

Investment-linked takaful

Introduction

This is an introductory guide to help you understand how investment-linked takaful works. It gives you some basic information so that you can ask your takaful operator the right questions, understand the answers and make the right choice before you participate in a takaful plan.

What is an investment-linked takaful?

An investment-linked takaful is a family takaful plan that combines investment and takaful cover. Your contribution will provide takaful cover, which includes death and disability benefits, and part of the contributions will be invested in a variety of Shariah-approved investment funds of your choice. As a participant, you can decide on the allocation of your contribution towards protection and investment.

The investment fund is divided into units of equal value to derive at the investment-linked unit price. This unit price is published daily in the newspapers for you to track the value of your investments.

Different from the investment-linked takaful, insurance companies also offer investment-linked product for Shariah-approved Securities Funds, whereby the investments are invested in Shariah-approved investment instruments whilst the insurance cover does not conform to the Shariah requirement.

Takaful concept in investment-linked takaful

In an investment-linked takaful, part of your contribution will be allocated to a takaful fund in the form of participative contribution (tabarru'), and the balance of the contributions will be used to purchase the investment-linked units. You will undertake a contract (aqad) to become one of the participants by agreeing to mutually help each other, should any of the participants suffer a misfortune arising from death or disability. If you did not make any claim during the period of takaful, you are entitled to a share of the surplus in the takaful fund. The surplus will be shared between you and the takaful operator based on the concept of surplus sharing according to a pre-agreed ratio. Your share of the surplus will be used to purchase additional investment-linked units.

The takaful operator acts as a manager to oversee the management of the investment fund. In return, the takaful operator receives a fee (ujrah) for its service.

Types of investment-linked takaful

| Single Contribution Plan | Regular Contribution Plan |
|---|---|
| <ul style="list-style-type: none">• A single lump-sum contribution. | <ul style="list-style-type: none">• Contribution is made monthly, quarterly, semi-annually or annually. |
| <ul style="list-style-type: none">• The sum assured is usually a percentage of the single contribution. | <ul style="list-style-type: none">• The sum assured is usually a multiple of the annual contribution. |
| <ul style="list-style-type: none">• The benefit payment will be the sum assured and the value of the investment-linked units. | <ul style="list-style-type: none">• The benefit payment will be the sum assured and the value of the investment-linked units. |

Unique features of investment-linked takaful

- Investment-linked takaful has the following unique features:
- You are given the flexibility to choose your own level of protection and investment.
- You can vary the amount of your contribution according to your changing financial circumstances.
- You can switch your current investment fund to other types of investment funds.
- You can redeem part of your investment-linked units at any point of time.
- You can choose from a variety of investment funds (equities, bonds or other financial instruments) to invest in.

Redemption of investment-linked units

You have the option to sell your investment-linked units through:

Partial withdrawal

- The request can be made by completing a Partial Withdrawal Form stating the following options
 - the number of units you want to sell; or
 - the cash value you require

Surrender

- You have to complete a Surrender Form if you wish to sell all of your investment-linked units. The value of the investment-linked units will be based on the price in accordance with the certificate.

Important considerations to choose the right plan

Takaful cover

Your contributions usually provide takaful coverage for death and disability. You can extend the basic cover by way of additional contributions to also include personal accident and critical illnesses.

Selection of investment fund

You are given a choice of investing in various investment funds. The investment-linked unit price fluctuates according to the value of its investment fund. When the investment-linked unit price falls, the value of your investment will also reduce and vice versa. You may realise a gain or loss when you sell your units. It is important that you select an investment fund that reflects the level of risk that you are comfortable with, as the investment risk will be borne solely by you. Past performance of the investment-linked fund may not be a reliable guide to future performance.

Fees and charges

The takaful operator may impose fees and charges for their services such as fund management fee, service and surrender charges. The fund management fee is charged annually and calculated as a percentage of the value of the investment fund. The service charge is to cover the costs in administering your investment-linked takaful. The surrender charge will only be applicable if the plan is surrendered before its maturity.

Fund switching

Should you feel that you have made the wrong choice or you would like to change the profile of your investment portfolio, you are allowed to switch your unit linked-fund from one investment fund to another. Most companies allow one switch per year without charging any switching fee. For additional switches, a small fee may be imposed.

Cash value accumulation

Regular contributions investment-linked takaful may not accumulate adequate cash value during the early certificate years. This means that if the certificate is terminated during the early period, you may not get back any investment value.

Bid and offer prices

You will be provided with two prices: the offer price for selling units and the bid price for buying them back, much like unit trusts. The difference between the offer and bid prices is called the bid/offer spread and is usually expressed as a percentage of the price, usually around 5%.

Cooling period

There is a 15-day cooling-off period for you to decide whether you wish to continue with the investment-linked takaful after you have signed for it. If you decide to cancel your plan within this period, the takaful operator will refund the investment-linked units and the tabarru' contributions less medical fees and underwriting expenses incurred in assessing the risk. The value of the investment-linked units refunded would be based on the price in accordance with the certificate.

Annual statement

You should receive at least an annual statement on the status of your investment-linked takaful, showing all transactions or charges during the period.

What you need to remember?

- Before you put your money into an investment-linked takaful, think about the risks you are willing to take and make sure you fully understand the risks involved and be prepared to have your money tied-up for a certain period.
- You can get professional advice from your takaful operator or your agent on the risks and benefits of a particular investment-linked takaful.
- Read carefully all the information provided

How do I make a claim?

The takaful operator will pay you or your nominees, subject to the terms and conditions of your investment-linked takaful. In the event of a claim:

- Notify your takaful operator as soon as possible.
- For maturity claim, you are required to provide the original copy of the investment-linked takaful certificate. You will receive the value of your investment-linked units in accordance with the certificate.
- For disability benefits claim, you are required to provide the original copy of the investment-linked certificate and the doctor's report.

- For death claim, your nominee is required to provide the following documents:
 - A certified copy of the death certificate;
 - A photocopy of the deceased's identity card;
 - Original investment-linked takaful certificate;
 - Proof of claimant's relationship with the deceased; and
 - Other documents as requested by the takaful operator

Do's and don'ts

When applying for takaful plan

| Do | Don't |
|---|---|
| <ul style="list-style-type: none"> • Disclose all material facts on the risks to be covered. • Read the 'Important Notice' on the Proposal Form. • Answer all questions fully and accurately. • Complete and sign the Proposal Form yourself. | <ul style="list-style-type: none"> • Leave any question in the Proposal Form unanswered. • Use ticks & dashes to answer the questions requiring full answers. • Withhold or misrepresent any material fact. Otherwise, the plan issued will be void, meaning that the claim can be repudiated. |

To ensure your takaful plan remains valid

| Do | Don't |
|--|--|
| <ul style="list-style-type: none"> • Comply with all the terms, conditions and endorsements of the certificate. | <ul style="list-style-type: none"> • Forget to pay the contribution within the terms allowed by the takaful operator. |