

Motor takaful

Introduction

This is an introductory guide to help you understand how motor 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 any takaful plan.

What is motor takaful?

A motor takaful plan covers you against loss or damage to your own vehicle due to accidental fire, theft or accident; and/or third party bodily injury or death, third party property loss or damage.

Cover against third party risks in Malaysia was made compulsory under the Road Transport Act 1987. It is an offence for any person to use or cause or permit any other person to use a motor vehicle without the necessary coverage.

Takaful concept in motor takaful

When you participate in motor takaful, you contribute a sum of money to a general takaful fund in the form of participative contribution (tabarru'). You undertake a contract (aqad) for you to become one of the participants by agreeing to mutually help each other, should any of the participants suffer a loss because of an accident involving his vehicle.

At maturity, you are entitled to a share of the surplus in the general takaful fund, if you did not make any claim during the period of takaful. The surplus will be shared between you and the takaful operator under the concept of surplus-sharing according to a pre-agreed ratio.

Example: A takaful operator has a total surplus (S) of RM4 million and total general contribution (GC) of RM10 million. Your contribution (C) for the year is RM1,000 and the surplus will be shared between you and the takaful operator at a pre-agreed sharing ratio (PSR) of 50:50. The share of surplus that you will receive is calculated as follows:

$$\begin{aligned}\text{Surplus sharing ratio} &= \text{PSR: } 50\% \times \frac{\text{S: RM4 million}}{\text{GC: RM10 million}} \\ &= 20\%\end{aligned}$$

$$\begin{aligned}\text{Surplus attributable} &= \text{Surplus sharing ratio} \times \text{C: RM1,000} \\ \text{to you} &= \text{RM200}\end{aligned}$$

Types of cover

Generally, there are two types of cover under the motor takaful plan:

Third party – This protects you against the third party's death, bodily injury and/or property damage.

Comprehensive – This protects you against the third party's death, bodily injury and/or property damage; as well as loss and/or damage to your vehicle due to accidental fire, theft or an accident.

Who is a third party?

A third party is a person who is injured or has suffered loss or damage arising from an accident involving your motor vehicle. A third party may be a pedestrian, a driver or passengers in another

vehicle.

The first party to a motor takaful plan is you as the vehicle owner and the second party is the takaful operator.

How much should I cover?

Make sure that the amount covered in your motor takaful certificate reflects the market value of your vehicle, i.e. the cost of replacing your vehicle with a similar make, model and condition. If the amount covered is less than the market value, the average condition will apply in the event of a claim. The average condition is a penalty for underinsuring your vehicle. Underinsuring means the sum covered *at the time of loss* is less than the market value.

Example: The sum covered is RM80,000 while the market value of the vehicle is RM100,000 and the loss is RM5,000. The average condition will operate as follows:

The takaful operator will only pay RM4,000 instead of RM5,000 for the loss. You have to bear the difference of RM1,000.

What is a 'no claim discount' (NCD)?

This can be regarded as an incentive to you for not making a claim during the preceding period of motor takaful cover. The discount is given according to the following scale when you renew your certificate:

Takaful Period	Discount
After the first year of takaful	25%
After the second year of takaful	30%
After the third year of takaful	38 1/3 %
After the fourth year of takaful	45%
After five or more years of takaful	55%

The NCD can be transferable to another takaful operator/ insurance company or another vehicle that belongs to you.

Cancelling your certificate

You may cancel your certificate by giving 14 days' written notice to the takaful operator. Upon cancellation, you are entitled to a pro rata refund of the takaful contribution on the unexpired period of takaful. When you cancel your certificate, you must surrender the motor certificate and the certificate of takaful to the takaful operator.

You have to make a Statutory Declaration if the certificate of takaful is lost or destroyed. The certificate will be invalid once the motor vehicle has been sold to another person. The new owner will need to take new takaful coverage.

Excess

The takaful operator may, as stated in the certificate, impose excess on the motor takaful plan. Excess is the amount of loss you have to bear before the takaful operator will pay for the balance

of your claim. In other words, the excess amount will be deducted before the final claim payment.

Example: If the amount of excess is RM1,000 and the amount of claim is RM1,500, the takaful operator will only pay you RM500.

Loading

The takaful operator may apply a loading on your contribution to ensure that the amount charged is commensurate with the risk of the participants. The most commonly used loading factors are your age, any adverse driver characteristics, cubic capacity, specific claims experience of your vehicle and re-conditioned vehicles.

Indemnity

The takaful cover will compensate your loss by putting you back to the same financial position as you were in immediately before the loss. You cannot profit from a motor takaful claim.

Betterment

Betterment occurs when, in the course of repairing an accident vehicle, an old part is replaced with a completely new one. For example, if your old bumper is replaced with a new one, you have to bear the difference in cost between the old and new bumper, in line with the principle of indemnity. This is because your contribution to the takaful plan is based on the amount covered. This amount, in turn, depends on the value of your vehicle, which will usually be lower than a new one.

Loss of use

If you are in an accident and you make a third party claim against the certificate or policy of the person who caused it, you can also claim for loss of use of your vehicle under repair. Loss of use includes items such as the cost of taking alternative transportation or of hiring a replacement vehicle (of similar type and cubic capacity). The period of loss of use is based on the independent loss adjuster's recommendation on the number of days required for your car to be repaired. Takaful operators, at their own discretion, may allow an additional 7 working days' grace period for any unforeseen or unavoidable delay.

Exclusions

Motor takaful will not cover the following:

- Your own death or bodily injury due to a motor accident;
- Damage to tyres unless the vehicle is damaged at the same time;
- Consequential loss, depreciation, wear and tear, rust and corrosion, mechanical or electronic breakdowns, failures or breakages, equipment or computer malfunction;
- Loss, damage or liability occurring outside the geographical area (Malaysia, Singapore and Brunei);
- Loss or damage caused by or due to cheating or criminal breach of trust
- Loss, damage or liability arising from an act of nature, i.e. flood, storm or landslide;
- If you or any person with your consent is not licensed to drive the vehicle;
- If you or the authorised driver drives the vehicle whilst under the influence of alcohol or drugs;
- Loss, damage or liability caused by the vehicle being used for an unlawful purpose;
- If the vehicle is used for or is prepared for any motor sport or competition (other than treasure hunts) or any other purpose specified in the certificate

Extensions

With additional contributions, you can extend the standard motor takaful plan to cover the following:

- **Passenger liability cover** – Claims by the passenger of the vehicle against you arising from an accident.
- **Convulsion of nature** – Any accident, loss or damage caused by or in connection with flood, typhoon, hurricane, volcanic eruption, earthquake, landslide, landslip or other convulsion of nature that is specifically excluded under a motor policy.
- **Legal liability of passenger for acts of negligence** – Acts of negligence by your passenger that causes loss or damage to a third party. Example: A passenger opening the door of the motor vehicle causing injury to a passer-by who may be a pedestrian or motorist.
- **Breakage of glass in windscreens or windows** – Shattering of your windscreen or window other than that caused by an accident.
- **Strike and civil commotion** – A chaotic situation due to a strike or civil commotion that inflicts damage upon your vehicle.

How do I make a claim?

Involvement in a motor accident

If you are involved in a motor accident, the general rules that you need to observe are:

- Obtain the following details relating to the accident:
 - Names and addresses of all drivers and passengers involved;
 - Registration number, make and model of each car involved;
 - Third party's driving licence number and takaful/insurance identification;
 - Names and addresses of as many witnesses as possible.
- Take safe actions to prevent further deterioration of the situation, such as calling the police/fire brigade and protecting undamaged parts.
- Lodge a police report within 24 hours of the accident.
- Notify your takaful operator as soon as possible followed by a written notification.
- Send all supporting documents together with your completed claim form immediately to your takaful operator. Copies of the following are usually required:
 - The police report lodged
 - Driver's identity card
 - Driver's licence
 - Vehicle registration card
 - Road tax

Claim involving damage to your vehicle

If you have a comprehensive cover, you can claim on your own takaful certificate.

- Send your damaged vehicle to the workshop approved by the takaful operator and inform your takaful operator immediately. Check with your takaful operator for the list of approved workshops.
- Submit the fully completed Motor Accident Report Form together with all supporting documents immediately to your takaful operator.
- Cooperate fully with adjusters or takaful claims investigators.
- Do not instruct repairs until you have the written consent of your takaful operator.

Claim involving a third party

- Follow the same procedures above.
- Do not readily admit liability to the third party and/or any other party.
- Inform your takaful operator of any third party or potential third party claim. Refer all third parties and/or his representative to your takaful operator on all matters.

Claim as a third party

- Notify your takaful operator and the takaful operator/insurance company you are claiming against.
- Follow the instructions given by your takaful operator and/or the takaful operator/insurance company you are claiming against, and submit all supporting documents to speed up the claim processing.

Claim involving theft of your vehicle

- Lodge a police report immediately.
- Notify your takaful operator by telephone within 24 hours of the discovery of the theft followed by written submission of the claim form.
- Follow the instructions given by your takaful operator and cooperate fully with them during the course of investigation of the theft claim.

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. • Pay the contribution. 	<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 certificate issued will be void, meaning that the claim can be repudiated. • Underinsure, as you will be penalised by the application of 'average condition' in the event of a claim.

After a loss or damage

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. • Pay the contribution. 	<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 certificate issued will be void, meaning that the claim can be repudiated. • Underinsure, as you will be penalised by the application of 'average condition' in the event of a claim.
