

CHAPTER 1

INTRODUCTION

1.0. Introduction

Chapter One will discuss the research background. This chapter explains waqf, its definition, types of waqf, characteristics of waqf, and Waqf Banking Products (WBPs). Additionally, this chapter provides details on the research context and the problem statement of this research. Another subtopic under this chapter is the scope of the study, which explains the limitations and range of this study.

The research objective of this study comes under another subtopic that reviews the three purposes of this research. Other subtopics include research questions about waqf, cash waqf, the legality of cash waqf, the application of cash waqf for WBPs, etc. Last but not least, there is a subtopic on the significance of the research. It explains the impact of the establishment of WBPs throughout the country. This chapter elaborates on the rationale and importance of the study and concludes by showing the blueprint of the thesis structure.

1.1. Research Background

This research background section depicts a critical review of the researched area, current information surrounding the issue, and the study's subject. This subsection will give a clear picture of the overall study concept, which serves as the research's backbone.

Moreover, this subsection also discusses the current position of the Muslim economy, the role of Islamic financial institutions (IFIs), the limitations of IFIs, the role of waqf, the reality of WBPs, financial inclusion, and banking for the poor in Malaysia.

1.1.1. Current Position of Muslims Economics

Muslim economists accept the concept of economic development, which includes social, political, and economic components. However, Muslim economic scholars broaden the definition of growth to encompass the balanced development of the material and spiritual worlds, with an emphasis on the application of Islamic values as the foundation of this development (Suhaimi et al., 2014).

Economic growth is the ongoing and balanced improvement of material and immaterial components of life (Kasim, 1999). It is a multidimensional process combining reorganization and welfare enhancement through Islamic-inspired spiritual progress. Nonetheless, the primary part of development is the individual's growth. Any process of development must begin with the moral, spiritual, physical, and environmental development of the individual (Suhaimi et al., 2014).

This is due to the fact that man is a change agent for himself and his socioeconomic environment (Karim, 2017). Economic growth is only one facet of development; the primary goal is to improve the lives of people in this life and the next. Islamic economic development focuses not only on material development but also on spiritual development and the characteristics of life in this world and the next. As a result, Muslim scholars have established a variety of objectives for achieving Islamic-based economic development (Suhaimi et al., 2014).

The effects of the COVID-19 pandemic, which made 2020 an unprecedented and unpredictable year, were still being felt all around the planet. Although a "new normal" started to emerge in 2021, notably in more developed economies, because of the mass rollout of COVID-19 vaccinations, the repercussions of the pandemic will be felt for years to come (DinarStandard, 2022).

Despite the ongoing unpredictability caused by the pandemic, it is anticipated that spending by Muslims around the world will increase by 9.1% in 2022 for the various sectors of the Islamic economy, including the Islamic finance sector. By the end of 2021, spending in all of these areas, except travel, will have rebounded to its level before the pandemic. With a Cumulative Annual Growth Rate (CAGR) of 7.5% over the next four years, Muslim spending is anticipated to reach \$2.8 trillion in the United States by 2025 (Abdrakhmanova & Moghavvemi, 2022; Chianeh, Rahim Heydari, and Behnam Kian, 2019).

Even though the pandemic pulled the proverbial rug out from under the feet of many businesses and caused significant disruptions to operations, the past year saw many noteworthy developments in the Islamic economy. These developments include a further acceleration of digitalization, an increase in intra-Organization of Islamic Cooperation (OIC) trade deals, and an increased focus on food security and healthcare by the government (S. Ali et al., 2022; Chaudhry et al., 2023).

The global Islamic economy is supported by several key drivers, including a large and growing Muslim population, an increasing urge to adhere to Islamic ethical values relating to consumption, and a growing number of national strategies dedicated to

developing halal products and services (N. I. I. B. Selim et al., 2022). These drivers continue to play an essential role in the global Islamic economy (Randeree, 2020).

A significant portion of the 81 nations analyzed for this year's revised Global Islamic Economy Index is making progress toward the establishment of Islamic economic ecosystems that are more resilient (Hussein Kakembo et al., 2021). The top four places are the same as they were the year before, with Malaysia continuing to hold the number one position for the ninth year in a row. After Malaysia comes Saudi Arabia, the United Arab Emirates, and finally Indonesia (Ab Rahman et al., 2023; Oladapo et al., 2022; Tahiri Jouti, 2019).

The United Kingdom and Kazakhstan are two countries that have recently broken into the top 15 (Ab Rahman et al., 2023; Chianeh, Rahim Heydari, and Behnam Kian, 2019; N. I. I. B. Selim et al., 2022). Turkey and Singapore climbed seven and eight places, respectively, to achieve the fifth and seventh spots on the list (Randeree, 2020). Both Nigeria and Sri Lanka have been eliminated from the top 15 rankings (Farinha et al., 2018).

After eight years, the indicator underwent its first revision to its methodology. This revision included the addition of technology enablement to the existing mix of criteria and an adjustment to the weightage that placed a greater emphasis on halal industries compared to Islamic finance. This is one of the reasons for some of the swings in the rankings of the countries (Hui et al., 2019).

The Islamic economy has risen to the top of the agenda in a few nations, and it is regarded as an essential component of the strategies for economic recovery following the pandemic. This is a result of national Islamic economic policies that were put into place

before the pandemic, most notably Indonesia's mandated halal law, which has led to this development (Julia & Kassim, 2020; Kuran, 1995).

The United Arab Emirates (UAE), Malaysia, and Nigeria are only a few of the countries that have made significant contributions to the development of the Islamic economy, particularly in the fields of halal food, Islamic finance, and fintech (Alshater et al., 2022; M. K. Hassan et al., 2022). Pakistan, Qatar, and Kuwait have all made public their intentions to establish new centralized laws within the Islamic financial industry to improve its governance (Bhala, 2012; Khan & Mansoor, 2008).

The impacts of the pandemic are being addressed by Islamic finance, resulting in a recovery of Islamic banks' profitability after 2020 decreases (Rabbani et al., 2021). The primary contributions to this growth are significant investments, an uptick in Islamic financial technology, and funding for OIC companies (Ghouse et al., 2022). The revival of this industry is necessary for the functioning of the Islamic economy, with Islamic finance serving as a critical engine for the system (M. K. Hassan et al., 2022).

It is also a symbol of commitment to Islamic values by the governmental and private sectors, requiring Islamically sourced finance, investment, and insurance (takaful) to be implemented (A. Hassan & Salma Binti Abdul Latiff, 2009). In contrast to what was anticipated, the last year has proven to be one of the most critical milestones for Islamic finance, with new standards being established (Sundararajan & Errico, 1999).

In 2020, companies in the Middle East and North Africa (MENA) region raised more than one billion dollars in venture capital funding (Ghouse et al., 2022). In the first half of 2021, global sukuk issuances reached an all-time high of one hundred billion dollars, setting a record (Almaskati, 2022). Investments following Sharia are becoming

increasingly widespread within the OIC. The 10-billion-dollar Hajj fund that Indonesia manages invested \$300 million in hotels in Saudi Arabia (Hulwati et al., 2022).

At the same time, Nuwa Capital, a venture capital firm located in Riyadh, announced the formation of a \$100 million fund to invest in OIC technology businesses (A. J. Ibrahim & Shirazi, 2020). While there has been an increase in financial activities inside the OIC, there is also a growing push to establish Islamic megabanks (Almaskati, 2022). Britain, the Gulf, and Asia are all competing with one another to become the center of Islamic banking (Darmansyah et al., 2020).

Pakistan, Indonesia, and Turkey are showing signs of developing into significant growth markets. At the same time, the proportion of customers using Islamic banks is growing compared to those using conventional banks, due in part to steps taken by respective governments (Mansour et al., 2022). The Association of Southeast Asian Nations (ASEAN) countries are developing a framework for 'green' investments. The Islamic Development Bank (IDB) is issuing a \$2.5 billion sustainability sukuk, and Malaysia is issuing the world's first sovereign dollar-denominated Islamic finance sustainability-related commercial notes (Ledhem & Mekidiche, 2020).

Other steps are also being taken to strengthen sustainable investments. The United Nations Sustainable Development Goals (SDGs) have been recognized as being supported by Islamic finance by the World Bank. In the meantime, financial technology, often known as fintech, is being used to increase the number of people who have access to the financial system in OIC countries and boost market penetration for Islamic financial services (Banna et al., 2021).

There are around 241 Islamic financial technology companies, with a market size of over \$49 billion in the United States in 2020. It is anticipated that by 2025, this will reach \$128.0 billion (based on transaction volumes). Dubai, London, Malaysia, and the Gulf region are all candidates for the role of Islamic fintech centers, which are currently in the process of growing. Tamara, a Sharia-compliant "Buy Now, Pay Later" fintech company based in Riyadh, just completed the most prominent investment round ever raised by a MENA fintech, raising \$110 million in a funding round headed by checkout.com (Kharrat et al., 2023).

This is an indication of investor interest. Challenger, or neo, digital banks are also emerging from the United Kingdom to Australia. The Malaysian fintech company MyMy aims to become the world's first freestanding and central bank-certified Islamic challenger bank. The takaful industry is growing much more gradually than the rest of the sector (Muryanto, 2022).

Despite this, Takatech, a fintech company, is attracting investment, from financial technology to acquisitions and increased social sukuk issuances. In 2021, it was anticipated that the Islamic finance industry would be worth \$3.6 trillion, and by 2025, it is expected that this number will have increased to \$4.9 trillion (Kharrat et al., 2023).

1.1.2. The Role of Islamic Financial Institutions in Addressing Financial Inclusion in Malaysia

Islamic banking is a banking system that adheres to Islamic law, often known as Sharia law. The fundamental principles that govern Islamic banking include mutual risk and profit sharing between parties, the guarantee of fairness for all, and the fact that

transactions are based on business activity or assets (A. Hassan et al., 2022). These concepts are backed by the key values of Islamic banking, which encourage actions that foster entrepreneurship, commerce, and societal progress or benefit (Mooneeram-Chadee, 2020).

Interest (riba'), gambling (maisir), and speculative trading (gharar) are banned activities. By utilizing numerous Islamic finance ideas, such as ijarah (lease), mudharabah (profit sharing), and musyarakah (partnership), financial institutions have a great deal of flexibility, creativity, and choice when developing Islamic finance products (A. Hassan et al., 2022). Moreover, Islamic banking establishes a higher bar for investments and promotes greater responsibility and risk management by emphasizing the requirement for transactions to be supported by legitimate trade or business-related activity (A. Hassan et al., 2022; Mooneeram-Chadee, 2020).

Since its inception in the 1970s, Islamic finance has expanded dramatically. As of December 2019, global Islamic financial assets and assets under management totaled \$2.88 trillion and grew by 14% annually (Mooneeram-Chadee, 2020). There are around 1,500 Islamic financial institutions in 80 countries globally. Asian Banker Research Group reports that the 100 largest Islamic banks in the world have set an average asset growth rate of 13% (Rosfazila et al., 2021).

Malaysia's Islamic financial industry has existed for more than three decades. With the liberalization of the Islamic financial system, more Islamic financial institutions have been founded since the passage of the Islamic Banking Act in 1983, which permitted the establishment of the nation's first Islamic bank (Muneeza, 2017). Malaysia's thirty-year history of creating a successful domestic Islamic finance industry provides the country with

a firm foundation and a financial bedrock of stability that contributes to the financial system's richness, diversity, and maturity (Nasser & Muhammed, 2013).

Now, Islamic banking assets in Malaysia have reached \$254 billion as of December 2019, with Islamic bank deposits accounting for 38.0% of total banking sector deposits (Kismawadi, 2023). Today, Malaysia's Islamic finance continues to expand rapidly, aided by a hospitable environment that is renowned for continuous product innovation, a variety of financial institutions from around the world, a vast array of innovative Islamic investment instruments, a comprehensive financial infrastructure, and the adoption of global regulatory and legal best practices (Muryanto, 2022).

With the development of the Islamic financial industry, Malaysia has placed a considerable emphasis on human resource development to ensure the availability of Islamic finance talent (Zakiy, 2021). These value propositions have made Malaysia one of the most developed Islamic banking markets in the world. Increasing liberalization in the Islamic finance industry, coupled with a business-friendly climate, has prompted global financial institutions to engage in the Islamic banking business in Malaysia (Engku Ali & Oseni, 2017).

This has established a community of local and international financial institutions that is diversified and expanding. Nowadays, Malaysia has a substantial number of fully-fledged Islamic banks, including multiple foreign-owned institutions, conventional institutions with Islamic subsidiaries, and companies conducting foreign currency activity (Al-Shaghdari & Bardai, 2020). All financial institutions are authorized to conduct business in both ringgit and foreign currencies.

Malaysia continues to advance and expand its industry by inviting foreign financial institutions to establish international Islamic banking operations in Malaysia in order to conduct foreign exchange commerce (Zakiy, 2021). Malaysia is a leader among ASEAN, the OIC, and other middle-income nations in expanding its Islamic finance industry and achieving financial inclusion (Ledhem, 2022).

Since the 1960s, deliberate policy efforts have fostered Islamic finance as a source of financial inclusion (Ledhem, 2022). The majority of religious impediments to economic engagement have been erased. Making finance (both conventional and Islamic) more accessible to the common public is a current topic of discussion about economic participation. Strong leadership from financial regulators promotes financial inclusion in its entirety (Okoye & Siwale, 2017; Purkayastha et al., 2020; Shinkafi et al., 2020; Tran & De Koker, 2019).

Regulatory actions with clear objectives and milestone tracking have elevated Malaysia's standing in this area (Banna et al., 2021; BNM, 2022; Shinkafi et al., 2020; Tahir & Che Tahrim, 2013). Standardized and exhaustive frameworks for consumer and investor protection Malaysia's consumer and investor protection system incorporates both Islamic and conventional legislation. As a result, specialized institutions have emerged, boosting confidence and encouraging financial inclusion (Abd Rahman, 2017; BNM, 2020a; Razak, 2020).

Numerous financial firms, including Tabung Haji (TH), target financial inclusion in Malaysia. By promoting saving for the pilgrimage to Mecca, TH transformed religious beliefs into a means of financial inclusion (N. H. A. Rahman et al., 2020). In addition, Permodalan Nasional Berhad (PNB), which was tasked with dispersing wealth

via affirmative action, allocated preferential shares to participating Malays (N. M. A. Bakar et al., 2020).

State Islamic Religious Councils (SIRCs) boosted zakat collections and merged waqf interests between these councils and Islamic banks. Using waqf monies for social development is dependent on Islamic social finance (Ainol-Basirah & Siti-Nabiha, 2020). Five Malaysian states and the Security Commission have enacted regulations and waqf-specific laws allowing entrepreneurs access to financing (Razak, 2020; Zauro et al., 2020). In contrast, fintech can also help enhance financial inclusion (Darmansyah et al., 2020). Globally, mobile phone and internet connectivity are driving forces for financial services. Fintech has fuelled a renaissance in Islamic social finance by boosting information access and transparency in zakat, waqf, and sadaqah donations (Ascarya, 2022).

1.1.3. The Role of Waqf in Addressing Financial Inclusion in Malaysia

Existing research indicates that over half of the world's adults aged 15 and older do not have a formal bank account. (World Bank, 2015). About 2.7 billion people, or 70% of the world's adult population, lack access to basic financial services in developing countries such as Nigeria. The bulk of these people are from Muslim-majority nations. In contrast to non-Muslims, who are 56% financially excluded, Iqbal (2014) found that approximately 76% of Muslims worldwide are financially excluded.

Compared to their non-Muslim counterparts, 86% of Muslims in Sub-Saharan Africa were financially excluded, compared to 72% of non-Muslims. Similarly, 5% of the financially excluded population (250 million) cited religion as a basis for their exclusion.

Financial inclusion is the direct provision of financial services to disadvantaged members

of society (Koker, 2011). The concept of financial inclusion ensures that deserving members of society have access to a vast array of financial services (Darmansyah et al., 2020).

In other words, it assures that members of society have appropriate, competitive, and inexpensive access to formal bank accounts, credit facilities, insurance, pensions, and other available financial services (Chakraborty & Abraham, 2021). Financial exclusion, on the other hand, refers to the incapacity or difficulty of less privileged members of society to acquire fundamental financial services, such as financial goods, in a competitive environment in order to meet their demands and live a normal life (Lal, 2021).

Therefore, financial exclusion is the antithesis of financial inclusion. Several factors contribute to financial marginalization. These include an adverse business environment, a lack of sustainable growth, challenging Know Your Customer (KYC) standards, inadequate infrastructural facilities, a lack of closeness to service providers, inadequate knowledge, and a low degree of awareness regarding the available financial services (U. H. Umar et al., 2020; Zauro et al., 2020).

Inadequate financial information, a limited disposable income, and a lack of financial discipline and management of personal resources are further obstacles. Financial isolation is seen as one of the most significant socioeconomic difficulties confronting many emerging nations (Gupta & Sharma, 2021). Consequently, despite the potential and fantastic economic growth, by having a landmark increase in various sectors such as telecommunications and Information and Communications Technology (ICT) to assist the banking industry, the growth has not been inclusive since a significant portion of its population remains financially excluded (Banna et al., 2021).

In the Islamic context, waqf refers to a trust formed by a donor (wealthy Muslims) that endows the perpetual inflow of income streams accruing to a property for charitable purposes (M. A. B. M. T. Thaker, 2018a). Waqf also refers to a religious endowment fund established by the wealthy members of Muslim societies to provide free relief services, socio-economic advantages, and assistance to the less fortunate members of the society (Shariff & Siti Mashitoh Mahamood, 2021).

Therefore, cash waqf refers to the donation of the future revenue stream of a cash trust as opposed to physical property. Waqf institutions have already been institutionalized in several Muslim-majority nations for the mobilization of considerable financial resources by an internationally recognized Islamic financial institution (Khamis & Salleh, 2018). Globally, the majority of Islamic clerics and Islamic economists believe that waqf funds improve social justice, equity, and income redistribution between the haves and have-nots (Alhabshi et al., 2020).

This will also result in improved financial access for vulnerable people in Muslim communities. According to Haneef et al. (2014), waqf has played a significant role in the history of Muslims since its emergence more than a millennium ago in the Arabian Peninsula. This indicates that voluntary and altruistic activities through waqf, among others, will go a long way towards promoting financial inclusion, lowering income inequality, and boosting the economic prosperity of Muslim communities, thereby fostering socioeconomic development.

Waqf means ban or imprisonment in Arabic. Hassan (2010) defines waqf in the context of Islamic finance as "a perpetual charity that entails holding certain property and preserving it for the limited benefit of certain charitable purposes." The concept of

waqf is well-established and practiced throughout the Muslim and non-Muslim worlds alike. This applies to fixed property, land, and buildings, as well as cash-based assets. Waqf is also thought to be applicable to cash, books, stocks, and other forms of property. Waqf is utilized to provide a variety of services, including religious education, community development activities, and the upkeep of vital assets such as the Masjid.

Several legal issues must be addressed as part of the waqf creation criteria. This includes the need for the property to be a genuine asset with some features of perpetuity. This will facilitate the perpetual returns on investment that will be used to accomplish its original purpose. Included are land, structures, camels, cows, sheep, books, and jewelry. The waqf must have a solid foundation, and the originator must be legally capable of owning property. In addition, the primary purpose of the waqf must be charity as an act of good deeds that is consistent with Sharia, and the person must be the living and lawful owner of the waqf asset (Abd. Jalil, 2020).

Waqf can also be in the form of cash, as was customary in the past for loans to the less fortunate members of Islamic organizations or for investment in which the proceeds are routed towards humanitarian endeavors to receive recompense from Allah (SWT). Waqf is currently being utilized in a variety of innovative ways, so long as they adhere to Islamic law. These types of waqf can be utilized to promote financial inclusion and socioeconomic equity. Currently, several denominations of waqf certificates are created as the instruments required to sell cash waqf to finance a development project by SIRC in Malaysia (Fauzi et al., 2019).

The Islamic economic system, which serves as the foundation of Islamic finance, offers alternative financing to the current financial system. These answers are

consistent with Islamic jurisprudence concepts (Sharia). In constructing an economic system that prohibits transactions containing interest (riba'), uncertainty (gharar), and prohibited goods, Sharia seeks to promote moral and ethical ideals (Zulfahmi & Nora Maulana, 2022).

As part of its essential principles, Sharia underlines the need for socio-economic justice through equitable income distribution and resource sharing between the haves and the have-nots, which would increase financial inclusion (M. Kabir & Kayed, 2009). According to the Quran and Hadith, the theoretical basis of socio-economic growth in Islam includes preserving good relationships between humans and the rest of creation (Qist) and the action of Allah to place everything in its correct place (Adl) (Quradaghi, 2015).

Traditional Islamic approaches such as zakat, waqf, and Qard al-Hassan are utilized as sustainable development funding models (Amin et al., 2014). Waqf is an endowment in Islamic Sharia that is typically a parcel of land or cash funneled for the benefit of the Muslim Ummah for charitable purposes in order to gain Allah's (SWT) reward. Waqf is consistent with the IDB's Vision 1440 H (2020), which aims to promote waqf and zakat as major mechanisms for increasing financial inclusion and alleviating poverty (H. Ahmed & Salleh, 2016).

Waqf will also contribute to the reduction of income disparities, the promotion of a healthy society, and the promotion of sustainable economic growth (Zauro et al., 2020). Waqf is regarded as a powerful financing mechanism that can exist in both public and private financing, such as real estate-based waqf with the objective of generating income

through rentals and channeling the funds for socioeconomic development requirements (Nuruddeen Muhammad, 2010).

According to Ali (2014), cash and commodity-based waqf can be utilized to assist the underprivileged in a variety of sectors, including health, education, agriculture, and the environment. He also feels that the public-private philanthropy partnership could be utilized to lessen the risks associated with achieving socioeconomic development goals.

1.1.4. The Reality of Waqf Banking Products and their Relation to Financial Inclusion

Waqf institutions do not provide financing or takaful protection facilities, even though they can develop them (Asmy et al., 2016). Thus, in this case, WBPs will use the concept of cash waqf, which will be the exertion in creating the financing facilities instead of assets for the legatee. Cash waqf consists of an endowment from waqif, which is then invested and transformed into fixed assets. The rental payment received from the tenants is the revenue or proceeds that will then be used for financing facilities.

Developing WBPs is for Muslim economic development (Mohammad, 2015a) and, thus, for financial inclusion. Apart from that, the combination of Islamic financial institutions and waqf institutions is the best solution for addressing financial inclusion due to these two financial institutions (Hachicha & Ben Amar, 2015; Rawashdeh et al., 2017; Wajdi Dusuki, 2008). Thus, developing such financing facilities and insurance or takaful protection for managing risk was open for academic discussion.

However, this research will study how to develop WBPs for financial inclusion. This study will examine the Islamic banking product and waqf institutions'

products to develop WBPs. This study aims to establish WBPs such as home financing, microfinancing, and takaful protection. This study also investigates if these newly developed WBPs comply with Sharia law and waqf rulings.

1.1.5. Financial Inclusion

Financial inclusion can be defined as affordable, inexpensive, reasonable, and valuable financial services products that meet the needs of individuals and businesses and are delivered sustainably and responsibly. Financial inclusion was further defined by Jouti (2018) as the equality and availability of chances to have the right to use financial services. Persons that uphold financial inclusion state that financial assistance can be viewed as having significant progressive externalities when more individuals and organizations participate (Lenka & Barik, 2018).

Financial inclusion aims to give the unbanked and underbanked the right to use financial services. The accessibility of financial services that meet users' exact requirements while being affordable without excessive restriction is the purpose of financial inclusion (Shihadeh, 2018).

On the other hand, the Malaysian banking system has developed from 5% to 7% per annum in terms of asset acquisition since 2008 (Haron & Nursofiza Wan Azmi, 2008). This pattern is projected to improve in the forthcoming years. Moreover, the progressive viewpoint for the banking system in Malaysia is likely to provide accessible financial services to its adult populace by 2022 (BNM, 2022).

Furthermore, Bank Negara Malaysia (BNM) has formulated an index for monitoring financial inclusion in Malaysia regularly. This index covers several

dimensions: take-up rate, customer satisfaction, accessibility, and responsible usage (BNM, 2017). In contrast, this study will focus on the take-up rate of developing WBPs for financial inclusion. However, the data provided by BNM regarding these subject matters was only up to 2015.

Table 1.1: Malaysia's Financial Inclusion Index

Dimension	Indicator	2011 (%)	2015 (%)
Convenient accessibility	% of sub-districts with at least 2,000 population with at least one access point	46	97
	% of the population living in sub-districts with at least one access point	82	99
Take-up rate (% of adults)	Deposit account	92	91
	Financing account	36	25
	Life insurance	18	16
Responsible usage (% of customers)	Active deposits	87	92
	Performing financing accounts	97	98
Satisfaction level (% of customers)	Satisfied with financial services	61	73

Source: (BNM, 2017)

Table 1.1. of Malaysia's financial inclusion index shows the take-up rate percentage of Malaysian adults. The deposit account take-up rate was 92% in 2011 and decreased by 1% to 91% in 2015. Even though the percentage decreases, these percentages are still considered a positive take-up rate for the deposit account. Most Malaysian adults have already opened savings accounts. In contrast, the take-up rate for financing accounts such as personal financing, home financing, vehicle financing, credit card, etc., was 36%

in 2011 and decreased to 25% in 2015. As for life insurance, there was only 18% in 2011 and a decrease to 16% in 2015.

1.1.6 Financial Inclusion in Malaysia: Where Are We

Despite the obstacles to managing and responding to the pandemic, BNM continued to push the financial sector's development in 2020. The goal was to speed up the digitization of financial services, deepen financial markets, improve access to credit and financial inclusion, and strengthen economic resilience (Abdul Rahim et al., 2021).

Digitalization would make it easier, faster, and less expensive for consumers and businesses to access services and manage their finances. Recognizing this, BNM works to ensure that rules respond to digital developments that aim to serve communities better while also ensuring that financial institutions adequately manage the risks that come with them (BNM, 2020b).

As a result of the pandemic, there was an increase in online financial services. Compared to 2019, online banking transactions jumped by 49%, while e-wallet transactions increased by 131%. To encourage the use of online financial services, the electronic Know-Your-Customer (e-KYC) policy document was released in June 2020, allowing clients to open accounts digitally at any time and from any location. e-KYC is intended to pave the door for more innovation and the provision of end-to-end digital financial services as a gateway to digitalization together with several financial institutions, including Islamic and conventional banks (Abdul Rahim et al., 2021).

Digital banks are projected to expand their supply of banking goods and services tailored to alleviate consumer pain points, particularly in underserved consumer

sectors, by leveraging agile technology platforms and data analytics. BNM will implement a proportionate regulatory framework and compel digital banks to adhere to aggregate asset exposure restrictions in their early years of operation. These initiatives are intended to lower entrance barriers while allowing BNM to monitor associated risks (Alam et al., 2021).

BNM's continuing development measures to increase market access and liquidity in the local financial markets continued in 2020. First, BNM improved Malaysia's reputation as a desirable investment destination for international investors. During the pandemic, global market participants were constantly involved, although digitally (BNM, 2020b).

Second, BNM implemented steps to enhance liquidity in the government bond and interest rate swap markets in conjunction with domestic market stakeholders, resulting in more efficient market pricing and better risk management flexibility. Furthermore, the Foreign Exchange Policy (FEP) was tweaked to improve hedging circumstances for both corporations and investors. These combined steps have increased the domestic financial market's resilience and appeal (BNM, 2020a).

For a more equitable society, financial inclusion is crucial. The pandemic highlighted the importance of assisting and protecting underserved groups in society, particularly those who are disproportionately afflicted. As a result, BNM has continued to take proactive initiatives to promote financial inclusion (BNM, 2020b).

During the year, providing sustained access to funding for small and medium-sized enterprises (SMEs) in the face of challenging economic conditions was a significant priority. SMEs contribute about 40% of the gross domestic product (GDP) to Malaysia's economy and employ nearly half of the country's workforce. However, the pandemic has

exacerbated their low cash buffers and narrower profit margins, making businesses more vulnerable to cash flow and financing constraints (BNM, 2020a).

Bank Negara Malaysia (BNM) boosted the distribution of financial support under BNM's Fund for SMEs from RM9.1 billion to RM23.1 billion to help SMEs during the pandemic. Facilities under BNM's fund, which were channeled through financial institutions, were designed to give immediate cash relief to negatively affected SMEs, help the recovery of hard-hit economic sectors, and boost high-tech innovation capability (BNM, 2020b).

The BNM fund enhanced the financial institutions' far more significant source of SME financing, which disbursed a total of RM256.8 billion in loans/financing to SMEs in 2020, with more accounts approved than the previous year (2020: 145,993 accounts; 2019: 115,498 accounts). BNM's fund has aided enterprises' survival and the preservation of jobs, with roughly RM6.0 billion in funding remaining available for new SME applications as of mid-March 2021. In addition to providing financing, BNM supported the availability of credit guarantee schemes to encourage banks to continue lending in the high-risk environment (BNM, 2020a).

Due to the challenging environment, BNM is working to safeguard the Bank's finances for SMEs to respond to the immediate challenges that SMEs face while also supporting their ability to evolve and adapt to new norms. It will help Malaysia achieve its full potential. BNM continues to take proactive steps to raise awareness and address SMEs' concerns about low-demand facilities, such as the PENJANA Tourism Financing (PTF). (BNM, 2020a). The sector's poor business outlook has been hampered. Despite the slower adoption, BNM can reallocate resources to more critical SMEs (BNM, 2020b).

It would be represented by the recent increase in the SME Automation and Digitalization Facility (ADF) from RM300 million to RM1 billion, which was declared in March 2021. This action empowers SMEs throughout all sectors to automate tasks and digitalize operational processes to improve funding recovery and productivity in the post-pandemic environment (BNM, 2020b).

Development financial institutions (DFIs) continued to play an essential role in expanding access to capital (BNM, 2020b). DFIs played a counter-cyclical role during the pandemic by bridging finance gaps in critical economic sectors and the underserved. Demand from the domestic, agriculture, and general commercial industries helped DFIs increase total loans/financing outstanding by 7.7% to RM153.7 billion in 2020 (end-2019: -0.3% to RM142.7 billion).

The Bank worked together with state governments and Development Finance Institutions to maintain the operational continuity of agent banks amid movement restrictions to ensure continuous access to credit facilities. In addition, BNM collaborated with key financial institutions to put up Automated Teller Machines (ATMs) and mobile counters in rural and isolated areas to deliver government aid. BNM sought to build new alternative channels such as mobile ATMs to improve the delivery of essential financial services countrywide, in addition to the existing Mobile Banks supplied by financial institutions (BNM, 2020b).

Agent banking has remained a key conduit for giving quick access to financial services in distant places with inadequate connections, with sound spillover effects throughout the community (BNM, 2020a). Agent banks processed 17.1 million basic financial services transactions worth RM1.6 billion in the first nine months of 2020

(compared to 20.8 million transactions worth RM1.9 billion from January to September 2019). As of end-September 2020, agent banks had facilitated 212 million transactions totaling RM17.9 billion since the launch of the agent banking concept in 2012. 95% of sub-districts or State Legislative Assemblies (Dewan Undangan Negeri, DUN) now have access to essential banking services in terms of accessibility (2011: 4%).

BNM also worked to expand Malaysia's microinsurance and micro-takaful landscape in 2020. The revision of the Perlindungan Tenang framework, which was started in 2017 to increase the provision and uptake of genuine insurance and takaful solutions for the underserved, was a crucial move on this front (BNM, 2020b).

Recognizing its significance, the Malaysian government granted incentives to promote Perlindungan Tenang items in Budget 2021. It contains an RM50 voucher for qualified beneficiaries and a five-year renewal of the stamp duty exemption for Perlindungan Tenang items. These initiatives are expected to boost Perlindungan Tenang product adoption and expand the financial safety net for the rakyat (BNM, 2020a).

To raise knowledge and understanding of insurance and takaful protection among Malaysians, BNM launched a communication and education campaign. BNM cooperated with the insurance and takaful industries through the Financial Education Network (FEN) to present an education and awareness campaign connected with Financial Literacy Month in October 2020. More than 27,000 people watched the webinar (H. A. Hassan, 2019a).

BNM also aided industry initiatives to build creative ecosystems for more accessible financial services outside of the insurance/takaful market. New business models, including collaborations between payment service providers and fund management

businesses to enable micro-investments, thus expanding access to wealth management products, are among them. In these areas, BNM collaborated closely with appropriate regulatory authorities to improve and revise current legislation to promote such collaborations while maintaining financial stability and consumer protection safeguards (BNM, 2020b).

The investigations of Shinkafi et al. (2020) are included in the evaluated literature of contemporary researchers that show a connection between financial inclusion and the study of Islamic finance. Financial inclusion has a favorable but not particularly substantial impact on Islamic finance, according to their study, which also revealed a positive and significant relationship between Islamic finance and Middle Eastern economic development.

In other words, Islamic banking products have a positive impact on financial inclusion but are not significant. Shinkafi et al. (2020) also demonstrated in their research that financial inclusion has a good understanding of the influence of Islamic finance or the financial migration to Islamic banks. Correspondingly, they discovered that financial inclusion contributes to the poor's increased well-being; the study demonstrates that financial institutions are the only thing needed to assist the poor in OIC countries.

BNM's top priority for 2021 will be to define the essential developmental and regulatory priorities for the next five years (2022-2026). These goals will include supporting technology and data-driven innovation, improving the financial sector's competitiveness, extending access to and responsible use of financial solutions, and ensuring that financial intermediation stays effective to meet the economy's future demands. BNM will also emphasize the financial sector's catalytic role in pushing the

sustainability agenda, particularly climate-related risks, to facilitate a smooth transition to a greener economy (BNM, 2020b).

1.2. The Context of Study

Previously, the practice of waqf by Malays before the independence of Malaysia was not adequately documented. The administration of waqf assets was put in the hands of community leaders such as Qadi, Imam, head of the villagers, etc. The community leaders act as trustees until the implementation of the state enactment by the state's governments. Nonetheless, problems occur due to the lack of documentation and accountability of the community leaders appointed (Yaacob & Hisham Yaacob, 2013).

In Malaysia, Islamic Constituents are being established to manage all Islamic laws and regulations. It is to ensure the execution of Islamic conduct complies with Sharia law. Therefore, in Malaysia, the administration of waqf institutions is under the supervision of each state's local authorities, the SIRC (M. A. Bin Mohd Thas Thaker, 2018b). The growth of waqf institutions in Malaysia is generally on an upward trend. The size of waqf lands reported by the SIRCs was around 8,861.13 hectares in Malaysia and was worth more than RM64 million as of 2012 (M. A. Bin Mohd Thas Thaker & Allah Pitchay, 2018).

SIRCs function as the sole trustee for all waqf assets. In every state and federation of Malaysia, enactment provided such regulation (Apnizan Abdullah & Yaacob, 2012; C. Z. Ismail et al., 2015b). However, the administrative practices of waqf institutions in every state were different. The Department of Waqf, Zakat, and Haji (JAWHAR), introduced by the Federal Government of Malaysia, only provides guidelines on managing waqf assets in Malaysia (Azniza Hartini Azrai Azaimi Ambrose et al., 2015).

Henceforth, if all of the waqf lands in Malaysia were to be managed effectively and efficiently, it would positively impact Malaysian economic development (Allah Pitchay et al., 2018). Tactlessly, waqf land in Malaysia has been poorly managed by SIRC's due to a lack of financial support, expertise, and inconvenience law and land enactment (Hashim et al., 2018).

Waqf institutions in Malaysia were facing a problem where waqf assets were poorly managed. This inefficiency will result in underutilized waqf assets. Therefore, the desirable return from waqf assets was unachievable (Md. Shahedur Rahaman Chowdhury, 2011). There were several problems with waqf institutions reported in the literature. For instance, the daily procedure of waqf institutions' operation was too complicated, which caused a lack of economic growth from waqf assets (A. Hassan, 2010). Moreover, the legal system regulating the waqf institutions has failed to provide adequate institutional law and regulation, resulting in underdeveloped waqf assets (Z. Hasan & Abdullah, 2008).

On the other hand, cash waqf is a pool of waqf funds in fiat money or cash (M. Ismail & Mohsin, 2013). Cash waqf was introduced in Malaysia by Perak SIRC under Perak state enactment section 34 in 1957. Cash waqf must be managed wisely by SIRC's, as this organization is the sole trustee for managing cash waqf funds (C. Z. Ismail et al., 2015a). In addition, the Malaysian fatwa council (Majlis Fatwa Kebangsaan Hal Ehwal Agama Islam Malaysia) permitted the use of cash waqf in 2007 (H. Ibrahim et al., 2013).

A few Muslim jurists have discussed the definition of cash waqf. Waqf can be defined as the holding of property (ayn) from private ownership and the dedication of its usufruct to the charitable purpose. Thus, cash waqf can be explained by following the exact

definition as the confinement of a certain amount of money by waqif and the dedication of its usufruct to the welfare of society (Ismail Abdel Mohsin, 2013a).

Moreover, cash waqf can contribute to the economic development of the ummah through microfinancing since the estimated cash waqf collection in Malaysia could reach \$1.1 billion (Shukor et al., 2017). The management of cash waqfs, such as collection and distribution, was administered by the SIRC of each state, and coordinated by JAWHAR and Yayasan Wakaf Malaysia (YWM).

Through such coordination, some important projects, such as developing the waqf hotel in Kuala Terengganu, were successful. Thus, this proves that the potential of cash waqf in Malaysia to grow is enormous and can lead to a new window of opportunity if managed wisely. Therefore, this evidence shows that cash waqf has an excessive potential that catalyzes Muslims' economic development (M. M. Ali, 2017).

The double-edged advantage of cash waqf is that it offers flexibility in managing waqf assets since cash is a movable asset, and cash waqf also does not require a specific amount of money to be endowed. Secondly, cash waqf does not have any unproductive waqf assets since this is a liquidation type of waqf. Hence, in appreciating the potential of cash waqf, the Malaysian federal government and state government should form a central role in managing cash waqf to enhance it further (A. F. Osman, Htay, & Muhammad, 2012).

Contrariwise, there are quite a few weaknesses encountered by waqf institutions in Malaysia. It is primarily due to internal problems such as underqualified workers, transparency in financial reporting, and documentation issues (Khamis & Salleh, 2018). Besides, there is no standardized enactment for managing cash waqf (A. F. Osman, Htay,

& Muhammad, 2012). Thus, this issue further reduces the effectiveness of cash waqf management in Malaysia.

1.2.1. The Context of Islamic Banking Institutions

The philosophy and practice of Islamic banking have been widely spread around the globe and have been broadly accepted by people of different races and religions (Orhan, 2018). As the Islamic banking system (IBS) is emerging and growing in the financial world (Setyobudi et al., 2015; Wulandari et al., 2016), there is also a growing need for a deep understanding of this system. Even though the perception of Islamic banking is that it is an interest-free banking system, there has been little debate regarding this system (Grassa, 2012).

In the context of perception towards IBS, there has been a misconception that any financing provided by Islamic banks must be free from riba' and that Islamic banks are social, financial institutions that operate without any concern for gaining profit (Suharto, 2018). Henceforth, the public presumes Islamic banks provide Qard-Hassan financing where the amount borrowed is equal to the amount paid (Sadr, 2017). In reality, Islamic banks aim for profit, but with a different rule. The yield of Islamic banks has to comply with Sharia law, which is free from riba', gharar, and maysir (Zainuldin et al., 2018).

On the other hand, the Islamic banking product (IBP) structure has introduced a new philosophy of saving: Mudharabah, Musharakah, Murabahah, and Wadiah (Grassa, 2012; Setyobudi et al., 2015). This product of keeping accounts falls under the consumer business banking or retail banking department (Howcroft & Lavis, 1986). These methods of saving are effective in attracting consumer savings. Consumers can profit with their

savings (Dwayne Barney et al., 2009). Apart from that, Islamic banks provide other forms of accounts such as current accounts, Islamic fixed deposit accounts (i-FDA), investment accounts, and more (Haron & Nursofiza Wan Azmi, 2008).

There are several definitions of Islamic banks provided in the literature. For instance, an Islamic bank is defined as a non-interest banking system (Mansoor Khan & Ishaq Bhatti, 2006; Williams & Prather, 2010). Others have defined Islamic banks as the practical application of Sharia law in banking operations (Rao & Goldsby, 2009). In other words, an Islamic bank can be defined as a banking system that adheres to the principle of Sharia, which prohibits this bank from acquiring profit from riba' activities (Loqman, 1999).

These definitions of Islamic banking are excessively comprehensive, often leading to misapprehensions (Asrar Mirza & Riaz, 2012). However, two primary components of Islamic banking must adhere to Sharia law and avoid riba' in any of its activities and transactions (W. H. W. Ibrahim & Ismail, 2015). There was an argument that stated that the foundation of Islamic banks is guided by Islamic economics (Al-Jarhi, 2017; Ghafar b. Ismail & Tohirin, 2010).

IBS in Malaysia operates in accordance with the conventional system merging into a dual banking system that consists of sixteen Islamic banks, one international Islamic bank, eleven investment banks, twenty-six commercial banks, and two other financial institutions (ERF Sdn Bhd and Prokhas Sdn Bhd) (BNM, 2021). At the end of April 2020, the total assets in the Malaysian banking system were RM2,881,179.66 billion, which rose by RM94.74 billion at the end of 2019. Moreover, total deposits were \$464.3 billion, or RM1,987.36 billion, in April 2020 (BNM, 2021).

In 1983, Bank Islam Malaysia Berhad (BIMB) commenced its operation, thus introducing the IBS. To gain mass participation in the system, the Malaysian government introduced an Islamic banking scheme known as the “Interest-Free Banking Scheme” in 1993 rather than allowing a new Islamic bank to operate. This scheme enables existing conventional banks in Malaysia to provide Islamic financial services to customers alongside their conventional banking services and is mainly recognized as “Islamic windows”. The effective establishment of the first Islamic Bank and the snowballing figure of Muslims who wanted to readjust Islamic values and practices in their economic activities led to a second Islamic bank (Muhammed, 2013).

1.2.2. The Context of Sharia Law and Islamic Methodology

The Sharia law general system approach, which belongs to this area of study, is not being developed in the academic world (Choudhury & Hoque, 2017). The generalized system approach that is essential for this study is the approach of the Islamic worldview (Hamid, 2013; Ridzwan et al., 1994) and the Quranic worldview which could not be found and achieved by clear and logical methodology (Coulson, 1984; H. Hassan, 2002).

Therefore, most of the perspectives of the Quranic methodology of consilience, ontology, and epistemology of unity of knowledge have not been studied practically (Karam, 2005). The previous Islamic scholars categorized the knowledge and understanding in the Islamic field of intellectual facts between deductive and inductive philosophical perception (Edward Osborne Wilson, 1998).

The contrasts between the Quranic methodology and the mainstream social science methodology resulted in misconceptions regarding the development of Sharia and Islamic social science (Attia, 2008; Choudhury, 2010). The Quran contains excellent and fantastic knowledge that all Muslims use as a reference and guidance in their daily lives. The Quran also stated that Muslims find such an idea useful in developing Islamic economic methodologies and theories.

The Islamic viewpoint on economics is different from mainstream economics, which maximizes profit maximization. Material possession and profit maximization were not the main focus of the Islamic view. Rather, Muslims focused on submission to Allah (SWT). Moreover, the scope of Islamic economics comprises the objectives of Sharia, which are the maqasid al-Sharia and the study of Islamic values (M. A. Khan, 1987).

Compatibility with Sharia law: the conventional and mainstream economic theories should be accepted because the views do not contradict the Quran and the maqasid al-Sharia. Furthermore, some of the mainstream economic ideas do solve the financial problem and do not contradict Sharia law. Besides, the general principle of Islamic methodology is that a reference should be made to the Quran and the practice of the Prophet (SAW), which is the Sunnah (Siddiqi, 2001).

1.2.3. Waqf Banking Products for Financial Inclusion

The studies of merging waqf institution products and IBP concerning Malaysian financial inclusion are still an area of long-standing confusion and dispute (M. A. Bin Mohd Thas Thaker et al., 2016; Wahab et al., 2016). These unresolved problems

have led to a lack of concerted effort to provide literature input in the area of WBPs (Ramli & Jalil, 2014; Ridhwan et al., 2017; Shamsudin et al., 2015).

Although IBP and waqf financing product studies have been acknowledged as trending topics in Malaysia, waqf financing product studies related to financial inclusion are still vague. (Hachicha, 2015; Muhamed Zulkhibri, 2018; Suhaimi & Rahman, 2014; M. A. B. M. T. Thaker, 2018b).

With the current statistics regarding financial inclusion by BNM, the study regarding this subject matter should be the highest priority in Malaysia since only 25% of Malaysian adults have financing accounts and 16% of Malaysian adults have a life insurance policy in the year 2015 (see Section 1.1.1 financial inclusion). Therefore, this study will focus on microfinancing, home financing, life insurance, and takaful protection (Islamic insurance) in developing WBPs.

Table 1. 2: Waqf Financing Product and Islamic Banking Product Research Conducted in Various Countries for the Year 2009 to 2019

Countries	No of Research	
	Waqf Financing	Islamic Banking Product
Algeria	20	236
Australia	58	1,000++
Bahrain	53	713
Bangladesh	83	776
Brunei	36	234
India	69	1,000++
Indonesia	103	1,000++
Jordan	34	751
Lebanon	15	351
Libya	8	186
Malaysia	192	1,000++

Nigeria	57	620
Oman	23	426
Pakistan	88	1,000++
Saudi Arabia	70	1,000++
Spain	22	488
Tanzania	8	162
Tunisia	21	370
Turkey	68	900
UAE	29	641
Uganda	13	195
United Kingdom	43	612
USA	-	-
Yemen	28	270

Source: (Emerald Insight, 2020)

The studies regarding financial inclusion were conducted by researchers such as Hachicha and Ben Amar (2015), Haron and Nursafiza Wan Azmi (2008), Jouti (2018), Koker (2011), Lenka and Barik (2018), Sethi and Acharya (2018), Sharma (2016), and Shihadeh (2018). Only a few studies regarding the subject matter were conducted in Malaysia (Park & Mercado, 2015). On the other hand, the investigation regarding WBPs related to financial inclusion in Malaysia is another area to be explored in the academic world.

1.2.4. The Development Waqf Banking Products for Financial Inclusion

Studies regarding waqf financing and Islamic banking have been debated since the 1980s and have proven to be an important research area (Azniza Hartini Azrai Azaimi Ambrose & Mohamed Aslam Gulam Hassan, 2018; Ghazi et al., 2015; Grassa,

2016; Ismail Abdel Mohsin, 2013a; Kachkar, 2017; Shook & Hassan, 1988; U. Yavas, M. Yasin, M. Wafa, S. Al-Qudsi, 1990).

With the currently improved waqf financing product (Che Azmi & Hanifa, 2015; Ihsan & Ibrahim, 2013; Nazrul Hazizi Noordin et al., 2017) and IBPs (Fadzlan Sufian, 2007; Ismal, 2012), the studies of merging these two subject matters for financial inclusion would be more challenging. Therefore, these two subject matters need a comprehensive examination (Ihsan & Ibrahim, 2013; Kachkar, 2017; Ridhwan et al., 2017; M. H. Ullah & Ruma Khanam, 2018).

Table 1.2. shows waqf financing product and IBP studies conducted in various countries. This table summarizes that most of the studies regarding Islamic banking products were conducted in Malaysia, Pakistan, India, Saudi Arabia, Australia, and Indonesia. In contrast, the studies regarding waqf financing products were mainly conducted in Malaysia, Indonesia, Pakistan, and Bangladesh. This further implies that studies regarding the integration of these two subject matters should be prioritized in Malaysia.

Extensive literature reported that several methods of improving the quality of Islamic banking products and waqf institution products had been studied by Racha Ghayad (2008), Siswantoro (2018), and Zainuldin, Lui, and Yii (2018). The literature studies reported that Malaysians nowadays express a strong need to establish WBPs. (Mohammad, 2015b; S. A. Shaikh et al., 2017). Therefore, integrating IBIs and waqf institutions' product structures must be conducted to meet these needs.

1.2.5. Waqf Banking Products Research Concerning Sharia Law

Studies regarding waqf concerning Sharia law have been studied by Suhaimi and Rahman (2014) and many other researchers (Azniza H. A. A. Ambrose et al., 2018; Amin et al., 2017; Mahat et al., 2015a; S. A. Shaikh, 2017). The same goes for Islamic banking under Sharia law. These two subject matters were studied by a few researchers, such as Al-qahtani, Mayes, and Brown (2017), Aysan and Ozturk (2018), Gazdar, Hassan, Safa, and Grassa (2018), and Gheeraert and Weill (2015).

On the other hand, the Sharia rulings of WBPs were not critically discussed in the literature (Akilu Aliyu Shinkafi, 2017; Choudhury et al., 2018; I. A. Shaikh, 2018). Therefore, the Sharia ruling regarding WBPs needs to be analyzed thoroughly (Muhammad Rizky Prima Sakti, Mohamad Ali Tareq, & Buerhan Saiti, 2017; M. B. Sulaiman & Muntaka Alhaji Zakari, 2016). Furthermore, to safeguard the merging of these two structures being developed according to Sharia law and waqf rulings, matters regarding Sharia rulings concerning these two subject matters must be carefully examined and need an in-depth study.

Thus, Ghazali's philosophical thought discussed the expansive perspectives of these subjects (Akilu Aliyu Shinkafi, 2017). In Sharia philosophy, it is known as the maqasid al-Sharia (goal and purpose of Sharia), and its derivation is the maslahah (well-being derived from the maqasid) (Murphy & Smolarski, 2017; Pintak, 2014).

Up until now, such a far-reaching field of study in Sharia could not be established and formulated (Azmi et al., 2017; Z. Hasan, 2014). The Sharia point of view regarding the WBPs study (H. Ullah, 2014; M. H. Ullah & Ruma Khanam, 2018; Wan

Amalina Wan Abdullah & Stewart, 2013) and Islamic economics continued to be self-contained in specialized fields (Akilu Aliyu Shinkafi, 2017).

They failed to encompass the socio-scientific engagement that the Quranic methodological worldview proposes (Choudhury, 2018; Furqani & Haneef, 2015). Thus, the study of the WBP model to improve a new epistemological worldview could not be intellectualized and applied.

1.2.6. Recommendation from BNM in Addressing Financial Inclusion in Malaysia

The recommendation from BNM includes increasing the number of products and services available to suit the diverse financial requirements of all residents, particularly the underserved. This recommendation encourages flexible microfinance products that quickly draw funds in times of need and prepay during good times. Moreover, BNM recommended meeting microbusinesses' demands with seasonal revenue streams (BNM, 2020b).

Other than that, improving the monitoring framework for the results of financial inclusion efforts, such as convenient outreach, high take-up, responsible usage, and high consumer satisfaction, and creating a financial inclusion index to assess Malaysia's overall financial inclusion progress (BNM, 2020b).

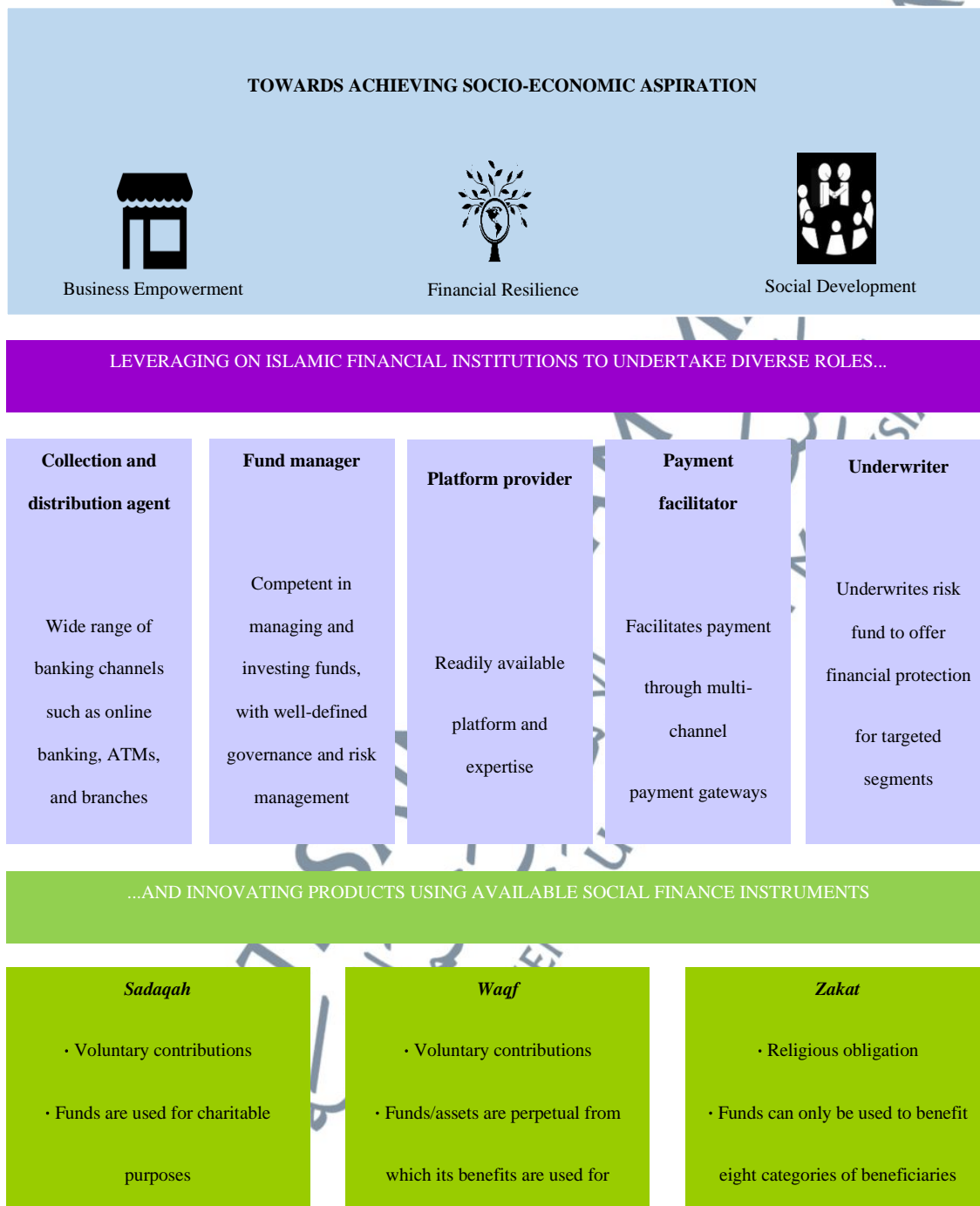
The efforts will be implemented in stages over the short and medium term. Efforts will be concentrated on adopting novel channels to expand the reach of existing financial services to the underserved in the first phase (BNM, 2020b).

The range and characteristics of financial products and services will be enhanced in the second phase to address the different and distinct demands of the underserved. Finally, financial service providers and the underserved gain the ability to more effectively manage intermediate assets (BNM, 2020b).

The Islamic banking and takaful industries continued to advance the social finance agenda through product innovation and service improvements. Social finance refers to financial services that mobilize philanthropic wealth through instruments such as sadaqah, waqf, and zakat to produce tangible social effects (BNM, 2020b).

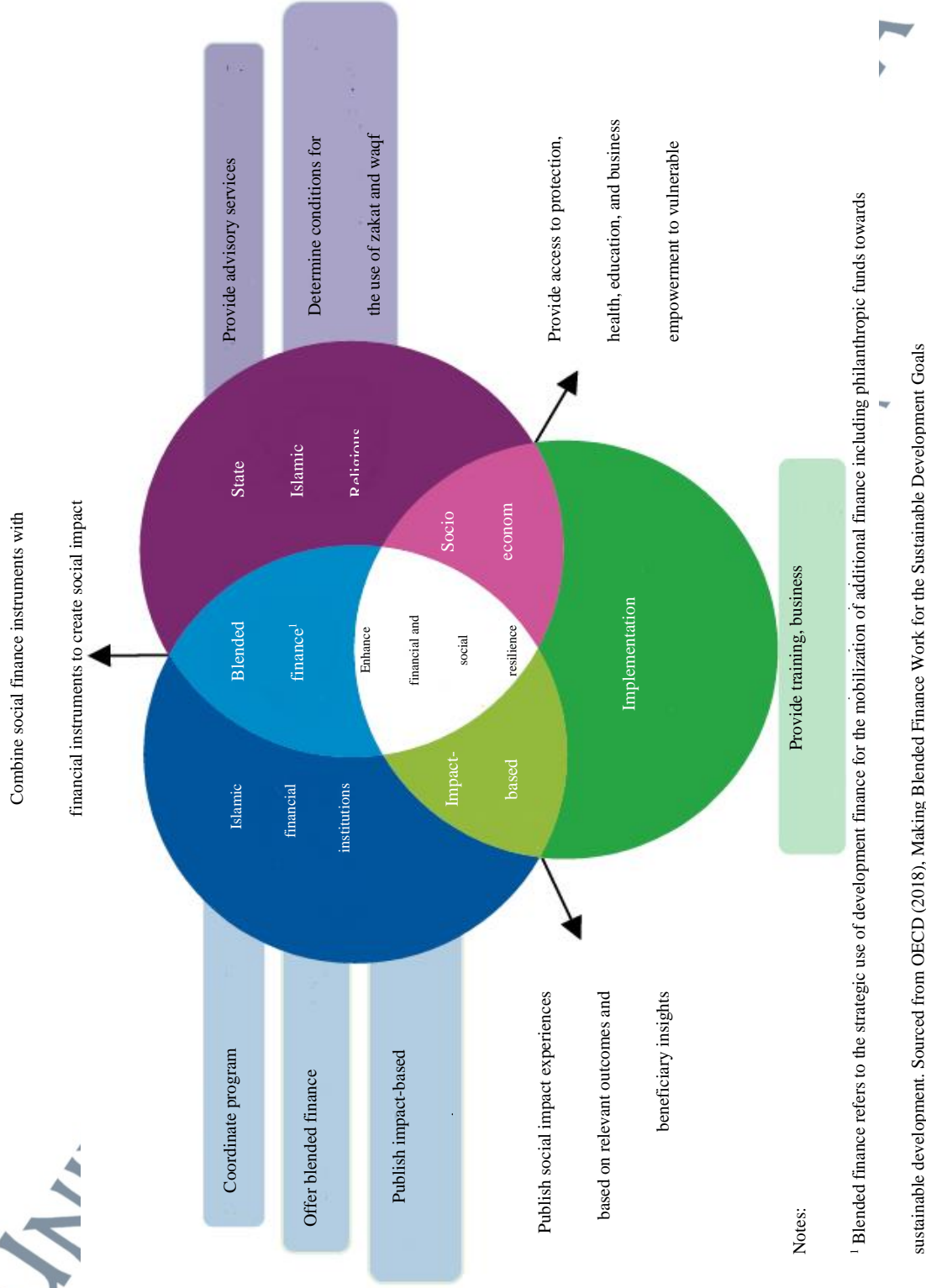
In 2020, the industry launched new items to address the underserved segment's unique needs (Figure 1.1). These include benevolent microfinance for B40 entrepreneurs, sponsored by corporate donations, and affordable housing financing programs for zakat recipients (BNM, 2020b). There was also financial protection for hardworking, impoverished families in the form of takaful riders paid with donations.

Islamic financial institutions must engage closely with SIRC's and non-traditional partners such as social businesses and non-governmental organizations (NGOs) to further integrate social finance. The collaboration allows each stakeholder to contribute their own unique experience, knowledge, and resources toward the common objective of improving the target groups' financial and social resilience (Figure 1.2). MyWakaf, a digital cash waqf platform developed by six Islamic banks and eight SIRC's, raised money totaling RM7.6 million by the end of 2020, which is an example of a successful synergistic relationship of this type (BNM, 2020b).



Source: (BNM 2020)

Figure 1.1: Towards Achieving Socio-Economic Aspiration.



Source: (BNM 2020)

Figure 1.2: Integration of Social Finance and Roles of Key Stakeholders

The funds were used to fund essential healthcare, education, and community empowerment projects. Empowering B40 entrepreneurs via iTEKAD is a focus that highlights an example of a pilot program that uses social finance instruments to supplement existing financial options. The Bank will continue to track the success and impact of the industry's social finance activities. BNM will also evaluate any regulatory or developmental actions that should be explored to strengthen the ecosystem and enable Malaysia's more resilient and robust social finance ecosystem (BNM, 2020b).

1.2.7. Banking for the Poor

Today, we live in an age where financial institutions have emerged and become the backbone of economic development. Such an institution has witnessed tremendous change in the cycle of economics (Zarrouk et al., 2017), which entails the continuous acquisition of a new branch of knowledge. In such a scenario, there is a growing demand at almost every level of living standard for acquiring financial stability, especially among the poor (Huda et al., 2018).

Malaysia faces the challenge of the rising cost of living and the role of Islamic Banking Institutions (IBIs) in solving these matters (Tan et al., 2018). Moreover, the inability of IBIs to offer financial services, including takaful services for the poor, is the main reason for intervention in the financial market at the macro level. It is due to some barriers in banking for the poor, such as borrower capital availability and credit limitations set by BNM (Wajdi Dusuki, 2008).

On the other hand, in the case of Bangladesh, banking for the poor was provided by Grameen Bank, established by Professor Dr. Muhammed Yunus (Hulme,

2008). The emergence of Grameen Bank is based on the founder's personal experience, in which he stumbled upon a widow who sold bamboo stools for a living (Hussain et al., 2001). Professor Dr. Muhammed Yunus stated that with the Poverty-Focused Program (PFP), reaching the poor is not a painful task to be implemented and specialized tools with specialized people (Kasim, 1999).

After twenty years, Professor Dr. Muhammed Yunus launched his research program to reach the poor, and Grameen Bank had recognized an effective tool for reaching the poor (M. Hossain, 1988; Yunus, 2007). Even though Grameen Bank has only been recognized and instituted as an “Experimental Bank” and not a conventional bank, this bank has reached 35,569 villages with more than two million poor people in Bangladesh (Hussain et al., 2001; Kasim, 1999).

Based on the Bangladesh Institute of Development Studies, 46% of Grameen Bank borrowers were out of their poverty line and no longer poor (Morduch, 1999). There were 6 out of 8 Grameen Bank borrowers who used the loan money not for themselves or their businesses but to give it to their relatives, and this is what contributes to poor Grameen Bank borrowers (Osmani & Khan, 1998). In contrast, prosperous borrowers mainly invest in agriculture, giving them a good return on investment (ROI) and food security (Yunus, 1999).

Grameen Bank has consistently battled poverty through microfinancing with reasonable, practical, and realistic terms for the lender (Hulme, 2008). Nonperforming loan (NPL) rates were as low as 5%, indicating that PFP benefited the poor and that it was sufficient to make this PFP contribution meaningful and worthwhile (Kasim, 1999). The placement of Grameen Bank branches in remote rural Bangladesh has a significantly

positive impact on total rural income and revenue (Hassan, M. Kabir, 2001). Moreover, Grameen Bank has reduced its dependency on subsidized funds from the government and acquired more funds from the capital and money markets (Dowla, 2006).

1.3. Problem Statement of the Research

The studies of merging waqf institution products and IBPs concerning Malaysian financial inclusion are still an area of long-standing confusion and dispute (M. A. Bin Mohd Thas Thaker et al., 2016; Wahab et al., 2016). These unresolved problems have led to the need for concerted efforts to provide literature input in WBPs (Ramli & Jalil, 2014; Ridhwan et al., 2017; Shamsudin et al., 2015). Although IBP and waqf financing product studies have been acknowledged as a trending topic in Malaysia, WBP studies on financial inclusion are still vague. (Hachicha, 2015; Muhamed Zulkhibri, 2018; Suhaimi & Rahman, 2014; M. A. B. M. T. Thaker, 2018b).

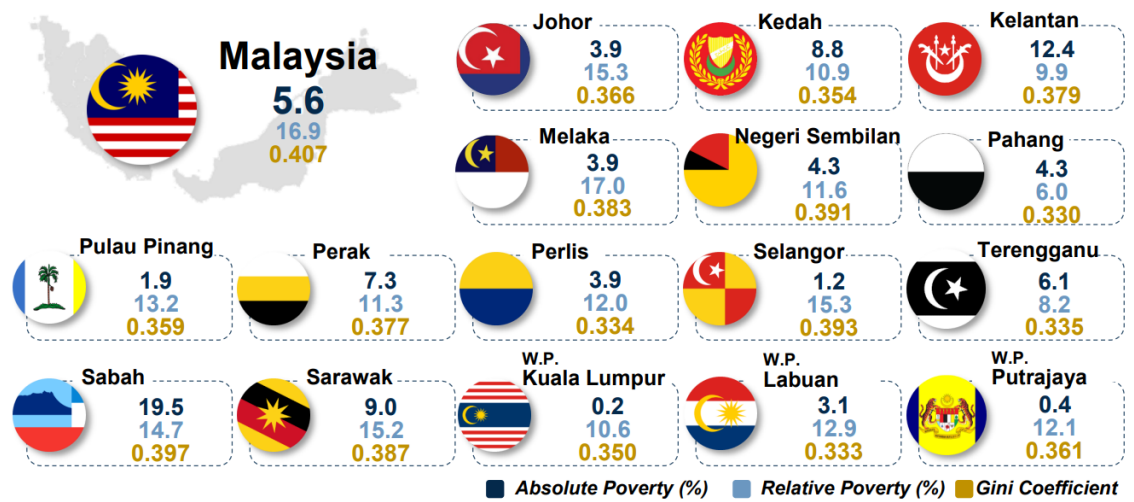
With the current statistic regarding financial inclusion by BNM, the study regarding this subject matter should be the highest priority in Malaysia since only 25% of Malaysian adults have financing accounts and 16% of Malaysian adults have a life insurance/takaful protection policy in the year 2015 (see Section 1.1.5 financial inclusion).

Due to low income, many Malaysian adults cannot get the desired financial service from any financial institution. This statistic contributes to the low take-up rate of financing accounts and life insurance/takaful protection by adults in Malaysia. The low take-up rate for financing accounts and life insurance/takaful protection was due to Malaysia's low-income earners. According to the Department of Statistics Malaysia (2020), the new national Poverty Line Income (PLI) is RM2,208, compared to RM980 used since

2005. Figure 1.1 of the incidence of poverty by state in Malaysia shows that only three states have a median income above the poverty line: Putrajaya, Kuala Lumpur, and Selangor.

Although the Financial Inclusion Index provided by the BNM database is only up to 2015, the take-up rate in recent years has been low due to declining household income. As The Edge Market (2020) reported, despite extensive income growth since 2010, most Malaysian workers still earn less than RM2,000 monthly. The incidence of poverty by state in Malaysia is illustrated in Figure 1.1. This report is further strengthened by the Department of Statistics Malaysia (2021) report, where the average household income declined by 10.3% due to the COVID-19 pandemic in 2020 (Department of Statistics Malaysia, 2021).

Therefore, this study focuses on finding the best, most affordable, and sustainable waqf-based financing and takaful product. In addressing the financial inclusion problem in Malaysia, this study will focus on three critical factors based on maqasid al-Sharia, which are daruriyyah, hajiyyah, and tahsiniyyah needs (basic needs) (al-Zuhayliy, 1986), and recommendations by BNM (based on the BNM report on Financial Inclusion) (BNM, 2020a). The key factors are waqf microfinancing, home financing, and waqf takaful (Amin, 2020).



Source: (Department of Statistics Malaysia 2019)

Figure 1.3: The Incidence of Poverty by State in Malaysia

To establish financial institutions that can address the financial inclusion problem, Malaysian need a new mechanism to provide financial services to the poor. Malaysian banks must deliver microfinancing and other financial services such as waqf takaful and waqf home financing. Thus, this research came up with a new idea in banking for the poor: WBPs. Furthermore, BNM also recommends facilitating the development of microinsurance and micro-takaful products in the insurance and takaful industries.

This recommendation provides the underserved with adequate financial protection against unexpected adverse events in a cost-effective, accessible, and easy-to-understand manner through a supportive regulatory environment, strengthened delivery capacity, increased market awareness, and improved consumer literacy (BNM, 2020b). Thus, this study will focus on microfinancing, home financing, life insurance, and takaful protection (Islamic insurance) in developing WBPs.

1.4. Research Question

- 1) What is the concept of WBPs based on financial inclusion in Malaysia?
- 2) How to develop WBPs based on financial inclusion?
- 3) To what extent WBPs commensurate with Sharia law?

1.5. Research Objective

The study, therefore, has **THREE** main objectives.

- 1) To identify the concept of WBPs based on financial inclusion in Malaysia.
- 2) To develop WBPs based on financial inclusion.
- 3) To examine and validate that the newly proposed WBPs are commensurate with Sharia law.

1.6. Research Methodology

This study is a little intricate because WBP is a new area to be studied in the academic world. Indeed, the subject area becomes more complex when integrating waqf financing products with IBPs to form the WBP model. Also, this study has to ensure that the WBPs are in line with Sharia law. This study has employed qualitative methods and an exploratory research design.

This research has a conceptual lens (its research framework) that overlays the semi-structured interviews and focus groups (the data collection method). Semi-structured interviews and focus groups were conducted with employees of waqf institutions, Islamic bank employees, and Muslim scholars to indicate the development of WBPs. The semi-

structured interviews and focus groups will continue until this study meets the data saturation point.

Emails and messages via online social media platforms, such as Facebook, Twitter, and Gmail, were sent to the interviewee before the interview session. It will give the interviewee a general idea regarding the interview context and prepare some relevant answers. Interviewees are selected to be employees of waqf institutions, executives of Islamic banking institutions, and Muslim scholars.

The data from the interview is analyzed using content analysis and descriptive analysis techniques since these methods are suitable for qualitative, primary, and exploratory research. The descriptive analysis gives an overall picture of the interviewees' demographic profiles. Content analysis is conducted to extract the general idea of WBPs. The result of the content analysis will provide a significant contribution to the academic world, policymakers, and industries in developing WBPs in Malaysia.

1.7. Scope and Limitation of Research

The research will focus on the establishment of WBPs that are in line with Sharia law. The study investigates waqf financing, Islamic banking, and Sharia rulings to develop the WBP model. The primary focus of the study is the merging and integration of waqf financing products and Islamic banking products in Malaysia. Then the study will move on to the second phase, which outlines Sharia law regarding the establishment of the WBP model.

The study's interviews include employees from waqf institutions, IBIs, and Muslim scholars from various universities and SIRC located in Malaysia. The data

collection will be conducted from one interview in every waqf institution in Malaysia, IBIs, and Muslim scholars in Malaysia until the researcher reaches the data saturation point.

The targeted outcome of this study is to develop new WBPs for financial inclusion in Malaysia. Other than that, this study also aims to provide Sharia guidelines for establishing the WBP model. On the contrary, since this study focuses on developing the WBP model for financial inclusion, it will NOT discuss the potential WBP acts and how to develop those acts in Malaysia. This study will also not confer on the legal aspect of waqf banking practice or any issue relating to risk management.

1.8. Significance of Research

The findings of this research will benefit both theoretically and practically by providing a critical qualitative analysis of waqf institutions and IBIs in a specific context to develop WBPs, specifically in Malaysia. In particular, this study expands the limited existing literature and studies of the WBP model in Malaysia. Moreover, this research examines the Sharia issue concerning the WBP model.

Waqf is a unique category of everlasting charitable acts. It entails giving away a fixed asset with the potential to generate income or offer benefits. Certain beneficiary categories are then served by the revenue or benefit created. In contrast, an endowment is a financial contribution that will generate income for a hospital, university, college, or other type of organization, person, or community.

One of the purposes of this study is to find the most suitable WBP model under Sharia law. Thus, the nation must be exposed to WBPs and consider their benefits to society. With cash waqf, helping one another will become more conducive and professional

because reliable employees and organizations will provide a smooth waqf endowment system.

The WBP model is designed to empower Muslims' economic development. Therefore, the impact on poor Muslims will be improved quality of life through waqf microfinancing. Through WBPs, poor Muslims will have a chance to start their own small-medium enterprise and improve their standard of living.

Muslimpreneurs play an essential role in developing the Malaysian economy. Therefore, the development of WBPs will hopefully assist muslimpreneurs in starting and growing their business. As waqf does not have any specific beneficiaries, waqf distribution funds can be distributed to muslimpreneurs. Thus, muslimpreneurs can use this opportunity to start or even enhance their business further.

The research regarding WBPs covers a wide range of academic disciplines and is a new research area in the academic world. This study area provides significant novel findings and develops numerous new theories regarding WBPs, thus giving new knowledge to the academic world.

This research can also serve as a reference for IBIs to develop a banking product based on the cash waqf structure. IBIs can use this research finding to expand their businesses into the waqf area, as partially practiced by Bank Muamalat Malaysia Berhad (BMMB). Partly, practice means BMMB only collects cash waqf for Selangor, Negeri Sembilan, Kelantan, and Kedah. This waqf fund is managed by "Jawatan Kuasa Pengurusan Bersama" (from now on called the Joint Committee) in each SIRC. BNM plays an essential role in IBIs, especially in setting and developing rules and regulations. This research can also serve as a reference for BNM to design WBPs.

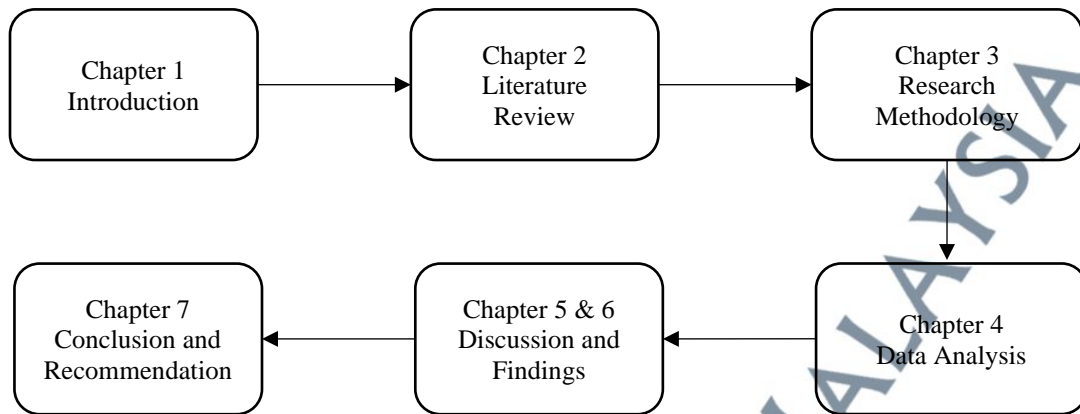
Currently, the more fortunate and wealthier people have limited choices to channel their wealth and money for economic development purposes. It is due to the limited number of specific sources or institutions available to contribute. Having WBPs for economic development will help the needy and provide more channels for the more fortunate to contribute their fortune in the name of economic growth. Most importantly, they will gain Allah's blessing and reward for their good deeds.

1.9. Thesis Organization

This study captures two main issues concerning the development of WBPs. This research examines the involvement of Islamic banking institutions and waqf institutions in practicing WBPs in accordance with Sharia law. Hence, this study will be structured as follows.

Chapter 2 will provide a review of the previous study related to WBPs. The same chapter offers a discussion on the underpinning theories of IBPs and waqf-based financing products. This chapter will also provide the relevant conceptual framework for the study.

Subsequently, Chapter 3 will explain how this research is conducted. The methodology used in this research is qualitative research. This study will interview executives and personnel from waqf institutions, IBIs, and Muslim scholars in Malaysia to obtain the data. Afterward, Chapter 4 will discuss the data analysis. This chapter analyzes the data collected from the various interview sessions. This study aims to tackle the issue through a unifying framework that integrates variables involved in developing WBPs.



Source: (Developed for the current study)

Figure 1. 4: Thesis Layout

Chapters 5 and 6 will successfully discuss the concept and development of WBPs from Sharia's point of view. This chapter will examine the developed WBPs and discuss the data in Chapter 4. Finally, Chapter 7 will conclude this study with policy implications based on empirical findings and the identification of potential issues for future research within this domain. The research questions will be answered in Chapters 4, 5, and 6 of this study.

1.10. Chapter Summary

This chapter has given an overview of waqf institutions and IBI's context, as well as the rationale for why this study is essential to be conducted. This chapter has also provided the overall study direction by giving the research objective, research question, significance of the research, and a brief description of the methodology being used. WBPs are crucially important for Malaysians to improve their standard of living.

Only a few pieces of literature currently discuss WBPs and how to develop them. However, the following chapter will address a gap in the existing literature regarding WBPs. The next chapter will review the waqf-based financing products, IBPs, and WBPs. Also, the models used by the previous researchers will be critically analyzed. Figure 1.4 shows the layout of the research.

