



GLOSSARY

The language of Takaful can be quite complex and confusing. Below are some commonly used insurance terms and their meanings. This information is for educational purposes only and should not be relied upon to form professional opinions on coverage issues.

Assurance

Insurance in a conventional insurance policy. It is the “sharing” of risk that comes with mutual solidarity and guarantee as opposed to the “transfer” of risk that conventional insurance provides.

Average Clause

Stipulates that a Takaful fund is only liable for such proportion of the loss as the sum covered bears to total value at risk.

Claims

Notification to a Takaful operator that payment of an amount is due under the terms of the certificate.

Claims Ratio

The ratio of net claims incurred to earned contributions.

Contribution

Premium in a conventional insurance policy. It is the payment of an amount by a Participant to the Takaful Protection Pool, whether direct, through intermediaries for the purpose of mutual protection and assistance.

Designated Charities

In the event that there is a surplus in the Takaful Protection Pool after all expenses have been deducted, then that Net Surplus will be donated to a designated charity or charities e.g. UNICEF and IFRC.

Earned Contribution

Net contributions less provision for reserves for unearned contribution (RUC) at the year end plus the RUC at the beginning of the year.

Excess of Loss Treat

A type of Re-Takaful treaty which provides that the Re-Takaful operator pays all or a specified percentage of a loss arising from a particular occurrence or event (frequently of a more or less catastrophic nature) in excess of a fixed amount and up to a stipulated limit.

Excess



Deductible in a conventional insurance policy. It is the first amount that you have to pay on your own account towards each claim.

Event of Loss

An event that gives rise to a Loss as defined in the Policy. Loss means a loss to a Participant that is subject to compensation under the terms and conditions of the Policy.

Facultative Treaty

A Re-Takaful contract under which a ceding Takaful operator has the option to cede and the Re-Takaful operator has the option to accept or decline individual risks.

General Takaful

Protection to participant against losses arising out of perils such as accident, fire, flood, liability and burglary.

Gharar

Arabic for uncertainty. One of three fundamental prohibitions in Islamic finance (the other two being riba and maisir). Gharar involves an unacceptable level of uncertainty or contingency in a contract. The prohibition on gharar is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives.

Gross Direct Contributions

Contributions on original gross rate charged to clients in respect of direct Takaful business without any deduction for commission or brokerage.

Group Family Takaful

Family Takaful (usually without medical examination) on a group of people under a Master Certificate. It is typically issued to an employer for the benefit of employees, or to members of an association.

Hibah

Gift

Indemnity

Restoration to the claimant of a loss by payment, repair or replacement.

Individual Family Takaful

A contract that provides Takaful benefits payable to an individual upon death/ total permanent disability or periodic income to participant upon retirement.

Investment-linked Takaful

A contract where the certificate benefits at any time vary according to the value of the underlying assets at the time.

Islamic Finance

Financial services that meet the requirements of the Shari'ah, or Islamic law. While designed to meet the specific religious requirements of Muslim consumers, Islamic banking is not restricted



to Muslims: both the financial services provider and the consumer can be non-Muslim as well as Muslim. Also called Islamic banking or Islamic financial services.

Ijara

An Islamic lease agreement. Instead of lending money and earning interest, Ijarah allows the financial institution to earn profits by charging rentals on the asset leased to the consumer. *Ijarah Wa Iqtinah* extends the concept of Ijarah to a lease and purchase agreement.

Maisir

Arabic for gambling. One of three fundamental prohibitions in Islamic finance (the other two being riba and gharar). The prohibition on maysir is often used as the grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives.

Medical and Health Takaful

A contract that provides specified medical treatment benefits such as the cost of hospitalization, surgical and physician consultation fees against risks of a person being diagnosed with certain illnesses or having injury arising from an accident.

Mortality Rate

A rate showing the death rate at each age, usually expressed as the number of deaths per thousand.

Mudaraba

A Mudarabah is an Investment partnership, whereby the investor (the Rab ul Mal) provides capital to another party/entrepreneur (the Mudarib) in order to undertake a business/investment activity. While profits are shared on a pre agreed ratio, loss of investment is born by the investor only. The mudarib loses its share of the expected income.

Mudharib

Entrepreneur

Murabaha

A Murabaha is a purchase and resale transaction. Instead of lending money, the capital provider purchases the desired commodity from a third party and resells it at a predetermined higher price to the commodity user. By paying this higher price over installments, the commodity user has effectively obtained credit without paying interest.

Musharaka

A Musharaka is a partnership financing structure where profits are shared as per an agreed ratio whereas the losses are shared in proportion to the capital/investment of each partner. In a Musharaka, all partners to a transaction contribute funds and have the right, but not the obligation, to exercise executive powers in that project, which is similar to a conventional partnership structure and the holding of voting stock in a limited company. This equity financing arrangement is widely regarded as the purest form of Islamic financing.



Net Claims Incurred

Net claims paid less provisions for outstanding claims beginning of the year plus provisions for outstanding claims at the end of the year.

Net Contributions

Gross contributions less all Re-Takaful contributions payable.

Net Investment Income

Returns on investments less rates and taxes.

Net Surplus

The net difference that is created in the Takaful fund after all expenses and management fees for the cost of administration have been subtracted.

Operating Protocol

A document that outlines the terms and conditions under which the operator (Wakeel) and participant of the Takaful Policy agree to the guidelines and principles set forth between the two parties. This document also specifies the particular relationship in place between all participants, operators and administrators and ensures that all transactions that take place are done so according to Shari'ah law and dictates that all investments must be Shari'ah compliant.

Participant

The Named Insured (Muwakkil in Arabic) in a conventional insurance policy. The participant is the contributing party to the Takaful policy who is covered through the mutual protection and solidarity of the Takaful policy.

Participants' Account

An account to credit a portion of contributions from the participant for the purpose of investment/savings

Participants' Special Account

An account to credit a portion of contributions from the participant for the purpose of tabarru'

Period of Takaful or Policy Period

The length of time for which the Takaful protection will be effective.

Proportional Treaty

A contract under which a Takaful operator and a Re-Takaful operator participate proportionately in the contributions and losses on every risk that comes within the scope of the contract.

Qard

Loan

Qard e Hasan



An interest free loan from the Wakeel to the Takaful Protection Pool in order to meet any shortfalls that are created in the fund.

Rabbul Mal

Capital provider

Ra'sul Mal

Takaful Contribution

Retention Ratio

The ratio of net contributions to gross direct and Re-Takaful accepted contributions less Re-Takaful within Malaysia.

Riba

Interest generated in a conventional loan. The legal notion extends beyond just interest, but in simple terms Riba covers any return of money on money - whether the interest is fixed or floating, simple or compounded, and at whatever the rate. Riba is strictly prohibited in Islam.

Rider

An attachment to a certificate that modifies its conditions by expanding benefits.

Shari'ah

Islamic law as revealed in the Qur'an and through the example of Prophet Muhammad (PBUH). A Shari'ah compliant product meets the requirements of Islamic law. A Shari'ah board is the committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Shari'ah compliant products.

Shari'ah advisor or scholar

An independent professional, usually a classically trained Islamic legal scholar that advises a financial institution on the compliance of its products and services with the Shari'ah, or Islamic law. While some financial institutions consult individual Shari'ah advisors, most establish a committee of Shari'ah advisors (often know as a Shari'ah board or Shari'ah committee).

Shari'ah compliant

An act or activity that complies with the requirements of the Shari'ah, or Islamic law.

Sum Covered

Limit of liability in a conventional insurance policy. The Sum Covered must be high enough to cover the cost of rebuilding the Building in the event of an Incident that completely destroys it.

Sukuk

Sukuk is the Arabic name for a financial certificate but can be seen as an Islamic equivalent of a bond. However, Sukuk are securities that comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest. Sukuk is a certificate of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or investment activity.



Surplus at Valuation Date

Excess of the Takaful fund carried forward over the actuarial liabilities of a Takaful fund of family Takaful business.

Tabarru

Premium in a conventional insurance policy. An Arabic word for donation, gift or contribution. In the Takaful contract, this is the amount contributed for the purpose of participating in Takaful scheme.

Tijari

Commercial business.

Takaful

Islamic insurance. Structured as charitable collective pool of funds based on the idea of mutual assistance. Takaful literally means mutual protection through co-operative risk sharing. It is insurance that avoids prohibited elements of conventional insurance in accordance with the laws of Shari'ah.

Takaful Policy

Policy as defined in conventional insurance. The agreement entered into between the operator and the participant(s) for the purposes of Takaful insurance.

Takaful Protection Pool

The total sum of the Contributions received by the Wakeel from the Participants together with investment returns generated thereon (if any) and which has been established voluntarily for the purpose of mutual protection and assistance of the Participants.

Ta'min

Insurance

Total Loss

A loss of sufficient size so that it can be said there is nothing left of value.

Underwriting Profit / Loss

Earned contribution income less net claims incurred, commissions and management expenses.

Unearned Contribution Reserves

Contributions already received in respect of risks which are still unexpired at the end of the accounting period.

Wakeel or Operator

The insurance company which underwrites, administers and manages the Takaful program on behalf of the participants.

Wali

Guardian



Wakalah

Agent-principal relationship, where a person nominates another to act on his behalf.

Wakil

Agent

Wasi

Executer