Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

GUIDELINES ON DIFFERENTIAL LEVY SYSTEMS FRAMEWORK FOR TAKAFUL OPERATORS

ISSUE DATE : 31 JANUARY 2019

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PART 1: INTRODUCTION

BACKGROUND

1.1 Perbadanan Insurans Deposit Malaysia ("PIDM") implemented the Differential Levy Systems for Takaful Operators ("DLST") framework to replace the flat-rate system.

1.2 The objectives of implementing the DLST framework are as follows:

(a) to differentiate takaful operators according to their risk profiles;

(b) to introduce more fairness into the levy system process where takaful operators assessed to be of higher risk would pay higher levies as opposed to takaful operators assessed to be of lower risk;

(c) to provide incentives for takaful operators to adopt sound risk management practices; and

(d) to promote stability of the financial system via the overall improvement in risk management practices of takaful operators.

1.3 In exercise of the powers conferred by paragraph 209(1)*(b)* of the Malaysia Deposit Insurance Corporation Act 2011 ("PIDM Act"), PIDM makes the Guidelines on Differential Levy Systems for Takaful Operators ("Guidelines"). These Guidelines set out the assessment approach under the DLST framework, including the formula, threshold and score range of each of the indicators under the quantitative criteria and qualitative criteria. The requirements for reporting and submission of quantitative information by takaful operators to PIDM for the purpose of determining the overall DLST score and levy category are also elaborated in the Guidelines.

1.4 These Guidelines will be effective beginning from assessment year 2019 and shall supersede the **Guidelines on Differential Levy Systems Framework for Takaful Operators** issued on 7 March 2016.

1.5 For purposes of these Guidelines, "Guidelines for Takaful Operators Statistical Submission" or "Guidelines for TOSS" means the **Guidance Notes for Takaful Operators Statistical System on Submission of Monthly/Quarterly/Annual Statistical Returns** as may be issued by Bank Negara Malaysia ("BNM").

1.6 Unless expressly stated otherwise, any information or document required to be submitted to PIDM under these Guidelines, including any letter, report, form, returns and action plan, shall be submitted online through PIDM's portal. The original hard copy shall be kept by the insurer member.

1.7 A reference to a statute or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

1.8 Enquiries relating to these Guidelines may be directed to:

General Lines:	03-2173 7436 / 03-2265 6565
Fax:	03-21737494
Email:	dlst@pidm.gov.my

PART 2: SCOPE OF APPLICATION

2.1 The DLST framework is applicable to all takaful operators that are locally incorporated and licensed to carry on takaful business under Section 10 of the Islamic Financial Services Act 2013, except a takaful operator licensed to carry on solely retakaful business and an international takaful operator ("insurer members"). Table 1 depicts the application of the DLST framework in respect of takaful operator's business or businesses.

Table 1: Scope of Application

Takaful Business Type	General Takaful DLST Criteria	Family Takaful DLST Criteria
General Takaful	✓	
Family Takaful		✓

PART 3: DIFFERENTIAL LEVY SYSTEMS FRAMEWORK

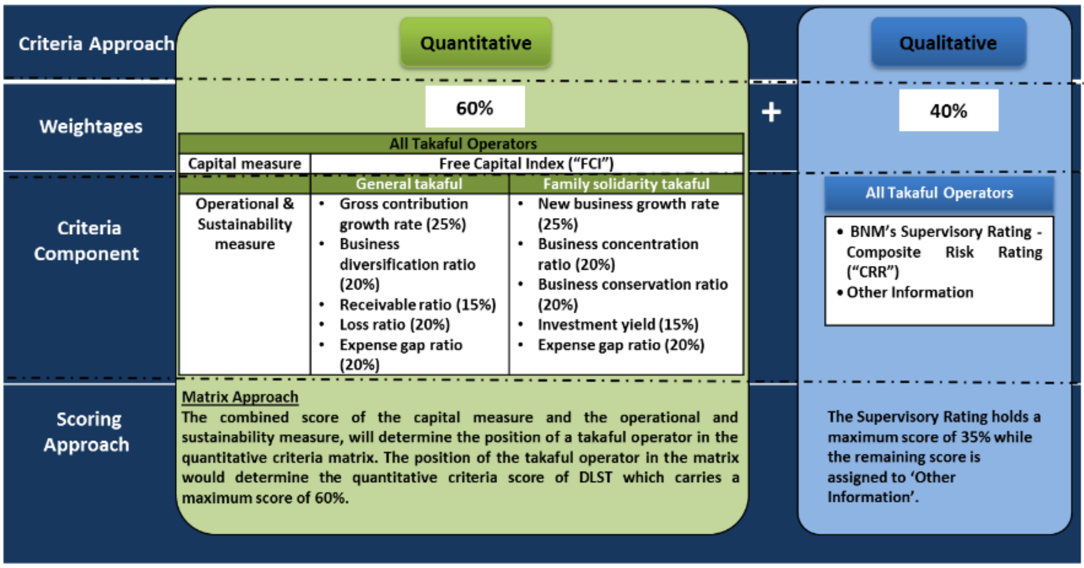
OVERVIEW

3.1 A takaful operator shall be classified into different categories in an assessment year based on their combined quantitative and qualitative criteria approach.

3.2 In order to achieve higher objectivity and transparency, a heavier weightage is assigned to the quantitative criteria which carries a score of 60%, while the qualitative criteria carries the remaining score of 40% out of a total score of 100%.

3.3 The DLST framework is summarised in Diagram 1.

Diagram 1: The DLST framework



QUANTITATIVE CRITERIA

3.4 The assessment of the quantitative criteria will be based on a 'matrix approach', which enables the risk profile of the takaful operators to be better differentiated based on two independent components of assessment.

3.5 The horizontal axis of the matrix approach measures the capital strength, i.e. Free Capital Index. Capital strength is important as it provides a cushion against any unexpected adverse events in the takaful operators' earnings and assets quality.

3.6 On the other side, the vertical axis reflects the operational and sustainability measure, which aims to assess the efficiency of the takaful operators' operational management and sustainability of the financial performance. This measure is made up of different sets of indicators which are assigned specific weightages. The indicators and their respective weightages for both general and family takaful businesses are set out in Table 2 below.

Table 2: Summary of Operational and Sustainability Measure

General Takaful Business		Family Takaful Business	
Indicators	**Weightage**	**Indicators**	**Weightage**
Gross contribution growth rate	25%	New business growth rate	25%
Business diversification ratio	20%	Business concentration ratio	20%
Receivable ratio	15%	Business conservation ratio	20%
Loss ratio	20%	Investment yield	15%
Expense gap ratio	20%	Expense gap ratio	20%
Total	**100%**	**Total**	**100%**

3.7 The combined score of the capital measure and the operational and sustainability measure, will determine the position of a takaful operator in the quantitative criteria matrix, as represented by the symbols M1 to M7 as set out in Table 3 in the following page.

Table 3: Quantitative Criteria Matrix

Operational and Sustainability Measure	Capital Measure			
	< 1.00	1.00 ≤ but ≤1.10	1.10< but ≤1.20	>1.20
≥ 85	M6	M4	M2	M1
≥ 65 but < 85	M6	M4	M3	M2
≥ 50 but < 65	M7	M5	M4	M3
< 50	M7	M7	M5	M4

3.8 Each of the seven (7) categories within the matrix is then assigned a quantitative score as set out in Table 4 below. The score reflects the overall quantitative performance of the takaful operator.

Table 4: Quantitative Criteria Score

Quantitative Criteria Matrix Category	Score (%)
M1	60
M2	55
M3	45
M4	40
M5	30
M6	25
M7	15

QUALITATIVE CRITERIA

3.9 The qualitative criteria include both the supervisory rating of takaful operators assigned by BNM, and any other information that will have implication on the safety and soundness of the takaful operators. The 'Supervisory Rating' carries a maximum score of 35%, while the remaining score of 5% is assigned to 'Other Information'.

PART 4: QUANTITATIVE CRITERIA

4.1 Capital Measure

Free Capital Index

FCI is a measure of the capital buffer above the individual target capital level ("ITCL"). This index reflects the takaful operator's capital sufficiency and its resilience to adverse situations.

4.2 Operational and Sustainability Measure – *General Takaful Business*

(a) **Gross Contribution Growth Rate**

The gross contribution growth rate measures the takaful operator's total gross contribution growth of its businesses. The growth in contributions provides a constant stream of income to support the takaful operator's business operations and enhances its market share.

(b) **Business Diversification Ratio**

The business diversification ratio measures the extent of the takaful operator's portfolio diversification. A well-diversified portfolio helps the takaful operator to avoid being significantly affected by any adverse experience in its line of business.

(c) **Receivable Ratio**

The receivable ratio measures the extent of takaful receivables against the total contribution income. This ratio indicates the operational efficiency of the takaful operator based on its ability to manage its receivables collection i.e. collect its outstanding contributions, agents balances and retakaful balances.

(d) **Loss Ratio**

The loss ratio measures the takaful operator's ability in managing its claims and underwriting performance. This ratio indicates the sustainability of the underwriting results and the ability of the takaful operator to generate sufficient contributions to pay out claims incurred.

4.3 **Operational and Sustainability Measure – *Family Takaful Business***

(a) **New Business Growth Rate**

The new business growth rate measures the total growth of a family takaful operator's new business. The consistent growth of new business contributions will ensure a constant stream of income to support the takaful operator's business operations and enhances its market share.

(b) **Business Concentration Ratio**

The business concentration ratio measures the proportion of regular contributions certificate business to single contributions certificate business. An appropriate composition of single and regular contribution products ensures continuous future stream of income.

(c) **Business Conservation Ratio**

The business conservation ratio measures the proportion of certificates that remain in-force at the end of a period, out of the total certificates that were in-force at the beginning of the period. This indicator assesses the business retention ability of the takaful operator and reflects the sustainability level of its business.

(d) **Investment Yield**

Investment yield measures the investment performance in terms of the takaful operator's investment income in proportion to the assets held by the takaful operator. The inability to generate sufficient returns may affect the long-term sustainability of the takaful operator, including meeting its certificate owners' reasonable expectations.

4.4 **Operational and Sustainability Measure – *General Takaful and Family Takaful Businesses***

(a) **Expense Gap Ratio**

Expense gap ratio measures the takaful operator's efficiency in managing operating expenses and commission incurred in relation to the wakalah fees earned and mudharabah surplus transferred. This ratio assesses the takaful operator's efficiency in managing the operations of the takaful business(es).

4.5 For the detailed requirements of all the above ratios, please refer to the attached **Appendices**. As for the computations of the ratios, please refer to the attached **Illustrations**.

PART 5: QUALITATIVE CRITERIA

5.0 For the qualitative criteria, each takaful operator shall be assessed based on BNM's supervisory rating and other information i.e. other qualitative factors.

(a) **Supervisory Rating**

The supervisory rating, namely the composite risk rating ("CRR") as assessed by BNM for the assessment period up to 31 December of the preceding assessment year will be used. The takaful operator shall be assigned scores as set out in Table 5 below.

Table 5: Score Range for Supervisory Rating

Supervisory Rating	
Range of Results	**Score (%)**
Supervisory Rating of **LOW** or equivalent	35
Supervisory Rating of **MODERATE** or equivalent	22
Supervisory Rating of **ABOVE AVERAGE** or equivalent	10
Supervisory Rating of **HIGH** or equivalent	0

(b) **Other Information**

The score shall be determined by PIDM based on information relating to the takaful operator's safety and soundness, its viability or its financial condition.

This information may include information about the takaful operator other than that specified in the supervisory rating of the takaful operator, which takes into account the following factors:

(i) the takaful operator's failure to comply with any subsidiary legislation made by PIDM including guidelines or with any regulatory requirements that apply to the takaful operator;

(ii) any action taken by any regulatory or other authority against the takaful operator or any corporation related to the takaful operator including but not limited to any notice, order or instruction relating to any deficiency or non-compliance in respect of the takaful operator or such corporation, a letter of warning, or any requirement or instruction for issuance of a letter of undertaking or commitment or a resolution of the board of directors;

(iii) any correction or action plan of the takaful operator or such corporation to address the action taken by such authority under subparagraph (ii) including but not limited to the progress report on the implementation by the takaful operator of the terms of the letter of undertaking or commitment or the resolution of the board of directors;

(iv) any rating or assessment of the takaful operator by any rating agency whether relating to the credit standing of the takaful operator or its financial condition or otherwise;

(v) whether the takaful operator has received or is receiving any form of assistance from BNM or PIDM, such assistance being financial or otherwise; and

(vi) any other information provided to PIDM or that comes to the attention of PIDM about the takaful operator or any corporation related to the takaful operator.

The scores for the other information criteria shall be determined as set out in Table 6 below.

Table 6: Score Range for Other Information

Other Information	
Assessment Criteria	**Score (%)**
As at 30 April of the assessment year, no information has come to PIDM's attention about any circumstances that represent a threat to or materially affect the financial condition, safety, soundness or viability of the takaful operator.	5
As at 30 April of the assessment year, information has come to PIDM's attention about circumstances that represent a threat to or may materially affect the financial condition, safety, soundness or viability of the takaful operator.	3
As at 30 April of the assessment year, information has come to PIDM's attention about circumstances that materially affect the financial condition, safety, soundness or viability of the takaful operator.	0

PART 6: LEVY CATEGORY AND LEVY RATE

LEVY CATEGORY

6.1 The summation of the respective scores from the quantitative and qualitative criteria will determine the takaful operator's overall DLST score. All takaful operators shall be classified into one (1) of the four (4) levy categories based on their overall DLST score. The table below sets out the overall DLST score range and the respective levy categories:

Table 7: Overall DLST Score Range and Levy Categories

Overall DLST Score	Levy Category
DLST Score ≥ 85%	1
65% ≤ DLST Score < 85%	2
50% ≤ DLST Score < 65%	3
DLST Score < 50%	4

LEVY RATE

6.2 Each levy category carries a prescribed levy rate and the minimum levy amount for the purpose of determining the amount of levy payable by a takaful operator to PIDM for the assessment year.

6.3 A takaful operator shall pay its levy by **31 May** (or the immediate preceding working day if 31 May falls on a weekend or a public holiday in Kuala Lumpur) of each assessment year based on the DLST score and levy category notified by PIDM.

6.4 A takaful operator shall complete the return on calculation of levy based on the **Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Levies for Takaful and Insurance Businesses** issued on 31 January 2019[1]**.**

[1] Which supersedes the "Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Levies for Takaful and Insurance Businesses" issued on 14 March 2016.

PART 7: REPORTING, SUBMISSION AND APPEAL

REPORTING REFERENCE DATE

QUANTITATIVE CRITERIA

7.1 The quantitative criteria shall be calculated based on a takaful operator's relevant financial statements as at 31 December of each preceding assessment year. In this respect, the financial statements shall be referred to as the following:

(a) **For a takaful operator with 31 December financial year end:** audited financial statements (i.e. Takaful Operators Statistical System ("TOSS") and Risk-Based Capital Framework for Takaful Operators ("RBCT") reporting forms and other supporting sources of information for the financial period); or

(b) **For a takaful operator with non-31 December financial year end:** approved financial statements (i.e. TOSS and RBCT reporting forms, and other supporting sources of information for the financial period, which have been approved by the Management of the takaful operator).

QUALITATIVE CRITERIA

7.2 For the supervisory rating criteria, the supervisory rating for each takaful operator as at 31 December of the preceding assessment year shall be applied to determine the scores for levy calculation purposes for an assessment year. BNM will provide the supervisory ratings to PIDM.

7.3 For the other information criteria, a takaful operator shall be assessed based on information received by PIDM on or before 30 April of the assessment year.

SUBMISSION DATE

7.4 A takaful operator must submit the certified quantitative information (in pre-formatted excel spreadsheet) to PIDM **latest by 30 April** (or the immediate preceding working day if 30 April falls on a weekend or a public holiday in Kuala Lumpur) of each assessment year for the purposes of levy computation.

7.5 A takaful operator's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO")/Head of Finance/Appointed Actuary must certify that the quantitative information is accurate and reflective of the financial condition of a takaful operator as at 31 December of the preceding assessment year. All reports that require certification/signatories shall be scanned and the scanned copy must be submitted to PIDM online through PIDM's portal.

7.6 For a takaful operator that fails to comply with the requirements in paragraphs 7.4 and 7.5, PIDM will assign a score to the takaful operator according to any available information, and a levy surcharge may be imposed on such takaful operator pursuant to Section 75 of the PIDM Act.

INFORMATION INTEGRITY

7.7 A takaful operator shall be accountable to ensure the accuracy of the information submitted for DLST. For a takaful operator that does not comply with the requirements with regard to information integrity, a levy surcharge may be imposed on such takaful operator pursuant to Section 75 of the PIDM Act.

7.8 In respect of the accuracy of the DLST quantitative information and the Returns on Calculation of Premium ("RCP") submitted to PIDM, a takaful operator's internal auditor and external auditor will perform an independent validation under the **Guidelines on Validation Programme: Differential Levy Systems and Premium Calculation** issued on 31 January 2019[2]**.**

COMPUTATION AND NOTIFICATION OF SCORE

7.9 The DLST score shall be the sum of scores assigned for the quantitative and the qualitative criteria.

[2] Which supersedes the "Guidelines on Validation Programme: Differential Levy Systems and Levies Calculation" issued on 14 March 2016.

7.10 The score of each criterion is prescribed pursuant to the **Malaysia Deposit Insurance Corporation (Differential Premium Systems in Respect of Insurer Members) Regulations 2012**[3]**.**

7.11 PIDM will compute the DLST score for each takaful operator and notify the takaful operator of their respective score, levy category and applicable levy rate by **15 May** of each assessment year. This will provide sufficient time for a takaful operator to make the necessary arrangement for the payment of levy that is due to PIDM by 31 May of each assessment year. Please refer to Illustrations 11 for examples of DLST scoring and levy categorisation.

INSUFFICIENT QUANTITATIVE INFORMATION

7.12 For a takaful operator with insufficient quantitative information for the purposes of calculating the scores of certain indicators, the scores for such indicator shall be determined on a proportionate basis as stated below:

$[A \div (100 - B)] \times B$

where

A is the sum of the scores assigned to a takaful operator for each indicator where quantitative information is available.

B is the sum of maximum scores for indicators where quantitative information is not available for computation.

An example of the computation of the DLST scores for a takaful operator carrying on general takaful business with insufficient quantitative information is provided in Illustration 12.

FILING RESUBMISSION

7.13 In circumstances where a takaful operator submits its amended quantitative information to PIDM after the submission deadline i.e. 30 April of the assessment year, the amended submission shall reach PIDM by **10 May** (or the immediate preceding

[3] As amended by the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) (Amendment) Regulations 2016

working day if 10 May falls on a weekend or a public holiday in Kuala Lumpur) of that assessment year.

7.14 A takaful operator shall be rated based on the latest information received by PIDM on or before **10 May** of that assessment year.

7.15 A takaful operator that submits any amended information shall be expected to comply with the provisions for information integrity as specified under paragraph 7.7 (Information Integrity).

PROHIBITION AGAINST PUBLIC DISCLOSURE

7.16 A takaful operator acknowledges that the following information ("Information") is confidential:

(a) A takaful operator's score for any indicator or criteria of the DLST;
(b) A takaful operator's total criteria score;
(c) Levy category in which a takaful operator is or has been classified;
(d) Levy rate that is or was applicable to a takaful operator; and
(e) The amount of levy payable or paid by a takaful operator.

7.17 No director, officer, employee or agent of a takaful operator or any person who for any reason has by any means access to any of the Information or any document which discloses or contains any of the Information, shall provide or disclose to any other person or publish any such Information or document unless the disclosure is permitted under any law or court order or for the purpose of a takaful operator performing its duties or carrying out the provisions of any law or any regulation, guideline or instruction made by BNM or PIDM.

7.18 A levy surcharge may be imposed on a takaful operator that does not comply with the prohibition against public disclosure.

APPEAL PROCESS

7.19 An appeal process is put in place to provide an avenue for any takaful operator to request for a review of its final scores in certain circumstances.

7.20 A takaful operator may appeal against its score **after 31 May** of an assessment year and is required to formally submit its appeal in writing to PIDM within the time prescribed in paragraph 7.22. The reason(s) or ground(s) for the appeal, as set out in paragraph 7.21, must be included.

7.21 The appeal must be on the basis of an error in the quantitative information provided by a takaful operator or an error in PIDM's computation in relation to the quantitative criteria or the qualitative criteria (except BNM's supervisory rating and ITCL agreed by BNM). There shall not be any appeal against BNM's supervisory rating and ITCL agreed by BNM as BNM would have provided an appropriate review process prior to assigning a takaful operator's final supervisory rating and agreeing to its ITCL.

7.22 Any request for appeal shall be submitted in writing to PIDM **no later than 31 August** of that assessment year. PIDM will review and respond to the appeal by **30 September** of that assessment year. Notwithstanding the appeal, an insurer member must pay the annual levy on or before 31 May of that assessment year.

7.23 If the appeal results in PIDM determining that a takaful operator has overpaid its annual levy for that assessment year, PIDM shall refund a takaful operator the difference after the appeal process is concluded. Conversely, if it is determined that a takaful operator has underpaid its annual levy for that assessment year, a takaful operator shall pay the difference to PIDM.

PART 8: REPORTING MANUAL AND FORMS

GENERAL REQUIREMENT

8.1 Any restatement made to a takaful operator's previous year's financial information shall be reflected in the submission of quantitative information to PIDM. However, the takaful operator's previous year DLST score will not be amended.

8.2 A takaful operator shall distinguish its quantitative information between **general takaful** and **family takaful** businesses.

8.3 All amounts shall be reported in thousands ('000).

8.4 All percentages shall be expressed to two (2) decimal points.

8.5 A takaful operator must use the pre-formatted excel spreadsheet provided in the PIDM website for submission to PIDM. A takaful operator must also ensure that no alteration or amendment is made to the pre-formatted excel spreadsheet. A takaful operator shall only be required to fill-in the marked cells.

PART 9: NEW INSURER MEMBER AND AMALGAMATED INSURER MEMBER

NEW INSURER MEMBER

9.1 A takaful operator shall be automatically categorised in the best levy category for the assessment year in which it becomes an insurer member ("first assessment year"), and the assessment year immediately after the assessment year it becomes an insurer member ("second assessment year").

9.2 A takaful operator is not required to submit the quantitative information to PIDM for the first and second assessment years. The takaful operator is required to submit the quantitative information to PIDM from the third assessment year onwards.

9.3 In the event that a takaful operator does not have sufficient information to calculate certain criteria in the third assessment year, the scores of these criteria shall be assigned proportionately according to paragraph 7.12 (Insufficient Quantitative Information).

9.4 For the computation of the quantitative criteria for the third assessment years onwards, the quantitative information relating to the position as at 31 December of the first assessment year shall not be included in the computation. The scores of these criteria shall be assigned proportionately according to paragraph 7.12 (Insufficient Quantitative Information).

AMALGAMATED INSURER MEMBER

9.5 An amalgamated insurer member means a takaful operator formed from the acquisition of one (1) takaful operator by another takaful operator or the merger of two (2) or more takaful operators.

9.6 The following provisions shall apply in determining the quantitative and qualitative scores of the amalgamated insurer member for a particular assessment year:

(a) An amalgamated insurer member is formed before or on 31 December of the preceding assessment year

The computation of each indicator of the amalgamated insurer member for the quantitative criteria shall be based on the financial information of the amalgamated insurer member as at 31 December of the preceding assessment year.

The scoring of the amalgamated insurer member for the quantitative criteria shall be based on the supervisory rating and other relevant information of the amalgamated insurer member as at 31 December of the preceding assessment year.

Example 1:

Takaful Operators A and B were involved in the process of merger and acquisition and transferred whole or part of their takaful business to the amalgamated insurer member known as Takaful Operator 'X'. Takaful Operator 'X' commences operations on 1 September 2015.

For the assessment year 2016, Takaful Operator 'X' shall submit its quantitative information based on the financial information as at 31 December 2015.

(b) An amalgamated insurer member is formed after 31 December of the assessment year

The computation of each indicator of the amalgamated insurer member for the quantitative criteria shall be based on the financial information of the amalgamating insurer member[4] as at 31 December of the preceding assessment year.

The scoring of the amalgamated insurer member for the qualitative criteria shall be based on the supervisory rating and other relevant information of the amalgamating insurer member as at 31 December of the preceding assessment year.

[4] An amalgamating insurer member refers to any one of the insurer members involved in an amalgamation or a merger with the highest total scoring for quantitatives criteria.

Example 2:

Takaful Operators A and B were involved in the process of merger and acquisition. The process of transferring assets and liabilities is completed, resulting in the formation of an amalgamated takaful operator, Takaful Operator 'Y', on 2 January 2016. The table below depicts the scores of the quantitative, supervisory and other information of amalgamating takaful operators for position as at 31 December 2015:

Criteria	Takaful Operators	
	A	B
Quantitative		
Capital – FCI	1.21	1.15
Operational and sustainability score	75%	55%
Total Quantitative Score (a)	**55%**	**40 %**
Qualitative		
Supervisory rating	22%	10%
Other information criteria	5%	0%
Total Qualitative Score (b)	**27%**	**10%**
Total DLST Score (a) + (b)	**82%**	**50%**

Takaful Operator A (the amalgamating insurer member) has the highest quantitative score as at 31 December 2015. Takaful Operator 'Y' shall submit its quantitative information forms based on the financial information of Takaful Operator A for the assessment year 2016. Takaful Operator A's supervisory rating score of 22% and the other information score of 5% will be also applied to Takaful Operator 'Y' to arrive at the overall DLST score for assessment year 2016.

Perbadanan Insurans Deposit Malaysia
31 January 2019

Appendix 1

CAPITAL MEASURE

Free Capital Index

Formula:

$$\text{Free Capital Index} = \frac{\text{Capital adequacy ratio (\%)}}{\text{Individual target capital level (\%)}}$$

Note:

(i) Capital Adequacy Ratio (“CAR”) and Individual Target Capital Level (“ITCL”) are as defined in the RBCT specified by BNM.

(ii) The takaful operator’s ITCL shall be based on the latest ITCL agreed by BNM as at 31 December of the preceding assessment year.

(iii) In the case of amalgamated insurer member (please refer to paragraph 9.5), if the ITCL of a takaful operator has yet to be determined as at 31 December of the preceding assessment year, the takaful operator shall be categorised at the minimum required FCI (score range of 1.00 ≤ FCI ≤1.10) until the ITCL of the takaful operator is determined.

Data Requirement	Source of Information	Remarks
CAR	Form A of the RBCT Framework - Reporting Form.	CAR is based on the average CAR of four (4) quarters within the preceding assessment year.
ITCL	As agreed by BNM, specified in the Guidelines on RBCT Framework.	

Score Range:

Free Capital Index
Range of Results
Free Capital Index > 1.20
1.10 < Free Capital Index ≤ 1.20
1.00 ≤ Free Capital Index ≤ 1.10
Free Capital Index < 1.00

Appendix 2

OPERATIONAL AND SUSTAINABILITY MEASURE - GENERAL TAKAFUL BUSINESS

Gross Contribution Growth Rate

Formula:

$$\text{Gross Contribution Growth Rate} = \frac{[\text{Gross contributions (t)} - \text{Gross contributions (t-1)}]}{\text{Gross contributions (t-1)}} \times 100\%$$

<u>3-year weighted average</u>

$$\text{Gross Contribution Growth Rate} = [50\% \times \text{growth rate (t)}] + [30\% \times \text{growth rate (t-1)}] + [20\% \times \text{growth rate (t-2)}]$$

where,
t = one year immediately preceding the current assessment year;
t-1 = two years immediately preceding the current assessment year; and
t-2 = three years immediately preceding the current assessment year.

Note:

(i) Gross contribution growth rate is based on a 3-year weighted average growth rate, i.e. weightages of 50% for one year immediately preceding the current assessment year, 30% for two years immediately preceding the current assessment year and 20% for three years immediately preceding the current assessment year.

(ii) A takaful operator which has less than four (4) years of data shall not be assigned a score for this ratio. The score of this ratio shall be determined on a proportionate basis as specified in paragraph 7.12 (Insufficient Quantitative Information).

Data Requirement	Source of Information	Remarks
Gross contributions	Statement of Contributions, Form GT5 as specified in the Guidelines for TOSS.	Gross contributions includes contribution from direct business (less return contributions) and all retakaful accepted.

Score Range:

Gross Contribution Growth Rate	
Range of Results	**Score (%)**
Gross Contribution Growth Rate > 7.00%	25
5.00% < Gross Contribution Growth Rate ≤ 7.00%	16
0.00% < Gross Contribution Growth Rate ≤ 5.00%	8
Gross Contribution Growth Rate ≤ 0.00%	0

Appendix 3

OPERATIONAL AND SUSTAINABILITY MEASURE - GENERAL TAKAFUL BUSINESS

Business Diversification Ratio

Formula:

$$\text{Business Diversification Ratio} = \frac{\text{Provision of risk margin for adverse deviation (“PRAD”)} - \text{Fund provision of risk margin for adverse deviation (“FPRAD”)}}{\text{Provision of risk margin for adverse deviation (“PRAD”)}} \times 100\%$$

Note:

(i) The PRAD refers to the provision of risk margin for adverse deviation, is the component of the value of the takaful liabilities that relates to the uncertainty inherent in the best estimate, as defined in the Guidelines on Valuation Basis for Liabilities of General Takaful Business as specified by BNM.

Data Requirement	Source of Information	Remarks
PRAD	RBCT Framework - Reporting Form: General takaful fund - Valuation liabilities, Form K.	The PRAD includes valuation of contribution liabilities attributable to all classes of businesses.
FPRAD	RBCT Framework - Reporting Form: General takaful fund - Valuation liabilities, Form K.	The FPRAD includes valuation of contribution liabilities attributable to all classes of businesses.

Score Range:

Business Diversification Ratio	
Range of Results	**Score (%)**
Business Diversification Ratio > 30.00%	20
20.00% < Business Diversification Ratio ≤ 30.00%	14
15.00% ≤ Business Diversification Ratio ≤ 20.00%	7
Business Diversification Ratio < 15.00%	0

Appendix 4

OPERATIONAL AND SUSTAINABILITY MEASURE - GENERAL TAKAFUL BUSINESS

Receivable Ratio

Formula:

$$\text{Receivable Ratio} = \frac{\text{Takaful receivables}}{\text{Gross contributions}} \times 100\%$$

Data Requirement	Source of Information	Remarks
Gross Contributions	Statement of Contributions, Form GT5 as specified in the Guidelines for TOSS.	Gross contributions includes contribution from direct business (less return contributions) and all retakaful accepted.
Takaful Receivables	Ageing Schedule, Schedule 12, Form GT3 as specified in the Guidelines for TOSS.	Takaful receivables refers to the aggregate of total gross outstanding contributions and agents' balances of more than 60 days and total amount due from retakaful or ceding companies of more than 90 days.

Score Range:

Receivable Ratio	
Range of Results	**Score (%)**
Receivable ratio ≤ 10.00%	15
10.00% < Receivable ratio ≤ 15.00%	10
15.00% < Receivable ratio ≤ 20.00%	5
Receivable ratio > 20.00%	0

Appendix 5

OPERATIONAL AND SUSTAINABILITY MEASURE
- GENERAL TAKAFUL BUSINESS

Loss Ratio

Formula:

$$\text{Loss Ratio} = \frac{\text{Net claims incurred}}{\text{Earned contribution income}} \times 100\%$$

Data Requirement	Source of Information	Remarks
Net claims incurred	Statement of Claims, Form GT6 as specified in the Guidelines for TOSS.	Net claims incurred refers to claims paid plus increase or less decrease in provisions for outstanding claims within the preceding assessment year and net of retakaful recoveries.
Earned contribution income	Statement of Contributions, Form GT5 as specified in the Guidelines for TOSS.	Earned contribution income refers to net contribution less increase or plus decrease in unearned contribution reserves within the preceding assessment year.

Score Range:

Loss Ratio	
Range of Results	**Score (%)**
Loss Ratio ≤ 40.00%	20
40.00% < Loss Ratio ≤ 50.00%	14
50.00% < Loss Ratio ≤ 60.00%	7
Loss Ratio > 60.00%	0

Appendix 6

OPERATIONAL AND SUSTAINABILITY MEASURE - FAMILY TAKAFUL BUSINESS

New Business Growth Rate

Formula:

$$\text{New Business Growth Rate} = \frac{[\text{New business contributions (t)} - \text{New business contributions (t-1)}]}{\text{New business contributions (t-1)}} \times 100\%$$

<u>3-year weighted average</u>

$$\text{New Business Growth Rate} = [50\% \times \text{growth rate (t)}] + [30\% \times \text{growth rate (t-1)}] + [20\% \times \text{growth rate (t-2)}]$$

where,
t = one year immediately preceding the current assessment year;
t-1 = two years immediately preceding the current assessment year; and
t-2 = three years immediately preceding the current assessment year.

Note:

(i) The new business contributions refer to both single and annual contributions for all types of businesses (ordinary family, annuity and investment linked) as reported in the 'Statement of New Business' as specified in the Guidelines for TOSS.

(ii) The new business growth rate is based on a 3-year weighted average growth rate, i.e. weightages of 50% for one year immediately preceding the current assessment year, 30% for two years immediately preceding the current assessment year and 20% for three years immediately preceding the current assessment year.

(iii) A takaful operator which has less than four (4) years of data shall not be assigned a score for this ratio. The score of this ratio shall be determined on a proportionate basis as specified in paragraph 7.12 (Insufficient Quantitative Information).

Data Requirement	Source of Information	Remarks
Single and annual/ regular contributions	Statement of New Business, Form FT5 as specified in the Guidelines for TOSS.	The annual contribution equivalent ("ACE") is adopted where it aggregates total new regular contributions with 10% new single contribution in the calculation.

Score Range:

New Business Growth Rate	
Range of Results	**Score (%)**
New Business Growth Ratio > 10.00%	25
5.00% < New Business Growth Ratio ≤ 10.00%	16
0.00% < New Business Growth Ratio ≤ 5.00%	8
New Business Growth Ratio ≤ 0.00%	0

Appendix 7

OPERATIONAL AND SUSTAINABILITY MEASURE - FAMILY TAKAFUL BUSINESS

Business Concentration Ratio

Formula:

$$\text{Business Concentration Ratio} = \frac{\text{New business regular contributions (t)}}{\text{New business single contributions (t)}} \times 100\%$$

where,
t = one year immediately preceding the current assessment year.

Data Requirement	Source of Information	Remarks
New business regular contributions	"Annual Contributions" category in the Statement of New Business, Form FT5 as specified in the Guidelines for TOSS.	New business regular contributions refers to total annual contributions that include ordinary family, investment linked and annuities.
New business single contributions	"Single Contributions" category in the Statement of New Business, Form FT5 as specified in the Guidelines for TOSS.	New business single contributions refers to total single contributions that include ordinary family, investment linked and annuities.

Score Range:

Business Concentration Ratio	
Range of Results	**Score (%)**
Business Concentration Ratio > 150.00%	20
125.00% < Business Concentration Ratio ≤ 150.00%	14
100.00% ≤ Business Concentration Ratio ≤ 125.00%	7
Business Concentration Ratio < 100.00%	0

Appendix 8

OPERATIONAL AND SUSTAINABILITY MEASURE - FAMILY TAKAFUL BUSINESS

Business Conservation Ratio

Formula:

$$\text{Business Conservation Ratio} = \frac{\text{Renewal contributions (t)}}{\text{Renewal contributions (t-1)} + \text{First year contributions (t-1)}} \times 100\%$$

where,
t = one year immediately preceding the current assessment year; and
t-1 = two years immediately preceding the current assessment year.

Data Requirement	Source of Information	Remarks
Renewal contributions	Contribution Income/Consideration of Annuities Granted, Form FT1-1 (Schedule 1) and Contribution/Net Creation of Units for Investment-Linked Business, Form FT1-2 (Schedule 1) as specified in the Guidelines for TOSS.	Renewal contributions refer to contributions receivable subsequent to the first certificate year, where the contribution payment term is two or more years. In calculating the renewal contributions, it includes the total gross direct contributions for renewal year's contribution income of all businesses and total investment linked risk fund for renewal year contribution.
First year contributions	Contribution Income/Consideration of Annuities Granted, Form FT1-1 (Schedule 1) and Contribution/Net Creation of Units for Investment-Linked Business, Form FT1-2 (Schedule 1) as specified in the Guidelines for TOSS.	First year contributions refer to contributions receivable for the first certificate year, where the contribution payment term is two or more years. In calculating the first year contributions, it includes the total gross direct contributions for first year's contribution income of all businesses and total investment linked risk fund for first year contribution.

Score Range:

Business Conservation Ratio	
Range of Results	**Score (%)**
Business Conservation Ratio > 80.00%	20
76.00% < Business Conservation Ratio ≤ 80.00%	14
70.00% ≤ Business Conservation Ratio ≤ 76.00%	7
Business Conservation Ratio < 70.00%	0

Appendix 9

OPERATIONAL AND SUSTAINABILITY MEASURE - FAMILY TAKAFUL BUSINESS

Investment Yield

Formula:

$$\text{Investment Yield} = \frac{2 \times [\text{Net investment income (I)} + \text{Net capital gains or losses (C)}]}{\text{Total assets (t)} + \text{Total assets (t-1)} - (\text{I+C})} \times 100\%$$

where,
t = one year immediately preceding the current assessment year; and
t-1 = two years immediately preceding the current assessment year.

Note:

(i) In setting the benchmark for the score range, the Government Investment Issues ("GII") 5-year Spot Rate is used, i.e. average GII spot rate as at last trading date of each quarter within the preceding assessment year. The GII spot rate refers to the GII for the tenure of five (5) years, as published by Bond Pricing Agency Malaysia Sdn Bhd.

Data Requirement	Source of Information	Remarks
Net investment income	Family Takaful Business Revenue Account, Form FT1, as specified in the Guidelines for TOSS	Net investment income refers to the total net investment income that includes ordinary family, annuity and investment linked.
Net capital gains or losses	Family Takaful Business Revenue Account, Form FT1, as specified in the Guidelines for TOSS	Net capital gains or losses* includes: (i) Profit on disposal of securities and properties; (ii) Loss on disposal of securities and properties; (iii) Accretion of discounts on securities; (iv) Amortisation of premiums securities; (v) Unrealised capital gains; (vi) Unrealised capital loss; (vii) Write back of diminution in value of corporate securities and other investments; (viii) Diminution in value of corporate securities and other investments; and
	Oher supporting information	(ix) Changes of Gross Available-for-sale (“AFS”) reserves.**
Data Requirement	**Source of Information**	**Remarks**
		*The net capital gains or losses includes ordinary family, annuities and investment linked. **Changes of Gross AFS reserves is the difference between AFS reserves, gross of tax as at 31 December of two years immediately preceding the current assessment year and the AFS reserves, gross of tax, as at 31 December of one year immediately preceding the current assessment year.
Total assets	Family Fund Balance Sheet, Form FT3-2, as specified in the Guidelines for TOSS	Total assets refer to total assets of the takaful funds, where takaful funds includes ordinary family, annuities and investment linked.

Score Range:

Investment Yield	
Range of Results	**Score (%)**
Investment Yield > GII + 150bp	15
GII + 75bp < Investment Yield ≤ GII + 150bp	10
GII ≤ Investment Yield ≤ GII + 75bp	5
Investment Yield < GII	0

Appendix 10

OPERATIONAL AND SUSTAINABILITY MEASURE - GENERAL AND FAMILY TAKAFUL BUSINESSES

Expense Gap Ratio

Formula:

$$\text{Expense Gap Ratio} = \frac{\text{Management expenses + Commission expenses}}{\text{Earned wakalah fees + Mudharabah surplus transfer}} \times 100\%$$

Note:

(i) Earned wakalah fee refers to the total earned wakalah fee charged by the takaful operator.

Data Requirement	Source of Information	Remarks
Management expenses	Income Statement, Form GT2/FT2, as specified in Guidelines for TOSS.	Management expenses refer to the expenses incurred for shareholder fund and takaful funds where: (i) Shareholders' fund refers to all expenses relating to shareholders and corporate affairs. (ii) Takaful funds refer to all expenses relating to takaful business other than commission that are borne by the shareholders.
Commission expenses	Income Statement, Form GT2/FT2, as specified in Guidelines for TOSS.	Commission expenses refer to the expense incurred for general takaful fund and family takaful fund where: (i) General takaful fund refers to commissions paid or payable to the intermediaries on direct general takaful business. (ii) Family takaful fund refers to commission paid or payable to the intermediaries on direct family business. It aggregates gross commission on direct family business and agency-related expenses that include ordinary family, investment linked and annuities.
Data Requirement	**Source of Information**	**Remarks**
Earned wakalah fee = Wakalah fee – changes of expense liabilities	Income Statement, Form GT2/FT2, as specified in Guideline for TOSS.	Wakalah fee refers to fees charged by a Takaful Operator that adopt the wakalah (agency) concept in its takaful business.

	Form M of the RBCT Framework - Reporting Form for shareholder fund's expense liabilities for general takaful business as at reporting period. Form L1 of the RBCT Framework - Reporting Form for shareholder fund's expense liabilities for family takaful business as at reporting period.	Changes of expense liabilities refer to the increase or decrease within the preceding assessment year of the shareholder fund's expense liabilities*. The difference between gross expense liabilities after zerorisation as at 31 December of two years immediately preceding the current assessment year and gross expense liabilities after zerorisation as at 31 December of one year immediately preceding the current assessment year. *Expense liabilities is the expected future expenses payable from the shareholders' fund in managing the takaful funds.
Mudharabah surplus transfer	Other supporting information	Mudharabah surplus transfer refers to surplus transferred from takaful funds in relation to mudharabah agreements only.

Score Range:

Expense Gap Ratio	
Range of Results	**Score (%)**
Expense Gap Ratio ≤ 105.00%	20
105.00% < Expense Gap Ratio ≤ 115.00%	14
115.00% < Expense Gap Ratio ≤ 120.00%	7
Expense Gap Ratio > 120.00%	0

ILLUSTRATION 1: COMPUTATION OF FREE CAPITAL INDEX

Takaful Operator A

	Four (4) Quarters Within the Preceding Assessment Year			
	31 March	30 June	30 September	31 December
Capital Adequacy Ratio	200.00%	210.00%	190.00%	220.00%

Individual Target Capital Level: 200%

$$\text{Free Capital Index} = \frac{\text{Capital adequacy ratio (\%) *}}{\text{Individual target capital level (\%)}}$$

$$\frac{(200.00\% + 210.00\% + 190.00\% + 220.00\%) / 4}{200\%}$$

$$= \frac{205.00\%}{200\%}$$

$$= \mathbf{1.03}$$

** Average CAR of four (4) quarters within the preceding assessment year.*

As a result, Takaful Operator A will be allocated at the free capital index range of **1.00 to 1.10**.

ILLUSTRATION 2: COMPUTATION OF GROSS CONTRIBUTION GROWTH RATE

Takaful Operator B

Gross contributions for 2015 (RM' 000):	620,000
Gross contributions for 2014 (RM' 000):	560,000
Gross contributions for 2013 (RM' 000):	520,000
Gross contributions for 2012 (RM' 000):	480,000

$$\text{Gross Contribution Growth Rate} = \frac{[\text{Gross contributions (t)} - \text{Gross contributions (t-1)}]}{\text{Gross contributions (t-1)}} \times 100\%$$

One Year Immediately Preceding the Current Assessment Year (t)

$$\begin{aligned}\text{Gross Contribution Growth Rate} &= \frac{(\text{RM620 million} - \text{RM560 million})}{\text{RM560 million}} \times 100\% \\ &= \frac{\text{RM60 million}}{\text{RM560 million}} \times 100\% \\ &= \mathbf{10.71\%}\end{aligned}$$

Two Years Immediately Preceding the Current Assessment Year (t-1)

$$\begin{aligned}\text{Gross Contribution Growth Rate} &= \frac{(\text{RM560 million} - \text{RM520 million})}{\text{RM520 million}} \times 100\% \\ &= \frac{\text{RM40 million}}{\text{RM520 million}} \times 100\% \\ &= \mathbf{7.69\%}\end{aligned}$$

Three Years Immediately Preceding the Current Assessment Year (t-2)

$$\begin{aligned}\text{Gross Contribution Growth Rate} &= \frac{(\text{RM520 million} - \text{RM480 million})}{\text{RM480 million}} \times 100\% \\ &= \frac{\text{RM40 million}}{\text{RM480 million}} \times 100\% \\ &= \mathbf{8.33\%}\end{aligned}$$

3-Year Weighted Average

$$\begin{aligned}\text{Gross Contribution Growth Rate} &= [50\% \times \text{growth rate (t)}] + [30\% \times \text{growth rate (t-1)}] + [20\% \times \text{growth rate (t-2)}] \\ &= [50\% \times 10.71\%] + [30\% \times 7.69\%] + [20\% \times 8.33\%] \\ &= \mathbf{9.33\%}\end{aligned}$$

As a result, Takaful Operator B will get a score of **25%** under the gross contribution growth rate indicator.

ILLUSTRATION 3: COMPUTATION OF BUSINESS DIVERSIFICATION RATIO

Takaful Operator C

As at 31 December of the Preceding Assessment Year	RM' 000
Provision of risk margin for adverse deviation	120,000
Fund provision of risk margin for adverse deviation	100,000

$$\text{Business Diversification Ratio} = \frac{\text{Provision of risk margin for adverse deviation} - \text{Fund provision of risk margin for adverse deviation}}{\text{Provision of risk margin for adverse deviation}} \times 100\%$$

$$= \frac{\text{RM120 million} - \text{RM100 million}}{\text{RM120 million}} \times 100\%$$

$$= \mathbf{16.67\%}$$

As a result, Takaful Operator C will get a score of **7%** under the business diversification ratio indicator.

ILLUSTRATION 4: COMPUTATION OF RECEIVABLE RATIO

Takaful Operator D

As at 31 December of the Preceding Assessment Year	RM' 000
Gross contributions	180,000
Takaful receivables	
Total outstanding contributions and agents' balances *	15,000
Total amount due from retakaful/ceding companies **	15,000
Total takaful receivables	30,000

** Only includes outstanding balances more than 60 days.*

*** Only includes amount due more than 90 days.*

Receivable Ratio

$$= \frac{\text{Takaful receivables}}{\text{Gross contributions}} \times 100\%$$

$$= \frac{\text{RM30 million}}{\text{RM180 million}} \times 100\%$$

$$= \mathbf{16.67\%}$$

As a result, Takaful Operator D will get a score of **5%** under the receivable ratio indicator.

ILLUSTRATION 5: COMPUTATION OF LOSS RATIO

Takaful Operator E

As at 31 December of the Preceding Assessment Year	RM' 000
Earned contribution income	95,000
Net claims incurred	50,000

$$\text{Loss Ratio} = \frac{\text{Net claims incurred}}{\text{Earned contribution income}} \times 100\%$$

$$= \frac{\text{RM50 million}}{\text{RM95 million}} \times 100\%$$

$$= \underline{\underline{\mathbf{52.63\%}}}$$

As a result, Takaful Operator E will get a score of **7%** under the loss ratio indicator.

ILLUSTRATION 6: COMPUTATION OF NEW BUSINESS GROWTH RATE

Takaful Operator F

	New Business Contributions		
Year	Single Contributions (SC)	Annual Contributions (AC)	Annual Contributions Equivalent (ACE) [(SC x 10%) +AC]
	(RM' 000)		
2015	20,000	130,000	132,000
2014	20,000	125,000	127,000
2013	10,000	120,000	121,000
2012	10,000	100,000	101,000

$$\text{New Business Growth Rate} = \frac{[\text{New business contributions (t)} - \text{New business contributions (t-1)}]}{\text{New business contributions (t-1)}} \times 100\%$$

One Year Immediately Preceding the Current Assessment Year (t)

$$\text{New Business Growth Rate} = \frac{(\text{RM132 million} - \text{RM127 million})}{\text{RM127 million}} \times 100\%$$

$$= \frac{\text{RM5 million}}{\text{RM127 million}} \times 100\%$$

$$= \mathbf{3.94\%}$$

Two Year Immediately Preceding the Current Assessment Year (t-1)

$$\text{New Business Growth Rate} = \frac{(\text{RM127 million} - \text{RM121 million})}{\text{RM121,000}} \times 100\%$$

$$= \frac{\text{RM6 million}}{\text{RM121 million}} \times 100\%$$

$$= \mathbf{4.96\%}$$

Three Years Immediately Preceding the Current Assessment Year (t-2)

$$\text{New Business Growth Rate} = \frac{(\text{RM121 million} - \text{RM101 million})}{\text{RM101 million}} \times 100\%$$

$$= \frac{\text{RM20 million}}{\text{RM101 million}} \times 100\%$$

$$= \mathbf{19.80\%}$$

3-Year Weighted Average

New Business Growth Rate = [50% x growth rate (t)] + [30% x growth rate (t-1)] + [20% x growth rate (t-2)]

= [50% x 3.94%] + [30% x 4.96%] + [20% x 19.80%]

= **7.42%**

As a result, Takaful Operator F will get a score of **16%** under the new business growth rate indicator.

ILLUSTRATION 7: COMPUTATION OF BUSINESS CONCENTRATION RATIO

Takaful Operator G

As at 31 December of the Preceding Assessment Year	RM' 000
Regular contributions – New certificates	300,000
Single contributions – New certificates	180,000

$$\text{Business Concentration Ratio} = \frac{\text{New business regular contributions (t)}}{\text{New business single contributions (t)}} \times 100\%$$

$$= \frac{\text{RM300 million}}{\text{RM180 million}} \times 100\%$$

$$= \mathbf{166.67\%}$$

where,
t = one year immediately preceding the current assessment year.

As a result, Takaful Operator G will get a score of **20%** under the business concentration ratio indicator.

ILLUSTRATION 8: COMPUTATION OF BUSINESS CONSERVATION RATIO

Takaful Operator H

Type of Contributions	t-1 (2014)	t (2015)
	RM' 000	
First year contributions:		
Ordinary Takaful	15,000	
Annuity	10,000	
Investment-linked risk fund	15,000	
Total	**40,000**	
Renewal contributions:		
Ordinary Takaful	70,000	73,000
Annuity	30,000	32,000
Investment-linked risk fund	90,000	95,000
Total	**190,000**	**200,000**

$$\text{Business Conservation Ratio} = \frac{\text{Renewal contributions (t)}}{\text{Renewal contributions (t-1) + First year contributions (t-1)}} \times 100\%$$

$$= \frac{\text{RM200 million}}{\text{RM190 million + RM40 million}} \times 100\%$$

$$= \underline{\underline{\mathbf{86.96\%}}}$$

where,
t = one year immediately preceding the current assessment year; and
t-1 = two years immediately preceding the current assessment year

As a result, Takaful Operator H will get a score of **20%** under the business conservation ratio indicator.

ILLUSTRATION 9: COMPUTATION OF INVESTMENT YIELD

Takaful Operator I

Balance Sheet	t-1(2014) RM' 000	t(2015) RM' 000
Total assets	700,000	600,000

where,
t = one year immediately preceding the current assessment year; and
t-1 = two years immediately preceding the current assessment year

Revenue Account: As at 31 December of the Preceding Assessment Year	RM' 000	RM' 000
Net capital gains/loss:		
Profit on disposal of securities and properties	13,000	
Loss on disposal of securities and properties	1,000	
Net		**12,000**
Accretion of discounts on securities	0	
Amortisation of premiums on securities	1,000	
Net		**-1,000**
Unrealised capital gain	1,000	
Unrealised capital loss	1,000	
Net		**0**
Write back of diminution in value of corporate securities and other investments	1,000	
Diminution in value of corporate securities and other investments	6,000	
Net		**-5,000**
Gross AFS reserves – Two years immediately preceding the current assessment year	2,000	
Gross AFS reserves – One year Immediately preceding the current assessment year	1,000	
Net		**1,000**
Total net capital gains		7,000
Net investment income		23,000

The average GII 5-year Spot Rate as at last trading date of each quarter within the preceding assessment year is 3.75% as shown in the table below:

31 March	30 June	30 September	31 December	Average
3.70%	3.70%	3.80%	3.80%	3.75%

$$\text{Investment Yield} = \frac{2 \times [\text{Net Investment Income (I)} + \text{Net Capital Gains or Loss (C)}]}{\text{Total Assets (t)} + \text{Total Assets (t-1)} - (\text{I} + \text{C})} \times 100\%$$

$$= \frac{2 \ \times \ [(\text{RM23 million} + \text{RM7 million})}{(\text{RM700 million} + \text{RM600 million}) - (\text{RM23 million} + \text{RM7 million})} \times 100\%$$

$$= \underline{\underline{\mathbf{4.72\%}}}$$

As a result, Takaful Operator I will get a score of **10%** under the investment yield indicator [scoring of the above investment yield of 4.72% is between the investment yield of 4.50% (GII of 3.75% + 75 b.p.) and 5.25% (GII of 3.75% + 150 b.p.)].

ILLUSTRATION 10: COMPUTATION OF EXPENSE GAP RATIO

Takaful Operator J

As at 31 December of the Preceding Assessment Year	RM' 000
Management expenses (a+b)	**30,000**
a. Shareholders' fund	10,000
b. General and Family takaful business	20,000
Commission expenses (a+b)	**10,000**
a. General takaful business	5,000
b. Family takaful business	5,000
Earned wakalah fees (a-b)	**25,000**
a. Total wakalah fees charged by the shareholders' fund	33,000
b. Changes of expense liabilities	
- General takaful business	3,000
- Family takaful business	5,000
Mudharabah surplus transfer	**10,000**

$$\text{Expense Gap Ratio} = \frac{\text{Management expenses + Commission expenses}}{\text{Earned wakalah fees + Mudharabah surplus transfer}} \times 100\%$$

$$= \frac{\text{RM30 million + RM10 million}}{\text{RM25 million + RM10 million}} \times 100\%$$

$$= \underline{\underline{\mathbf{114.29\%}}}$$

As a result, Takaful Operator J will get a score of **14%** under the expense gap ratio indicator.

ILLUSTRATION 11: DLST SCORING AND LEVY CATEGORISATION FOR A FAMILY TAKAFUL OPERATOR

Calculation of Total DLST Score for a Family Takaful Operator

	Criteria & Indicators	Maximum Score	Takaful Operator Score
Quantitative			
1.	Capital		
	FCI	NA	1.30
2.	Operational & Sustainability		
	(i) New Business Growth Ratio	25%	16%
	(ii) Business Concentration Ratio	20%	14%
	(iii) Business Conservation Ratio	20%	20%
	(iv) Investment Yield	15%	15%
	(v) Expense Gap Ratio	20%	14%
Total Operational & Sustainability Score		100%	79%
Total Quantitative Criteria Score (placed at M2 in Table 3: Quantitative Criteria Matrix)		**60%**	**55%**
Qualitative			
1.	Supervisory Rating	35%	10%
2.	Other Information	5%	5%
Total Qualitative Score		**40%**	**15%**
Total DLST Score		**100%**	**70%**

Based on table above, the takaful operator will be categorised in **Category 2**.

ILLUSTRATION 12: DLST SCORING AND LEVY CATEGORISATION FOR A TAKAFUL OPERATOR CARRYING ON GENERAL TAKAFUL BUSINESS WITH INSUFFICIENT QUANTITATIVE INFORMATION

Calculation of Total DLST Score for a Takaful operator carrying on general takaful business with Insufficient Quantitative Information.

Criteria & Indicators		Maximum Score	Takaful operator Score
Quantitative			
1.	Capital FCI	N/A	1.21
2.	Operational & Sustainability (i) Gross Contribution Growth Rate (ii) Business Diversification Ratio (iii) Receivable Ratio (iv) Loss Ratio (v) Expense Gap Ratio	 25% 20% 15% 20% 20%	 16% * - * - 14% 14%
Total Operational & Sustainability Score		100%	68%
Total Quantitative Criteria Score (placed at M2 in Table 3: Quantitative Criteria Matrix)		**60%**	**55%**
Qualitative			
1.	Supervisory Rating	35%	10%
2.	Other Information	5%	5%
Total Qualitative Criteria Score		**40%**	**15%**
Total DLST Score		**100%**	**70%**

Note:

* - denotes insufficient quantitative information.

Referring to paragraph 7.12 (Insufficient Quantitative Information), depicted below is the proportionate quantitative score for indicators with insufficient quantitative information (item ii and iii):

[44% / (100% - 35%)] x 35% = 24%

The table below shows the total operational and sustainability score for the takaful operator:

Description	Takaful operator Score
Quantitative score for indicators with sufficient quantitative information	44%
Add: Proportionate quantitative score for indicators with insufficient quantitative information	24%
Total Operational & Sustainability Score	**68%**

Based on total DLST score, the takaful operator will be categorised in **Category 2**.