CHAPTER 6

THE FINDINGS ON THE WAQF BANKING PRODUCT IN ADDRESSING FINANCIAL INCLUSION IN MALAYSIA

6.0. Introduction

Concerning this study's second and third objectives, this chapter explains the development of WBPs based on financial inclusion in Malaysia. Moreover, this chapter also explains the Sharia compliance of WBPs and the bodies or organizations related to this subject matter. It was improbable a few decades ago that modern banking and financial institutions would incorporate Islamic values into their principles and practices. While consumer preference for Islamic banks has been slow to develop, it shows signs of improvement. Islamic banking has grown in popularity due to its financial approach, which attracts increasing capital investment.

As a result of the positive outlook for the industry in these markets, Islamic finance is expected to grow even more rapidly. Malaysia is a nation with a Muslim majority that exceeds 60% of the total population. Generally speaking, the country is regarded as one of the most ardent supporters of Islamic banking globally. The Pilgrims Management and Fund Board established the Lembaga Tabung Haji, an Islamic savings institution, in 1969, which is now known as the Pilgrims Management and Fund Board (Ashran et al., 2021).

A comprehensive Islamic financial industry was established to raise awareness of Sharia-compliant finance. The Islamic Banking Act of 1983 established the first full-fledged Islamic bank. As a result of the Islamic banking scheme, conventional financial institutions were permitted to offer Islamic banking products, allowing the industry to grow gradually (Ashran et al., 2021).

Therefore, Islamic banking and the conventional financial system coexisted, creating a dual monetary system. Sharia-compliant, highly innovative products were developed in response to the high market demand. Since the emergence of the Islamic interbank money market in 1994, there has been a significant increase in Islamic financial institutions. It was established in 2005 that an Islamic Malaysia Index would be created, including 45 stocks of Malaysian companies that met a variety of Sharia or Islamic law requirements. (Bank Islam, 2020).

According to Fitch Ratings (2022), Malaysia's Islamic banking sector expanded despite the economic challenges posed by the coronavirus pandemic. By the end of 2020, Islamic financing would account for 37% of total banking system assets (up from 35% in 2019), with Islamic financing accounting for nearly all of the banking industry in developing countries in 2020. It is due to domestic financing and banks that promoted Islamic products as part of the "Islamic First" strategy. Many of Malaysia's leading commercial banks have established Islamic banking operations to capitalize on the vast opportunities in this $1 trillion industry.

The introduction of Islamic banking has opened up new avenues in the banking industry. The emergence of Islamic banking provides a broader range of banking products and services. These products must compete with those offered by traditional banking. With the similarity of the services offered by banks, the banking industry has thus become highly competitive, making it increasingly crucial for banks to identify the factors that determine the basis on which customers, particularly non-Muslims, choose between providers of financial services (Ashran et al., 2021).

On the other hand, with the support of Islamic banks, Malaysian Sharia principles have been enhanced in promoting moral values and preventing social harm (BNM, 2018). The Islamic banking vision for promoting moral values is to make the industry more impactful by creating and supplying various products and services to clients and consistently interacting with them (BNM, 2018). Thus, promoting moral values within Islamic banks is intended to improve their social responsibility. This value-based intermediation has attracted national groups, including Muslims and non-Muslims, to participate in social concern projects. In 2019, six Islamic banks actively collected cash waqf (Mohsin, 2019).

6.1. The Development of WBPs per Malaysian Financial Inclusion

The development of banking products and Islamic banking products has been studied by several researchers, including Aijamal K. Kantoroeva (2021), Jibril et al. (2021), and Mohamad Syafiqe Abdul Rahim (2021). Mohamad Syafiqe Abdul Rahim's (2021) studies focus on the Islamic banking product development theory and its application. On the other hand, Jibril et al. (2021) and Aijamal K. Kantoroeva (2021) focus on perception and the development of agricultural financing products.

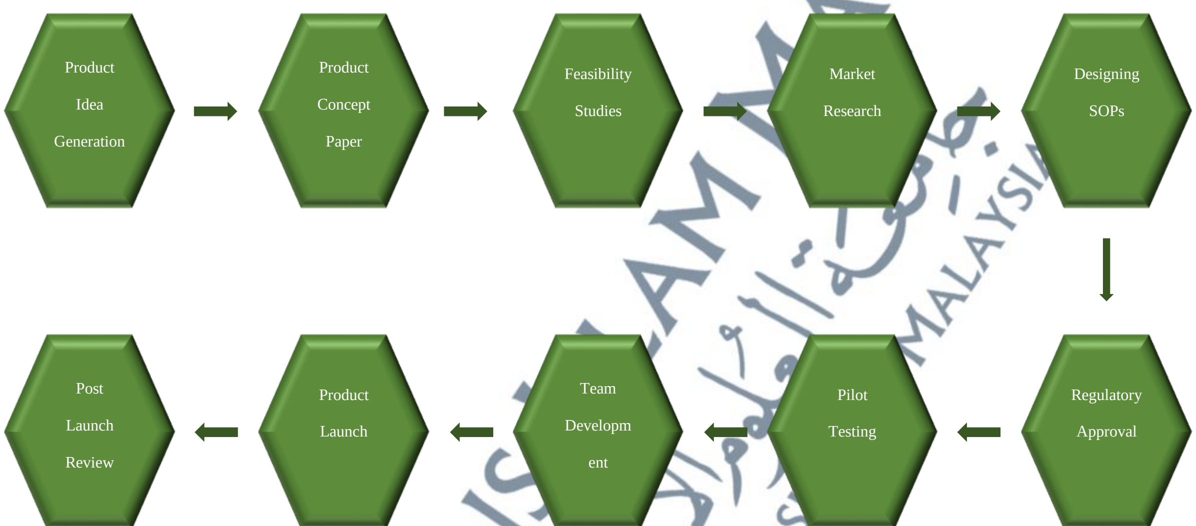
There are two critical factors in developing WBPs: the development of WBPs from the perspective of the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) and the development of WBPs from the perspective of the SIRCs. From the SIRCs' standpoint, banks should grant them authority to design WBPs. As a result, WBPs are well-suited to be managed by AIBIM. If AIBIM works on this product, it will become more available to the member banks (R. Bakar & Nawal, 2020).

AIBIM was founded in 1995 as the Association of Interest-Free Banking Institutions Malaysia. AIBIM currently has twenty-six member banks, including eleven domestic banks, five development financial institutions, and ten foreign banks with a local presence. AIBIM promotes a sound Islamic banking system and practice, locally and internationally. AIBIM represents members' interests and provides guidance and assistance regarding Islamic banking and finance's local, regional, and worldwide growth. AIBIM coordinates human capital development activities specifically for member banks (AIBIM, 2022).

AIBIM enlightens its members about WBPs. For example, if AIBIM produces a waqf house financing product, all ABIM members will utilize the newly developed waqf home financing product. If AIBIM has waqf takaful products, all AIBIM members will use them under the established specifications. On the other hand, BNM will act as a regulator, and BNM is responsible for enforcing Malaysia's banking laws. Therefore, collaboration between AIBIM, BNM, and SIRCs is crucial in developing WBPs (AIBIM, 2022).

AIBIM should establish its own Sharia committee to ensure that WBPs comply with existing waqf law. The Sharia committee will determine whether or not this product complies with waqf law. Then, AIBIM must obtain approval from the SIRC before launching the product in the state. The final decision to enforce this product does not rest with the bank's Sharia committee or AIBIM. The Fatwa committees in each state determine it, specifically according to the conclusion of each state's mufti. It is because each state's waqf law is unique. Thus, each state's implementation of WBPs is special (R. Bakar & Nawal, 2020).

6.1.1. Waqf Banking Product Development Process



Source: (Developed for the current study)

Figure 6.1: Waqf Banking Products Development Process

The SIRC must be aware of and access the documents on each waqf agreement found in the WBPs. Each contract must state unequivocally and in writing which SIRC will benefit from the WBPs. AIBIM should regulate WBPs, as each product must be approved by the Fatwa of the SIRC. Thus, the SIRC has already contributed to the development of WBPs by providing guidelines to AIBIM. Therefore, AIBIM requires that WBPs adhere to the Fatwa guidelines issued by the SIRC. As a result, AIBIM must ensure that this product adheres precisely to the established policies (R. Bakar & Nawal, 2020).

Figure 6.1. depicts the WBP development process. The first step in developing WBPs is idea generation. Parties involved in idea generation are AIBIM and SIRCs. AIBIM and SIRCs need to study B40 needs and solve them at this stage. Since there are fourteen SIRCs in Malaysia (Khamis & Salleh, 2018), the development process had to be done step by step accordingly.

The second step in developing WBPs is writing the product concept paper. After AIBIM and SIRCs get feedback from the public regarding their needs, the next step is writing the concept paper. All details should be included in this concept paper, such as the problem statement, the article's value, the goal and objective of the report, the concept and ideas in problem-solving, and the conclusion (Ashran et al., 2021).

The third step in developing WBPs is conducting feasibility studies. AIBIM and SIRCs will conduct these studies to evaluate the practicality of WBPs. A feasibility study evaluates a project's viability to determine its success and examine its potential risks. A thorough feasibility study can separate viable business opportunities from risky investments. A well-designed feasibility study should include a product or service description, financial data, operational and management details, marketing research and policies, and legal and tax obligations (Amri, 2021).

The fourth step in developing WBPs is market research. Market research refers to the process of establishing the viability of a new service or product through a direct customer study. Market research enables a company to identify its target market and obtain thoughts and other feedback from consumers regarding their interest in a product or service under consideration (Arif, 2021).

In market research for developing WBPs, AIBIM and SIRCs have to directly interview potential customers to assess the viability of a new product. Surveys, product testing, and focus groups can all be used to do market research. In most cases, test subjects receive a free product or a small stipend in exchange for their time. Research and development (R&D) for a new product or service must include market research as an essential part of its development process. Market research allows AIBIM and SIRCs to identify their target demographic and gauge consumer interest in WBPs (A. R. Ismail, 2021).

The fifth step in developing WBPs is designing standard operating procedures (SOPs). The SOP creation process enables AIBIM and bank members to collaborate on documenting processes for the greater good of all. Creating and adhering to a framework for SOP development fosters a strong sense of teamwork and increases productivity. SOPs are not produced overnight; they demand diligence and an examination of critical business procedures. While the concept of writing SOPs may appear straightforward, failing to follow a specified process or miswriting an SOP can have a tremendous impact on an organization (Othman et al., 2021).

There are five steps in designing SOPs for WBP development that AIBIM and SIRC need to go through. The first step is AIBIM, and SIRCs need to develop a list of processes that need SOP creation. Next, AIBIM and SIRCs need to plan to create and manage SOPs. After that, AIBIM and SIRCs need to collect information for the SOP content. Afterward, AIBIM and SIRC need to write, review, and publish the SOP. The last step is AIBIM, and SIRCs need to maintain the SOP over time (Ashran et al., 2021; R. Bakar & Nawal, 2020; Othman et al., 2021).

The most efficient method to accomplish this work is for AIBIM and SIRCs to speak with their teams and generate a list of prospective SOPs. Then, schedule a meeting for the management team to evaluate the lists, bearing in mind that not all processes should be codified; instead, only those with a clear business requirement or need for uniformity should be formalized (Basri, 2021).

Once the forward-looking processes have been identified, the management group must continue their review to determine if there are any redundancies or whether any SOPs need to be connected when departments do the same or comparable activities. This master list, however, will not be the final list. Some processes can be combined, while others must be separated into separate SOPs. This list's primary purpose is to provide a crucial starting point (R. Bakar & Nawal, 2020).

The SOP format should be determined in advance. The first procedure that needs to be constructed is a list of all the things included in SOPs. To begin, AIBIM and SIRCs need to figure out the structure of the SOPs. When it comes to describing the method, the format is critical. AIBIM and SIRCs can begin creating the SOP template once the layout has been defined. For consistency's sake, it's crucial to keep this in mind when building a template for SOP (Hartini, 2020).

As a result, it is essential to identify each sector's many types of operations. It's not unusual for this to be a problematic component of drafting SOPs. At the very least, two templates should be available to look over and provide feedback on. The format and SOP template must be agreed upon by everyone involved in drafting and enforcing SOPs. IT SOP Montrium has prepared templates for companies in regulated industries.

Organizations such as AIBIM and SIRCs can speed up creating documentation by using pre-made SOP models based on their criteria (Manan, 2021).

On the other hand, the sixth step in developing WBPs is obtaining regulatory approval (R. Bakar & Nawal, 2020). Banking and financial institutions are regulated and supervised by BNM under IFSA 2013. The conventional banks participating in the Islamic Banking Scheme are regulated and supervised by the Malaysian Financial Services Commission under the Banking and Financial Services Act 2013 (FSA 2013).

The IFSA 2013, which replaced the Islamic Banking Act 1983 and the Takaful Act 1984, is equivalent to FSA 2013 in the Islamic financial industry. The FSA 2013 and IFSA 2013 came into effect on June 30, 2013, replacing the Payment System Act 2003, which had been abolished at the time. Bank Negara Malaysia requires that issuers of designated payment instruments receive prior clearance from the central bank (BNM, 2021).

The IFSA 2013 was enacted to govern and supervise Islamic financial institutions, and it is the primary piece of legislation controlling Islamic banking and the takaful industry. The IFSA 2013 establishes an express requirement on a registered institution to guarantee that its goals and operations, business, affairs, and activities are always in line with Islamic law (BNM, 2021).

Regulators, or in other words, BNM, play an essential role in the development of Islamic financial products, and their responsibilities go beyond ensuring stability and confidence in the financial system. BNM also influences the conduct of market participants. The regulations, norms, and guidelines that are promulgated play an essential role in establishing an incentive structure that encourages market participants to behave in specific ways. Therefore, AIBIM and SIRCs need to have approval from BNM to develop WBPs (Basri, 2021).

Next is the seventh step in developing WBPs, which is pilot testing. Pilot testing is when a chosen set of end-users test the newly developed products under test and provide feedback before the products are fully deployed. This test enables AIBIM and SIRCs to evaluate the feasibility, duration, cost, risk, and overall performance of a research project; it is necessary to conduct a pilot test. In other words, it refers to the process of completing a dress rehearsal for the usability test that will take place later (Arif, 2021).

Pilot testing is used to detect faults in the developed product as early as possible. The system is installed on a customer site or in a user-simulated environment and tested against continuous and regular use conditions in pilot testing. The most commonly used testing method is to constantly run the system to identify its weak points. These flaws are then reported to the development team in the form of bug reports, and the faults are corrected in the product's next release (Alireza Miremadi, 2021).

The following step in developing WBPs is team development. Team development needs to be implemented to promote teamwork and help AIBIM and SIRCs become more efficient (R. Bakar & Nawal, 2020). Forming, storming, norming, performing, and adjourning are the five stages of team development that all teams go through throughout their existence. Developing a group is an ongoing process (Manan, 2021).

Forming the team is when the team members meet for the first time. It is critical for team leaders to facilitate the introductions and showcase the abilities and backgrounds of each member of the team. Team members are also provided with project specifics and the chance to organize their roles independently (Arif, 2021).

During the storming stage, team members freely exchange ideas and take advantage of the opportunity to distinguish themselves and be recognized by their peers. When teams reach this level, team leaders may assist them by having a plan to control competition among team members, make communication more efficient, and ensure that projects stay on schedule (Mberia & Wachira, 2021).

Norming: By this point, teams have worked out how to collaborate effectively. There is no longer any internal competition, and roles and responsibilities are clearly defined. The efficiency of each increase results from the knowledge gained about how to share ideas and listen to comments while working toward a common objective (Newman & Ford, 2021).

There is high cohesion and trust among team members regarding implementation. Teams are performing at their highest levels of efficiency with minimal supervision from team leaders. Although difficulties continue to arise, teams have developed techniques for resolving them without jeopardizing timetables or progress (Zaim et al., 2021).

Teams conclude their project and share their thoughts on what went well and what could be improved for future projects before adjourning. Team members then move on to new projects after completing their current ones. Take a look at how AIBIM and SIRCs can utilize this strategy to amplify the skills of their remote marketing team to ensure that projects are successful and completed on time in the future (Amri, 2021).

The next step in developing WBPs is product launch. It is the planned and organized effort undertaken by a firm to introduce new products to the market and make those products generally available for purchase. A product launch serves a variety of functions for AIBIM and SIRCs, and providing customers with the opportunity to purchase a new product is simply one of them (Junaidi et al., 2022).

It also assists AIBIM and SIRCs in building anticipation for a new product, obtaining valuable input from early users, and gaining momentum and industry recognition for the organization's efforts. AIBIM must plan its product releases carefully and long before the date they intend to launch the product. A successful product launch needs collaboration between many teams and departments throughout the organization—product management and development, marketing, sales, customer support, finance, and public relations (Othman et al., 2021).

The last step in developing WBPs is a product launch review. The pre-launch evaluation must be followed by a post-launch evaluation that analyzes quantitative and qualitative measures. Furthermore, post-launch evaluation is just as crucial as a pre-launch strategy since it provides valuable insights that can be used to increase sales for WBPs that will be launched in the future (R. Bakar & Nawal, 2020).

Post-launch reviews are audits of new product development initiatives that look for lessons learned. Communication is the primary purpose of a post-launch review. Team members working on new product development projects, such as WBPs, must communicate effectively to institutionalize processes and practices that increase project efficiency. Teams also report to senior management on the financial results of their working initiatives. Finally, project managers for new product development discuss best practices to learn from one another and enhance project planning for the next venture (Ashran et al., 2021).

6.1.2. Joint Committee for Waqf Banking Products

The research regarding Joint Committees between Islamic banks and waqf management institutions in Malaysia has been studied by Hayari et al. (2018) and several others (Fauzi et al., 2019; Mohamad Akram Laldin, Sharifah Zubaidah Syed Abdul-Kader, 2021; Rusni Hassan, 2021; Shariff & Siti Mashitoh Mahamood, 2021). The purpose of the Joint Committee in developing WBPs is to ensure their development runs smoothly.

As for Waqf Selangor Muamalat, the members of the Joint Committee consist of the BMMB executive, independent manager, and PWS executive. The purpose of the Joint Committee between BMMB and PWS is to delegate a task and ensure the management of waqf and cash flow runs smoothly (Abdul et al., 2021). For example, the duty to raise the waqf fund is given to BMMB, while the distribution will be decided in the Join Committee meetings (Othman et al., 2021).

Source: (Developed for the current study)

Figure 6.2: Joint Committee Model for Waqf Banking Products

On the other hand, the WBP Joint Committee consists of an Independent Manager, AIBIM member bank executives (Product Development Executive, Sharia Department Executive, and Marketing Executive), and an SIRC executive (Othman et al., 2021). The role of an Independent Manager is to supervise the members of the Joint Committee, manage the waqf fund for WBPs, and make decisions for WBP product distribution (Amri, 2021).

For the appointment of Independent Manager, one must have extensive experience in financial management and have a set of skills in waqf. The Independent Manager also acts as the WBP's fund manager. Other than that, the Independent Manager also manages the investment of WBP's cash waqf. On the other hand, AIBIM members' bank executives function as waqf fund collectors, overseeing the waqf and Sharia rulings within WBPs and the distribution of WBPs. Conversely, SIRC is the sole trustee for the waqf fund (Basri, 2021).

6.1.3. Waqf Banking Product in accordance with Sharia Law

The development of new products and the introduction of these products to the market are also essential aspects of Islamic banking activities. The flexibility of Islamic banking products, on the other hand, should be viewed in the context of Sharia principles and frameworks. In Islamic banking, a product is governed by divine guidance and is consistent with Islamic ethos and values (Mohamad Syafiqe Abdul Rahim, 2021).

It is based on a banking system that provides banking products that are based on Islamic economic principles in a banking environment that is Sharia-compliant. In other words, it is direct involvement with financial and banking practices that are based on Islamic jurisprudence and Sharia (Islamic legal principles). All banking operations and products, whether deposit or financing, are conducted following Sharia regulations (Jibril et al., 2021).

Since Sharia binds Islamic banking, it offers the same products and services as conventional banking, such as deposits and credit facilities (Zaim et al., 2021). It also facilitates the transfer of funds, which establishes the relationship between the financial institution and the customer by utilizing several Sharia-compliant contractual relationships with different risk characteristics. Applying these principles extends to other types of bank transactions, such as a letter of guarantee, a letter of credit, remittances, foreign exchange, and other similar transactions (N. M. Abdullah, 2020).

In terms of WBPs in accordance with Islamic law, more precisely waqf law, only SIRC has the authority to establish Sharia rules that a fatwa must approve. The Sharia standard specifies how WBPs will operate as well as the dos and don'ts of WBPs' activities. Due to the nature of WBPs, they must be conducted in accordance with waqf law. As a result, Sharia norms must be in place before distributing WBPs to consumers (R. Bakar & Nawal, 2020).

Waqf has specific characteristics and laws, and if they are not followed, the waqf becomes null and void. As a result, WBPs must adhere to waqf law. For instance, when the SIRC issues a fatwa on waqf takaful products, AIBIM ensures that waqf takaful products comply with the fatwa. The national fatwa council merely needs to create instructions to ensure that every bank that uses or issues WBPs adheres to the fatwa established by SIRC. If the bank encounters difficulties in implementing the recommendations provided, the national fatwa council should overcome the bank's difficulties (Ashran et al., 2021; Hartini, 2020).

Each bank has a department dedicated to Sharia compliance. They will be responsible for ensuring that WBPs adhere to Islamic law. SIRC also plays a role in advising the bank on Sharia compliance, ensuring that the WBPs operate in accordance with the fatwa. In terms of the product itself, it must adhere to Sharia regulations. Thus, before developing WBPs, the WBPs Joint Committee must first establish a Sharia framework (Othman et al., 2021).

It is because WBPs must follow Sharia's guidelines. The WBPs Joint Committee requires a Sharia department comparable to Islamic banks. This Sharia board is responsible for ensuring that this product adheres to Sharia law. Both sides must have

Sharia committees, SIRC, and Islamic Bank, to ensure these WBPs adhere to Islamic law (Arif, 2021).

6.2. The Waqf Banking Products

This study has discussed the concept of WBPs, the definition of WBPs, the reason behind the establishment of WBPs, the beneficiaries of WBPs, the cash waqf structure of WBPs, awareness among the public about WBPs, and the development of WBPs. Discussions will continue with WBPs, namely waqf takaful, waqf home financing, and waqf microfinance.

6.2.1. Waqf takaful

The research on waqf takaful has been carried out by several different researchers (Abdullah et al., 2018; Muhamat et al., 2019; Noorhidayu et al., 2020; Zakaria et al., 2019). The majority of the researchers attempt to figure out how to include waqf in takaful operations. The discussion of waqf takaful mainly focuses on establishing a cash waqf fund for takaful products.

In Malaysia, the consolidation of Islamic financial and Takaful services under a single legislation, IFSA 2013, was intended to pave the way for developing a comprehensive Sharia-compliant regulatory framework for the conduct of Islamic financial operations. With the implementation of the IFSA 2013 and FSA 2013, several separate pieces of legislation, including the Islamic Banking Act 1983, the Takaful Act 1984, the Payment Systems Act 2003, the Exchange Control Act 1953, the Insurance Act 1996, and the Banking and Financial Institutions Act 1989, were repealed and replaced with a single piece of legislation.

The IFSA 2013 new framework is expected to facilitate Takaful business implementation efficiently. Through comprehensive provisions relating to the enforcement of Sharia non-compliance risk and the imposition of a statutory duty upon Takaful players to ensure that their aims, operations, affairs, businesses, and activities follow Sharia principles. Segregation of funds, a single licensed takaful business, the form of the business entity, and additional fiduciary duties of the Board of Directors (BOD) are some of the new requirements of IFSA 2013 that have become fundamental elements of the IFSA's approach to regulating the takaful sector. Besides that, Sharia governance matters, an insolvency framework, and consumer rights are also part of the requirements of IFSA 2013.

On the other hand, YWM has collaborated with several takaful companies in Malaysia to broaden the range of endowment methods available. By including the waqf element in the takaful products, plan participants can choose to contribute to YWM in proportion to the value of their contribution or the number of benefits they receive. The first takaful company to collaborate with YWM is Takaful Ikhlas Family Berhad (TIFB) through the Ikhlas Waqf Endowment (IWE) product. IWE is a community initiative from TIFB (YWM, 2022).

All takaful participants from TIFB who start contributing on April 2020 are eligible to participate in IWE. The advantages and benefits of joining IWE are that TIFB offers free money of one thousand ringgit for each general takaful certificate contributed individually. This provision is for accidental deaths of contributors only. Contributors can endow cash waqf to YWM with a maximum of 1/3 of the total takaful certificate benefits after the policyholder's death (TIFB, 2022).

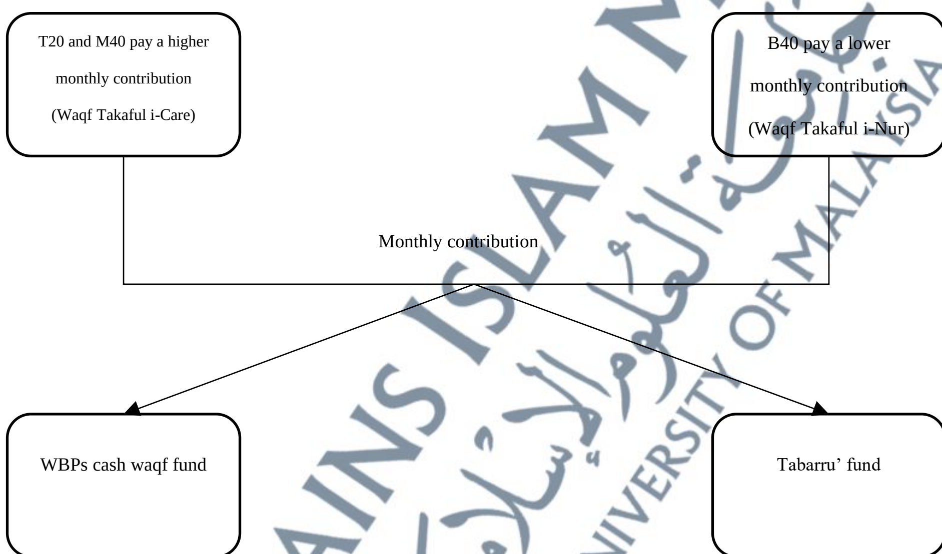
The second takaful company that collaborated with YWM is Sun Life Malaysia Takaful Berhad (SLMT). SLMT offers two products with waqf riders. The first product is Sun Infinity-i. SLMT will pay 5% of the total contribution after the plan participant's death to YWM. This product can also be joined by non-Muslims. The following product that SLMT offers for waqf riders is SunLink Istismar Plus. SLMT will pay YWM a maximum of 10% of the rider's benefit of Waqf & Death due to a personal accident on behalf of plan participants from the tabarru' fund upon the occurrence of death (YWM, 2022).

The third takaful company that collaborated with YWM is AmMetLife Takaful Berhad. Through AmMetLife Takaful products that offer waqf riders, a policyholder can choose YWM as one of the takaful certificate beneficiaries. The tabarru' credited from the Participant Investment Fund (PIF) to the Participant Risk Fund (PRF) will be used to assist participants in case of accidents (YWM, 2022).

After subtracting the wakalah charge, the donation goes to the PIF. The operator will handle and invest the Sharia-compliant contribution. The PIF will keep the investment gains for the benefit of the participants. Assuming the participant has not made any claims or received any benefits payable under each type of insurance under this certificate while it is in effect, any net surplus in the PRF shall be split between participants and the operator in the agreed ratio (YWM, 2022).

On the other hand, the primary purpose of WBPs is to address financial inclusion issues in Malaysia and, thus, to help B40. In terms of the waqf takaful of the

WBPs, this study has developed a new waqf takaful model for the poor. The waqf takaful of waqf banking products works in two ways. First, SIRC and AIBIM bank members must collect cash waqf for WBPs, as explained in the cash waqf structure of WBPs. The WBPs Joint Committee Manager can invest in this endowment fund in Sharia-compliant investment vehicles. The profit from the investment can be used as a tabarru' fund (R. Bakar & Nawal, 2020).



Source: (Developed for the current study)

Figure 6.3: Waqf Takaful Product Model

Figure 6.3. depicts the waqf takaful model of WBPs. The plan is to attract more T20 and M40 to participate in Waqf Takaful i- Care of WBPs. AIBIM bank members need to promote the Waqf Takaful i-Care protection plan to T20 and M40 before the WBP Waqf Takaful i-Nur can be promoted to B40. A monthly contribution of 30% will be channeled to a specific waqf fund for the WBPs cash waqf fund, and another 70% will be directed to the tabarru' fund. When the tabarru' fund and cash waqf fund of WBPs are

enough to cover the protection plan for B40, then AIBIM bank members can distribute Waqf Takaful i-Nur to B40 (Ashran et al., 2021).

Waqf Takaful i-Care is a takaful protection plan designed for the needs of the T20 and the M40. This protection plan comes with a waqf rider in which the policyholder will contribute 30% of the monthly contribution to a cash waqf fund specifically for WBPs. The monthly contribution of this protection plan will be higher due to the 30% contribution to the cash waqf fund. Another 70% of the contribution will be channeled to the tabarru' fund (Othman et al., 2021).

On the other hand, Waqf Takaful i-Nur is takaful protection specially designed for B40. This protection plan also comes with a waqf rider, but the policyholder can choose whether to contribute to the cash waqf donation or vice versa. The Waqf Takaful i-Nur has a lower monthly contribution since B40 cannot pay a high monthly contribution. The objective of Waqf Takaful i-Nur is to provide takaful protection to B40, especially during the COVID-19 pandemic (Amri, 2021; Basri, 2021; A. R. Ismail, 2021).

What will be covered in Waqf Takaful i-Care and Waqf Takaful i-Nur is life protection, medical care, critical illness, and personal accidents. Waqf Takaful i-Nur cannot provide the same level of compensation as waqf takaful in the current market. Waqf Takaful i-Nur compensates lower than regular takaful in the current market since the waqf fund for WBPs is still insufficient. Therefore, SIRC and AIBIM can issue this waqf takaful product in stages to promote Waqf Takaful i-Care until there are enough funds for WBPs to be fully functional (Othman et al., 2021).

A policyholder (T20 and M40) donates part of their hibah as waqf to the SIRC and then transfers it to the WBPs cash waqf fund. A Joint Committee Manager will then manage this fund invested in a Sharia-compliant investment vehicle. Profits from this investment will reduce the cost of monthly contributions, which will help B40 obtain takaful coverage cheaper (Hartini, 2020; Manan, 2021; Othman et al., 2021).

The difference between this model and waqf takaful in the current market is that the WBP model of waqf takaful can charge a lower contribution to B40. Those who can afford Waqf Takaful i-Care can pay a higher contribution, just like in the concept of tabarru', where contributors help each other. It is the best way to help the B40 group obtain a takaful protection plan (Ashran et al., 2021).

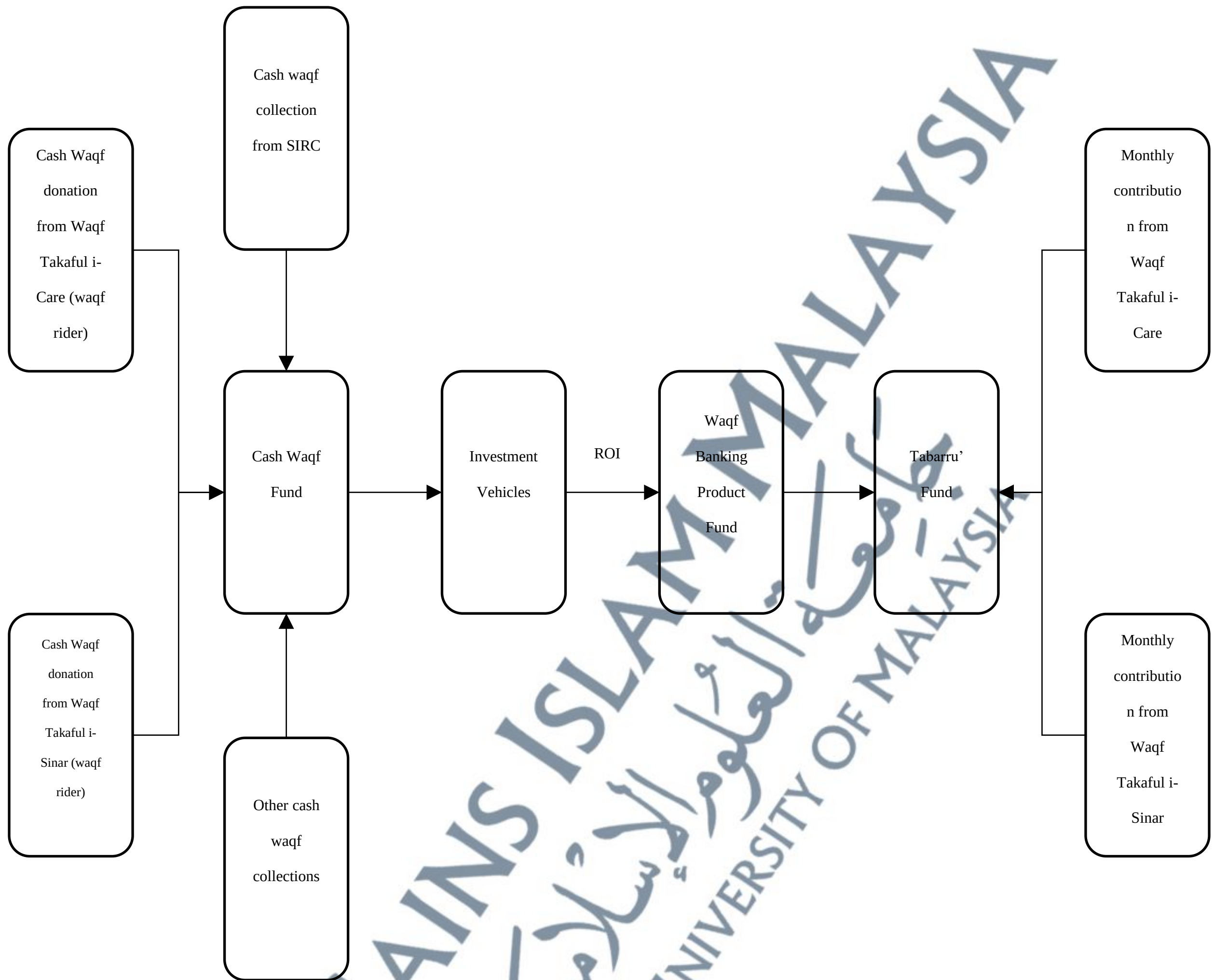
In addition, the Waqf Takaful i-Nur product is offered to those who need it. It means that AIBIM bank members that distribute this product must conduct a screening process to select only qualified people. Banks can know a person's spending habits by reviewing a risk assessment. The bank knows how applicants spend, how much they owe, and so on. Hence, AIBIM and SIRC must precisely determine whether the applicant is worth applying for waqf takaful of WBPs (Hartini, 2020).

Figure 6.4. of the flow of cash waqf fund in waqf takaful product exemplifies the current model's cash waqf movement. In this model, cash waqf fund is derived from various sources, such as cash waqf donations from Waqf Takaful i-Care that has a waqf rider. The cash waqf fund is also derived from cash waqf donations from Waqf Takaful i-Sinar policyholders who choose to donate cash waqf. Moreover, the WBPs cash waqf fund is also derived from cash waqf collection from SIRC and other sources of cash waqf collection (Othman et al., 2021).

The cash waqf fund is then transferred to Islamic investment vehicles. The ROI from the investment will be transferred to the tabarru' fund. The source of the tabarru' fund also came from monthly contributions to Waqf Takaful i-Care and Waqf Takaful i-Nur. As explained in the cash waqf structure for the WBPs subsection, the cash waqf fund will be managed by the Joint Committee Manager. This Joint Committee Manager will determine the investment vehicles to be used as they see fit (Othman et al., 2021).

Figure 5.5. of the waqf takaful product application flow depicts the application flow of the waqf takaful product. The first step is (step one) for B40 to apply the waqf takaful product. Then (step two), the bancatakaful department of an AIBIM member bank will do the screening test for eligibility of B40 to participate in the waqf takaful product (only for Waqf Takaful i-Nur). The bancatakaful department will then approach SIRC and the Joint Committee Manager for the waqf takaful policy (Basri, 2021).

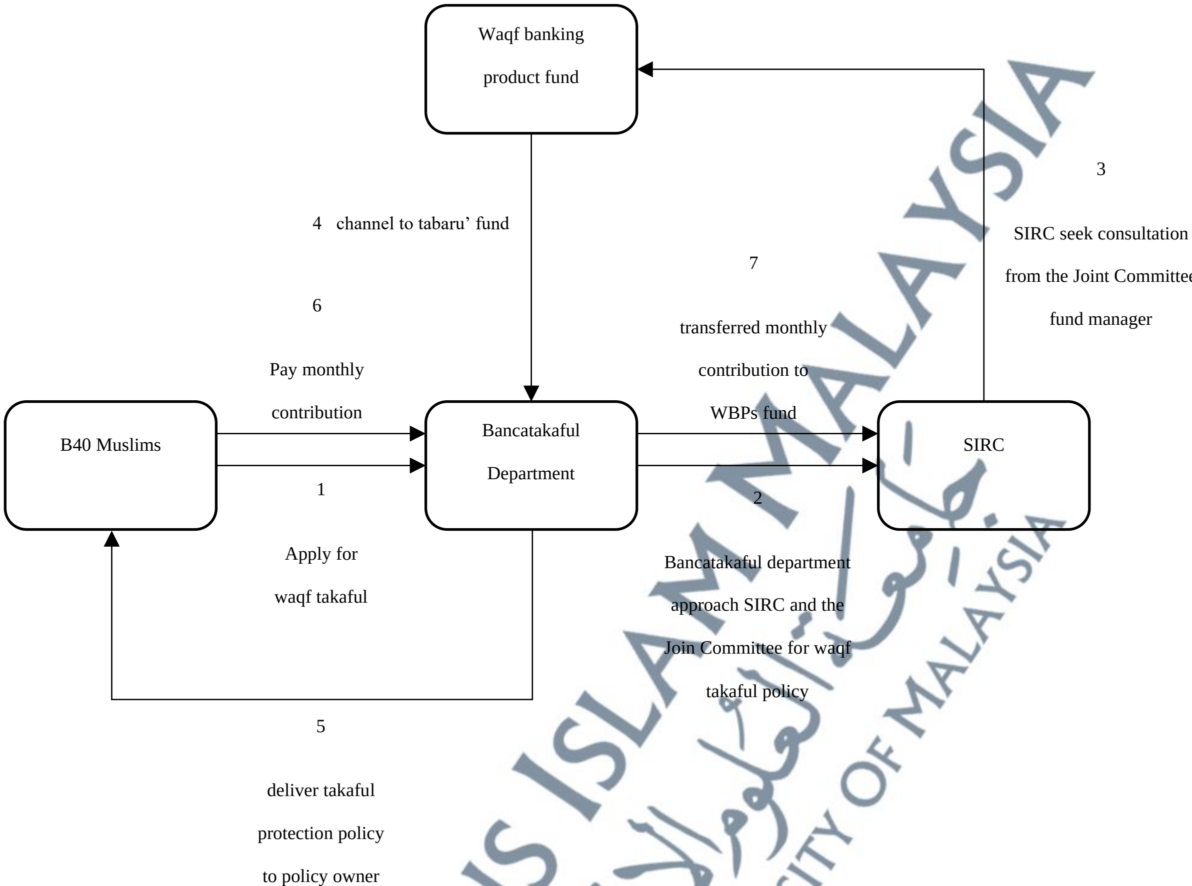
Afterward (step three), SIRC and the bancatakaful department of the AIBIM bank members seek the Joint Committee Manager. At this stage, the Joint Committee will decide whether the applicant can participate in the waqf takaful product. If approved (step four), the waqf banking product fund will allocate a certain amount of money to the tabarru' fund for protection coverage and enable the applicant to participate in the waqf takaful product at a discounted rate of monthly contribution (Basri, 2021).



Source: (Developed for the current study)

Figure 6.4: The Flow of Cash Waqf Fund in Waqf Takaful Product

Then (step five), the bancatakaful department will deliver the waqf takaful policy to the policyholder. The applicant has to sign the policy to enforce the protection plan for the policyholder. Next (step six), the policyholder pays the monthly contribution at a discounted rate. Subsequently (step seven), the monthly contribution will be transferred to the WBP funds managed by the Joint Committee Manager (Basri, 2021).



Source: (Developed for the current study)

Figure 6.5: Waqf Takaful Product Application Flow

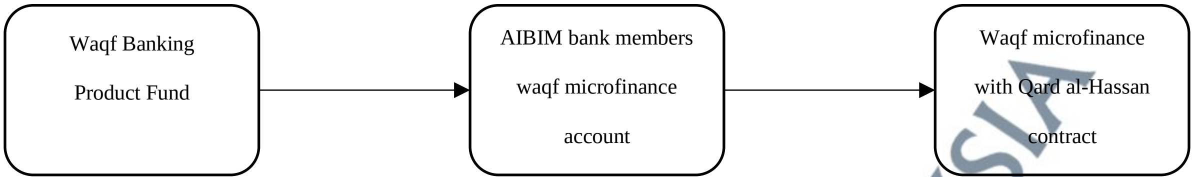
6.2.2. Waqf Microfinance

Several researchers around the world have studied waqf microfinance. For example, Umar et al. (2021) discuss the potential of waqf microfinance to address poverty in the era of COVID-19 in Nigeria. Wulandari (2018) studies the role of waqf microfinance by using the Qard al-Hassan contract to help the poor in Indonesia. Islam & Pakrashi (2020) discuss the role of waqf microfinance in Bangladesh's rural area development and many more (Syedah Ahmad et al., 2020; Chowdhury et al., 2019; El-Mubarak & Mohamed, 2019; B. Hossain, 2019; Odoom et al., 2019; Uddin et al., 2020).

The studies regarding waqf microfinance in Malaysia are impressive compared to other countries (Azman et al., 2020; Diniyya, 2019; M. A. Mohd Thas Thaker et al., 2021). However, the application of waqf-based microfinance in Malaysia is still in its infancy. YWM once introduced a scheme to help SMEs, but it is a one-off grant that is not in the form of waqf-based microfinance and is limited to the financing amount that YWM receives from the Malaysian government (Ashran et al., 2021).

On the other hand, several financial institutions provide non-waqf-based Islamic microfinance such as TEKUN Nasional, Amanah Ikhtihar Malaysia, Majlis Amanah Rakyat (MARA), SME Bank, etc. This financial institution only provides microfinance to those who have already established their businesses and have good cash flow in their accounts. It will not help Malaysia's current situation, which is COVID-19 (Amri, 2021).

Therefore, this study introduces a new waqf microfinance model that meets BNM’s suggestion (see Figure 1.2. and Figure 1.3.), which is financially resilient, and addresses financial inclusion. Moreover, this study interview session with Basri (2021) and Manan (2021) agreed that this model could reduce issuance bank risk because the capital for waqf microfinance comes from the WBPs fund.



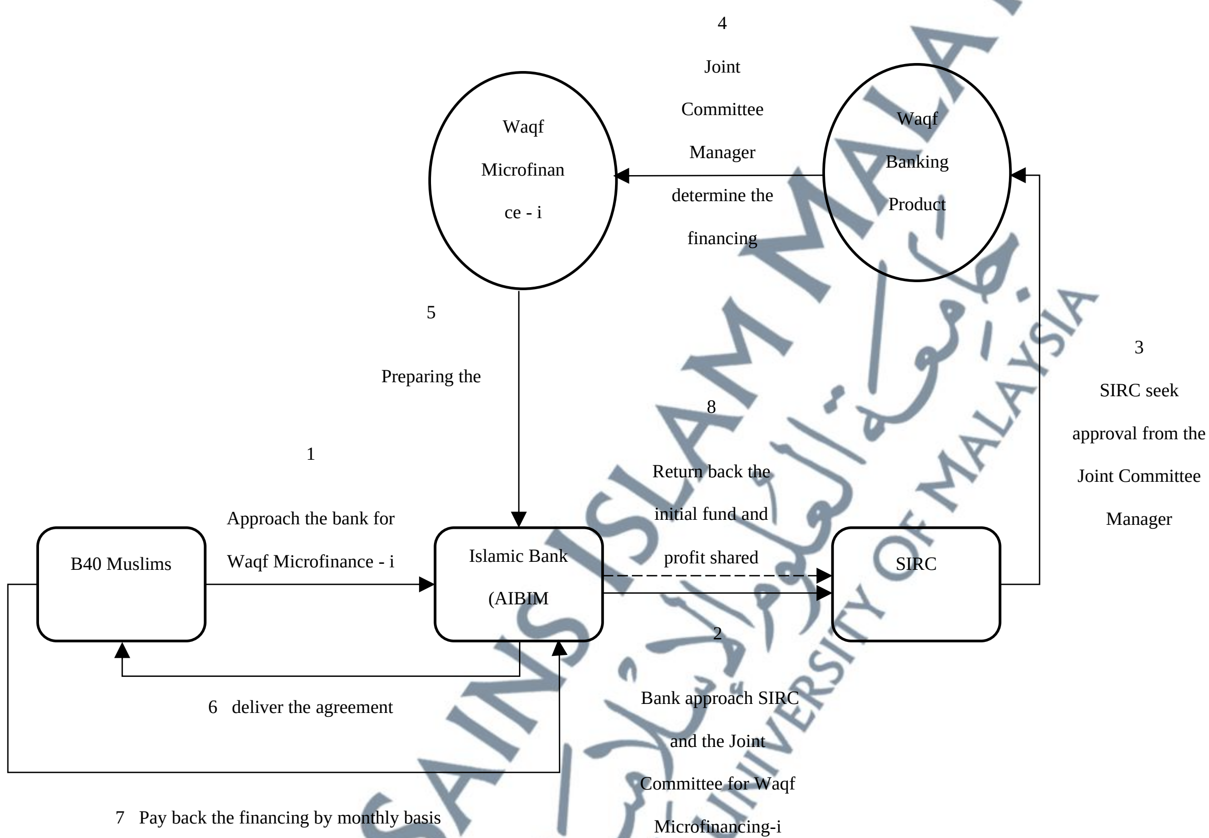
Source: (Developed for the current study)

Figure 6.6: Waqf Microfinance Product Model

Figure 6.6. presents the waqf microfinance product model. The concept is to use the ROI from the cash waqf investment fund as capital for waqf microfinancing (see sub-topic 5.4. The cash waqf structure for WBPs). The Joint Committee Manager will determine how much funding will be channeled for Waqf Microfinance-i since the WBPs fund will be shared with all three WBPs. The AIBIM bank members will then keep the fund in the waqf microfinance account and distribute the Waqf Microfinance-i product to B40 (Ashran et al., 2021).

AIBIM bank members do the screening test to ensure that only eligible people get this type of financing. A qualified person means B40 and the poor who need to finance their SME business or start their SME business. The contract used in waqf microfinance is the Qard al-Hassan contract. The issuance bank will charge the lender very low fees, as low as 3% (Basri, 2021).

This way, the bank will cover the operation costs from this fee-based income (Amri, 2021). One of the respondents of this study suggests that the repayment will be made at a discounted rate since this is waqf-based microfinance (Manan, 2021). The repayment amount will be discounted, but the bank still has to charge minimum fees. Will the bank suffer losses if the lender cannot repay its loan? The answer is no because the capital comes from the WBPs fund.



Source: (Developed for the current study)

Figure 6.7: Waqf Microfinance Product Application Flow

Figure 6.7. illustrates the waqf microfinance product application flow. Step one is when B40 applies the waqf microfinance product. In step two, the issuance bank does the screening test. If the applicant passes the screening test, the issuance bank forwards the Waqf Microfinance-i application to the SIRC and the Joint Committee. Step three is approval from the Joint Committee Manager.

In step four, the Joint Committee Manager will determine the financing amount of Waqf Microfinance-i. In step five, the Joint Committee prepares the financing agreement for the applicant. This agreement states the financing amount, the financing rate, the repayment method, the monthly repayment amount, and so on. The next step is to deliver the contract to the applicant. The applicant has to sign the agreement before the financing is endorsed. Lastly, in step seven, the applicant must pay the monthly installment as stated in the financing agreement.

6.2.3. Waqf Home Financing

A house or shelter is one of the necessities of daruriyyah, which is the most basic requirement for a person to be able to live (Othman et al., 2021). Most Malaysians nowadays cannot afford to buy or own a house, even though it is classified as a low-cost house (Amri, 2021). In addition, many Malaysians lost their jobs due to the economic recession that occurred when COVID-19 struck the world (Arif, 2021). Therefore, this study proposed a new waqf home financing model to address such problems and the financial inclusion problem in Malaysia.

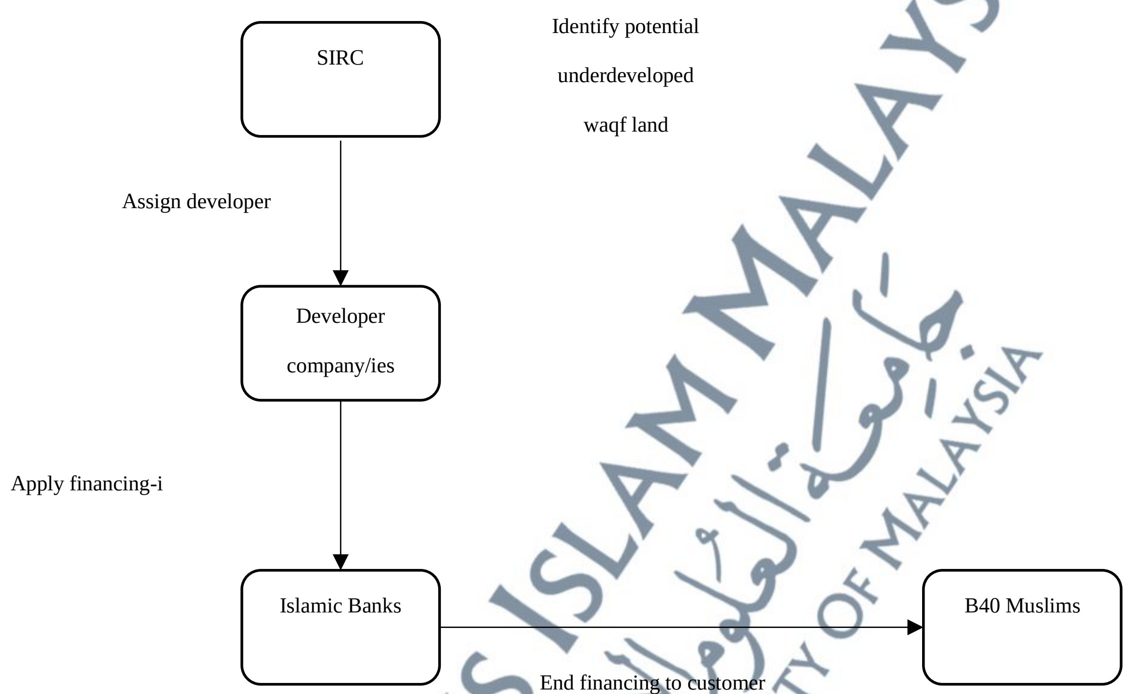
The studies of waqf-based home financing have been done by several researchers, such as Abdullah and Meera (2018), Kamal and Ating (2020), and Khan et al. (2019). Abdullah and Meera (2018) discussed providing affordable public housing by adopting waqf-based al-Hikr long-term financing. Kamal and Ating (2020) anticipated a waqf-based financing model for an affordable home, and Khan et al. (2019) debated the waqf corporate housing model for an affordable home.

On the other hand, there is a waqf-based home financing product in the current Malaysian market, SMART Mortgage WAQF by BMMB. This product is eligible for all individuals, joint applicants, residents, and non-residents. This product aims to finance the purchase of properties developed on the waqf land from the selected developer. SMART Mortgage WAQF is a fully Sharia-compliant financing product. However, this product is not waqf base financing product and does not focus on financing B40.

Therefore, this study proposed a new model of waqf home financing to address the financial inclusion problem in Malaysia and help finance an affordable home for B40. waqf home financing is a waqf-based Islamic banking product for home financing. The concept of Waqf Home Financing is to use the ROI from the investment of cash waqf funds (see sub-topic 5.4. The cash waqf structure for the WBPs) as capital for waqf home financing. Therefore, the issuance bank has less risk in offering such a product to B40. It is because the capital of the product derives from the WBPs fund.

Figure 6.7. of the first model of waqf home financing represents the newly developed Waqf Home Financing model. In this model, SIRC needs to identify the potential underdeveloped waqf land to be developed. Then, SIRC needs to assign a developer company to the underdeveloped land. This stagnant land is developed by building affordable residential areas for sale. SIRC can already sell the house during the development process to B40.

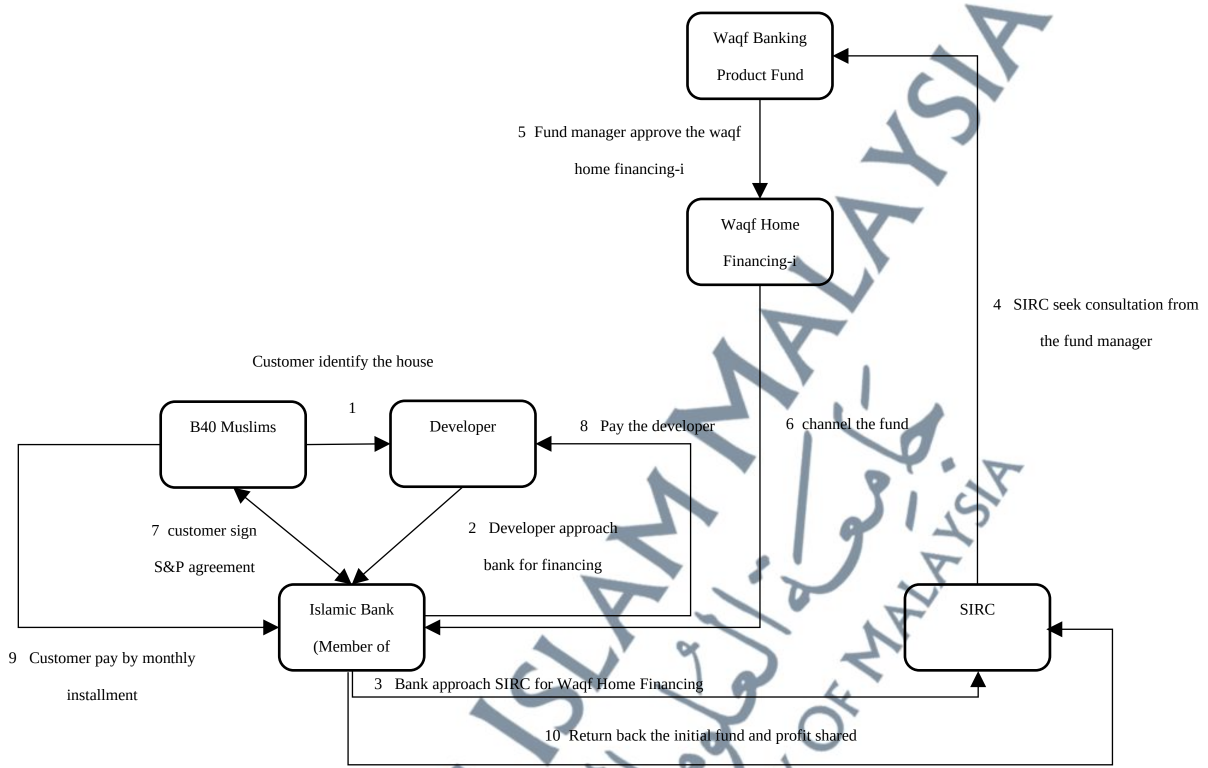
This affordable house is only a leasehold house for ninety-nine years since it is built on waqf land. B40 needs to apply for this affordable house from SIRC because SIRC is the sole trustee of waqf assets. Then, the application needs to be forwarded to AIBIM bank members for financing. The issuance bank of Waqf Home Financing needs to do the screening test for eligibility for B40 to have such financing. The details of Waqf Home Financing will be explained in the next model.



Source: (Developed for the current study)

Figure 6.8: First Model of Waqf Home Financing

Figure 6.9. of the second model of waqf home financing illustrates the financing model and the application flow of waqf home financing. The first step requires B40, to identify the house to buy. This waqf home financing can finance any affordable home built on waqf land, or vice versa. Then, in the second step, after B40 identifies the house to buy and notifies the developer, the developer needs to approach the bank for waqf home financing. B40 needs to inform the developer that they need waqf home financing to come to the issuing bank of waqf home financing, the AIBIM member bank.



Source: (Developed for the current study)

Figure 6.9: Second Model of Waqf Home Financing

In the third step, the issuance bank needs to do a screening test, and if the applicant passes the screening test, the issuance bank approaches the SIRC for waqf home financing capital. In the fourth step, SIRC seeks the Joint Committee's and the Joint Committee Manager for consultation. In the fifth step, the Joint Committee Manager will determine whether the application is approved or rejected. In the sixth step, if the application is approved, the Joint Committee Manager needs to transfer the capital fund to the issuance bank.

In the seventh step, B40 or the customer must sign the sale and purchase agreement since the Joint Committee Manager has already disbursed the capital. The application is approved by the issuing bank, the Joint Committee, and SIRC. The customer needs to sign the sale and purchase agreement after the Joint Committee Manager disburses the capital. The issuance bank did not use its capital for this type of financing since waqf home financing is waqf-based financing.

In the eighth step, the issuance bank needs to pay the developer the net price of the house. The developer then gives the house key to the customer. In the ninth step, the customer must pay the monthly installment as stated in the sale and purchase agreement. Lastly, at the tenth step, the initial fund will be returned to WBP fund, as this fund needs to be redirected to help other B40s in need.

6.3. The Feasibility of Waqf Banking Products in Malaysia

The feasibility and viability of WBPs in Malaysia are predicated on several crucial factors. A few of the most important factors determine the feasibility and viability of WBPs in Malaysia, such as awareness of WBPs. Stakeholders must be aware of the concept and potential of WBPs. If individuals are unaware of WBPs, demand for such products will be constrained. Therefore, it is essential to educate the public, regulators, and investors about WBPs (Amri, 2021).

Moreover, governance and trust are essential to the viability of WBPs. Donors must have faith in the governance and administration of waqf institutions for their contributions to be utilized effectively. Therefore, a framework for transparent governance must exist. Other than that, the regulatory environment in Malaysia must be conducive to

WBP. This necessitates the existence of laws, policies, and regulations that facilitate the creation and operation of WBPs (Arif, 2021).

Additionally, diversification of investments may play a significant role in the viability of WBPs in Malaysia. This could help mitigate the risk associated with investing in a specific asset type. To attract investors and fill the financing void in the social development sector, WBPs must include innovative products and procedures. This could aid in the diversification of investment portfolios and make WBPs more accessible to the public (A. R. Ismail, 2021).

In the implementation of WBPs in Malaysia, the absence of a standardized accounting and reporting system is another obstacle. Since waqf institutions are not required by law to produce financial statements, inconsistencies and fraud are a real possibility. Not only do poor financial management and transparency make it difficult to monitor waqf assets and their usage, but they also impede the funding of new waqf initiatives because potential donors and investors are more hesitant to contribute (R. Bakar & Nawal, 2020).

Additionally, waqf investments lack both innovation and diversification. The majority of waqf investments are limited to real estate and financial instruments, limiting their potential for growth and profitability. Waqf institutions may discover new opportunities and possibilities if they diversify their investments to include the emerging fintech sector (Ashran et al., 2021).

However, in Malaysia, there have been efforts to address these obstacles and promote the adoption of WBPs. The government has expressed a desire to develop the industry through the introduction of incentive programs and the promotion of the development of a standardized framework for waqf management. In addition, numerous non-governmental organizations (NGOs) and organizations from the private sector are attempting to raise awareness about WBPs and develop new, innovative WBPs (Hartini, 2020).

There is potential for widespread adoption of WBPs in Malaysia, despite the obstacles it faces. Continued efforts to enhance transparency and accountability in waqf institutions, develop a regulatory framework, diversify investments, and raise stakeholder awareness could pave the way for the expansion of WBPs as a sustainable source of funding for social development projects in Malaysia (Basri, 2021).

Even though WBPs have the potential to be a sustainable source of funding for social development initiatives in Malaysia, quite a few obstacles must be overcome. Increasing awareness, establishing a regulatory framework, and enhancing the governance and administration of waqf institutions will require a concerted effort from stakeholders, including the government, private sector, and civil society, to address these challenges (Manan, 2021).

The availability of suitable social development projects for funding is another essential factor that determines the feasibility of WBPs in Malaysia. There must be a substantial pipeline of social development initiatives that are prepared for waqf funding. Moreover, these initiatives must be consistent with the social objectives of society and have the potential to generate a stable and consistent revenue stream to support the financing instruments (Arif, 2021).

Another factor essential to the success of WBPs is the availability of a well-developed infrastructure ecosystem. The institutional architecture must incorporate defined principles for waqf management and guarantee the efficient use of waqf assets. A robust ecosystem consisting of legal structures, financial mechanisms, technical assistance, and capacity-building services could facilitate the expansion of the WBPs practice (Amri, 2021).

WBPs could also profit from technological advancements. There is an opportunity to develop new innovative financial products and services that could facilitate WBPs with the advent of fintech. WBPs could be made more accessible to a broader spectrum of donors and investors by leveraging technologies such as blockchain, artificial intelligence, and mobile applications (Hartini, 2020).

In addition, the viability of WBPs is contingent on the availability of trained professionals who can support the development of these financing products and the administration of waqf institutions. This includes professionals in the disciplines of finance, law, and accounting who can be trained to offer technical assistance and support to waqf institutions to uphold proper governance and transparent procedures (Othman et al., 2021).

The feasibility of waqf financing in Malaysia is contingent on numerous variables. Key determinants of its success include a supportive regulatory framework, suitable social development initiatives, the availability of trained professionals, and innovative products and processes to facilitate financing. A well-considered and all-encompassing strategy for promoting waqf financing could generate a sustainable social development financing mechanism to promote inclusive growth in Malaysia (Basri, 2021).

In conclusion, the viability of WBPs in Malaysia is contingent on some variables. For WBPs to be feasible and sustained in Malaysia, there must be a conducive regulatory environment, reputable institutions, a diversification of investments, and innovative products and procedures.

6.4. Chapter Summary

Waqf, or Islamic endowment, is increasingly recognized in the Islamic finance industry as a socially responsible and sustainable financial instrument. In light of the expanding interest in the integration of waqf financing and Islamic banking products, the purpose of this study is to explore the novel findings regarding the integration of waqf financing and Islamic banking products.

The integration of waqf financing products with Islamic banking products is considered a potential means to unlock the value of waqf assets for development purposes and address the issue of social inequality. Moreover, integrating waqf financing products with Islamic banking products might help to reduce the gap in financing micro-enterprises, which is currently one of the key challenges faced in the Islamic finance industry.

The study suggests that the integration of waqf financing products with Islamic banking products could be approached from two perspectives: product design and operational mechanics (see chapters 6.2 and 6.3 of this thesis). In terms of product design, waqf financing products could be designed to complement existing Islamic banking products, such as Sharia-compliant personal financing or house financing, and also be customized to cater for the specific needs of the beneficiaries.

Regarding operational mechanisms, the study proposes the establishment of a centralized platform for waqf financing, which would facilitate the integration and coordination of waqf financing products with various Islamic banking products. This platform should provide explicit guidelines and standards for the management and deployment of waqf assets, in addition to a transparent and accessible marketplace for WBPs and investments.

The integration between waqf financing products and Islamic banking products has also shown promise in addressing financial inclusion in Malaysia. Financial inclusion has been a major concern in Malaysia, particularly among the low-income population and SMEs, which often face challenges in accessing financing facilities.

WBPs, which leverage the endowment of waqf assets, can play a crucial role in addressing the financing gap and promoting financial inclusion. The integration of waqf financing products with Islamic banking products would expand the reach of Islamic finance and bring more people into the financial system.

One of the key findings of this study is that the integration of waqf financing products with Islamic banking products can lead to a more innovative and inclusive approach to financing. The study highlights that integration could be achieved through product innovation, which involves the design of new WBPs that are tailored to the specific needs and requirements of targeted beneficiaries.

For example, waqf financing products could be designed to cater to the financing needs of women entrepreneurs or SMEs in rural areas. These products could be integrated with existing Islamic banking products, such as microfinance or SME financing, to provide a holistic and inclusive financing solution.

Another finding of this study is that the integration of waqf financing products with Islamic banking products can help in the development of a more sustainable and socially responsible financial system. The endowment principles of waqf financing products align with the Sharia principles of sustainable financing and responsible investment.

This chapter has explained the development of WBPs per financial inclusion in Malaysia, the WBPs development process, the development of WBPs under Sharia law, the Joint Committee for WBPs, and the WBPs, which are Waqf Takaful, Waqf Microfinance, and Waqf Home Financing. The idea of WBPs is for B40 to have takaful protection, start their own business to raise income, and own a house.

Nevertheless, the tendency of B40 not to repay their financing is high, especially the waqf microfinance, due to the nature of this product. This study's interview session with the bank executive also confirmed that this type of financing has a lower repayment rate. However, debt repayment is not discussed in this study because the body of knowledge of this study is to develop a banking product, specifically WBPs.

However, this study's interview also encouraged the borrower's repayment. To enable the customer to repay their financing and consistently contribute to their waqf takaful, the Joint Committee needs to apply the practice of YWM. YWM educates the customer that waqf property is the property of Allah (SWT). Therefore, they are responsible for jointly developing waqf property for the benefit of the ummah. Other than that, the Joint Committee can also train B40 to successfully establish and manage their own business before the Joint Committee approves the Waqf Micro Finance to the customer.

The integration of waqf financing products with Islamic banking products could significantly enhance the social impact and sustainability of the Islamic finance industry. It is hoped that this study will provide insights and valuable recommendations on how this integration could be best achieved to serve the greater social good.

In conclusion, this study shows that the integration of waqf financing products with Islamic banking products can promote financial inclusion, innovation, and sustainability in Malaysia. By leveraging the endowment of waqf assets and designing innovative products that cater to the specific needs of targeted beneficiaries, integration can help address the financing gap and promote a more inclusive financial system in Malaysia.