funeral expenses and repatriation of mortal remains payable under the certificate or policy upon death.



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| Existing protected takaful or insurance benefits category and limit | Final proposal |
|---|---|
| 6. Permanent disability <i>[RM500,000]</i> | 3. Disability and related benefits arising from disability ¹¹ <i>[RM500,000]</i> |
| 7. Disability income <i>[RM10,000 per month]</i> | |
| 8. Critical illness <i>[RM500,000]</i> | 4. Illness and related benefits arising from illness ¹² <i>[RM500,000]</i> |
| 9. Medical expenses <i>[100% of expenses incurred]</i> | 5. Healthcare benefits ¹³ <i>[100% of amount payable]¹⁴</i> |
| 10. Refundable prepaid contribution or premium <i>[100% of amount prepaid]</i> | 6. Refundable prepaid contribution or premium <ul style="list-style-type: none"> <i>[100% of amount prepaid for medical and health certificates or policies, and certificates or policies which are required under the Road Transport Act 1987 and Workmen's Compensation Act 1952; and</i> <i>RM500,000 per certificate or policy for other certificates or policies.]</i> |
| - | 7. Income benefits ¹⁵ <i>[RM500,000]</i> |
| - | 8. Pecuniary loss ¹⁶ <i>[RM500,000]</i> |

¹¹ Disability benefits include total permanent disability, partial permanent disability, total temporary disability and partial temporary disability, while related benefits include regular income due to disability payable under the certificate or policy.

¹² Illness benefits include critical illness and other illnesses/ disease such as zika and rotavirus, while related benefits include counselling fee under critical illness takaful/ insurance.

¹³ Healthcare benefits include hospitalisation expenses and outpatient medical reimbursement (accidental or sickness), daily cash allowance, second medical opinion, medical evacuation and repatriation expenses.

¹⁴ Subject to terms in the certificates or policies.

¹⁵ Income benefits include surplus from takaful certificates and regular cash bonus if no claims are made.

¹⁶ Pecuniary loss refers to loss of money or of something having monetary value, and includes loss due to acts of fraud under fidelity guarantee takaful or insurance, damages payable for professional negligence, loss in relation to intellectual property, loss in relation to flight delay (travel takaful or insurance), loss in relation to

| Existing protected takaful or insurance benefits category and limit | Final proposal |
|--|---|
| Third party | |
| Loss of or damage to a property of a third party under: 11. Public or product liability policy <i>[RM500,000 per property]</i> 12. Motor vehicle policy <i>[RM500,000 per property]</i> 13. Waterborne vessel or aircraft policy <i>[RM500,000 per property]</i> | 9. Loss of or damage to property of a third party and consequential loss <i>[RM500,000 per property]</i> |
| 14. Death of a third party <i>[RM500,000]</i> | 10. Death of a third party and related benefits arising from death <i>[RM500,000]</i> |
| 15. Permanent disability of a third party <i>[RM500,000]</i> | 11. Disability of a third party and related benefits arising from disability <i>[RM500,000]</i> |
| 16. Disability income of a third party <i>[RM10,000 per month]</i> | |
| 17. Illness or bodily injury of a third party <i>[RM500,000]</i> | 12. Illness of a third party and related benefits arising from illness <i>[RM500,000]</i> |
| - | 13. Injury of a third party and related benefits arising from injury <i>[RM500,000]</i> |
| 18. Medical expenses of a third party <i>[100% of expenses incurred]</i> | 14. Healthcare benefits of a third party <i>[100% of amount payable]</i> |
| - | 15. Pecuniary loss of a third party <i>[RM500,000]</i> |

default of contractor under performance bond takaful or insurance, and loss in relation to involuntary unemployment (for example, to cover outstanding loan instalments).

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B. Existing and final proposals for family takaful and life insurance business

(I) Eligibility conditions for coverage

| | Existing eligibility conditions | Final proposal |
|----|--|---|
| 1. | The certificate or policy is issued in Malaysia by an IM; | Retain |
| 2. | The address of the certificate or policy owner is or was an address in Malaysia; and | [REVISED] The certificate or policy is reported by the IM to BNM as a Malaysian takaful certificate or Malaysian policy. |
| 3. | The certificate or policy is denominated in RM. | Retain |

(II) Protected benefits category and limit

| Existing protected takaful or insurance benefits category and limit | Final proposal |
|--|--|
| 1. Death and related benefits <i>[RM500,000]</i> | 1. Death and related benefits arising from death ¹⁷ <i>[RM500,000]</i> |
| 2. Permanent disability <i>[RM500,000]</i> | 2. Disability and related benefits arising from disability ¹⁸ <i>[RM500,000]</i> |
| 3. Disability income <i>[RM10,000 per month]</i> | |
| 4. Critical illness <i>[RM500,000]</i> | 3. Illness and related benefits arising from illness ¹⁹ <i>[RM500,000]</i> |
| 5. Maturity value (excluding the unit portion of investment-linked certificates or policies) <i>[RM500,000]</i> | 4. Maturity and related benefits arising from maturity ^{20, 21} <i>[RM500,000]</i> |

¹⁷ Related benefits include bereavement or funeral expenses and repatriation of mortal remains payable under the certificate or policy upon death.

¹⁸ Disability benefits include total permanent disability, partial permanent disability, total temporary disability and partial temporary disability, while related benefits include regular income due to disability payable under the certificate or policy.

¹⁹ Illness benefits include critical illness and other illnesses/ disease such as zika and rotavirus, while related benefits include counselling fee under critical illness takaful or insurance.

²⁰ Related benefits include reversionary or terminal bonus paid together with maturity value.

²¹ Excludes the unit portion of investment-linked certificates or policies.

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| Existing protected takaful or insurance benefits category and limit | Final proposal |
|--|---|
| 6. Surrender value <i>[RM500,000]</i> | 5. Surrender and related benefits arising from surrender, including refundable prepaid contribution or premium ^{22, 23} <i>[RM500,000]</i> |
| 7. Refundable prepaid contribution or premium <i>[100% of expenses incurred]</i> | |
| 8. Accumulated cash dividend <i>[RM100,000]</i> | 6. Income benefits ^{24, 25} <i>[RM500,000]</i> |
| 9. Annuity income <i>[RM10,000 per month]</i> | |
| 10. Medical expenses <i>[100% of expenses incurred]</i> | 7. Healthcare benefits ²⁶ <i>[100% of amount payable]²⁷</i> |
| - | 8. Pecuniary loss ²⁸ <i>[RM500,000]</i> |
| - | 9. Value of that family takaful certificate or value of that life policy ²⁹ <i>[RM500,000 for one (1) or more family takaful certificates or insurance policies]</i> |

²² Related benefits include reversionary or terminal bonus, and refundable prepaid contributions or premiums paid together with surrender value.

²³ Excludes the unit portion of investment-linked certificates or policies.

²⁴ Income benefits include cash dividend or accumulated cash dividend, annuity income, guaranteed cash payment, regular payout, settlement option and survival benefit.

²⁵ Excludes the unit portion of investment-linked certificates or policies.

²⁶ Healthcare benefits include hospitalisation expenses and outpatient medical reimbursement (accidental or sickness), daily cash allowance, second medical opinion, medical evacuation and repatriation expenses.

²⁷ Subject to terms in the certificates or policies.

²⁸ Pecuniary loss includes loss due to kidnapping such as ransom payment and cost of private investigation.

²⁹ Under subsection 80(5) of the Malaysia Deposit Insurance Corporation Act ("PIDM Act"), the value of that family takaful certificate or value of that life policy referred to in paragraph 83(2)(b), 83(3)(b) or subsection 84(3) of the PIDM Act is a protected benefit. A certificate or policy owner is eligible to claim value of that family takaful certificate or value of that life policy, where applicable, as a debt due to him by the IM where a certificate or policy ceases to be in force as of the date of the winding up order. The basis of determining the value of that family takaful certificate or value of that life policy is to be prescribed by PIDM.