

THE INTEGRATION OF MICRO TAKAFUL AND TEMPORARY WAQF FOR THE UNDERSERVED POPULATION IN MALAYSIA

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Abstract

Micro takaful has become a critical strategy to mitigate risks and overcome poverty among low-income populations in a community. However, micro takaful's low penetration rate seems worrying due to the recommendation to minimise its management costs. This paper aims to develop a financing model/framework by integrating micro takaful and temporary waqf to benefit the underserved population in Malaysia. This research uses the content analysis method from relevant literature to derive a suitable financing framework based on temporary waqf applications. As a result, this study suggests an integrated micro takaful and temporary waqf financing framework to solve the existing problems. It is hoped that this work will benefit the development of micro takaful financing strategies and boost its offerings in the future.

Keywords: *Micro takaful, temporary waqf, underserved population, framework, B40*

INTRODUCTION

Background

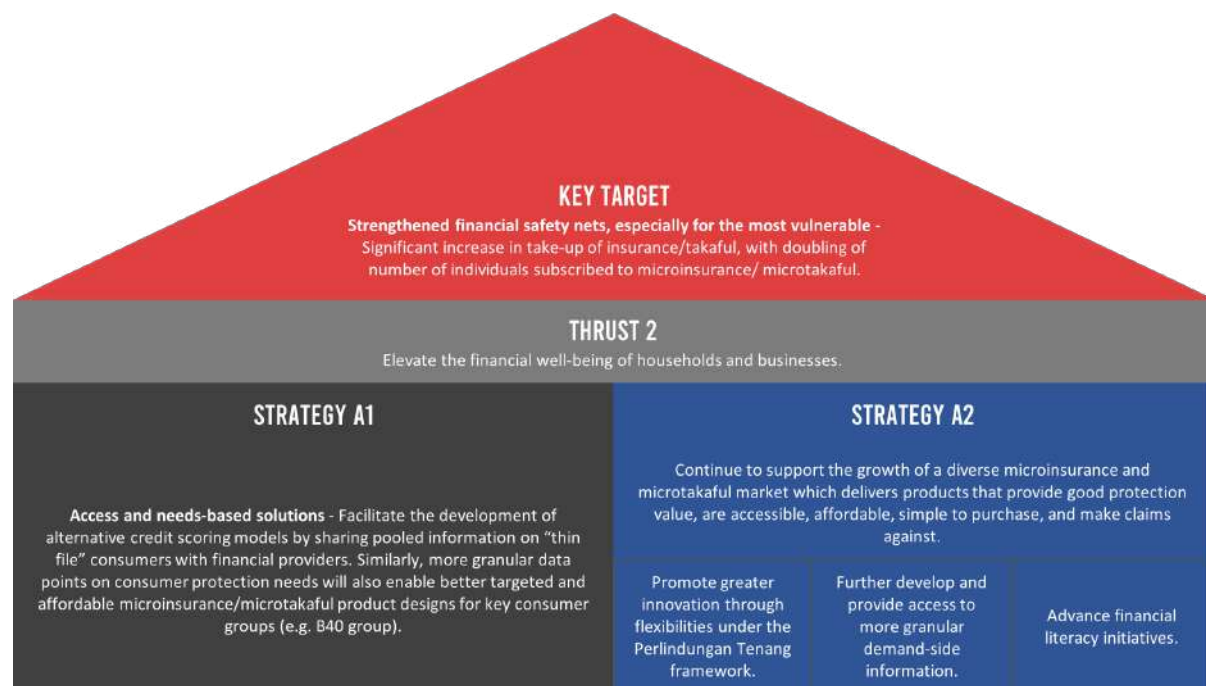
Micro takaful has been designed to provide affordable health and financial protection to the unserved and underserved population. Starting from 2011, the Central Bank of Malaysia (BNM) encouraged takaful operators to develop micro takaful products in its Financial Sector Blueprint 2011-2020 by stating (Bank Negara Malaysia, 2011):

Recommendation 2.3.2

iii. "Facilitating the insurance and takaful industry to develop microinsurance and microtakaful products, which provide the underserved with adequate financial protection against unexpected adverse events in a cost-effective, accessible and easy-to-understand manner through a facilitative regulatory environment, strengthened delivery capacity, increased market awareness and enhanced consumer literacy."

Later in the Financial Sector Blueprint 2022-2026, the designs and suggestions towards micro takaful initiatives have become more comprehensive due to the development

of the Perlindungan Tenang programme since 2017. The figure below summarises the key target of the micro takaful initiative in 2026 as proposed by BNM:



Source: Excerpted from Bank Negara Malaysia (2022)

Figure 1. The key target, thrust and strategies for the micro takaful/microinsurance initiative of BNM

Today, most micro takaful initiatives are focused on the government's initiatives (Microinsurance Network, 2021), such as mySalam⁶ and Perlindungan Tenang Vouchers (PTV) through subsidies for micro takaful subscriptions. One of the main issues arising from today's micro takaful offerings is its low take-up among the B40 group (Ishak, 2020), resulting from the financial constraints for promotion activities to the targeted markets (Kamal et al., 2022). Mukherjee et al. (2013) reported that Malaysia's microinsurance (which was highly contributed by micro takaful products) coverage in 2012 was only 3.71%. Although there was no recent data on micro takaful penetration in Malaysia (in the previous five years), micro takaful development worldwide, particularly in Malaysia, is still in its infancy phase (Microinsurance Network, 2021; Salleh & Padzim, 2018).

Apart from that, micro takaful operators face a huge amount of operational costs, including 1) treatment costs; 2) an unbalanced ratio of contribution funds and

⁶ The mySalam national health protection scheme is an initiative started by the Government that aims to provide 6.8 million with free takaful protection. mySalam recipients are coming selected from Bantuan Sara Hidup recipients, which divided into three categories: a) aged between 18 and 65 and their spouses; b) single individuals aged between 40 and 65 and earning less than RM24,000 per annum; and 3) OKU individuals aged between 18 and 65 and earning less than RM24,000 per annum. mySalam benefits are including a one-time RM8,000 cash payout upon diagnosis of one of the 45 Critical Illnesses and RM50 daily hospitalisation income replacement up to RM700 per annum at any government, military or university hospitals.

claims; 3) promotion and advertising costs; and 4) shariah-compliant management costs in its offering to the poor population (H. 'Azeemi A. Thaidi et al., 2021). These problems emerge from a low contribution fee in the micro takaful scheme, which generates low profit for micro takaful operators. Consequently, it may cause a deficit risk to takaful providers and negatively affect the industries' sustainability in the future. To encounter the problem, Bank Negara Malaysia (2022) suggests that micro takaful schemes must be developed with the cooperation of both government and private sectors to boost additional funds for micro takaful operations and expand the protection coverage to the participants.

This research suggests the integration of micro takaful and temporary waqf (*al-waqf al-muaqqat*) instruments to overcome the financial challenges of micro takaful operations. As an established philanthropic tool in Islamic social finance, waqf seems to fulfil its intention in financing micro takaful schemes, where the funds are primarily collected to enhance economic and social development (Kusumaningtias, 2019), as well as eradicate poverty in the society (H. 'Azeemi A. Thaidi et al., 2021). It is also worth mentioning that the discussions and studies about temporary waqf are getting more attention lately, despite having some legislation restrictions (Rahman et al., 2021).

For instance, temporary waqf has been chosen as a practical financial instrument in iTEKAD CIMB Islamic Rider Entrepreneur⁷ programme, which was initiated with the collaboration of Yayasan Waqaf Malaysia (YWM), CIMB Islamic Bank Berhad (CIMB Islamic), Yayasan Belia Malaysia (YBM), Taylor's University and Food Panda (Yayasan Waqaf Malaysia, n.d.). The development of temporary waqf today may occur because of its unique characteristics, such as being flexible and easier to manage for social development purposes, rather than the permanent waqf (*al-waqf al-muabbad*) (H. 'Azeemi A. Thaidi et al., 2021). More discussions on its prospects are elaborated on later in this paper.

OBJECTIVE

This paper aims to discover a new potential financing model by integrating micro takaful and temporary waqf to promote the development of micro takaful offerings in Malaysia. It is done in this research through analysing previous studies related to the model of micro takaful financing through zakat and waqf funds, as well as the discussions regarding the application of temporary waqf instruments.

⁷ In this programme, cash waqf contributions are collected from the society and will be used to buy motorcycles as physical assets of waqf. The motorcycles will be given to the eligible recipients from B40 group of youths to work as Food Panda riders on a 12-month contract basis. After completed the contract period of a year, the motorcycles are then gifted (*hibah*) to the riders by transferring the ownership.

METHODOLOGY

This qualitative research analyses the discussion related to the micro takaful financing model, the Islamic jurisprudence views related to temporary waqf and the potential of its implementation in Malaysia. The method used to achieve this study's purpose is content analysis with inductive and deductive approaches. The research was conducted on micro takaful policy documents, particularly those issued by the Central Bank of Malaysia, academic journal articles, theses, online forums, official websites and local newspapers. Furthermore, the review of micro takaful financing models using existing zakat and waqf funds is the main focus of this study in developing a micro takaful and temporary waqf integration model, which will be the aim of the study conducted.

LITERATURE REVIEW

Related literature on the study is organised into several themes:

Concept of micro takaful

Bank Negara Malaysia (2016) defines micro takaful as "*a takaful product that is designed to respond to the financial protection needs of low-income households*". The first part of the definition (*a takaful product that is designed to respond to the financial protection needs*) manifests a takaful product's concern which is to provide financial protection to takaful participants during uncertainties and risks in life. It is done in takaful when the risk is shared collectively among a group of people, whereas they are entitled to an agreed amount of payment as their takaful contributions. The contributions, regarded as donations in takaful, are collected into a fund to provide financial assistance to any member of the group suffering a loss (Htay et al., 2015).

The second part of the definition (*of low-income households*) explains a unique attribute that makes a takaful product 'micro' by targeting low-income households as its participants. Therefore, Hasim (2014) and Sanrego (2019) define micro takaful as shariah-based takaful protection that has been modified with an affordable contribution amount to suit the condition of underprivileged individuals. Furthermore, Bank Negara Malaysia (2016) adds specific principles of micro takaful products offered in the market as 1) easy to understand; 2) maximisation of protection; 3) affordable cost for lower income group; and 4) simplified claim process.

Compared to takaful, micro takaful shows a closer meaning to the essence of takaful (mutual assistance) and *ta'awun* (mutual cooperation) when it encounters the most vulnerable segment of people, thus the most in need of protection towards unexpected adverse events (Bank Negara Malaysia, 2016; Brugnani, 2013; Hasim, 2014b; Htay et al., 2015).

Strategies for financing micro takaful schemes

In suggesting a good financing instrument for micro takaful, it becomes an important step to identify the existing strategies in funding micro takaful as proposed by academicians and researchers, as well as its current practice in the industry. The idea of utilising zakat and waqf funds for micro takaful is among the prominent suggestions in the previous literature when zakat and waqf funds seem to be inseparably connected with the poor population as the target market of micro takaful offerings (Brugnoni, 2013; Hasim, 2014a, 2014b; Hassan et al., 2020; H.' Azeemi A. Thaidi, Nazarie, et al., 2021; H.' Azeemi A. Thaidi, Salleh, et al., 2021; Zakaria et al., 2019).

According to Brugnoni (2013), the zakat fund can be used to pay contribution fees of micro takaful policies for the poor, focusing on the eligible zakat recipients who do not have sufficient income to contribute. In addition, Hasim (2014a) also recommends utilising the zakat fund to manage initial expenses, research and development of micro takaful schemes. This recommendation is worth considering as micro takaful operators have limitations on the promotional and operational costs in micro takaful offerings (Kamal et al., 2022; H.' Azeemi A. Thaidi et al., 2019). Besides, the usage of zakat fund in micro takaful offerings to the poor have the potential to subsidise micro takaful contribution fees, improve shariah-compliant governance and build up the image of zakat institution in Malaysia (Hasim, 2014a; Hassan et al., 2020; H.' Azeemi A. Thaidi, Salleh, et al., 2021).

As to how the zakat fund works, waqf is also being suggested to finance the micro takaful scheme by funding the participants' contribution fees. In micro takaful-waqf model suggested by Zakaria et al. (2019), a waqf pool fund is initiated by a micro takaful operator to collect contribution payment from the participants and other sources of donations. The fund will be managed by a micro takaful operator through *wakalah* contract but remain an independent entity with its self-ownership, recognised by the law. Then, the collected waqf fund will be invested, and the profit from the investment shall return to the waqf pool and distributed to the parties involved according to the investment (*mudharabah*) contract. Hasim (2014a) suggests a model where the waqf fund will be used as an additional fund into a cooperative common pool through *qard* (agreement of lending money by a lender to a borrower), which is managed by takaful operators. Takaful operators shall repay the allocated amount from the waqf fund after gaining profit from investment activities within the time stated.

The existing works of the literature suggest micro takaful financing models through zakat and waqf fund to enhance its implementation. Still, implementing temporary waqf as a financing instrument is very infrequent. Therefore, this study will try to bring out a new financing model by integrating micro takaful and temporary waqf to protect the underserved population.

Concept of temporary waqf

Temporary waqf in Islamic jurisprudence is derived from the discussion on the types of waqf, based on the duration of waqf, whether it is temporary or perpetuity. It is the view of the minority among the scholars who permit the implementation of temporary waqf, which is also the selected view of the Maliki school and some of the Hanafis scholars, particularly Abu Yusuf, except for waqf on the mosque and cemetery (Kahf, n.d.). The discussion of temporary waqf is about a stated period of waqf set by the founder (*al-waqif*), where the property still exists and is beneficial even though the period has expired. Once the period ends, the waqf status on the property also ends with it (Ab Rahman & Amanullah, 2017). It is contrary to the concept that a waqf property was destroyed within a certain period. It remains a permanent waqf even if the property is destroyed for some time (Kahf, n.d.).

Ab Rahman and Amanullah (2017) and Kahf (n.d.) explain the distinct advantages possessed by temporary waqf instruments compared to permanent waqf, namely: 1) it is easier to manage; 2) may give more options to the founder to endow their property according to their preferences; 3) can reduce the numerous unmanageable waqf properties; and 4) able to provide benefits to a broader group of recipients. It can be shown through the recommendations of these studies, which emphasise that waqf founders should do specific waqf (*waqf khas*) and waqf to the descendants (*waqf zurri*) temporarily. As a result, the waqf status will be converted to a general type (*waqf khairi 'am*) after the end of the waqf period. Apart from that, returning the waqf properties to the founders after the expiry of the waqf period is also seen to have the potential to boost economic development through investment and interest-free loans (*qard al-hasan*) activities.

In the interviews conducted by Ab Rahman and Amanullah (2017) with several representatives of the waqf management from selected states of the State Islamic Religious Council (SIRC), they stated the problem of the currency's depreciation over time. The issue arises when the value of cash waqf may reduce if they are not converted into physical assets. This problem can be solved using cash waqf in the form of shares in the stock market, small-enterprise loans and investment activities. The implementation also coincides with the views of Maliki and Hanbali scholars. This study will identify the suitable exercise of temporary waqf instruments in the micro takaful industry.

RESULTS AND DISCUSSION

This study found a great potential for implementing micro takaful and temporary waqf integration in promoting the growth of micro takaful supply and demand

between the takaful industry and low-income communities, per the guidelines set by banks and federal/state laws. The main objective of this financing model is to help the low-income group to obtain micro takaful coverage to cope with the uncertainties of life. Therefore, the takaful operator will create a waqf trust fund through a temporary cash waqf channelled from the waqf founders (*al-waqif*) to the SIRC. The fund is used to obtain micro takaful policies and pay micro takaful claims for the low-income group.

Next, the problem of non-widespread promotion due to funding limitations, as noted in the study of Kamal et al. (2022) can be solved by maximising the role of SIRC and its subsidiary companies under its management in reaching out and taking care of the needy, especially the poor (*faqir*) and impoverished (*miskin*). Such cooperation is critical to encourage micro takaful penetration rates, mainly through federal and state government agencies (Bank Negara Malaysia, 2016; Hasim, 2014a; Kamal et al., 2022).

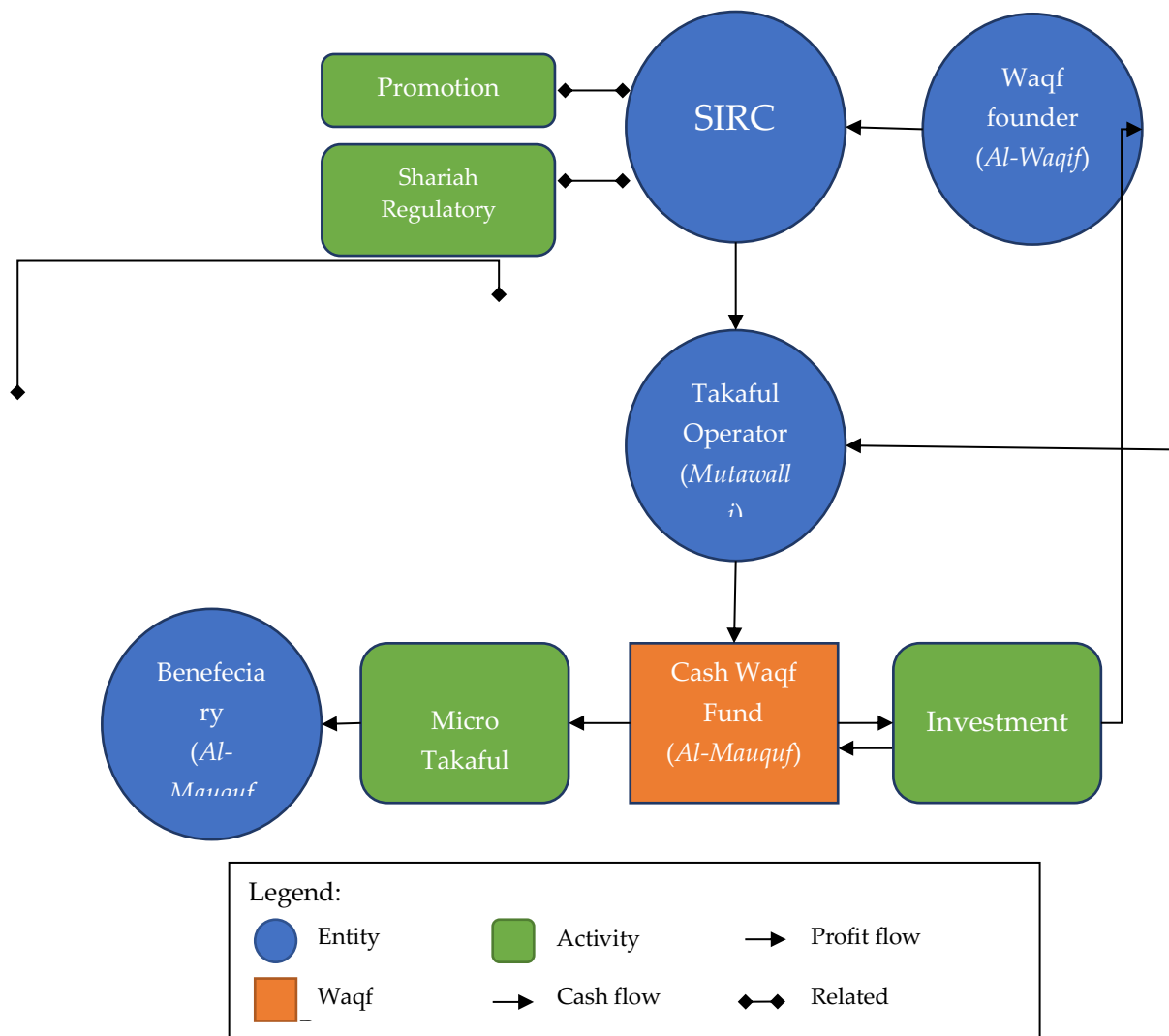
Through the temporary waqf instrument, it is seen to attract more contributors among individuals and companies. This benefit comes when waqf founders can design waqf contributions given according to their wishes (Kahf, n.d.). For example, suppose a founder wants to endow his wealth in this project but at the same time only wants a return of 50% of the total waqf property given for the needs of his children. In that case, he can do so by endowing half of the total waqf permanently and another half temporarily. Then, the amount of waqf savings will be invested, and the profits from the investment activities will be returned to the founders or their heirs under the stipulated agreement – such as once at the end of each year after the investment period reaches maturity.

With the involvement of SIRC in this financing model, it can also increase the founders' trust to contribute to the micro takaful-temporary waqf fund, which will be managed by an established religious authority of the state. In addition, it may convince the underprivileged group to subscribe to the micro takaful protection scheme even if they have to pay little contributions to get it. This situation corresponds with the report issued by Bank Negara Malaysia (2016), which stated that participants' trust and financial capability are among the dominant factors for this group of people to participate in takaful protection schemes compared to their level of knowledge about takaful. Thus, the lack of demand for micro takaful products can be resolved.

Integrating micro takaful and temporary waqf can also reduce the cost of shariah-compliant governance management if the task can be given to SIRC as a body with a group of experts in shariah governance and Islamic finance. As a result, such a financing model is in line with Bank Negara Malaysia's recommendation to provide a micro takaful product that minimises costs but maximises the protection of low-income communities (Bank Negara Malaysia, 2016). Figure 2 below shows a proposed

framework on the integration of micro takaful and temporary waqf generated from previous literature suggestions.

Figure 2. The Integration of Micro Takaful and Temporary Waqf Financing Framework



In this framework, temporary cash waqf funds will be collected from waqf founders via SIRC and channelled to takaful operators to form a pooling cash waqf fund. The takaful operator will manage the fund for micro takaful underwriting and claim purposes using *wakalah* contract while initiating investment activities using *mudharabah* contract. The cash waqf fund has its self-ownership, which binds with existing law, as Zakaria et al. (2019) proposed. Any profit initiated from the investment of the fund will be allocated to: 1) the cash waqf fund itself; 2) the takaful operator based on *wakalah* and *mudharabah* agreement; and 3) the waqf founder (*al-waqif*) as a return based on temporary waqf principle. As mentioned, SIRC will monitor shariah governance and regulations in this framework and promote micro

takaful to the low-income group segment. Targeting micro takaful participants by segmenting them into specific groups, such as the *faqir* and *miskin* that fall under the supervision of SIRC is one of the critical strategies to boost micro takaful uptake among the underserved population (Bank Negara Malaysia, 2016; Kamal et al., 2022; mySalam, n.d.).

CONCLUSION

In conclusion, more models/frameworks are needed to encourage micro takaful penetration rates among the underserved population in Malaysia. It is due to cost limitations in its operations that require an injection of funds from strategic sources. Here, temporary waqf is seen as a potential financing instrument to achieve the means through developing a framework for integrating micro takaful and temporary waqf. Some suggestions for further research are needed as follows:

- a) A study that identifies the validity of this integration framework from legal and takaful business perspectives.
- b) A study on the appropriate period for implementing temporary waqf instruments in this framework.
- c) A study on the deficit risk towards waqf trust fund in the process of implementing this integration model.

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