FAQ on Guidelines on Valuation Basis for Liabilities of Family Takaful Business

Item	Page	Paragraph	Views/Enquiries	Response/Action
1	4	6.3	Does the illustration of investment profit in marketing materials considered as creating participants' reasonable expectation, which will then need to be provided for?	As indicated in paragraph 6.3, takaful operators would need to set-up provisions for reasonable expectations created via marketing process. The Appointed Actuary needs to consider whether illustration of benefits or returns creates expectations that need to be provided for. Clear notification that such returns are merely for illustration purpose and are non-guaranteed may negate the need from setting up provisions for the returns.
2	5	6.6	What does the phrase 'certificates or extensions of a certificate are collectively treated as an asset' means?	The phrase refers to negative provision that may result from the valuation of liabilities. Paragraph 6.6 stipulates the manner for takaful operators to address negative provision i.e. to zeroise the negative provision at fund level.
3	6	6.8	Is the Appointed Actuary required to assess sustainability of Participants' Investment Fund (PIF) to drip tabarru' in determining the present value of future gross tabarru' when applying the method specified in this paragraph?	The method specified in this paragraph is not applicable for products whose sustainability of tabarru' deduction depends on the performance of PIF as the method to value such products is covered in paragraphs 6.9 and 6.10. Hence, assessment on PIF sustainability is not relevant.
4	6	6.9	What is the rate to be used in a cash flow projection?	Takaful operators are required to use the growth rate of PIF in a cash flow projection, as mentioned in paragraph 8.13 of the Guidelines. The growth rate shall be net of tax on investment income of the PIF. To discount the valuation cash flows, the risk-free rate described in paragraph 8.4 shall be used.
5	6	6.10	Is this paragraph applicable to all credit related takaful certificate or only those that provide explicit guarantees?	This paragraph is applicable to all credit related takaful certificate, irrespective of whether guarantees are offered by the takaful certificate or otherwise. The requirement of this paragraph is meant to ensure the availability of takaful coverage on such product for the full term of the contract.
6	6	6.10	Are takaful operators required to provide additional provision for inadequacy of PIF to sustain future tabarru' deductions?	This paragraph does not require additional provision for inadequacy of PIF. Inadequacy of PIF to support tabarru' will be reflected as higher provision in Participants' Risk Fund (PRF).

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7	6	6.11	What are the examples of options offered under a family takaful certificate?	Examples of options offered are convertibility, surrender and option to lock-in benefits payable.
8	7	6.13	Can the liabilities of a basic takaful plan and its riders be valued together?	Valuation of liabilities for basic and riders shall be made separately as riders could have different coverage and experience as compared to the basic plan. Where separate valuation is not possible, the valuation can be made together with the basic plan. In terms of reporting requirement, takaful operators are required to report the value of liabilities separately for basic plan and riders.
9	8	6.15	For products where the acquisition expenses are charged to the PRF, should the expenses be included in the valuation of the PRF?	The provisions set up for the respective funds should include provision relating to expenses charged to that particular fund. Hence, where the acquisition expenses are charged to the PRF, the Appointed Actuary should include the expenses in the valuation of PRF.
10	11	8.6	Should the expense assumptions in valuation of expense liability of the shareholders' fund (SHF) be limited to product-related expenses only?	The valuation of expense liability should consider all expected future expenses payable from the SHF in managing the takaful funds for the full contractual obligation of the takaful certificate. This includes product-related expenses and expenses related to the operating costs of the takaful operations, e.g. salary, rent, etc.
11	11	8.7	Should expense overruns be taken into account in the expense assumptions used for the purpose of the valuation of liabilities?	Paragraph 8.7(b) states that expense assumptions should be based on recent expense analysis taking into consideration likely improvement/deterioration in future. Hence, if expense overruns are expected to persist, this should be reflected in the expense assumption of the valuation. In the case of a newly set up takaful operator with minimal experience, the Appointed Actuary can rely on industry data in coming up with the expense assumptions as clarified in paragraph 7.1. Adjustments may need to be made to the industry data to better reflect the expected experience of the takaful operator

12	13	9.3	Can the liabilities valuation of PRF and SHF be based on different scenarios, e.g. selecting opposite direction of stress for mortality assumption in valuation of PRF and SHF respectively?	As mentioned in paragraph 9.3, the Appointed Actuary can adjust valuation assumptions for liabilities of PRF and SHF for several scenarios subject to the adjustment made in PRF and SHF are consistent for a particular scenario. However, it is possible that the provision held in PRF and SHF to be based on different scenarios since the Appointed Actuary is required to select scenario that result in the highest provision for PRF and SHF individually.
13	13	10.1	Are there any valuation requirements for co-takaful business?	Where takaful risks are underwritten on a co-takaful basis, takaful operators should value the liabilities of those risks placed under them appropriately, in line with the requirements under the Guidelines.
14	13	10.1(c)	Does the valuation of liabilities placed under retakaful coverage in paragraph 10.1(c) refer to the valuation conducted by takaful operators or that conducted by retakaful operators?	The condition is applicable to takaful operators and is independent of the valuation performed by the retakaful operator. Takaful operators are allowed to take credit for retakaful cessions if the valuation of liabilities ceded is made in accordance to the Guidelines.
15	15	10.4	If conditions specified in paragraphs 10.1 and 10.3 are not met, can a deduction for retakaful cessions be made to the extent of the amount of deposit held?	Paragraph 10.4 concerns the amount of retakaful deduction allowed for cessions made to retakaful operators other than those registered under the Takaful Act 1984 or a qualifying retakaful operator, and should be met together with paragraphs 10.1 and 10.3.