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Suspension of annuity scheme will cover Takaful players

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THE country's two Takaful players providing Syariah-based annuity scheme through Employees Provident Fund (EPF) withdrawals will not be spared if the scheme is suspended indefinitely, industry sources say.

It is understood that the two Islamic insurers, Syarikat Takaful Malaysia Bhd and Takaful Nasional Sdn Bhd, were hoping to avoid suspension along with the six conventional insurers originally approved to market the scheme.

The argument would have been that the EPF may find it difficult to provide a Syariah-compliant annuity product.

"That was supposed to be their trump card. They felt EPF's present investment approach may not allow the fund to provide a truly Islamic product," said an industry source.

When asked to comment on the matter, Malaysian Trades Union Congress (MTUC) president Senator Zainal Rampak confirmed that the Takaful operators were not singled out for special treatment.

"I'm confident that the EPF can provide an alternate scheme," he said when contacted yesterday.

The EPF-initiated annuity scheme, introduced in July 2000, ran into strong opposition from workers' unions months later which led to its suspension on May 8 this year.

Chances of insurers getting back the scheme appear slim after Prime Minister Datuk Seri Dr Mahathir Mohamad said recently that the EPF would come out with its own annuity plan.

This was followed by an EPF statement last Monday that the suspended scheme would no longer accept new participants. However, the existing policyholders will continue to be serviced as per agreed terms and conditions.

It is understood that Takaful players had written to the EPF some time ago, highlighting the fundamental difference in operations of the Takaful annuity product as opposed to conventional annuity.

Takaful essentially offers participants or policyholders a financial programme to cover losses and also share profits based on the Al-Mudharabah principle. Any surplus or profit made is divided between the participants and Takaful operators. Likewise the risks are equally borne by the two parties.

The Malaysian takaful industry applies the conditional At-Tabarru'at standard which requires members to contribute according to their risk level. Hence, the rate is higher for those in the higher risk category.

The Takaful firms act as facilitators to the risk involved, and form a contract with the contributors to manage the risk. The products offered, including the annuity scheme, are designed without elements of al riba (interest), al maisir (gambling) and al gharar (uncertainty).

The funds collected by the takaful firms are invested and any profits made are shared along the principles of Mudharabah.

In the conventional scheme, insurers invest the collected premiums and payout dividends, if any, to contributors.

"One major difference is that all investments must be in activities and instruments permissible and approved by the Syariah supervisory council. This is the major question mark with regards to the EPF handling of any Syariah-based annuity scheme," said an insurer.

The annuity scheme through EPF savings withdrawal had been a good source

of premium earner for the insurers, providing a sizeable injection of funds into the two Takaful companies.

Before suspension on May 10, both players attracted about RM300 million each from contributors.

Prior to suspension, Takaful Malaysia had attracted about 16,000 participants involving RM365 million in contributions.

Takaful Nasional claimed about 50,000 contributors with RM1.2 billion in contributions, with RM900 million of the amount having been released after approval of applicants by EPF.

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