

insurance **info**

INFO INSURANS

**Your guide
on
Fundamentals
of
Insurance
and
Takaful**



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Introduction

This is a guide to help you understand the fundamentals of insurance and takaful. It tells you about the types of insurance and takaful products available and the basic principles of insurance and takaful.

What is insurance?

You buy insurance to transfer the risk of loss to the insurance company and thereby reduce your financial hardship when you suffer the loss. For example, if your insured motor vehicle is involved in an accident, your insurance company will pay for the cost of repair. You buy insurance by paying a premium to your insurance company.

What is takaful?

Takaful is an insurance scheme based on Islamic principles of joint guarantee, where a group of participants agrees to mutually guarantee among themselves against a defined loss. If you join a takaful scheme, you agree to donate a certain portion of the contribution into a takaful fund to assist any member of the fund who has suffered any defined loss.

Depending on the terms of the takaful certificate, a participant may also be able to share in the surplus of a takaful fund if he has not made a claim during the period of takaful. Anyone can join a takaful scheme regardless of his religious beliefs.

Why buy insurance or join a takaful scheme?

The purpose of having insurance/ takaful is to reduce your financial burden when you suffer from losses or mishap so that there is minimal disruption to you and your family's daily activities. However, an insurance/ takaful plan only covers you for losses specified in the plan. Therefore, if you are getting any insurance/ takaful, make sure it covers the losses you need to protect.

What type of insurance/ takaful products do I need?

Your insurance/ takaful needs depend on your personal situation, age and lifestyle. However, certain types of insurance/ takaful are required by law, e.g. if you own a motor vehicle, the law requires you to have a cover to pay for liability caused by you to others.



What are the types of insurance/ takaful products available?

You can get different types of insurance/ takaful to cover things you own, your life, your health and for your retirement. You can find many types of products that can meet your needs. The common types of insurance/ takaful products are:

- **Life insurance/ family takaful**, which is usually used as a means to provide financial aid for your dependants if you die. You may also save or invest through life insurance/ family takaful. Some life insurance/ family takaful products also pay out when you are unable to work due to illness or disability. Examples of life insurance/ takaful products are whole life/endowment, ordinary family and investment-linked.
- **Motor insurance/ takaful**, which pays for specific losses due to damage to your motor vehicle involved in an accident. It also pays for losses that your motor vehicle caused to others in an accident.

- **Houseowner/ householder insurance/takaful**, which pays for specific losses when your home or your personal assets are damaged due to events like fire, flood, burst pipes, etc. You may also get protection against claims made by third parties arising from these events.
- **Medical and health insurance/ takaful**, which pays for various types of hospitalisation and medical expenses that you may incur if you become ill or injured. These include payments for hospital room and board, professional fees, medical supplies and medical services.
- **Personal accident insurance/ takaful**, which pays a sum of money if you become disabled due to an accident or if you die.

How do I know whether a takaful operator is *Shariah* compliant?

Shariah Committees have been set up by all takaful operators to ensure that their takaful operations are in line with the *Shariah*. Bank Negara Malaysia has also set up a *Shariah* Advisory Council which acts as a reference point for matters relating to Islamic banking and takaful in Malaysia.

If you are getting any insurance/
takaful, make sure it covers the losses
you need to protect



Insurance/ takaful principles

Your insurance and takaful products are subject to four main principles which are observed universally, that is, insurable interest/ permissible takaful interest, utmost good faith, indemnity and contribution.

To get an insurance protection, you need to have an insurable interest in the item or life to be insured. Insurable interest is normally present by way of relationship or ownership. For example, a person will have insurable interest in his own or child's life, house or motor vehicle.

On the same basis, in takaful, you need to have permissible takaful interest before you can join a takaful scheme. An insurance/ takaful plan without insurable interest/ permissible takaful interest is like a gambling contract where the purpose of having insurance/ takaful is to profit from it.

Utmost good faith means you need to state all the material facts when you are buying a policy or joining a takaful scheme. The purpose is to allow your insurance company/ takaful operator to decide whether it should provide the insurance or the takaful cover to you, and the amount of premium or takaful contribution that it should collect from you.

If you do not observe this requirement, your insurance policy/ takaful certificate can become invalid and your insurance company/ takaful operator can refuse to pay a claim made by you.

Indemnity and contribution only apply to insurance/ takaful taken on your belongings. When you incur a loss, the rule of indemnity will only allow you to get an amount that will return you to the position you were in before the loss. Under the contribution rule, all insurance companies/ takaful operators providing cover to a property will share in the damages of the said property. In this way, a person cannot “profit” by having more than one policy or takaful plan on the same item.



Where can I get an insurance/ takaful plan?

You can get an insurance/ takaful plan:

- Directly from insurance companies or takaful operators respectively;
- Through registered agents, financial advisers or licensed brokers; and
- Through banking institutions having bancassurance arrangements with insurance companies or bancatakaful arrangements with takaful operators, respectively.

An insurance or takaful agent acts for an insurance company or takaful operator and sells insurance policies or takaful plans issued by the insurance company or takaful operator only. An insurance or takaful broker acts for the customer and advises customer on the plan that he may need. A financial adviser is an independent party that offers a variety of financial planning services, including insurance/ takaful to his customer.

Shop around

It pays to shop around for a plan that meets your needs. You can compare premiums, terms and details of exactly what is covered in the plan and what is excluded. Different policies may have different terms and conditions, rates and exclusion clauses. Get an explanation if you do not understand any term so that you are fully aware of what you are getting into.



Checklist: Getting an insurance/ takaful plan

Below is a checklist to guide you when getting an insurance/ takaful plan:

- Deal with approved parties: registered agents/ licensed brokers or directly with an insurance company or takaful operator.
- Compare premium/ contribution rates. Get quotations from several insurance companies/ takaful operators and/ or agents.
- Compare benefits, terms, product features, limitations and exclusions.
- Make sure you can afford the premium or contribution of the cover.
- Have enough cover. Avoid getting too much or too little cover.
- Make sure your application form is fully completed, information given is accurate and all material facts are fully disclosed.
- Go for the necessary medical check-up requested as soon as possible.

What is a material fact?

A material fact is any fact relating to you or the object to be covered that the insurance company/ takaful operator should know so that it can make a decision on whether it should grant you the cover, the amount of premiums you need to pay and the terms to be applied. The insurance company/ takaful operator will normally get these facts from the application form. As such, if you are not sure of any questions in the application form, you should get an explanation and not guess or leave the item blank. In life insurance/ family takaful, facts commonly deemed as material include occupation, financial status, family medical history, state of health and lifestyle.

Paying premium/ contribution

When you pay your premium/ contribution, make sure that your cheque is issued to your insurance company/ takaful operator if you pay through an agent. Otherwise, try to pay your premium directly to the insurance company/ takaful operator. There are many ways you can pay your premium/ contributions such as autodebit from your bank account, via Internet banking, credit card and using telephone banking.

You should ask for a receipt for the premiums/ contributions paid and contact your insurance company/ takaful operator if you have not received the policy within one month after the purchase.

What must I do if I have an insurance/ takaful plan?

An insurance policy/ takaful certificate is a legal document. As such, you need to observe the terms of the policy/ certificate so that your plan can remain effective. You should:

- Read the insurance policy/ takaful certificate when you receive it. Sort out with your insurance company/ takaful operator if things are not as agreed earlier.
- Understand your rights and responsibilities as a policyowner/ participant of a takaful plan.
- Monitor the period of your insurance/ takaful plan and time for payment of premium/ contribution so that there is no gap in your cover.
- Notify your insurance company/ takaful operator of any changes to any material facts.
- Update your insurance company/ takaful operator on your mailing address to receive all notices on time.
- Keep your policy/ certificate in a secure place.
- Notify your insurance company/ takaful operator as soon as possible when there is a claim.
- Take action to protect your assets from further losses after your assets have been damaged, e.g. in an accident, as such losses will not be covered by your insurance/ takaful plan.

Frequently asked questions

Q: What is the difference between insurance and takaful?

A: Both insurance and takaful provide protection against risks. However, takaful is an insurance scheme based on *Shariah* where a person who joins a scheme will undertake a contract (*aqad*) to agree to help other members in the scheme when they suffer a defined loss or mishap.

Q: How do I ensure that the person I deal with is an authorised person to sell insurance or takaful products?

A: Ask for the person's authorisation to prove that if he is properly registered or licensed to sell insurance/ takaful products. Note that:

- All insurance agents selling life insurance policies are registered with the Life Insurance Association of Malaysia.
- All insurance agents selling general insurance policies are registered with Persatuan Insurans Am Malaysia.
- All takaful agents selling takaful products are registered with the Registrar of Takaful Intermediaries.
- All financial advisers and insurance brokers are licensed by Bank Negara Malaysia under the Insurance Act 1996.
- All takaful brokers are licensed by Bank Negara Malaysia under the Takaful Act 1984.

Q: How do I know what a material fact is?

A: A material fact is any matter that is needed by the insurance company/ takaful operator to make a decision whether to accept your proposal for insurance or takaful. Generally, the proposal form used by the insurance company or takaful operator would have been designed to gather the required facts. You should correctly and accurately answer all the questions in the proposal form. If you are not certain, you should check with your insurance/ takaful agent or insurance company/ takaful operator.



Q: I have been paying my life insurance premiums/ family takaful contributions regularly through my insurance/ takaful agent. However, when I made a claim recently, my insurance company/ takaful operator informed me that my policy has lapsed as I did not pay the premiums/ contributions required. What should I do?

A: You should lodge an official complaint to your insurance company/ takaful operator for its investigation. Provide your insurance company/ takaful operator with all the documents on your case including copies of receipts and name of the agent involved. If you have the relevant documents, your insurance company/ takaful operator will be liable for the claim. However, if you do not have any document or other proof, your insurance company/ takaful operator may reject your claim.

To protect yourself, if you have an insurance/ takaful plan, always ensure that your premiums/ contributions are made payable to your insurance company/ takaful operator. Follow up with your insurance company/ takaful operator for an official receipt upon payment and file all letters including policy contract/ takaful certificate and receipts properly.

Glossary

Indemnity

Putting the policy holder to the same financial position immediately before a loss by payment, repair or replacement.

Insurable interest

A basic rule of insurance requiring the person buying insurance to have an insurable interest in the subject matter to be insured or life of the insured in that the loss or damage to the subject matter or any misfortune which occurs to the insured would result in a financial loss to the policy holder. In takaful, this requirement is called permissible takaful interest.

Material fact

Any matter that is relevant to the decision of the insurance company/ takaful operator on whether to accept the risk concerned and the rates and terms to be applied.

Utmost good faith

A requirement on the person buying an insurance or takaful product to state all relevant details in the application form to the insurance company/ takaful operator to allow the insurance company/ takaful operator to consider his application fairly.





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