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RESEARCH ARTICLE

THE NEED TO INTEGRATE ZAKAT AND WAKAF IN THE DEVELOPMENT OF MICRO TAKAFUL MODEL

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Abstract

Micro Takaful is an affordable alternative protection policy for those who cannot afford a high-end level protection policy. However, many in the low-income group do not own a personal or family protection policy because they cannot afford the monthly premium rates. Zakat and wakaf could become an alternative source of funds for developing micro takaful. This qualitative study intends to explain the need to integrate zakat funds and wakaf in order to develop micro takaful. Data were collected through semi-structured interviews involving three institutions, namely Syarikat Takaful Malaysia Keluarga Berhad, Mufti's Office in the Federal Territories Islamic Religious Council and the Mufti's Office in the Selangor Islamic Religious Council. Findings show that there are two major pressing needs for integrating zakat and wakaf, which are to provide a huge risk savings fund and to support an insufficient zakat fund and wakaf.

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Introduction:-

Micro Takaful is an effort created by Bank Negara Malaysia with the aim of assisting the low-income group, mainly the B40 group. The B40 group refers to households earning an income of less than RM3860 a month, which also includes the household income of the hardcore poor, poor and average poor (Budget Highlights, 2019). The micro takaful's low rate of contribution provides an opportunity for the B40 group to contribute towards micro takaful as well as lighten their burden when faced with risks in the event of a death, accident, financial difficulty etc.

Nevertheless, there are several eventualities that could occur, such as the B40 or any other group that cannot afford to consistently pay the monthly takaful contribution although the rates are low. This is because the unaffordable group will prioritise the major needs in life, namely food, accommodation, clothing, children's schooling etc. Takaful contributions could be way down in the list of priorities compared to matters that are urgently needed for the continuity of life and the family. Hence, zakat and wakaf have the potential to be an alternative source of funds to provide takaful coverage to the B40 group.

The issue of zakat and wakaf is not a new issue in this country and numerous studies have touched on this issue. Hafiz & Nabilah (2017) and Faizul Wahab et. al (2014) focused on zakat in the context of the Malaysian legislation, while Shofian & Luqman (2013) had focused on the issue of investing zakat funds by the relevant zakat institutions. Nurul Ilyana et. al (2017) explored the use of zakat as a form of micro credit, while Khairul Azhar (2018) looked into zakat's potential in developing the Muslims in Malaysia. Syarifah Zubaidah (2016) examined the issue of wakaf from a legal perspective and Asmak (2009) looked into the role of wakaf in efforts to develop Muslims in Malaysia.

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Sofiyudin & Zamro (2015) investigated the implementation of cash endowments in Malaysia, whereas Nadiah and Hairunnizam (2015) investigated society's awareness about cash endowments. Although there are numerous related studies; however, studies that focus on how zakat and wakaf can be integrated into micro takaful is still lacking and the question on the potential of this integration is still unanswered. Therefore, this article analysed the need to integrate zakat and wakaf in order to develop micro takaful

The Micro Takaful Concept

The word Takaful originated from the Arabic word "kafala", which means mutual guarantee. According to Section 3 of the Islamic Financial Services Act, 2013, takaful is based on mutual assistance whereby the participant in the takaful agrees to contribute to a fund, which provides financial benefits to the takaful participant or the corresponding beneficiaries in the case of an event, as previously agreed by both parties (Islamic Financial Services Act, 2013).

Micro refers to "fine" or "small" (Dewan Dictionary, 1994). The combination of takaful and micro is defined as a takaful product that is specially created to provide financial protection to a low-income household (Bank Negara Malaysia, 2016). Micro takaful is an alternative that allows the poor to own a takaful policy and it is a Syariah-compliant protection plan specifically aimed at the unfortunate section of the population, namely the poor, and with an affordable price (Fatin Nabilah & Kamaruzaman 2014; Mohamad Puad, 2017).

The aim of forming micro takaful is to achieve several objectives. It intends to alleviate poverty and help the low-income group to obtain takaful protection against its financial risks and protect its member's lives in the future (Bank Negara Malaysia 2016; Marhanum & Fatimah 2018). According to Ahmad Ekhwan (2018), the objective of micro takaful is divided in three parts according to the relative parties involved, as mentioned below.

i. The Government and Policy Makers

Micro takaful is one method for ensuring inclusive growth and providing support for the community that is frequently exposed to risks.

ii. Social Organisations and Development

Micro takaful can act as a useful tool for alleviating the level of poverty.

iii. Takaful Operators and others

Micro takaful offers opportunities to explore new market segments and support market growth as well as takaful itself.

Based on the objective above, it can be concluded that the objective of forming micro takaful could differ according to certain interested parties, such as the government, which focuses on supporting a society that is less capable of facing a life filled with risks. As for non-governmental organisations (NGO), the aim of micro takaful is to alleviate the poverty level, whereas the takaful operator focuses on takaful by exploring new markets in order to expand the takaful market to cater for the less fortunate. Besides that, based on guidelines issued by Bank Negara Malaysia, micro takaful must prescribe to the following conditions (Bank Negara Malaysia, 2016).

i. Easily Understood

A takaful product must be easily understood, while its benefits and conditions must be clearly and concisely stated.

ii. Protection Needs - Driven

The risk protection offered must be compatible with the target group, namely the poor. Inappropriate protection should not be offered.

iii. Accessibility

Premium for the takaful offered must be affordable and suit the contemporary conditions of the target group. Processes such as monthly premium payments, claiming benefits, and renewal of takaful certificates must be made easy according to the policies stipulated by the takaful company.

iv. Efficiency

All processes must be implemented in an orderly, efficient and time-saving manner.

Based on these principles, it can be concluded that micro takaful is a takaful specifically for those who cannot afford high premium rates as well as simplified application and claims processes without any restrictions or complicated conditions attached.

Micro Takaful Products in Malaysia

Micro Takaful has been implemented in several countries, some of them being Indonesia, Lebanon, Sri Lanka, Bangladesh (Ahmed Mamdouh 2016). Several takaful products have been applied in Malaysia in efforts to assist the low-income group, such as MySalam, Tenang Protection and others. Some of the models are explained below.

MySalam

MySalam is a protection scheme that provides protection specifically for the B40 group and is fully borne by the government. MySalam is meant for those who are eligible to receive the Sustenance Allowance (BSH) from the government and are between 18 to 55 years old (MySalam Official Portal). According to the MySalam portal, MySalam is a free takaful given to whomever is currently receiving the Sustenance Allowance (BSH) and is also suffering from one of the 36 critical diseases listed. Among the assistance offered is a cash payment of RM8000 when a person is confirmed as suffering from one of the 36 critical diseases stipulated by the Ministry of Health. A sum of between RM50 to RM700 is payable as treatment cost in government hospitals or specific hospitals determined by the government.

All these claims must be attached with a certified letter from a government hospital doctor stating that the particular person is suffering from one of the 36 critical diseases listed. The claims are credited directly into the Sustenance Allowance (BSH) recipient's bank account by the takaful operator. A patient who receives treatment at a private hospital is not eligible to make this claim. MySalam, which is managed by Great Eastern Takaful Berhad, is a takaful company subject to the Islamic Financial Act 2013 and is under the supervision of Bank Negara Malaysia (BNM). There is a big possibility that other takaful companies will be given the opportunity to manage this MySalam product in the future (MySalam Official Portal).

Tenang Protection

Bank Negara Malaysia (BNM) had launched an affordable protection model called Tenang Protection. At the end of 2017, there were 10 Tenang Protection products issued by 10 companies comprising six insurance companies, three family takaful companies and one general insurance company (Bank Negara Malaysia (BNM), 2017). Among the companies involved were Malaysian Takaful Association, Persatuan Insurans Am Malaysia (PIAM), Persatuan Insurans Hayat Malaysia (PIHM) and other companies. On 24 November 2017, Bank Negara launched a Tenang Protection product aimed at widening the focus or role of insurance or takaful in order to assist the B40 group (Lin 2017). According to Lin (2017), a Tenang Protection product must adhere to several guidelines stipulated by Bank Negara Malaysia, some of which are mentioned below.

i. Affordable

The established monthly contributions or payments need to be affordable whereby the amount is determined based on how much the customer intends to contribute or can afford when purchasing insurance or takaful protection. This would make it very affordable for the customer to own a protection plan. Establishing the premium rate requires careful evaluation from various aspects, some of which are income, employment, number of household members, emergency savings and social security network. Hence, Bank Negara has established a monthly premium rate that cannot exceed RM15. A rate of RM15 would help the B40 to own takaful protection for themselves.

ii. Good Value

In order to ensure that the Tenang Protection product can offer good value for money to the B40, the providers should protect some of the important risks related to the household as well as maximise the premium paid to benefit the protection aspect. Normally, agencies or companies are hesitant to offer reasonable premiums similar to that offered by the Tenang Protection product. Thus, to do so these agencies need to think of an innovation in their distribution model to optimise costs. **This requires a study on investment decisions, including investment opportunities in the market to avoid critical risks.**

iii. Accessibility

Protection under the Tenang Protection product and the ensuing protection benefits must be clearly identified based on specific situations, such as location of employment or type of residence normally associated with the B40 group. Product and services must also be provided at easily accessible locations, such as hospitals, towns, Urban/Rural Transformation Centres (UTC/RTC), and grocery shops. Advertising products in the internet needs some deliberation because many of the B40 nowadays lack internet facilities in their homes.

iv. Easily Understood

All information in the Tenang Protection product, such as benefits, terms and conditions of the product must be designed to facilitate consumers to clearly understand what is insurance and takaful. The company should reduce items in the product that need no explanation, which would otherwise make it difficult for the B40 to understand.

Marketing of the product should involve clear and concise information to assist consumers in making an accurate decision and identify the type of protection they require and can afford.

v. Easy to Purchase and Claim Protection Benefits

Besides the ease of purchasing, the claim process should also be easy. Instructions for processing claims should clearly stipulate the types of supporting documents required for making claims. Bank Negara Malaysia has stipulated that the claims payment process should be completed within five working days after receipt of the complete set of documents.

Several innovations have been made to encourage the B40 group to participate in the Tenang Protection product. Some of the efforts are the focus on family takaful products that emphasise on death benefits, which entails a simple and easy claiming process by allowing the conveying of pertinent documents through the social media, such as WhatsApp, receipt of documents through the post that have been verified by the Head Village, Headmaster or a police officer, and a burial expenses benefit that would be paid within 24 hours by just adducing the burial permit as a substitute for the death certificate (Bank Negara Malaysia (BNM), 2017). All the innovations will be redesigned with the aim of assisting the B40 to face risks, such as death, sickness etc.

Asnaf Takaful Scheme

The Federal Territory Islamic Religious Council has launched an Asnaf Takaful Scheme that uses zakat funds as a source of funds for this scheme (Official Portal of The Federal Territory Islamic Religious Council). This scheme is meant for the asnaf group who receive monthly assistance from the Federal Territories Islamic Religious Council. The aim of this scheme is to alleviate the burden of the asnaf who have experienced some kind of misfortune, such as an accident or death. The number or type of benefits is not clearly mentioned in the portal. The Asnaf Takaful Scheme was discontinued because beneficiaries of the deceased did not claim the benefits and this caused some losses (Fadzlee 2018).

Prisma Etiqa

The Takaful Prisma product is a takaful product by Takaful Etiqa Keluarga Berhad. This product offers protection for family takaful with payments as low at RM50 a month. Among the benefits offered are protection in the case of death as well as overall or permanent disability (Takaful Prisma, 2021).

FWD Kasih

FWD Kasih is a product offered by Syarikat FWD Takaful Berhad. This product provides a protection plan that is affordable and appropriate, which is as low as RM 2.03 a month for women and RM 2.54 a month for men. Among the benefits provided are death benefits, permanent and overall disability, funeral expenses, badal Haji for Muslims, welfare donations to non-Muslims and death caused by accident (FWD Takaful Official Portal, 2021).

The Kasih Rakyat Personal Accident Takaful

Kasih Rakyat is a takaful product provided by Syarikat Takaful Keluarga Malaysia Berhad, which offers protection against injury or death caused by an accident. Kasih Rakyat is offered to all Malaysians aged between 18 to 65 years and the rate of contribution is RM50 a month (Kasih Rakyat Information Sheet, 2021).

Based on the models, the source of funds for micro takaful is sourced from three parties, namely the participant, government and zakat. Government funds are a positive sign but it is limited to the budget allocated by the government and cannot cover all Malaysians categorised as poor. Hence, one alternative would be zakat funds and wakaf that should be developed and expanded to provide greater benefits and help a greater number for the poor. This is because zakat and wakaf are the biggest factors that contribute to the economic growth of Muslims.

The Need to Integrate Wakaf and Zakat to Develop the Micro Takaful Model

Based on the Report on Financial Stability and Payment System 2016 (BNM), only 4% of the households from the low-income group owned life insurance or family takaful. This is because most of the existing insurance products and takaful in the market are too complex and unaffordable for most Malaysians, especially the B40 group who have a low penetration rate for life insurance or family takaful (Report on Financial Stability and Payment System (BNM, 2017). Hence, Bank Negara had introduced an initiative called Tenang Protection, through the collaboration with the insurance industry and takaful players, specifically designed for the B40 segment. It has several characteristics, such as an affordable price, value for money, easily accessible in most locations, easily understood, easy to purchase and easy to make claims (Report on Financial Stability and Payment System, BNM 2017).

Therefore, according to the Report on Financial Stability and Payment System (BNM, 2018), the penetration rate of insurance and takaful among Malaysians does not show any apparent change with a large part of the low-income segment not owning insurance coverage and takaful. This causes an inequality in a segment of the society with a large part of the low-income segment not owning a takaful policy. Hence, some researcher's have suggested the use of zakat funds (Mamdouh H Ahmed 2016; Nik Abdul Rahim Nik Abdul Ghani et al. 2018; Noor Ashikin Mohd Rom & Zuriah Abdul Rahman 2012; Said Adekunle Mikail, Muhammad Ali Jinnah Ahmad 2017) and wakaf (Mikail & Muhammad Ali Jinnah Ahmad 2017) for helping the poor to own takaful policies for their own protection and the family. Following are some of the justifications for the need to combine zakat funds and wakaf for developing micro takaful.

Micro Takaful Needs a Huge Risk Fund

Micro takaful needs an enormous risk fund (Ahmad Ekhwan 2019) to pay out benefit claims made by contributing participants. This is because the rate of contribution for micro takaful products is low and affordable (BNM, 2016). Studies show that the poor can only afford to pay RM5 (Sheila Nu basal Htay et al. 2015), RM10 and RM35 (Noor Ashikin & Zuriah Abdul Rahman 2012), and RM21 to RM30 (Rubayah Yakob & Nor Hamizah 2017) as monthly contributions for a micro takaful product. A low contribution rate creates a small risk savings fund that could potentially limit the number of benefits to be received, which would then be ineffectual in alleviating the burden of low-income families.

Insufficient Zakat and Wakaf As Source of Fund for Developing Micro Takaful If These Two Sources Are Not Integrated

Insufficient zakat funds and wakaf is an issue that should be examined to make it a source of funds for micro takaful. According to Hardi (2019), zakat collection is completely dependent on the zakat contributor and it changes yearly. This statement was also supported by Zulkifli (2019), who said that the use of zakat funds for the development of micro takaful should be scrutinised to determine financial sufficiency as well as basic matters related to the needs of the asnaf, such as food, living quarters etc.

Based on these two statements, zakat funds should be examined from various aspects. First is from the zakat collection aspect, followed by the distribution of zakat aspect. As more funds are distributed, the lesser the amount received by the asnaf because zakat funds could become exhausted. Besides that, the asnaf are not only restricted to the fakir and poor but also eight categories of asnaf that need attention and receive zakat fund distributions. In addition, this group also needs to fulfil its basic needs such as food, clothing and accommodation. This is because this group not only needs takaful but also has other needs that require assistance from zakat to ensure they can continue with their daily lives. These needs should be considered and carefully measured until there is a sum of cash proportionate with micro takaful contributions by using zakat funds.

As for the sufficiency of wakaf property, Hardi (2019) mentioned that most of the wakaf property in Selangor comprises immovable property, such as land and buildings. The wakaf owner has already specified the recipients of the wakaf property such as schools etc., who will receive assistance in the form of cash. Therefore, zakat funds and wakaf should be combined in order to support and help stabilise the micro takaful risk fund.

Conclusion:-

In summary, the integration of zakat dan wakaf has the potential to be a source of funds for the development of micro takaful. Hence, if at all it could be implemented, surely it would be beneficial to the those who need it, especially the poor and needy. The need for combining zakat funds and wakaf for developing micro takaful is because micro takaful requires an enormous risk fund and there will be insufficient zakat and wakaf for use as a micro takaful development fund if these two elements are separated. This means that all parties need to collaborate, mainly the takaful industry and state authorities who manage zakat funds and wakaf. Besides that, a model that integrates zakat funds and wakaf for the development of micro takaful should be created in order to convince the authorities about the efficacy of the model and later, implement this model.

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for B40 Segment)” and Geran Galakan Penyelidikan Muda (GGPM-2018-007) “Aplikasi Takaful Mikro Melalui Dana Zakat” (Application of Microtakaful Via Zakat Fund)

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