

CHAPTER 2

LITERATURE REVIEW

2.0. Introduction

The purpose of this chapter is to provide information and understanding regarding WBPs. This chapter will provide literature regarding this subject matter. To assist readers in understanding the concept of WBPs, the first objective of this chapter is to introduce this subject matter in the context of the present study. It will analyze and dissect the underpinning theories of waqf institutions and IBPs.

The second objective of this chapter is to highlight and clarify issues related to integrating waqf institutions with IBPs concerning financial inclusion. This chapter aims to connect the missing links between these issues so that the proposed WBPs are logical and consistent in answering the research questions.

The third objective of this chapter is to clarify the research gap and conceptual framework used in this study. This conceptual framework will be used to distinguish and organize ideas for the study. It is a blueprint of the study that will guide in performing data collection and how to conduct the analysis for this study.

A systematic search performed on WBPs provided evidence that empirical research on WBPs is very limited in the current literature. A systematic database search utilizes six databases: Sage Journals, Wiley Online Library, EBSCOhost, Science Direct,

Scopus, and Emerald Premium because these databases are linked to the field of study. The search included articles available until March 2023.

Table 2.1: Systematic Search Result of Waqf Banking Products in Five Databases

Database\keywords	Sage Journals	EBSCO host	Science Direct	Scopus	Emerald Premium
Islamic Social Bank	-	20	-	1	1
IBPs Development	13	36	42	33	126
Financial Inclusion	528	942	619	149	645
Cash Waqf	4	43	8	48	74
Istibdal	3	20	-	2	16
Waqf Takaful	-	1	-	-	1
Home Financing	12	92	127	12	83
Personal Financing	26	65	342	19	481
Microfinancing	688	294	1,035	102	784
Takaful	26	294	112	249	429
Sharia Issue in WBPs	-	-	-	-	-
WBPs Financial Inclusion	-	-	-	-	-

Note: "-" means no articles were found

Source: (Developed for current studies)

Table 2.1. shows the number of articles found according to the search terms in each database. Searches using microfinancing as a keyword lead to the glut of this research, but few articles specifically address WBPs. The figures in Table 2.1. reflect the gap between the number of studies conducted for WBPs and those dealing with IBP development, financial inclusion, waqf, waqf institutions, cash waqf, waqf microfinance, IBPs, Sharia issues in IBPs, and IBIs.

2.1. Waqf, its Definition, and its Ruling from Current Literature

There have been several recent studies regarding waqf in the past few years. A study discussed issues related to cash waqf performance as a new financial instrument in Islamic economics (M. A. Mohd Thas Thaker et al., 2021). Apart from that, there was also research regarding cash waqf collection using conventional and online methods (Ab Shatar et al., 2021). Other studies regarding waqf found that cash waqf was used as an alternative to riba'-based financing (Ascarya & Masrifah, 2022). There was also research regarding cash waqf development challenges in Malaysia, financing the agricultural sector through cash waqf, and many more (Ab Shatar et al., 2021; Azganin et al., 2021; Wan Nuraihan Ab Shatar & Tahir, 2021).

Waqf can be defined as an act of holding specific property, such as moveable and immovable assets, and preserving it for the confined benefit of specific philanthropy that prevents any use or disposition of the property outside the particular objective (Al-Syirazi, 1994). Waqf applies to a non-perishable asset, the benefit of which can be extracted without consuming the property itself (Al-Syirazi, 1994; Al-Zuhaili, 1989). Moreover, waqf can also be defined as promoting donations that are gifts of productive resources to be spent for public benefit (Al-Syarbini, n.d.; Al-Zuhaili, 1989).

According to these definitions, once a person donates their asset as waqf, the property or assets will belong to Allah (SWT), and the waqif cannot take back their property. The benefits of waqf may be utilized according to Sharia for the donation to last and be enjoyed by Muslims and the local community (Al-Syarbini, n.d.; Al-Syirazi, 1994). They can benefit from the waqf property without limitation (Al-Zuhaili, 1989).

2.2.4. Cash Waqf from Current Literature

Cash waqf can be defined as the donation of a certain amount of fiat money or cash by a founder and the dedication of its usufruct in perpetuity for the prescribed purpose (Berakon et al., 2022). Cash waqf can also be defined as an endowment of an amount of money managed by mutawalli to support a diversity of charitable work financially. The collection of cash waqf will be converted to a permanent property that will then be used for the welfare and interests of the community while being managed by mutawalli (Ab Shatar et al., 2021).

Furthermore, it must be invested to have cash, and the usufruct is the profit generated from the original fund (Razak, 2020). It allows cash waqf to be invested in Islamic banking products such as Mudharabah, Musharakah, Tawarruq, etc. Some scholars explained the use of cash waqf in financing the agricultural sector through the Mudharabah contract (M. Z. M. Zabri & Mohammed, 2018b). As for the context of WBP studies, cash waqf could be one of the essential subjects to be discussed since this subject is highly related to the banking sector.

There are four parties involved in cash waqf. The first party is waqif or donors, who intend to get rewarded by Allah (SWT) by contributing part of their income or earnings as assistance to the poor through waqf institutions. The second party is the mutawallis or management team from a waqf institution, while the third party is the cash waqf investees, who receive cash waqf funds from mutawallis to generate profit to help the poor. The final party consists of the beneficiaries, who will receive the profit earned from the waqf investment (A. Z. Osman & Agyemang, 2020). Thus, this study will use this cash waqf concept to develop WBPs.

2.1.2. Waqf Classification

Generally, waqf can be categorized into two types, and one of them is known as waqf khayriy, which is the type of waqf solely created for charities. Another is waqf zurriy, which is family waqf. Waqf khayriy is further classified into two categories, known as general waqf and specific waqf. The general waqf is for charity without a pre-determined motive, condition, or beneficiaries. The specific waqf is for charity with pre-determined reasons, conditions, and beneficiaries (Asni et al., 2020a).

Waqf zurriy will benefit families. Within Waqf Zurriy, two forms of waqf for property exist. One is waqf for immovable assets such as lands and buildings that can be endowed, and the other is for movable property such as cash and shares. For immovable property, Muslim scholars agreed that it is legitimate because it meets the main principles of waqf, which require it to be permanent (Omar & Muda, 2018). The classification of waqf will be a good guideline for this study since the WBP model is directly involved with waqf classification.

2.1.3. Istibdal

Istibdal is the act of replacing a waqf property with another property. It is a matter residing within the subject of ijihad. There is no precise reference to the acceptability of the subject matter or the prevention. The jurists' understanding of istibdal lies in ensuring the eternity of the waqf asset and its stability to serve beneficiaries. Both should be in line with the native goals of the waqif (Asni et al., 2020a).

As far as the goal is concerned, it is clear that the benefits from an asset should come first. Istibdal is the substitution of an idle waqf asset for a more effective form of

asset (M. A. M. T. Thaker et al., 2018). At present, the matters of perpetuity and inalienability of waqf land are the main problems to the development of waqf property, thus affecting its involvement in improving the welfare of the Muslim community (Abi Muhammad Muwafaq al-Dīn ‘Abd Allah bin Qudāmah al-Maqdisiy, 1998).

The jurists have approved the usage of istibdal because the new waqf asset is more beneficial than the former (Asni et al., 2020a). By improving the waqf asset's benefits, it will be in line with the task and meet the purpose that was intended by the waqif. Consequently, the need to replace such waqf property is allowed and officially permitted (Al-Burnū, 2002).

However, the sale of waqf property should only be made in a state of extreme inevitability (darurah), and there is no other option. Nevertheless, to conserve the value of the waqf property, it must be executed cautiously. The disposal shall be completed within the authority conferred by the government. Attention should be taken to guarantee the contribution of the waqif through the idea that a waqf property still exists and benefits the beneficiaries. This fact is supported by Hanbali scholars who approved the sale of unusable waqf property. It is because the istibdal of waqf property cannot be done with useless property (Wahbah al-Zuhayliy, 1989).

In administering waqf property, mutawalli has the optional authority to shape a decision. In this case, the pronouncements taken by the mutawalli should be based on the interests of the Muslim community. The fiqh rule stated on the matter says that an action by the authorities is based on the interest of the Muslim community. Based on this law, every decision by the mutawalli should always be in the essence of safeguarding benefits

and avoiding harm (Pitchay et al., 2018). Another ethical guideline for the WBP model study is that waqf is the primary context for studies.

In the context of the Shafi'i school, *istibdal* is prohibited because it involves the exchange of property, which entails the sale of property, a gift, or anything that results in the transfer of ownership to a third party (Asni et al., 2020a). However, this opinion is not shared by all Shafi'i school jurists. Another view held by the Shafi'i school that is considered definitive requires the transfer of waqf property (Asni et al., 2023).

Examples described in the books of *fiqh* include a damaged masjid minbar or broken pillars that have reached the point where they can no longer be used and are only suitable for burning. It can be sold for this purpose, and the proceeds can be used for the benefit of the masjid. The guiding principle is to avoid squandering waqf property, even if it necessitates selling the property and replacing it with another or applying the proceeds according to the original waqf (Mohammed Noor et al., 2023).

While there is disagreement among Shafi'i school jurists regarding the necessity of selling movable property to use it for other beneficial purposes, there is a consensus regarding the necessity of selling immovable property. Considering the current discourse, the Shafi'i school of law is predicated on the principle that the status of waqf property cannot be altered or transferred to a third party (Asni et al., 2020a).

This is evident in their view of the case of a collapsed masjid, as they believe that the site can still be utilized (Asni et al., 2023). It signifies that as long as it is usable, it must be maximized. Regarding the application of the principles of waqf law to movable property, however, there are differences of opinion among the school's jurists. Considering

the beliefs of the Shafi'i sect as discussed previously, it is too challenging to develop abandoned waqf property in Malaysia (Asni et al., 2023).

Before the fatwa requiring istibdal was issued in Malaysia, the prevalent view was based on the Shafi'i school. This circumstance has impeded the development of waqf property founded on istibdal. Several new fatwas were issued requiring istibdal to be based on the Hanafi or Hanbali schools of thought, both of which are based on *maslahah*, as a result of the country's later development (Asni et al., 2020a).

2.2. The Waqf Banking Product in the Study Context

The study of the products of waqf institutions is a new area in the academic world. Thus, the literature on this subject matter can be traced back to 2014. Only a few pieces of literature regarding waqf institutions' products were found. Most of the literature regarding waqf institution products discussed waqf microfinancing for the poor (R. Abdullah & Ismail, 2014; Kachkar, 2017; M. A. Bin Mohd Thas Thaker et al., 2016; M. A. B. M. T. Thaker, 2018a). Thus, this type of product can be applied by WBPs to address the financial inclusion problem in Malaysia.

However, some literature discusses waqf *takaful* (Said Adekunle Mikail, Muhammad Ali Jinnah Ahmad, 2017), waqf home financing products, and (S. Sulaiman et al., 2019) waqf microfinancing products (Apnizan Abdullah & Yaacob, 2012; Ihsan & Hameed Hj. Mohamed Ibrahim, 2011; Mahat et al., 2015b; M. A. B. M. T. Thaker, 2018c). The information recorded in this subtopic will be a good reference for developing the conceptual framework for the study. A brief discussion regarding WBPs will be provided in the following subsection.

2.2.4. Assessing the Theory of Islamic Banking Product Development to be Applied in Waqf Banking Products Development

Only Islamic banks benefit from the Islamic Banking Index's positive contribution to asset returns. It has a particularly significant impact in countries with higher Islamic financial development. Shifting away from interest-based products can improve the performance of both commercial and investment banks without increasing their risk levels (Dinc, 2020).

The two competing banking models, conventional and Islamic banking, are being scrutinized in this study. Because of the superior performance of Islamic banks during the financial crisis, the Islamic banking model has received intensified awareness. The vast majority of empirical studies compare the various determinants of performance in Islamic and conventional financial institutions (Dinc, 2020).

Non-interest income and expenses are used to calculate an Islamic Banking Index, which is positive for Islamic banks but negative for conventional banks. The Islamic banking model does not allow interest payments, whereas the conventional banking model depends on interest rates. As a result of the Islamic products developed by Islamic scholars, interest payments have been replaced by fees and contingent payment structures (Dinc, 2020).

It has been shown that the Islamic Banking Index has a significant positive impact on the performance of Islamic financial institutions. Although Islamic banking has a small market share, its growth rate is exceptionally rapid compared to the rest of the global financial sector. It is possible for an Islamic financial system that has matured to provide a favorable operating environment for Islamic banks and their operations (Dinc, 2020).

Banks can provide financing for a wide range of projects, such as infrastructure upgrades and businesses that contribute to economic diversification and job creation. These financial institutions can also provide better access for credit to the private sector. In addition to refraining from charging interest, Islamic banks must adhere to several other principles in Islamic banking (N. M. Abdullah, 2020).

These include refraining from speculating (gharar), gambling (maysir), oppression (zulm), and investing in industries that are prohibited by Islamic law (haram). The Islamic financial system, which includes Islamic banks, is governed by the law of commerce, known as fiqh al-muamalat (financial Islamic transaction). In Islamic banking, the customer and the bank share the risk if the bank suffers a financial loss due to an unexpected business failure (N. M. Abdullah, 2020).

Contracts for the sale or leasing of goods generate revenue. Charges for late payments on delayed payments will be considered bank income. In addition, contributions to a charity fund established by the bank's Sharia Board will not be considered income. Customer and bank relationships are similar to seller-buyer and partner relationships (N. M. Abdullah, 2020).

In this type of agreement, both parties are responsible for the profits and losses generated by the business. If the loss occurs due to the owner's negligence, the entrepreneur's loss is shared by both parties. The lease makes no distinction between normal wear and tear and losses caused by the customer's negligence or the bank's (N. M. Abdullah, 2020).

The two competing banking product models, conventional and Islamic banking, are being scrutinized in this investigation. Over the past few years, there has been

a significant increase in research conducted on Islamic banking and finance. However, for various plausible reasons, empirical evidence about the Islamic banking model remains insufficient based on its ideology (Ahsan & Qureshi, 2021).

The product models of conventional and Islamic banks are opposed, at least theoretically. The most significant distinction is an element of interest in business transactions. In practice, Islamic products developed by Islamic scholars are very similar in structure to conventional banking products. When a bank engages in interest-based transactions, the Islamicity of the institution is called into question (Ahsan & Qureshi, 2021).

There was a statistically significant positive correlation between the Islamic Banking Index and the return on assets for both Islamic and conventional banks. Islamic banks face less competition and have higher liquidity and capital ratios than their conventional counterparts. The Islamic banking index and bank performance had a positive but insignificant relationship (Ahsan & Qureshi, 2021).

The developed stock market provides financing opportunities for businesses while also reducing the performance of financial institutions. For the Islamic banking industry to thrive, a supportive policy framework in a society that internalizes the value system of non-interest-based financial products is required (Ahsan & Qureshi, 2021).

Studies in Bangladesh have initiated green banking product initiatives by various financial institutions. Green banking product initiatives were becoming more digital due to computerization, networking, and online banking. Conventional and Islamic banks are obligated to provide financing for these projects and facilities. For future generations to enjoy a better living environment, the primary goal of green banking is to

preserve the environment and surrounding areas by being as cost-effective as possible in every deed and transaction today (Julia & Kassim, 2020).

2.2.4. Microfinance

Waqf microfinance can be defined as a small-scale financial product that uses cash waqf as its source of funds (U. H. Umar et al., 2022; Zauro et al., 2020). As cash waqf cannot be directly channeled to financing products, it must be converted into fixed assets such as shop lots, office buildings, etc. Then, the rental income proceeds from waqf assets will be channeled to waqf microfinance as their source of capital (Azrai Azaimi Ambrose & Abdullah Asuhaimi, 2021).

Hussein Kakembo et al. (2021) suggested that financial institutions that offer waqf microfinance should be focused on financing the poor and used as a tool for financial inclusion. They also indicated that nonperforming loan problems could be solved by using group-based lending.

Other than that, Mohd Thas Thaker (2018a) recommended the Musharakah Mutanaqisah model for waqf microfinance in financing SMEs and microenterprises. Moreover, waqf microfinance can also apply the Mudharabah and Qard Hasan models for financing the poor and, thus, financial inclusion (M. A. B. M. T. Thaker, 2018a). As for WBP development, this model can be the guideline for establishing waqf microfinance.

The idea of using microfinance institutions to reduce poverty accelerated when Nobel laureate Dr. Yunus of Grameen Bank of Bangladesh introduced the concepts of group lending, peer pressure, and collateral-free loans in the 1970s (Bongomin et al., 2020). These concepts helped millions of poor people around the world, especially women,

through collateral-free loans provided by thousands of microfinance institutions (MFIs) (Aljuwaiber, 2020; Asencios-Gonzalez et al., 2018; Atiase et al., 2019; Bansal & Singh, 2019; Bongomin et al., 2020; Goel & Madan, 2019; Quagraine et al., 2020; Salia et al., 2018).

However, despite the seemingly overwhelming success that MFIs had in eliminating poverty, researchers like Alaro and Alalubosa (2019), Prijadi et al. (2020), Quagraine et al. (2020), and Kassim and Rahman (2018) raised specific issues to address. These issues include high interest rates, default rates, debt, and social unrest. Not to mention, the Islamic point of view on interest is non-tolerant. These issues raised the question of whether MFIs had effectively helped the poor and needy.

Furthermore, the studies stress the need for innovation of MFIs in owners, donors, fund-raising, regulatory frameworks, and governance structures to address the issues. According to Alaro and Alalubosa (2019), loans are only one of the many ways to eliminate poverty. Other methods should also be explored through the novel conceptualization of the community and an institutional framework built on the said concepts (Chowdhury et al., 2019).

Microfinance, in its essence, is to provide B40 with the necessary deposits, loans, and payment services, among others. Traditional banks and financial institutions usually reject people with low incomes due to the high risk of default (Kassim & Rahman, 2018; Knewton & Qi, 2018; Tadele, 2020). Small loans are also scarce because of their high processing and monitoring costs. In the case of small businesses, their financial performance became a topic for debate in policy and academia.

A major hurdle that all businesses have to endure is obtaining the needed funds and start-up resources, which could also have an extreme impact on their future growth prospects. Aside from alleviating poverty, microfinance has also proven to be a tool that advances Muslim empowerment (Alaro & Alalubosa, 2019; Asencios-Gonzalez et al., 2018; M. A. B. M. T. Thaker, 2018a).

MFIs use the concepts of peer pressure and group lending to operate. According to Postelnicu et al. (2019), group loans result in higher repayment rates while providing low-information-cost loans under certain conditions. However, microfinancing programs also require immediate repayment from any source of income, such as *Kashf* in Pakistan (Rashid & Ejaz, 2019).

In reality, these loans are paid from the borrowers' general family income instead of the business for which the loan was granted (Abdul Zalim, 2022; Babajide et al., 2022; Rokhman & Abduh, 2020). Therefore, the borrowers' financial situation needs to be considered in constructing a loan repayment policy (N. M. Bakar et al., 2020). It shows that although microfinancing is created to reduce poverty, there are cases with contradictory results (U. B. Umar et al., 2022). For example, economists like Costa et al. (2022), Gupta and Sharma (2021), and Mohd Thas Thaker et al. (2021) question the effectiveness of microfinance.

Microfinance programs (MFPs) in Bangladesh rely on government subsidies and foreign funding. Therefore, if these sources are terminated, it is likely that most Microfinance Institutions (MFIs) will not hold out (Tamanni & Haji Besar, 2019). Furthermore, they also claimed that the MFPs did not reach the poverty-stricken part of society—nearly a quarter of the rural population. Because of this, loans in rural areas that

are primarily agriculture-related often rely on independent moneylenders or intermediaries (Chowdhury et al., 2019).

In hindsight, the MFPs did not result in any significant difference in the financial situation of the poor in Bangladesh. The study conducted a cross-sectional survey between families under the MFPs and families that were not MFPs. The result showed no significant difference in the financial situation between the two groups (Ülev et al., 2022; Zainal et al., 2020).

The MFPs did increase the number of women in the labor force as they encouraged women to take loans (M. S. Islam, 2021; Ranabahu & Tanima, 2022). However, some questioned the motive for favoring women when men also have a high unemployment rate. Besides that, loans taken by women are also spent by men, which contradicts the purpose (A. Islam & Pakrashi, 2020).

Most of the microfinance NGOs in Bangladesh's rural areas charge nearly 30% of the interest rate on loans. Grameen Bank, the head of microfinance in Bangladesh, has an interest rate higher than 50% of the loan itself, considering all hidden charges. It shows how high an interest rate the banks are charging in Bangladesh. Barely any banking business produces that much profit. Besides that, impoverished people cannot even be considered microfinance clients as they would not repay the loans (I. Hossain et al., 2019; Muneer & Khan, 2022; Uddin et al., 2020).

Aside from the high interest rates, there is also social unrest since Islam forbids any form of interest (Syedah Ahmad et al., 2020). From the Islamic perspective, profits need to have an underlying sense of honesty and fairness as they involve sharing the risks and rewards. Global donor organizations such as the United Nations Development

Programme (UNDP) in Muslim countries advocate the use of Mudarabah (partnership) and Murabahah (cost-plus financing). This contract in financial services is more associated with return rates than time (El-Mubarak & Mohamed, 2019).

Studies have reviewed microfinance's practicality in Muslim countries (B. Hossain, 2019). Several countries have successfully used the microfinance model to provide noninterest-based financing. These countries include Bangladesh, Afghanistan, Syria, Australia, and Indonesia (Almohamed & Cheikh, 2018; Arbolino et al., 2018; B. Hossain, 2019; Jasuni et al., 2018). To effectively reduce poverty, monetary waqf (benevolent fund) considers the financial situation of the poor. Trade-based financial instruments can help the poor who are economically active. As for financially inactive families to effectively support the family.

Waqf authorities around the world established the cash waqf concept to raise funds. These funds are then distributed to diverse waqf businesses. Some cash waqf concepts introduced include waqf share models, takaful waqf models, and corporate cash waqf models. In Malaysia, MFPs such as Amanah Ikhtiar Malaysia (AIM) and Islamic pawnbroking (Ar-Rahnu) are used to finance small businesses and help the poor (Azman et al., 2020).

AIM was introduced in 1987 to help the poor in Malaysia and has managed to hand out more than RM2 billion in loans to its clients. Ar-Rahnu, on the other hand, mainly obtained clients from middle-income women who safely kept their gold in Ar-Rahnu in exchange for borrowing money. The women would also have to pay a management fee to keep their gold in ar-Rahnu (Thaker, Hassanudin Mohd Thas, Ahmad Khaliq, Mohamed Asmy Bin Mohd Thas Thaker, & Anwar Bin Allah Pitchay, 2020).

Researchers have proposed integrating the waqf concept into Islamic Microfinance. It guarantees values such as justice, fairness, and social harmony are integrated into Islamic Microfinance. Some also underline the potential for waqf-based MFIs to eliminate poverty. Poor borrowers could quickly obtain loans from zakah, cash waqf, and Qard al-Hassan as they are all sustainable sources of funds (Rana et al., 2020).

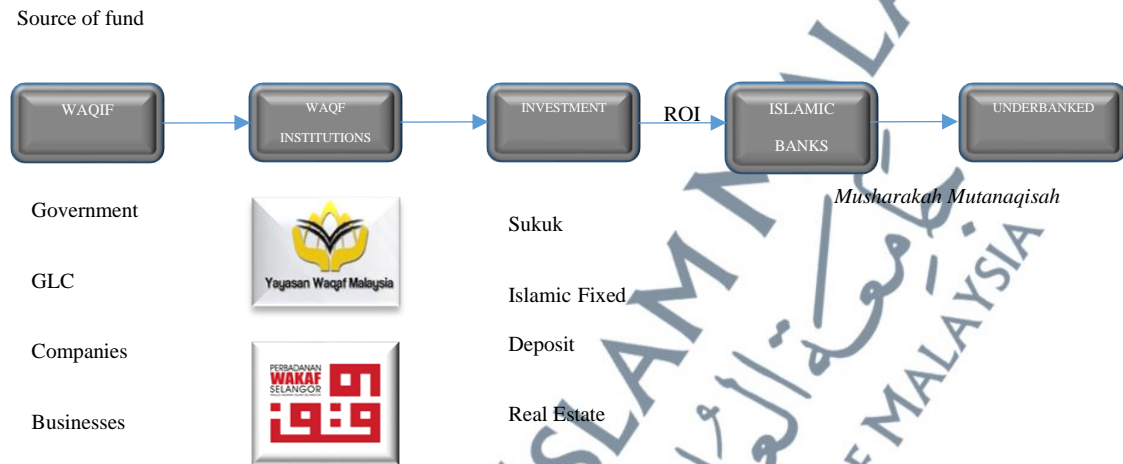
Typical Islamic microfinance institutions can face many challenges, such as a shortage of funds, low staff wages, and staff quitting their jobs (Odoom et al., 2019). In the long run, these obstacles could lead to increased loan defaults and lower income for the institutions (Nabi et al., 2018). Therefore, the sustainability of waqf-based Islamic MFIs could help address the institutions' issues.

Although it is debatable, waqf-based MFIs could potentially use cash waqf as capital and provide Sharia-compliant saving facilities for the community using the concept of mudharabah. Furthermore, in the case of loan default, beneficiaries could use the takaful reserve for aid. Thaker (2018) suggested an integrated model for waqf microfinancing to improve the financial accessibility of underbanked people.

This model provides a financial facility for the underbanked person through cash waqf funds. The first part of this model involves a contract between waqf and Islamic banking institutions to generate waqf funds and jointly manage the fund. In collecting waqf funds, waqf institutions are responsible for advertising and collecting the waqf fund from various backgrounds such as individuals, companies, governments, etc. The waqf fund then will be invested in Sharia-compliant investments (M. A. B. M. T. Thaker, 2018a).

The second part of this model is channeling the ROI from waqf investment funds through the musharakah mutanaqisah contract. This part will involve Islamic banking

institutions providing financial facilities to underbanked people to finance their entrepreneurial activities. Since the fund is a waqf fund, Islamic banks do not have to impose a high profit rate on the customer (M. A. B. M. T. Thaker, 2018a).



Source: (Thaker, 2018)

Figure 2.1: Waqf Microfinancing Model from Current Literature

2.2.4. Takaful

In favor of Malaysian financial inclusion, takaful products need to be developed for the poor (Fikri et al., 2022). The development of takaful products needs to be affordable and offer the attractive coverage required by the poor (Salman et al., 2019). Therefore, the takaful product provided must be a “takaful-friendly” type of product with good coverage (Khana et al., 2020).

Takaful management is an Islamic form of insurance based on the tenets of cooperation, shared responsibility, and assurance. It is a Shariah-compliant insurance system that safeguards individuals and enterprises against unforeseen losses and damages.

Takaful is predicated on the principle of risk sharing among a group of individuals who contribute funds to a common pool (I. Osman et al., 2021).

Moreover, micro-takaful is an Islamic form of micro-insurance intended to protect low-income, unbanked, and underbanked communities against calculated risk (Fikri et al., 2022). In contrast to standard takaful products, which target contributors with financial competencies, micro-takaful is devoted to low-income groups that are partially or wholly excluded from recognized takaful products due to their financial constraints (Bangaan Abdullah et al., 2021).

Only a few waqf takaful pieces of literature were found in the academic world. For example, Noorhidayu et al. (2020) discussed the application of waqf funds to microtakaful products. They also discussed waqf takaful modeling for financial aid for B40 in Malaysia. Other than that, Rodríguez-Moreno and Germán (2018) discussed a waqf-based takaful model as a challenge for takaful service providers.

The takaful industry faces significant growth around the globe during the current expansion of Islamic financial services (Nugraheni & Muhammad, 2019). The takaful industry is estimated to grow more rapidly than conventional insurance (Abbas et al., 2018). Thus, the ability of takaful products or micro-takaful in Malaysia needs to be explored, and this is a good area of research to be added to WBP research.

Furthermore, waqf takaful also needs adequate supervision to comply with IFSA 2013. Takaful business includes life takaful protection, non-life takaful protection, and family takaful protection. The bright side of takaful products is that no specific company form is required to operate a takaful business. It means SIRC can also offer takaful products to Malaysians (Zakaria et al., 2019).

Takaful insurance, or protection, was formed to eradicate all prohibited elements according to Sharia law (Salman et al., 2019). Takaful protection was developed to give Muslims an alternative to avoid riba', gharar, and maysir, which are practices in conventional insurance. Takaful is based on the principle of the tabarru' fund, which helps one another when one is in trouble or in need (H. A. Hassan, 2019a). The takaful industry is new on the world market; it is only about 41 years old. The first takaful operator was established in Sudan in 1979 (Shabbir & Malik, 2020).

Takaful protection was demonstrated to be the fastest-growing protection in the insurance market, with sustainable growth for several consecutive years (Eldaia et al., 2022; I. Osman et al., 2021). Takaful protection has a potential premium for takaful worldwide of at least \$20 billion, and it is projected that 20% of the takaful contributors or revenue is obtained from non-Muslims. The establishment of takaful and re-takaful operators in Germany, the United States, and the United Kingdom is a crucial contributor to the growth of the worldwide takaful industry (Muryanto, 2022). Moreover, the demand for takaful products is increasing globally due to the development of various takaful operators in the Islamic capital market (Akhter et al., 2021; Sukmaningrum et al., 2022).

In contrast, the Malaysian takaful industry that emerged in the early 1980s was encouraged by Malaysian Muslims. They demand alternative insurance protection that does not have any prohibited elements as a conventional insurance practice (Ghani et al., 2018). The Malaysian government has formed a special unit to study the issue, setting up a takaful cooperative (Zakaria et al., 2019). Due to this action by the Malaysian government, the Takaful Act 1984 was established, and thus the first takaful operator was

formed in Malaysia (Alkhan & Hassan, 2020; Che Mohd Salleh et al., 2020; Fikri et al., 2022).

The Malaysian takaful industry has emerged and experienced rapid evolution and changes in the past twenty years. It starts with only one takaful operator in Malaysia with limited services and moves to several takaful operators with various products and services, from a limited product to a product that is ventured by multiple companies (Arifin & Yazid, 2018). The secret behind the success of the Malaysian takaful industry is the support of the Malaysian government, which provides guidelines for takaful operators, both local and international (Ghani et al., 2019).

The progress of the Malaysian takaful industry can be understood in many phases. In the 1980s, Malaysia experienced the birth of the first takaful company and its focus on the formation of the foundation for the industry (Ghani et al., 2019). Then, the next stage transpired in the 1990s, when multiple takaful companies emerged in the takaful market, resulting in competition and cooperation. Furthermore, introducing the Financial Sector Master Plan (FSMP) in 2001 sets a new phase. It aimed to increase the number of takaful operators and solidify the legality, Sharia, and regulatory framework (Muhamat et al., 2020).

To explain the waqf-takaful concept, it is necessary to first understand the concepts of waqf and takaful. According to the Accounting and Auditing Organization for Islamic Financial Institutions (2010) (AAOIFI 2010), takaful can be defined as the process of agreement between community groups to overcome an accident that befalls a person due to certain risks. The process involves paying participants based on charity (tabarru'). It

leads to the establishment of takaful funds in line with the concept of its entity (syakhsyah al-i'tibariyyah) (Atmeh & Maali, 2017; Mohd Zain et al., 2021).

The concept of takaful is based on the principle of tabarru', which is the participants' contribution to takaful funds. The Islamic Financial Services Act 2013 (IFSA 2013) defines takaful as an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund providing for mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of pre-agreed events. In this sense, there is little difference between AAOIFI 2010 and IFSA 2013. The difference is that it does not explain what contract occurs in the takaful contribution. It shows that the meaning of takaful, according to IFSA 2013, is more general (Mohd Ali et al., 2020; Mukhlisin & Fadzly, 2020; H. Rahman et al., 2022).

On the other hand, waqf is a property whose waqf rights are withheld from any dealings, inheritance, grants, or wills while maintaining its physical form. The benefit of the endowed property is for public welfare. According to Sharia rulings, income, earnings, or benefits from the waqf property should be used reasonably. The property no longer belongs to the waqif, cannot be taken back, and cannot be owned by anyone. It is the absolute property of Allah (SWT) (A. Z. Osman & Agyemang, 2020).

In Malaysia, there is an issue with waqf, waqf property, and waqf endowment (cash waqf). The main point is that the endowed property or waqf property must be under the supervision or care of the SIRC. SIRC is a single trustee of waqf properties. This action is in line with the Federal Constitution. It is well known that the Federal Constitution clarifies the matter of religion, or, in this case, Islamic law, which is placed under state jurisdiction as stated in Article 74 (2) (Mutalib & Maamor, 2018).

Article 74 (2), Item 1, State List, 9th Schedule of the Federal Constitution states that every state in Malaysia has the right to what is mentioned in the State List. From this statement, it is clear that matters regarding waqf fall under state jurisdiction. The provisions of waqf enactment can be referred to in the SIRC of each state, while three states have specifically enforced waqf statutes, namely, Selangor, Negeri Sembilan, and Melaka (Daud, 2019).

Therefore, based on the laws in force in Malaysia, the power to offer this cash waqf product, including all management matters and its operation, must be made under the jurisdiction of SIRC (Noorhidayu et al., 2020). It follows the policy's statutory provisions, which state the jurisdiction of SIRC as the sole trustee of all waqf property, whether general waqf or special waqf, and whether it involves movable or immovable property (Daud, 2019).

Another issue is that the waqf fund that is being practiced in takaful products is a separate legal entity. The concept of a legal entity is accepted in Islamic law, referred to as syakhsyyah al-i'tibariyyah. As a result, the takaful operator or shareholder and the participant are not the owners of the takaful fund because it belongs to waqf. The takaful operator only acts as a trustee or agent to handle the endowment fund. If the waqf fund is a legal entity, it must be registered under any relevant law. It is an entity separate from the takaful institution. If the takaful institution has financial problems, it affects the endowment fund (Razak, 2020).

Also, if the waqf fund is not enough to pay compensation to the participants, who is responsible for injecting the funds into the waqf fund? According to current practice as contained in BNM's Takaful Operational Framework, if the tabarru' funds are in deficit,

takaful institutions are responsible for injecting funds based on Qard contracts (Fikri et al., 2022). What if the takaful-waqf model is created and the same practice is implemented? Whether the same Sharia issue will arise? Apart from that, the sincerity and liquidity of waqf property management in takaful are also questioned (Khana et al., 2020). Is the takaful operator reliable in managing the waqf fund, and to what extent is the waqf fund investment invested in a halal place?

On the other hand, the waqf takaful model combines takaful practice with contracts based on waqf. It means that the participant becomes a member of a takaful plan if it gives a certain amount of money as waqf. With that action, participants will benefit from a spiritual (faith and reward) and physical point of view, namely compensation when disaster strikes. The money endowed by the participants in the takaful scheme is intended to help other participants who are affected by the disaster (Che Mohd Salleh et al., 2020).

The waqf takaful model is a takaful activity where participants who want to participate in this protection shall submit a sum of money to the operator based on the principle of waqf. In the standard takaful model, the contract for delivery of the property is based on the tabarru' principle (Shabbir & Malik, 2020). Waqf funds that operate under takaful funds will also be invested under the regular takaful funds model. Waqf funds are created to achieve objectives such as channeling financial assistance to the policyholder. It is due to the policyholder, who faces disasters or hardships. Moreover, the waqf fund also provides benefits or rewards to policyholders according to what is stated in the waqf takaful contract (Abdullah et al., 2018).

Takaful operators will also earn wakalah fees on the services provided or a share of the investment profits as mudharib (Noorhidayu et al., 2020). In addition, the waqf

fund will outline the rules of profit distribution to the beneficiaries and determine how much compensation will be paid to the policyholder. The takaful operator is also the owner of the contribution and has the right to act as a legal entity to use surplus money (Muhamat & McIver, 2019).

The takaful operator will form a waqf fund by injecting or contributing a sum of money to compensate the participants. The funds will remain in the waqf fund throughout the takaful activities. The takaful operator will offer the participants money into the waqf fund (a takaful fund) (Noorhidayu et al., 2020). The waqf operators have the power to coordinate the waqf takaful funds. It reserves the right to determine the amount of compensation that can be distributed to participants (beneficiaries) in the event of a calamity (S. N. M. Ali et al., 2018; Noorhidayu et al., 2020; Zakaria et al., 2019).

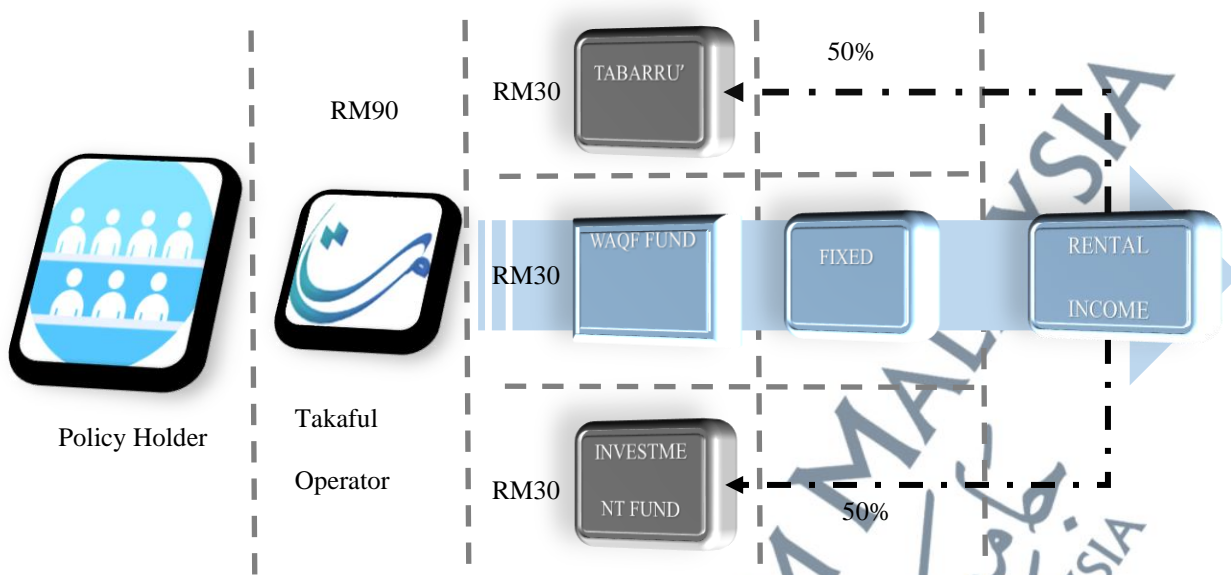
The takaful operator will invest in the waqf property, and the profits will be shared between takaful operators and waqf funds (Noorhidayu et al., 2020; Zakaria et al., 2019). The funds available in the waqf fund will be used for any claims, reserves, and re-takaful (Ghani et al., 2019). In contrast, the surplus that occurs in the waqf fund will be handed over to the participants. However, waqf takaful operations are still prone to confusion, such as investment profit sharing and surplus handed over to participants. Suppose any investment profits are re-evaluated using waqf; any surplus that occurs belongs to the waqf fund (Muhamat & McIver, 2019).

The waqf takaful model has also been successfully practiced by several countries, such as Pakistan and Africa (H. A. Hassan, 2019a, 2019b; Zakaria et al., 2019). In Malaysia, this model was introduced by Takaful Malaysia Berhad in 2002, and it only lasted until 2009 (Abdullah et al., 2018). It is possible that the waqf takaful model is not

profit-oriented, making it less attractive. Some issues will arise when this waqf takaful model is applied. These issues need to be considered and addressed so that the implementation of this waqf takaful model will run smoothly (Noorhidayu et al., 2020).

There are a few concepts for waqf takaful in the current literature. The idea of waqf takaful is to enable participants or policyholders to have regular savings to gather funds and divide that fund into a waqf fund, tabarru' fund, and an investment fund. The investment fund needs to be invested in Sharia-compliant investments so that the ROI will be pure and halal for the policyholder to use (Noorhidayu et al., 2020). According to cash waqf rulings, the policyholder will donate the money into the waqf fund and will lose the right to the donated money. This waqf fund will benefit all policyholders (I. Osman et al., 2021).

For example, let's say that the monthly premium for one waqf takaful policyholder is RM90. This premium will be divided into the waqf fund, tabarru' fund, and investment fund, which is RM30 for the waqf fund, RM30 for the tabarru' fund, and another RM30 for an investment fund. The policyholder will get protection from the tabarru' fund, an ROI on the investment fund, and a blessing from Allah (SWT) for contributing to waqf donations. Figure 2.2 of the waqf takaful model depicts the model from the current literature (Noorhidayu et al., 2020).



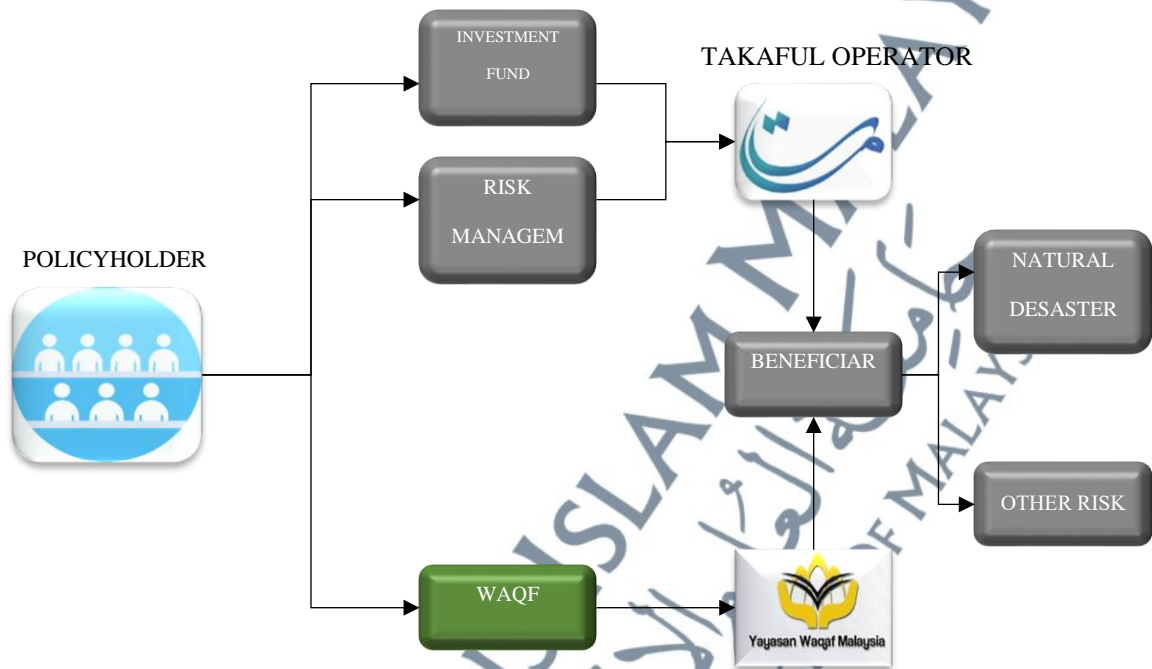
Source: (Noorhidayu et al., 2020)

Figure 2.2: Waqf Takaful Model One

The waqf fund will be converted to fixed assets such as shop lots. The proceeds from rental income can also cover the protection cost. Other than that, these rental proceeds can also cover the takaful operator's management costs, as the organization has its own operational costs. Moreover, these rental proceeds can be re-invested in an investment fund, and the policyholder will get a higher return from this waqf takaful policy (Noorhidayu et al., 2020).

Other literature also proposed a waqf-based takaful for flood victims' model, which includes flood victims as their beneficiaries. In this model, the policyholder contribution will be divided into investment, risk management, and waqf funds. YWM will manage the waqf fund, and the takaful operator will handle the other fund. Even though this model includes flood victims as beneficiaries, that doesn't mean that policyholders

came from high-risk flood victims' areas. This policy has a waqf fund that can cater to the flood victim's risk (Noorhidayu et al., 2020).



Source: (Noorhidayu et al., 2020)

Figure 2.3: Waqf Takaful Model Two

Another concept of waqf takaful found in current literature is wakalah waqf with the mudharabah model. This model suggested that takaful operators develop an endowment fund, a common fund, and a waqf fund. The takaful operator does not own the fund; instead, the takaful operator only operates on behalf of the participant or as a trustee for the participant. All policyholder contributions will be compensated to the policyholder who faces financial loss. The takaful policy offers different risk protection depending on the rider chosen by the policyholder upon takaful registration (I. Osman et al., 2021).

2.2.4. Home Financing

Waqf home financing is another area of financial inclusion that researchers should be focused on in Malaysia. Therefore, in developing a home financing product for financial inclusion, this product needs to be applicable and practical for the unbanked and underbanked. Nevertheless, some literature discusses financing low-income earners, which can be applied in this study (M. Z. Zabri & Haron, 2019). Other than that, some studies regarding home financing with a lower monthly installment model are suitable for the unbanked and underbanked (Nasir & Abdullah, 2019; Yusof et al., 2018).

Waqf house finance is seen as a socially responsible financing solution because it offers B40 monetary aid without requiring them to pay back interest-based loans. This makes it possible for them to own a home (M. Z. Zabri & Haron, 2019). As a result, it fosters a sense of community among Muslims and stimulates charitable actions that are carried out through the waqf pool. In addition to this, waqf, which is widely recognized as an essential component of Islamic financial culture, is supported by this model (Amin, 2020).

On the other hand, Malaysia needs a new home financing system to address the financial inclusion problem and meet consumer expectations. The home financing system available in the literature reported that several methods were suitable for WBPs (Amin, 2020). However, the best home financing systems to be applied by WBPs are contractual finance, deposit finance, and mortgage. Moreover, the applicability and potential of musharakah mutanaqisah products for Islamic home financing in the area of WBPs should be explored.

Furthermore, this study needs an integrated approach to understanding Malaysia's home financing. A study with a qualitative approach to home financing has been studied by M. Z. Zabri and Mohammed (2018), who explained how the qualitative method works. The standardization of legal documentation for home financing also needs to be reviewed (Yusoff & Oseni, 2019), especially in WBPs. Besides that, issues and challenges regarding Malaysia's current affordable public housing schemes need to be studied to develop an unbanked-friendly product (Bilal et al., 2019).

Islamic home financing is a crucial product in the Islamic banking system in Malaysia (Amin & Hamid, 2018). Various contract models for home financing can be practiced in the Malaysian banking industry. One of the contracts is the Bay Bithaman Ajil (BBA) contract, a sale with a deferred payment contract. Other than that, there is also the Murabahah contract, a cost-plus markup contract, and Tawarruq, a commodity Murabahah contract (Fahmi & Febrina, 2019).

There is another contract for Islamic home financing, such as Musharakah Mutanaqisah, which is a diminishing partnership contract (Zaaba & Hassan, 2019; M. Z. M. Zabri & Mohammed, 2018a). Islamic home financing is the most extensive financing class in the Malaysian Islamic banking industry, with a value ranging from RM14.97 billion in June 2008 to RM137.67 billion in June 2018. It accounts for 27.2% of total home financing in Malaysia (Amin, 2020).

Islamic home financing is different from conventional home loans. The term loan in a conventional bank refers to the interest charged on the borrowed money as a time value of money separate from year to year (M. F. Ibrahim & Kamarudin, 2018). Thus, loans and interest are the primary sources of income for the conventional bank. Sharia law

prohibits any activities with the element 'riba' as this element oppresses the borrower by charging 'riba' or interest to them (E. R. Ahmed et al., 2020).

Base financing rate (BFR) is being used for Islamic home financing instead of interest rate or base lending rate (BLR) as is being practiced by conventional housing loans (M. F. Ibrahim & Kamarudin, 2018). The customer will be charged a flat-rate monthly payment from the commencement of the contract until the settlement of the term (M. Selim, 2020). The criteria and selection of home financing have been studied. The result has shown that most home financing customers choose Islamic home financing due to the flat rate repayment term, as interest rates are often on the rise in Malaysia (Sayuti et al., 2020).

The first attempt at Islamic home financing products is BBA (Amin, 2020). This product is undoubtedly the most predominant, commonly, and extensively practiced concept by Islamic banks in Malaysia (Muneeza et al., 2020). The idea of BBA is based on a buy-and-sell agreement where the bank will buy the desired house and sell it back to the customer. The customer will pay the bank by deferred installment, similar to conventional bank practice (Dahlan et al., 2018).

Most Islamic scholars argue that the BBA concept is non-Sharia compliance as Islamic banks do not own the properties (Hasmawati & Mohamad, 2019; M. F. Ibrahim & Kamarudin, 2018). Other than that, the BBA concept relies on the interest rate as a benchmark to determine the "profit" to be a charge, which defies the non-riba' concept (A. I. Asadov & Ibrahim, 2018; Dahlan et al., 2018).

On the other hand, from a customer point of view, the BBA concept has a floor price and ceiling price, which are fixed profit charges by Islamic banks. It is unfair to

the customer when it comes to low interest rates because the customer will not benefit from them (I. M. Shaikh et al., 2021). This situation will give the customer terrible, unfair, and unjust feelings, and the urge to convert to conventional products will increase (M. Z. M. Zabri & Mohammed, 2018b). In contrast, if the interest rate rises higher than the BBA profit rate, Islamic banks will suffer losses as they cannot increase the profit rate imposed on the customer due to the fixed selling price (Aswer et al., 2019).

Other than the BBA concept, the second most common home financing contract is the combination of BBA with the Murabahah (BBA-M) concept. Even though BBA-M is a popular concept of Islamic home financing around the globe, including in Malaysia, the application of BBA-M is also being argued by most Muslim scholars as this concept is also similar to conventional home financing (Miah & Suzuki, 2020).

BBA-M is merely an interest rate duplicate for Islamic home financing, and this concept leads to the merging of Islamic home financing with conventional home financing. The Sharia issue of BBA-M is still unsolved, and most Muslim scholars are still debating this issue. The Middle East scholar disapproved of the concept of BBA-M, while Malaysia, Brunei, and Indonesia accepted the idea, which was widely practiced. BBA-M is a kick-starter of Islamic home financing in these countries (Miah & Suzuki, 2020).

Regardless of the fast expansion of home financing in Malaysia, there are many criticisms of Islamic home financing products. Some Islamic scholars argue that Islamic home financing has similar features to conventional home loans. Islamic home financings, such as BBA and BBA-M, are sensitive to BFR changes, which will affect low- and middle-income earners. Even an increase of 2% in BFR will increase the number of financially vulnerable Malaysian households (Amin, 2022).

In recent years, the study of Musharakah Mutanaqisah as a form of Islamic home financing has become popular among academicians and practitioners (A. Asadov et al., 2018). Studies show that Musharakah Mutanaqisah is being successfully practiced by Islamic banks around the globe (M. Selim, 2020). Due to the nature of the Musharakah Mutanaqisah contract itself, which is a regularizing type of the Islamic philanthropic economy, it is an excellent concept to be applied in the WBPs study.

Currently, the evolution of Islamic home financing has seen a new concept brought to the market. Musharakah Mutanaqisah, a diminishing partnership, can overcome the BBA and BBA-M, which are vulnerable against riba' base home financing. With the Musharakah Mutanaqisah contract, an Islamic bank is forced to take ownership of the assets and transfer ownership to the customer. This new concept would indirectly overcome the BBA and BBA-M contracts (Muneeza et al., 2020).

Musharakah Mutanaqisah, which applies the diminishing partnership concept, is an alternative to Islamic home financing developed in recent years. Musharakah Mutanaqisah has been approved by many Islamic scholars as this contract is more Sharia-compliant than the BBA and BBA-M contracts. Musharakah Mutanaqisah is usually practiced in Australia, the USA, the Middle East, and Canada. Implementing Musharakah Mutanaqisah can avoid the application of riba' since Musharakah Mutanaqisah rental is their income (M. Z. Zabri & Mohammed, 2018).

In the case of house ownership, the bank and the client will make an agreement based on the concept of "Shirkah al-Milk" (joint ownership). The bank and the client will first pay different shares to the right of the property. Typically, the bank would hold most of the shares at 60% and above, while the client would own the rest. Then, under

the concept of Ijarah (lease), the bank would rent their share of the house to the client with the periodic rental amount agreed upon by both parties (Muneeza et al., 2018).

The client will continue to pay the lease until they have paid the number of shares owned by the bank (Amin, 2020; Amin & Hamid, 2018). For the duration of the lease, the bank will take ownership and responsibility for the house (Hasmawati & Mohamad, 2019; M. Z. M. Zabri & Mohammed, 2018a). Once the client owns all the shares, the client will claim full ownership of the house or, in a sense, entirely buy the house from the bank.

To summarize, the process of Musharakah Mutanaqisah in house ownership can be divided into three sections: partnership (Musharakah), lease (Ijarah), and sale (bay). Musharakah Mutanaqisah is considered Sharia-compliant because the bank's profit mainly comes from the lease instead of interest. In contrast, the question arises of where Musharakah Mutanaqisah would reduce the burden of customers that partake in Islamic home financing (Muneeza et al., 2018; M. Z. Zabri & Mohammed, 2018).

On the other hand, the rental rate for the Musharakah Mutanaqisah contract is determined by using a conventional housing loan interest rate as a benchmark. This method is being practiced worldwide (Amin, 2020). Even though this method is permissible under Islamic law, Muslim scholars long to seek an alternative benchmark that is not reliant on the conventional interest rate. Both Islamic home financing and conventional housing loans are secured by properties that customers want to buy. Both types of financing have a schedule for monthly repayment to the bank. This type of financing is considered a low-risk product available in the market due to the secured asset financing (Muneeza et al., 2018).

The key players in Islamic home financing in Malaysia are Islamic banks, commercial banks, and Lembaga Perumahan Sektor Awam (LPPSA) (Besar, 2018). LPPSA is a statutory body funded by the Malaysian government. The interest rate charged by LPPSA for housing loans to government servants is 4% per annum, the second-lowest rate in Malaysia (M. M. Hassan et al., 2021). The lowest interest rate charged for housing loans in Malaysia is 3% per annum, which is charged by Sabah Credit Corporation, which is also a statutory body owned by the Malaysian Government (Sidah Idris, Jaratin Lily, & Andi Tamsang Andi Kele, 2020).

However, there are 1.6 million government servants in Malaysia, which is 11% of the Malaysian labor force (Yusop & Hassan, 2020). There is a hazardous effect on the Malaysian government if the government servant relies on statutory body financing institutions to provide affordable home financing (Ebekozi et al., 2019). For example, an economic downturn can affect the Malaysian government's ability to provide affordable home financing. Also, non-government servants could not get affordable home financing (Aris et al., 2018).

The rest of the Malaysian workers, 13.4 million, need to rely on Islamic banks and commercial banks. The profit rate, or BFR, charged by an Islamic bank in Malaysia is between four and 5% annually (Zulhibri, 2018a). This phenomenon has created a gap for the rest of the Malaysian workers to acquire affordable Islamic home financing (Yusof et al., 2019). Islamic banks in Malaysia are incapable of providing even 4% of BFR to match the offer by LPPSA.

This is due to the interest of Islamic bank shareholders and its investment account holders, who want their ROI to be higher. The Islamic banks' shareholders would

prefer a higher return as their investment is high-risk. Other than that, the investors in Islamic banks are unlimited, while the potential losses are limited. As a result, the Islamic bank in Malaysia cannot provide affordable Islamic home financing (M. Z. Zabri & Mohammed, 2018).

Islamic banks in Malaysia can provide more unbanked-friendly products by offering Musharakah Mutanaqisah. They can also give returns to the investor from the sale and rental of properties (Yusoff & Oseni, 2018). Unfortunately, Islamic banks are also profit-oriented institutions that survive on profit. Islamic banks cannot be sustained if they impose lower BFR (Zulkhibri, 2018a). This limitation could be overcome by harnessing one of the most reliable and potential financing alternatives.

Regrettably, in Malaysia, the practice of waqf is mainly to build masjids and graveyards, therefore not focusing on financing the poor (Asni et al., 2020b). However, there is a need for a contemporary form of cash waqf that can be used for low-cost Islamic home financing (M. Z. M. Zabri & Mohammed, 2018b). There is a gap in this study area: waqf-based home financing is suitable for unbanked people. The main idea of these WBPs is to synergize the potential of cash waqf with Islamic home financing.

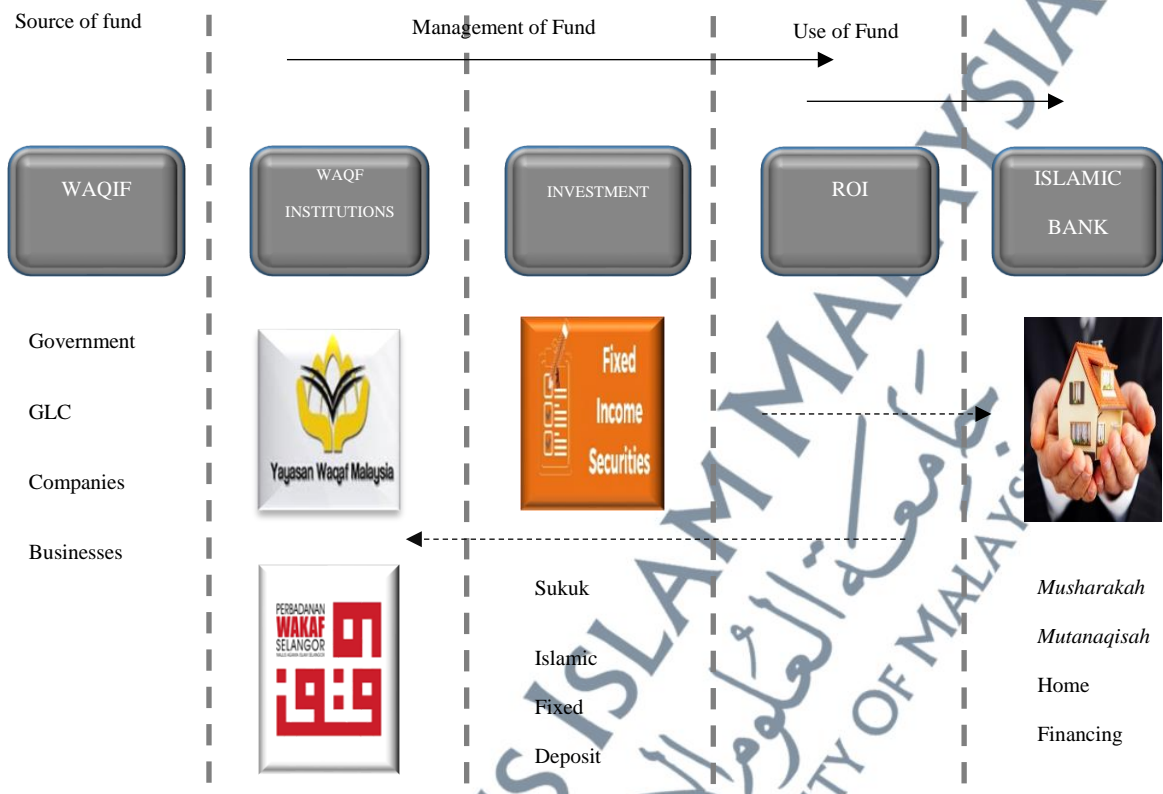
An integrated Cash Waqf Musharakah Mutanaqisah (CWMM) home financing model is essential for this study to achieve its primary objective (M. Z. Zabri & Mohammed, 2018). Under this model, waqif came from various backgrounds, such as individuals, organizations, and the government. This model will focus on financing the poor since a house is considered a basic living need.

Thus, the concept of CWMM from the current literature explained that Islamic banks should establish cooperation with waqf institutions in Malaysia such as

YWM, Perbadanan Wakaf Selangor (PWS), and other SIRC's and integrate cash waqf with Musharakah Mutanaqisah home financing. The objective of developing home financing products for underbanked people will be achieved as CWMM should have a cheaper profit rate than Islamic banks' home financing products (M. Z. Zabri & Mohammed, 2018).

CWMM consists of three components: source of fund, use of the fund, and management of the fund. First, waqf institutions will receive cash waqf donations from various sources, such as the government, government-linked companies, companies, businesses, individuals, etc. This waqf fund will be invested in Islamic fixed-income securities such as Sukuk, real estate, and Islamic fixed deposits. Thus, waqf institutions must ensure that the investment will not suffer any losses and fall below the initial investment. A portion of the ROI will be channeled to Islamic banks' musharakah mutanaqisah home financing. Another part will be reinvested in the cash waqf fund (M. Z. M. Zabri & Mohammed, 2018a).

In the CWMM concept, the customer has to identify the desirable house. Then the customer has to apply for financing. Once the application for CWMM has been approved, the customer has to sign the financing agreement. The customer will own 10% to 20% of the house, the financial institution will own the remainder. Customers will lease the home from the financial institution and buy the remaining ownership from the financial institution (M. Z. M. Zabri & Mohammed, 2018a; M. Z. Zabri & Mohammed, 2018).



Source: (M. Z. M. Zabri & Mohammed, 2018a; M. Z. Zabri & Mohammed, 2018)

Figure 2.4: Waqf Home Financing Model from Current Literature

2.3. The Sharia Guideline in Waqf Banking Product

The structure of the waqf banking product adheres to Sharia rulings originating from the Quran and Sunnah. The principle of this product structure is to avoid any activities that involve prohibited economic transactions such as riba', gharar, and maysir (Choudhury et al., 2018). On the other hand, the product structure of conventional banks follows market rules, which contain prohibited economic transactions.

Riba' can be defined as an increment in lending or borrowing in which the borrower paid above the amount borrowed, as determined at the beginning of the borrowing

contract, where the lender stated as such or voluntarily by the borrower. Riba' can be further classified into two types: riba' al-Buyu', which is riba' in the sale, and riba' ad-Duyun, which is riba' in debt (Choudhury et al., 2018).

Riba' in debt can also be further classified into two types: riba' al-Qard, where there is an increment on the principle of the loan, and riba' al-Jahiliyyah, where there is an increment in the principal amount for late repayment of the loan. Riba' in sales means unequal exchange of certain goods or commodities. Riba' in sales can also be further classified into two types: riba' al-Fadl, where there is an unequal amount of goods traded, and riba' an-Nasihah, where there is an extension of delivery time (Candra Sari et al., 2022).

While riba' and gharar are harmful elements and prohibited in any Islamic economic transaction, there is less literature about gharar than riba'. Gharar can be defined as the chance of risk, uncertainty, or hazard (S. A. Shaikh, 2022). In the muamalat context, gharar can be described as the sale of goods that do not exist yet. In Islamic jurists' prudence and legal terminology, gharar is the sale of commodities that the seller does not pose, the sale of an item without any specifications, or any hazardous transaction in which the parties involved in the contract do not pose any knowledge about the subject matter (Anjum, 2022).

Gharar can be classified into two types: gharar fahish, which is intolerable, and gharar yasir, which means light gharar or normal gharar (M. Ahmed et al., 2020). There are certain conditions where gharar is tolerable. Firstly, the contract must be unilateral or charitable; the purpose of the agreement must be in the form of a donation. Secondly, the transaction made is for public needs and in the form of maslahah. Lastly, the risk of a transaction is unavoidable for productive economic activities (Hadji Latif, 2021).

On the other hand, maysir can be defined as acquiring assets through games of chance. It is about wanting something valuable with ease and without paying the equivalent payment, working for it, or taking any liability against it simply by gambling (Alkhan & Hassan, 2020). Another definition of maysir is acquiring wealth by chance and not effort. Maysir is like any game of chance, similar to betting (Akhter et al., 2021).

Moreover, gambling is forbidden and prohibited by the law of Sharia (Rawwas et al., 2018). The agreement between partakers is based on immoral incentives provided by entirely wishful expectations in the participants' minds that they will achieve by mere chance, with no consideration for the possibility of loss, which is the risk borne by the wager. All of the restrictions mentioned earlier in this subtopic will provide proper guidance in setting up Sharia guidelines for the WBP model and, thus, the conceptual framework for the study.

2.4. Financial Inclusion

In the WBP study context, the researcher tries to find the concept of Islamic bank institutions related to financial inclusion to form this study's conceptual framework. Henceforth, the literature search began with the IBI concerning economic development, followed by the waqf institution and its relationship with economic growth and financial inclusion.

There were a lot of studies regarding IBI (Zulhibri, 2018a) and waqf institutions (Azrai Azaimi Ambrose et al., 2018) concerning economic development. For example, Zulhibri (2018a) explained the impact of Islamic bank financing on economic growth in Malaysia. In terms of waqf for economic development, Lamido & Haneef, (2021)

discussed how waqf could be a framework for entrepreneurship development since entrepreneurs also play a role in economic development.

Current literature regarding financial inclusion shows that this study has been primarily conducted in India (Lenka & Barik, 2018). In Malaysia, the investigation regarding financial inclusion was conducted by Khor (2018), which explains that most Malaysians cannot acquire the desired financial service due to their income level.

The concept of WBPs for financial inclusion was derived from current literature (Ascarya, 2022; Ascarya et al., 2022; Ascarya & Masrifah, 2022; Ascarya & Sakti, 2022; Lamido & Haneef, 2021; Razak, 2020; Tamanni et al., 2022; U. H. Umar, 2020; Zauro et al., 2020). The majority of financial inclusion indicators in the world show an increasing number of unbanked and underbanked people.

Nevertheless, world IBIs play a vital role in addressing financial inclusion around the globe, especially in the OIC countries. OIC countries face a constant decrease in the number of unbanked and underbanked people, which means there is a positive relationship between IBIs and addressing the financial inclusion problem. Moreover, OIC countries face an increasing number of Islamic bank branches, which is an 8% increase compared to non-OIC countries, which have only 4% (Safdar et al., 2020).

However, the number of adults with financing accounts is still low in OIC countries compared to the rest of the world. There were only 400 to 450 financing accounts per 1,000 adults in OIC countries. Nevertheless, studies show that adults in OIC countries do not want to have a financing account due to religious reasons, even though they are eligible. The study of Sharia compliance in developing WBPs is of the utmost importance, as stated in the third objective of this study (U. H. Umar et al., 2020).

Studies in OIC countries found twelve fewer Islamic bank branches for every one hundred thousand adults, 20% lower use of financial accounts by corporate entities, and 70% for SMEs. In addition, financial depth is reported to be 25% to 35% lower than GDP compared to the rest of the world. These facts show that even though there were slight decreases in the number of underbanked and unbanked people in OIC countries, IBIs still need to address financial inclusion in OIC countries, especially Malaysia (Safdar et al., 2020).

2.5. Waqf Banking Product Experience in Malaysia

The only IBI that participates in cash waqf management in Malaysia is BMMB. BMMB jointly managed the cash waqf fund with PWS through the Joint Management Committee (JMC). The objective of this collaboration was to make BMMB an authorized entity by SIRC to manage the waqf fund more efficiently (Hayari et al., 2018).

BMMB is one of the full-fledged Islamic banks in Malaysia and has been operating since 1999. BMMB is among the pioneers in the Islamic banking system and WBP management in Malaysia. The shareholders of BMMB consist of DRB-HICOM Bhd and Khazanah Malaysia Bhd, which each have 70% and 30% shares of the bank, respectively. BMMB provides various Islamic financial service products, such as deposits for foreign currency, foreign exchange trading, regular deposit accounts, current accounts, and other financing accounts (Hayari et al., 2018).

On the other hand, PWS has been incorporated since 2011, as the Sultan of Selangor commended its establishment in 2009. PWS operates under the provisions of

Selangor Waqf Enactment (Selangor State) No7, 1999, and Selangor Waqf Corporation Order 2011. The establishment of PWS aims to enhance and improve the value of waqf properties, waqf management, and waqf practice toward competent and efficient Muslim economic development (Hayari et al., 2018).

The main objective of the JMC between BMMB and PWS is to be a legal body to collect and manage waqf funds in Selangor. The issue and challenges arising from this integration are that a few criteria have been set to ensure only applications meant for waqf will be approved. Moreover, JMC has to ensure that the waqf assets are well managed and taken care of. Besides, JMC has to convince the public that the waqf assets are well managed and preserved (Hayari et al., 2018).

BMMB is responsible for managing cash waqf funds concerning the PWS terms and conditions, such as cash waqf for health and education. Moreover, PWS and BMMB or JMC have taken a few steps to preserve and enhance the cash waqf fund, such as aggressive advertisement and promotion of cash waqf collection through the media and promoting the cash waqf direct debit program (Hayari et al., 2018).

BMMB and PWS are looking forward to more collaboration soon. Besides, there were many more opportunities to expand JMC's operation, such as investing in cash waqf funds, and BMMB can manage this investment in cash waqf funds. Also, BMMB aims to develop JMC in other SIRCS, such as Negeri Sembilan, Kelantan, Johor, et cetera (Hayari et al., 2018). Thus, this study hopes to uncover the potential of this kind of collaboration.

2.6. The Research Gap

The first step in the literature review is to look at past studies about waqf, cash waqf, waqf classification, and istibdal. The chapter continues by discussing the background of the studies, the WBPs, the evolution of Islamic banking products, microfinancing, takaful, home financing, and more. The final section of this thesis literature study delves into the Sharia regulations governing WBPs, the role of WBPs in Malaysia's economy, and the experiences of WBPs.

Integrating waqf financing products with Islamic banking products in setting up WBPs is one of the many study gaps in the current literature on this topic. Furthermore, there is a need for more relevance in the literature regarding Sharia compliance guidelines for developing WBPs and the development of WBPs to address financial inclusion in Malaysia. Thus, this subject matter needs more fact-finding to complete the inadequacy of the current literature.

2.7. Conceptual Framework from Current Literature

Table 2.2. shows the conceptual framework for the current studies found earlier in the systematic database search. All the studies conducted before 2019 were quoted from Sarea (2019). The literature review for this study was analyzed using NVIVO version 12 software. The dimension developed using axial coding from the literature shows that three main dimensions need to be studied. These main dimensions were “waqf, its definition, and its ruling”, “waqf banking product”, and “the guideline from Sharia law”.

This dimension will be the main component in guiding the researcher to build up the WBP model for this study. The studies regarding this dimension will be conducted in a library research manner.

Table 2. 2: Levels of Conceptualization

Level	Theory	Example
1	Metaphor	Waqf - endowment
2	Dualism	Islamic bank – waqf institution
3	Concept	Waqf and Islamic banking product
4	Context theory	Islamic banking product development
5	Grand theory	WBP development model

Source: (Adapted from Llewellyn. 2003)

The conceptual framework covers both the theorization of the concept and the organization of the research. It suggests that a conceptual framework explains how this study tries to frame the research sensibly and explains how and why it performs the analysis in such a manner. In this research, the conceptual framework functions as a conceptual tool for the researcher by developing figures, charts, categorizations, graphs, and tables to make sense of findings and understand the phenomenon of WBPs (Llewellyn, 2003). There are five levels, from the simple metaphor to the grand conceptual structure.

Table 2. 3: Conceptual Framework for the Current Study

No	Theoretical Development (Early Assumption)	Issue/Theme	Author/Authority
1.	Waqf Definition		Wahbah al-Zuhayliy, (1989)
		Cash Waqf	Mahamood & Ab Rahman, (2015)
		Waqf Classification	Saleh et al. (2017)
		Istibdal	Wahbah al-Zuhayliy, (1989)
2.	WBPs and their development	WBPs development	Mohammad (2015)
		Waqf Microfinance	Asmy, Mohd, Thaker, Mohammed, & Duasa (2016)
		Waqf Takaful	Noorhidayu et al., (2020); Salleh et al., (2017)
		Waqf Home Financing	M. Z. M. Zabri & Mohammed, (2018) Amin (2020)
3.	Sharia Guideline in WBPs	Riba', gahrar and Maysir	Choudhury et al. (2018)
4.	Financial Inclusion	Malaysian Financial Inclusion	Zulkhibri (2018)

Source: (Developed for the current study)

This study will examine the literature from the Shafi'i school of thought and extract the guidelines to be applied by the WBP model. In this study, the discussion on theorizing primarily focuses on level 2 and level 3, for example, the dual banking system (level 2) and the concept of cash waqf (level 3), with some discussion on level 5, grand theory. Moreover, the grand theory explains the relationship and presents a comprehensive conceptual framework. Therefore, the grand theory can explain the conceptual theory and the theoretical framework.

2.8. Chapter Summary

This chapter has outlined three objectives for understanding the waqf institution product and IBPs and developing the WBP model. The first objective of this chapter was to explain in detail the waqf institution product and the IBPs. This chapter has discussed the study area for developing WBPs. The second objective of this chapter was to clarify the issue related to integrating both waqf institution products with IBPs. All of the subjects were briefly discussed and explained. Linked to the second objective of the study, the third objective of this chapter was to examine the conceptual framework of the study. The literature found in the second objective supported the concept of the studies.