

**DEVELOPING A SUSTAINABLE MICROTAKAFUL  
MODEL FOR THE B40 COMMUNITY IN MALAYSIA**

**BY**

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**A thesis submitted in fulfilment of the requirement for the  
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Finance**

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## ABSTRACT

The takaful industry in Malaysia has begun to actively offer microtakaful products and services to the B40 population, following the issuance of the Discussion Paper on Microinsurance and Microtakaful by Bank Negara Malaysia (BNM) in 2016. However, the participation rate of the B40 population, a demographic characterised by lower-income levels continues to remain low. The objectives of this study are to (i) assess the main issues and challenges faced by the takaful industry on the current microtakaful initiatives, (ii) structure a microtakaful model that practically and smoothly collates and distributes products and services to the B40 in Malaysia; (iii) explore a sustainable funding mechanism for the proposed microtakaful model which utilises various sources of funding, including Islamic social finance instruments, namely zakat and waqf; and (iv) increase the effectiveness of the proposed microtakaful model's financial literacy and awareness programme for the B40. The study utilises a thematic literature review as well as a one-to-one interview with takaful industry stakeholders, namely the key personnel of takaful operators (TO), Shariah committee members, a member of a board of directors (BOD), and two representatives of State Islamic Religious Councils (SIRCs). The findings and feedback are then utilised to produce a microtakaful framework that serves as a foundation for the formulation of a robust microtakaful model that not only addresses the challenges, but also ensures an effective and efficient distribution of products and services, tailored to the unique needs of the B40. The interviews explored diverse funding sources, including Islamic social finance instruments such as zakat and waqf, in order to develop a financial framework that would ensure long-term stability and resilience of the microtakaful model, which aligns with the broader objective of enhancing financial inclusivity among the B40 population. In addition, a tailored financial literacy and awareness programme will also be established to encourage effective participation in microtakaful products among the B40. The study provides evidences revealing concerns among the key stakeholders in relation to product oversupply, limited awareness and literacy, and regulatory compliance that overshadow the genuine needs of the B40. The study then progresses to propose strategies for the structuring of an effective microtakaful model, emphasising on Shariah compliance, fund management, non-governmental organisations' (NGOs) involvement, and community engagement. To address the critical issue of sustainable funding, the study identifies a number of solutions involving corporate social responsibility (CSR) funds, increased government participation, collaboration with state entities, and effective marketing. The study highlights improvements in financial literacy programmes for the B40 through the proposed microtakaful model, emphasising stakeholder coherence, poverty alleviation and technological leverage. In conclusion, the study offers a comprehensive understanding of challenges and solutions in advancing microtakaful initiatives in Malaysia. The envisioned microtakaful model is expected to enhance coordination, sustainability, and penetration rates among the B40.

## ملخص البحث

بدأت صناعة التكافل في ماليزيا بتقديم منتجات التكافل الأصغر وخدماته للسكان الذين ينتمون إلى شريحة ب 40 (شريحة الأربعين في المائة من أصحاب الدخل الأدنى) على نحو نشط، بعد إصدار ورقة النقاش حول التأمين الأصغر والتكافل الأصغر من قبل البنك المركزي الماليزي في عام 2016. ومع ذلك، بقي معدل مشاركة أولئك الذين ينتمون إلى شريحة ب 40، وهي شريحة تتميز بمستويات دخل متدنية، منخفضاً. يتمثل الهدف الرئيس لهذه الدراسة في (أ) تقييم القضايا والتحديات الرئيسة التي تواجه صناعة التكافل، فيما يتعلق بمبادرات التكافل الأصغر الحالية، و (ب) هيكل نموذج التكافل الأصغر القادر على جمع وتوزيع المنتجات والخدمات لشريحة ب 40 في ماليزيا على نحو عمليّ وسلس، و (ج) استكشاف آلية تمويل مستدام لنموذج التكافل الأصغر المقترح تستخدم مصادر تمويل مختلفة، بما في ذلك أدوات التمويل الاجتماعي الإسلامي، وعلى رأسها الزكاة والوقف، و (د) زيادة فاعلية برنامج محو الأمية المالية، والتوعية المالية الموجهة لشريحة ب 40، والخاص بنموذج التكافل الأصغر المقترح. تعتمد هذه الدراسة على مراجعة موضوعية للأدبيات المتعلقة بموضوع الدراسة، بالإضافة إلى إجراء مقابلات فردية مع أصحاب المصلحة في صناعة التكافل، وهم الأفراد الرئيسين لدى مشغلي التكافل، وأعضاء اللجان الشرعية، وأعضاء مجالس إدارة مشغلي التكافل، وممثلين عن مجالس الشؤون الدينية الإسلامية في الولايات الماليزية. وقد استخدمت النتائج والتعليقات من المقابلات والأدبيات لإعداد إطار للتكافل الأصغر، يمكن عده أساساً لصياغة نموذج متين للتكافل الأصغر، والذي لا يعالج التحديات فحسب، بل يضمن أيضاً توزيعاً فعالاً ومتسماً بالكفاءة للمنتجات والخدمات المصممة وفقاً للاحتياجات الخاصة لشريحة ب 40. وتستكشف المقابلات مصادر التمويل المتنوعة التي يمكن الاعتماد عليها، بما في ذلك أدوات التمويل الاجتماعي الإسلامية مثل: الزكاة والوقف، لإعداد إطار مالي يضمن استقرار ومرونة طويلتي المدى لنموذج التكافل الأصغر، الأمر الذي يتماشى مع الهدف الأوسع لتعزيز الشمول المالي لشريحة ب 40. كما سيُنشأ برنامج خاص لمحو الأمية المالية، والتوعية المالية لتشجيع المشاركة الفعالة في منتجات التكافل الأصغر من قبل شريحة ب 40. وتقدم الدراسة أدلة تكشف مخاوف أصحاب المصلحة الرئيسين، مثل العرض المفرط للمنتجات، وقلة الوعي والثقافة المالية، والالتزام باللوائح التنظيمية الذي يلقي بظلاله على الاحتياجات الحقيقية لشريحة ب 40. وتقترح الدراسة استراتيجيات لهيكل نموذج تكافل أصغر فعال يركز على الالتزام الشرعي، وإدارة الأموال، ومشاركة المنظمات غير الحكومية، والمشاركة المجتمعية. وتتناول الدراسة عدة حلول لمعالجة القضية المتعلقة بتوفير تمويل مستدام، تشمل الأموال الخاصة بالمسؤولية الاجتماعية للشركات، وزيادة مشاركة الحكومة، والتعاون مع الكيانات التابعة للولاية، والتسويق الفعال. كما تسلط الدراسة الضوء على التحسينات التي يمكن إدخالها على برامج محو الأمية المالية لشريحة ب 40، من خلال النموذج المقترح للتكافل الأصغر، مع التأكيد على ضرورة انسجام أصحاب المصلحة، والحد من الفقر، والاستفادة من التقنية. وفي الختام، تقدم الدراسة فهماً شاملاً للتحديات والحلول الموجهة لتعزيز مبادرات التكافل الأصغر في ماليزيا، ومن المتوقع أن يعزز نموذج التكافل الأصغر المقترح، التنسيق، والاستدامة، ومعدلات الانتشار بين المنتمين لشريحة ب 40.

## **APPROVAL PAGE**

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## DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Kartina Md Ariffin

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Insurance Act 1983 (Act 553)  
Islamic Financial Services Act 2013 (Act 759)  
Trustee Act 1949 (Revised 1978) (Act 208)  
Trustees (Incorporation) Act 1952 (Act 258)  
Unclaimed Moneys Act 1965 (Act 370)



## LIST OF ABBREVIATIONS

AHP	Analytic Hierarchy Process
AIBIM	Association of Islamic Banking and Financial Institutions Malaysia
ASB	Amanah Saham Berhad
ATAM	Akademi Transformasi Asnaf MAIPs Perlis
ATM	Automated Teller Machine
BKM	Bantuan Keluarga Malaysia
BNM	Bank Negara Malaysia
BOD	Board of Directors
BPR	Bantuan Prihatin Rakyat
BR1M	Bantuan Rakyat 1Malaysia
BSH	Bantuan Sara Hidup
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
DOSM	Department of Statistics Malaysia
EPU	Economic Planning Unit
ESG	Environmental, Social and Governance
FCI	Financial Capability and Inclusion Demand Side
FEN	Financial Education Network
FSBP	Financial Sector Blueprint
FSMP	Financial Sector Masterplan
GE	Great Eastern
GTT	Group Term Takaful
HLMT	Hong Leong MSIG Takaful
HRDF	Human Resource Development Fund
IAIS	International Association of Insurance Supervisors
IBFIM	Islamic Banking and Finance Institute Malaysia
IBH	Ikhlas Barakah House
ICU	Implementation Coordination Unit
IFC-MWL	Islamic Fiqh Council of the Muslim World League
IIFA-OIC	International Islamic Fiqh Academy of the Organisation of Islamic Cooperation
IFSA	Islamic Financial Services Act
IFSB	Islamic Financial Services Board
JAKIM	Department of Islamic Development Malaysia/ Jabatan Kemajuan Islam Malaysia
JPIT	Jabatan Perbankan Islam dan Takaful
JAWHAR	Department of Awqaf, Zakat and Haji/ Jabatan Wakaf, Zakat dan Haji
JCORP	Johor Corporation
LIAM	Life Insurance Association of Malaysia/ Persatuan Insurans Hayat Malaysia
LKIM	Fisheries Development Authority of Malaysia/ Lembaga Kemajuan Ikan Malaysia
LZNK	Lembaga Zakat Negeri Kedah
MAIDAM	Majlis Agama Islam Dan Adat Melayu Terengganu
MAIK	Majlis Agama Islam Negeri Kedah
MAIK	Majlis Agama Islam dan Adat Istiadat Melayu Kelantan
MAIM	Majlis Agama Islam Melaka

MAIJ	Majlis Agama Islam Negeri Johor
MAINS	Majlis Agama Islam Negeri Sembilan
MAIPs	Majlis Agama Islam dan ‘Adat Melayu Perak
MAIWP	Majlis Agama Islam Wilayah Persekutuan
MBSB	Malaysia Building Society Berhad
MOF	Ministry of Finance
MSU	Management and Science University
MTA	Malaysian Takaful Association
MTO	Microtakaful Operator
MUIP	Majlis Ugama Islam dan Adat Resam Melayu Pahang
MUIS	Majlis Ugama Islam Sabah
NGO	Non-governmental Organisation
PAMB	Prudential Assurance Malaysia Berhad
PERKESO	Social Security Organisation/ Pertubuhan Keselamatan Sosial
PIAM	General Insurance Association of Malaysia/ Persatuan Insurans Am Malaysia
PIF	Participants’ Investment Fund
PNB	Permodalan Nasional Berhad
PRE	Participants’ Reasonable Expectation
PRF	Participants’ Risk Fund
PTV	Perlindungan Tenang Voucher
RO	Research Objective
RQ	Research Question
RRF	Retakaful Risk Fund
RTO	Retakaful Operator
SDGs	Sustainable Development Goals
SGs	State Governments
SHF	Shareholders’ Fund
SIKM	Skim Insurans Keluarga Malaysia
SIKR	Skim Insurans Kesejahteraan Rakyat
SIRC	State Islamic Religious Council
SME	Small and Medium-sized Enterprises
SMS	Short Message Service
SPM	Malaysian Certificate of Education/ Sijil Pelajaran Malaysia
STMB	Syarikat Takaful Malaysia Berhad
SZC	State Zakat Centre
TERAS	Teraju Ekonomi Asnaf
TO	Takaful Operator
TOF	Takaful Operational Framework
TPD	Total and Permanent Disablement
TVET	Technical and Vocational Education and Training
USD	United States Dollar
VBI	Value-based Intermediation
VBIT	Value-based Intermediation for Takaful
YaPEIM	Yayasan Pembangunan Ekonomi Islam Malaysia
YWM	Yayasan Waqaf Malaysia

etc.	( <i>et cetera</i> ): and so forth pages that follow
et al.	( <i>et alia</i> ): and others
i.e.	that is
n.d.	no date
no.	number
P. B. U. H.	Peace Be Upon Him
per se	by or of itself
S.W.T.	Subhanahu Wa Ta'ala (Praise be to Allah and the Most High)



# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Since takaful carved its mark in the financial industry in 1979 in Sudan (Sadeghi, 2010), the worldwide initiatives to uphold Maqasid Shariah through various takaful models have seen a surge of takaful operators (TOs) around the globe. As reported in Islamic Financial Services Board (IFSB) Stability Report 2021, the worldwide takaful industry observed a growth of 16.1% y-o-y in the year 2021, despite the volatility in the financial market condition and the natural disasters occurred during the year.

In Malaysia, the first TO, Syarikat Takaful Malaysia Berhad (STMB), was established on 29 November 1984 and was officially launched by the then Prime Minister of Malaysia, Tun Dr. Mahathir Mohamad in 1985 (STMB, 2021). Since then, Malaysia has seen an evolution of the industry, ranging from the change in the regulatory framework to the establishment of many TOs operating on various takaful models. In 2022, the total contribution of the fifteen (15) TOs<sup>1</sup> saw a growth of 9.1% y-o-y, buoyed by the 21.1% y-o-y increase in general takaful business. The total takaful contribution in 2022 was dominated by family takaful business, which accounted for 76% of the total takaful contributions (IFSB, 2023).

Malaysia currently ranks as the leading takaful provider in South East Asia in terms of the advancement of the regulatory framework and variation of products, specifically family takaful products (COMCEC, 2019; IFSB, 2021). In 2015, the growth rate of 16% for the family takaful contribution made Malaysia the largest contributor for family takaful business in the world (Alajaji et al., 2017). The supportive regulatory framework of Bank Negara Malaysia (BNM) through continuous enhancements of

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<sup>1</sup> AIA PUBLIC Takaful Bhd., AmMetLife Takaful Berhad, Etiqa Family Takaful Berhad, Etiqa General Takaful Berhad, FWD Takaful Berhad, GE Takaful Berhad, HLMT Berhad, Prudential BSN Takaful Berhad, Sun Life Malaysia Takaful Berhad, Syarikat Takaful Malaysia Am Berhad, Syarikat Takaful Malaysia Keluarga Berhad, Takaful Ikhlas Family Berhad, Takaful Ikhlas General Berhad, Zurich General Takaful Malaysia Berhad, and Zurich Takaful Malaysia Berhad (BNM, 2019).

guidelines such as the Guidelines on Takaful Operational Framework (TOF) (BNM, 2019) has provided the industry a guided flexibility to enhance its products and services, expand their business, and introduce more inclusive products and services. This indirectly enables the growth of contribution when a bigger market segment is included into the takaful system.

The recent development of the local industry also witnessed many initiatives undertaken collectively by BNM, government agencies, industry associations and the TOs to add value to the services of the operators. For example, in September 2021, the Malaysian Takaful Association (MTA) introduced the Value-based Intermediation for Takaful (VBIT) framework to further accentuate the takaful industry's roles in upholding Maqasid Shariah (MTA, 2021). Accentuation undertaken through this framework is expected to help eliminate the public misconception that takaful exists purely for profit-generation. The framework heightens the roles of the TOs by expanding the market to include the underserved into the takaful system. This may only be achieved through the monitoring of the TOs' value-based activities as proposed in the VBIT Roadmap which was launched on 23 June 2022 (MTA, 2022).

Concurrently, the industry has been observing the movement towards financial inclusivity following BNM's issuance of the Microinsurance and Microtakaful Discussion Paper in April 2016 (BNM, 2016). Public at large was informed of the emergence of various microtakaful products aimed at lower-income population. However, a majority of the products were untapped due to the nature of non-inclusive financial infrastructure of the overall financial industry. To address this issue, products with affordable contributions, simple policy wordings, minimal-to-none underwriting requirements, and easily accessible features were introduced. Examples include Perlindungan Tenang (PT), mySalam, and Microtakaful Jariyah, which will be further elaborated in this study.

Notwithstanding the growth, the objective of the takaful industry remains questionable in certain perspectives. One obvious criticism is that the takaful industry focuses mainly on the population who has the ability to participate in takaful products.

The Bottom 40% (B40)<sup>2</sup> section of the population largely remains unserved and untapped, simply because they do not have the means to donate into the risk pool, nor is there sufficient data for the TOs to safely price them into the risk pool without compromising the financial stability of the institutions.

However, the need for takaful protection is greater among the B40 community compared to those with stable income since the former may not have the means to set aside income for savings. Therefore, microtakaful protection for the B40 should be given utmost importance for the purpose of preserving lineage. With microtakaful, the family members of the deceased will be able to continue to practise their religion with a sound mind, supported by continuous sustenance of life after the passing of the responsible head of family (Abdul Aziz et al., 2020). In addition, by utilising the microtakaful coverage to venture into a small business for daily wages, the family members will be prevented from having to resort to immoral activities for easy income, which is in line with Maqasid Shariah (Asni & Ishak, 2020). Lineage may also be preserved when women who are vulnerable to risks of pregnancy and childbirth are provided with the appropriate healthcare through microtakaful protection for the mother and child (Abd Rani & Ab Rahman, 2018).

Furthermore, the initiative to provide microtakaful is in line with a number of objectives of Sustainable Development Goals (SDGs)<sup>3</sup>, such as Reduce Inequality as well as Good Health and Well-being. To some extent, it also promotes achievements of other objectives such as No Poverty and Zero Hunger (Department of Economic and Social Affairs, n.d.). In Malaysia, such initiative has been promoted under VBIT which

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<sup>2</sup> Malaysia's income group is divided into T20 (Top 20%), M40 (Middle 40%) and B40 (Bottom 40%). T20 earns more than RM10,971 per month. M40 earns between RM4,851 and RM10,970 per month. B40 as we know it, is the segment of households in Malaysia which earn less than RM4,850 a month (DOSM, 2019).

<sup>3</sup> Sustainable Development Goals (SDGs) started in year 2012 during a United Nations Conference on Sustainable Development in Rio de Janeiro with the objective of producing a set of universal goals to meet the environment, political and economic challenges of the world. The SDGs was a continuation of Millennium Development Goals which started in year 2000 to fight world poverty. A total of 195 nations agreed to come together with the United Nation to achieve the 17 goals of the SDGs (Eliminate Poverty, Erase Hunger, Establish Good Health and Well Being, Provide Quality Education, Enforce Gender Equality, Improve Clean Water and Sanitation, Grow Affordable and Clean Energy, Create Decent Work and Economic Growth, Increase Industry, Innovation, and Infrastructure, Reduce Inequality, Mobilise Sustainable Cities and Communities, Influence Responsible Consumption and Production, Organise Climate Action, Develop Life Below Water, Advance Life On Land, Guarantee Peace, Justice, and Strong Institutions, and Build Partnerships for the Goals).

“aims to encourage industry players towards achieving growth that is sustainable and meaningful for all stakeholders” (MTA, 2021). This is expected to create a positive socio-economic impact, and is in line with the effort to fulfil Maqasid Shariah, particularly on the protection of al maal (wealth).

Inspired by these initiatives, this study analyses various recommendations proposed by past literature, while incorporating the current improved regulatory infrastructure, to establish a model that will make takaful, particularly microtakaful, accessible by the B40 community.

## **1.2 STATEMENT OF THE PROBLEM**

The initiatives of the TOs and the growth-enabling support provided by BNM as the regulatory and supervisory authority do not come without their own set of trials. Preliminary observation of the current industry practices highlights several key difficulties faced by the microtakaful providers in reaching out to the B40 community. The following are four (4) problems which this study aims to address.

Firstly, numerous issues and challenges have arisen from the offerings of microtakaful products to the B40 community in Malaysia. This leads to many in the B40 community still being untapped by the takaful industry (Mokhtar et al., 2012; Chiew, 2018). These issues and challenges, if not addressed effectively, might render the various microtakaful initiatives fruitless and unsuccessful. This requires an in-depth scrutiny of a microtakaful model that would address such issues and challenges and, in turn, result in a higher penetration rate of the B40 community in microtakaful participation.

Secondly, the takaful industry does not have a microtakaful model that manages the abundance of microtakaful products offered by the industry. These products are either offered by the TOs independently, or under collaborative initiatives with government agencies. Among the active products created for the B40 group are the eleven (11) microtakaful products, namely Perlindungan Tenang which involves the participation of eight (8) TOs (BNM, 2021), MySalam which is offered by Great

Eastern Takaful (GE Takaful) Berhad (MOF, n.d.), and Microtakaful Jariah by Prudential BSN Takaful Berhad (PruBSN, 2018). Concurrent participation of GE Takaful Berhad and PruBSN in Perlindungan Tenang has led to preliminary deduction that there may be redundancy of products in the market as well as overlapping of product coverage. Notwithstanding the growth-enabling regulatory framework of BNM and the commendable efforts of the local takaful practitioners, certain fractions of the B40 may have received two or more product coverage from the same or different TOs. This naturally means that there will be a certain segment of the B40 which remains untapped and unprotected. Hence, the establishment of a microtakaful model is envisioned to eliminate the current problem of redundancy and overlapping of takaful initiatives.

Thirdly, sustainability of funding for microtakaful products is a major concern, given that many of these products are funded by public donations, participants' voluntary additional contribution, and government subsidies (The Star, 2011; Brugnoni, 2012; MOF, 2020; myCoverage, n.d.). These types of funding contain the elements of inconsistencies and uncertainties, underpinned by the voluntary nature of contribution as well as the possible change of government policies. Some of the product offerings, as will be elaborated in the following chapters, have in fact been terminated due to insufficient funding and changes in subsidy policies of the government. In addressing the sustainability concerns relating to easily-interrupted subsidies, a number of literature has proposed utilisation of Islamic social finance instruments such as zakat and waqf (Kassim, 2013; Hasim, 2014; Che Mohd Salleh et al., 2017). While the two instruments have potentials to ensure sustainability of the microtakaful products, the Shariah requirements surrounding the management of such instruments demand that a proper process be established in order to avoid breaching the Shariah principles (Mikail & Adekunle, 2020). These concerns highlight the need for a sustainable funding mechanism to be in place for the microtakaful model to operate effectively and efficiently and reach the B40 continuously without any financial interruptions and constraints.

Fourthly, the low literacy and awareness of financial management among the B40 is a concern aptly highlighted by the National Strategy for Financial Literacy (2019-2023), which cautioned that the financial knowledge of the overall Malaysians is

in need of improvement (FEN, 2019). While there is an effort among the takaful providers and government agencies to bridge this gap by increasing financial literacy programmes for the B40, the lack of coordination between the two stakeholders has led to the ineffective distribution of products, despite the product suppliers' numerous efforts to create easy-to-understand and affordable products (Chiew, 2018). This calls for the establishment of a microtakaful model that would not only provide microtakaful protection to the B40, but also disseminate knowledge, enhance skills and dispense financial information effectively to this group.

To the best of the researcher's knowledge, there is currently no established microtakaful model that manages and ensures all products and initiatives for microtakaful reach the B40 individuals in Malaysia. Despite the commendable efforts put forward by BNM and the takaful industry, the B40 remains largely unexposed to the microtakaful products of the takaful industry (MTA, 2021).

### **1.3 RESEARCH OBJECTIVES**

This study aims to develop a sustainable microtakaful model that would address the challenges faced by the takaful industry in expanding the microtakaful initiatives to the B40. Through Shariah-compliant strategies, the microtakaful model aims to improve the economic condition of the B40 community. Another significant, albeit not the primary objective of this study, is to strive to enhance literacy and raise awareness of financial knowledge within this group. To achieve these goals, this study shall embark on the following specific research objectives (ROs):

- (a) To assess the main issues and challenges faced by the takaful industry on the current microtakaful initiatives;
- (b) To structure a microtakaful model that practically and smoothly collates and distributes products and services to the B40 in Malaysia;

- (c) To explore a sustainable funding mechanism for the proposed microtakaful model which utilises various sources of funding, including Islamic social finance instruments, namely zakat and waqf; and
- (d) To increase the effectiveness of the proposed microtakaful model's financial literacy and awareness programme for the B40.

#### **1.4 RESEARCH QUESTIONS**

Four (4) main research questions (RQs) will be answered by the end of this study:

- (a) What are the main issues and challenges faced by the takaful industry with regards to the current microtakaful initiatives?
- (b) How can a microtakaful model practically and smoothly collate and distribute products and services to the B40 in Malaysia?
- (c) How can funding from zakat, waqf and other sources of funds be utilised efficiently and effectively for the microtakaful model to sustain indefinitely?
- (d) How can financial awareness, training and skills enhancement be improved for the B40 through the microtakaful model?

#### **1.5 LIMITATION AND SCOPE OF THE STUDY**

This study limits the scope of research to establishing a microtakaful model for Malaysia only. Given the nature of the regulatory framework that has been put in place by BNM, studies and researches that have been undertaken by the industry, as well as the vast experiences of the takaful industry players within Malaysia, a microtakaful model specifically for Malaysia shall be the central focus of this study. The ability to obtain data from within the confined geographical area, gather feedback from key

stakeholders, and access the local regulatory bodies and personnel and government agencies are expected to help smoothen the process of achieving the ROs.

Since each state in Malaysia has its own independent state Islamic religious council (SIRC) with differing standard operating procedures and Shariah pronouncements, this study is cognisant of certain states' constraints in providing data. However, the study shall endeavour to obtain as much data as possible to ensure the objectives of this study are met. Where unavoidable, certain states may be omitted from this study.

This study excludes the perspectives of the B40 group regarding microtakaful initiatives for two main reasons. First, the characteristics of B1, B2, B3, and B4 within the B40 group vary across the fourteen states, necessitating a more intensive focus and a longer timeframe for comprehensive data collection. Second, this study aims to explore and understand the perspectives of microtakaful product and service providers before examining the viewpoints of microtakaful participants.

This study shall not venture into the simulation of pricing of microtakaful products for profitability and sustainability tests, given that the microtakaful products identified in the literature review have gone through rigorous product development process approved by the respective TOs' appointed actuaries, as stipulated in the guideline of BNM on Appointed Actuary: Appointment and Duties (BNM, 2014). Sustainability in the context of this study shall refer to the microtakaful funds' ability to continuously provide microtakaful coverage to the B40 by utilising various sources of funding, including Islamic social finance instruments. This shall also take into consideration the instruments' ability to generate more income which will enable expansion to be undertaken to include a wider targeted B40 community.

## **1.6 SIGNIFICANCE OF RESEARCH**

The takaful industry has yet to achieve its financial inclusion objective (BNM, 2016; MTA, 2021). The various initiatives by the TOs and relevant industry stakeholders have

not been able to serve and tap the B40 as intended. This study is hence significant to aspire a change in Malaysia's microtakaful landscape. It aims to achieve the following:

- (a) Proposes a sustainable microtakaful model that provides microtakaful coverage and financial literacy and awareness programme to the B40. This model shall address various areas of concerns with regards to the financial literacy and awareness needs of the B40, prior to providing them with microtakaful protection. In addition, a sustainable funding mechanism will also be elaborated by utilising various sources of funding, including Islamic social finance instruments to ensure that the microtakaful model will not rely entirely on subsidies given by the government. Additionally, the microtakaful model seeks to collate the various initiatives that have been undertaken by the TOs under one model to address the concerns of product redundancy and untapped segments of the B40.
- (b) Provides policy recommendations on the establishment of a sustainable microtakaful model with the collaboration of all fifteen (15) TOs and SIRC's in Malaysia. This is crucial to ensure that each individual under the B40 category will have access to the various product offerings of the takaful industry. The roles played by the respective stakeholders within this microtakaful model will be expanded and particularised for clarity of purposes and direction of the microtakaful model.
- (c) Bridges the gap between TOs and SIRC's in obtaining the appropriate source of funding for a sustainable microtakaful model for the B40. This will be further exemplified through proper understanding of each entity's protocols and practices.
- (d) Fills the gap in the academic literature in the area of microtakaful in which to the extent of the researcher's knowledge, is still limited. A further scrutiny into the operational know-how of microtakaful will help to promote more inclusive takaful programmes in real practices.

- (e) Eliminates the misconception that takaful is not inclusive. A microtakaful model that meets the Maqasid of Shariah without compromising the existing BNM requirements, and takes into consideration the various stakeholders' needs and interests, shall be produced and presented at the end of the study.

## **1.7 ORGANISATION OF THE STUDY**

This study is organised into six (6) chapters. Upon completion of Chapter One (1) on introduction, Chapter Two (2) provides an overview of the microtakaful landscape in the Malaysian takaful industry. It elaborates at length various guidelines, products, subsidies and initiatives from BNM, TOs, government agencies and charity organisations that have contributed to the microtakaful effort. This chapter also exemplifies issues and challenges arising from these initiatives to provide a background illustration of the motivation behind this study.

Chapter Three (3) provides a theoretical foundation for this study. Subsequently, it draws out information from existing literature, articles published in established journals, industry reports and updates, issues papers and conference proceedings that focus on the various key features, challenges and issues pertaining to microtakaful, takaful, government subsidies, SIRC, zakat and waqf. This process is crucial for the purpose of preserving the originality of this study, in addition to uncovering new areas that may provide insightful reference to the development of the microtakaful model. This chapter also analyses the previous and current microtakaful initiatives that have been introduced in the industry. It also highlights the strengths and loopholes of these initiatives to strengthen the need for this study.

Chapter Four (4) focuses on research methodology. It elaborates the conduct of this research as well as methods of research used, which include the definition of data, sample and techniques employed for the purpose of data analysis.

Chapter Five (5) presents the results and analyses of this study. It provides answers to the RQs by presenting detailed information of analyses undertaken.

Chapter Six (6) is the closing chapter which summarises and concludes the study. It also contains recommendations for the benefits of policy makers and market players, as well as for an impetus for future studies.



## CHAPTER TWO

### LANDSCAPE OF MICROTAKAFUL INDUSTRY IN MALAYSIA

#### 2.1 INTRODUCTION

Prior to examining the literature on microtakaful, it is crucial to establish an understanding of the meaning of microtakaful. Given the extensive research undertaken by the IFSB and International Association of Insurance Supervisors (IAIS) on microtakaful in 2015<sup>4</sup>, as well as Malaysia's advancement in regulatory infrastructure and enabling framework for financial institutions, the description of microtakaful shall be based on the collaborative work of IFSB and IAIS as well as BNM's policy document on microtakaful.

This chapter will expand on Malaysia's range of microtakaful products. Section 2.3 discusses the regulations introduced by BNM for microtakaful while section 2.4 goes into detail about Malaysia's various microtakaful products. Next, section 2.5 deliberates on the funding uncertainty surrounding microtakaful initiatives, followed by the financial protection need of the B40 in section 2.6. A summary of the chapter will be included in section 2.7.

##### 2.1.1 Microtakaful Framework

In their joint paper on “Issues in Regulation and Supervision of Microtakaful (Islamic Microinsurance)” published in November 2015, the IFSB and IAIS defined microtakaful as:

“Microtakāful is the Islamic counterpart of microinsurance, and exists in both Family and General forms. It is a joint-guarantee initiative, whereby a group of participants agree among themselves to support one another

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<sup>4</sup> The IFSB and IAIS published a joint research paper in 2015 titled “*Issues in Regulation and Supervision of Microtakaful (Islamic Microinsurance)*”, with the objective of providing “guidance and understanding to regulatory and supervisory authorities on how effective supervision may be accomplished for the Microtakaful sector specifically.” (IFSB, 2015).

jointly for the losses arising from specified risks, under the core principles of Tabarru’ (donation), Taāwun (mutual assistance) and Prohibition of Ribā (usury). Microtakāful is generally offered to [the] low-income and under-privileged segment of the population (which is usually excluded from the general Takāful terms and conditions) by various entities which are regulated and supervised by regulatory and supervisory authorities of Takāful/insurance or any other competent regulatory and supervisory authority under the national laws of any jurisdiction.”

In Malaysia, pursuant to the issuance of a Discussion Paper on Microinsurance and Microtakāful in 2016, BNM introduced its first enabling and fit-for-purpose regulatory framework named “Perlindungan Tenang” for microtakāful in 2021 (BNM, 2021). Figure 2.1 shows the three (3) main areas covered by this framework.

<b>Perlindungan Tenang Framework</b>		
<b>TOs</b>	<b>Industry</b>	<b>Consumers Protection</b>
Offer more innovative, diverse and meaningful microtakāful products in a sustainable manner through clearer expectations on product development	Promotes wider take-up of microtakāful products by broadening the distribution channels to address challenges associated with high distribution costs, as well as enabling product combination	Strengthen consumer protection requirements to safeguard consumer interests.

Figure 2.1 The BNM Perlindungan Tenang Framework

Source: (BNM, 2021)

To date, the TOs distributed microtakāful products independently of each other. Some operators collaborate with government agencies to provide coverage for targeted segments (YaPEIM, 2006), while others operate under the microtakāful Perlindungan Tenang framework to provide affordable products to the B40. However, these initiatives

have yet to achieve the target of microtakaful, given that the B40 have largely remained untapped (Chiew, 2018), as shown in Figure 2.2.

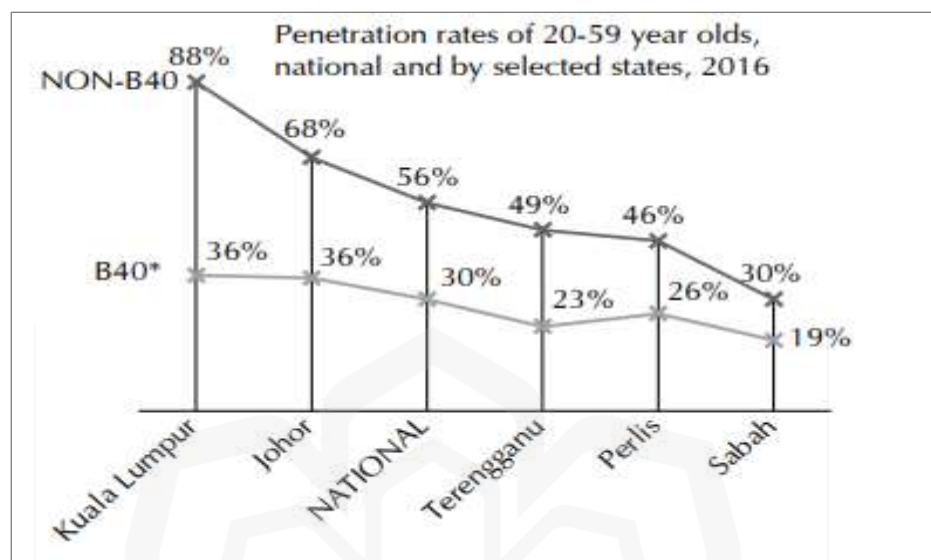


Figure 2.2 B40 and Non-B40 Penetration Rates for Insurance and Takaful

Source: (Chiew, 2018)

### 2.1.2 Market for Microtakaful

According to the Department of Statistics Malaysia (DOSM), the B40 refers to households with the lowest income, earning less than RM4,849 a month (DOSM, 2019). This is the group that is most exposed to various illnesses and mental distress, due to their limitations in obtaining minimum daily sustenance and proper healthcare (Zailani et al., 2022). This is also the group whose livelihood revolves around low-skilled jobs, agricultural activities, craft making, casual labour, and self-employment (Yayasan Hasanah, 2020) and is therefore excluded from takaful coverage due to their inability to secure a stable income. However, this group is also disfavoured by the TOs, due to the lack of data required for them to price the products prudently to preserve their financial stability, as stipulated in the TOF of BNM (IFSB, 2015; BNM, 2019).

Microtakaful presents a friendly option for individuals seeking Shariah-compliant takaful products to help meet their financial protection needs. Given

microtakaful's simple and affordable features, as required by BNM (2016; 2021), the regulator has made strong attempts to foster a sense of confidence and reliability among the B40 by creating a niche market to address not only their financial needs but also their religious values. According to the Economic Planning Unit (EPU) (2015) of the Prime Minister's Office (PMO), 64.7% of the B40 relied on single income in 2014, making them vulnerable to economic shock.

The microtakaful product offerings with simple features such as Death and Total and Permanent Disablement (TPD) will enable this group to manage any sudden loss of income (PruBSN, n.d.). Medical and health takaful product such as mySalam (MOF, n.d.) provides the B40 with critical illness benefits. Microtakaful products that are made inclusive for the B40 is pivotal for the B40 individuals who are aware of the importance of risk mitigation but face challenges in accessing affordable takaful coverage. As such, the microtakaful market stands as a testament to the broader financial inclusion goals, offering a pathway for the B40 to protect themselves against risks without jeopardising the TOs' financial stability (MTA, 2022).

In addition, scholarly insights (Brugnoni, 2012; Abdul Wahid & Nordin, 2014) stress the demand for flexibility and customisation in microtakaful offerings. The lower-income group appreciates microtakaful plans that are adaptable to their unique circumstances and risks. The customer-centric approach aligns with the growing trend of the takaful industry which emphasises the need for personalised solutions. As the microtakaful market evolves, the TOs are perceptive of the significance of tailoring products to meet the specific requirements of their diverse clientele, which would in turn enhance customer satisfaction and market competitiveness. This is in line with the objective set forth in the VBIT framework of the Malaysian takaful industry (MTA, 2021), that is to make takaful available for all.

In brief, the microtakaful market, viewed through the lens of the B40, excels in aligning with religious values, promoting financial inclusivity, and responding to the demand for flexible and customised takaful solutions. These factors collectively contribute to the market's attractiveness and signify its potential to serve diverse B40 segments effectively.

## 2.2 MALAYSIA'S MICROTAKAFUL PRODUCTS

The first known microtakaful effort funded by the Government of Malaysia was offered to about 100,000 farmers who were members of Farmers Welfare Federation of Malaysia, a non-governmental organisation (NGO) (Brugnoni, 2012). The 2007 initiative witnessed a collaboration between Takaful Ikhlas and the government, where the TO created an affordable Death Benefit protection plan worth RM500 to the members at a contribution rate of RM1.80, whilst the government funded the compulsory protection plan. In addition, Takaful Ikhlas created a voluntary scheme for capital protection purposes with RM10,000 worth of coverage. This initiative was a collaboration with Selangor Zakat Centre through its ten (10) zakat collecting agencies such as Pos Malaysia and the Malaysian commercial banks to fund the monthly payments for the B40. A Collective and Intensive Takaful Fund was also created where monthly zakat payments were utilised to pay for the B40, in addition to offering protection against death, disability, critical illness, funeral expenses and hospitalisation (Brugnoni, 2012).

A few other microtakaful products were subsequently introduced by the TOs, as summarised in Table 2.1. It should be noted however, that these products are not offered to all Malaysians. The affordable products were created to target specific participants, given that few low-income Malaysians would want to part with RM50 a month for takaful contribution. The majority of the B40 had specified that they were willing to pay not more than RM35 a month for their takaful contribution (Mohd Rom et al., 2012). Hence, the products of Etiqa Takaful and Bank Rakyat fall outside the affordable range of the low-income population in Malaysia. In addition, these products do not carry the 'micro' label, although there is a general conscience among the takaful providers of the need to offer affordable products to the lower-income population.

Table 2.1 Microtakaful Products Offered by the Takaful Industry

Year and Name of Product	TO	Collaboration with	Benefit
January 2009: Takaful myJalanan Kasih	STMB	Corporate Social Responsibility (CSR)	<ul style="list-style-type: none"> <li>Financial assistance for orphans, single mothers and disabled individuals</li> </ul>
January 2009: Takaful myJalanan Ilmu	STMB	CSR	<ul style="list-style-type: none"> <li>Complement the initiatives of teachers by assisting excellent students in English proficiency</li> </ul>
March 2009: Skim Tabarru' Koperasi	Etiqa Takaful	Angkatan Koperasi Kebangsaan Malaysia (ANGKASA)	<ul style="list-style-type: none"> <li>For Cooperative Members only</li> <li>Contribution: RM5-RM25 per annum</li> <li>Death/ TPD benefits: as high as RM19,000</li> <li>Covers up until age 80</li> </ul>
June 2011: Domestic Helpers Affairs Programme	Etiqa Takaful Takaful Ikhlas	-	<ul style="list-style-type: none"> <li>For Indonesian maids (to be paid by employers)</li> <li>Contribution: RM70 per annum</li> <li>Death/ TPD/ Hospitalisation/ Medical cost up to RM40,000 due to accident</li> </ul>
January 2011: Takaful Murni	Etiqa Takaful	Bank Rakyat	<ul style="list-style-type: none"> <li>Contribution: as low as RM50 per month for 24-hour coverage</li> <li>Financial benefits for participant and family members</li> </ul>
January 2011: Takaful Didik	Etiqa Takaful	Bank Rakyat	<ul style="list-style-type: none"> <li>Contribution: as low as RM50 per month for 24-hour coverage</li> <li>Education plan</li> </ul>
January 2011: Takaful Amanah	Etiqa Takaful	Bank Rakyat	<ul style="list-style-type: none"> <li>Contribution: as low as RM50 per month for 24-hour coverage</li> <li>Comprehensive protection for families</li> </ul>

Source: (Mokhtar et al., 2012; Abdul Wahid & Nordin, 2014)

In addition to the above, the takaful industry has witnessed the introduction of new schemes that target a wider audience. These schemes also saw the beginning of the TOs' collaborations with government agencies, where subsidies were allocated to provide complementary coverage to the targeted participants. The schemes are as follows:

(a) **Fishermen Takaful Scheme**

The scheme was a protection plan targeted at fishermen. Unlike the tabulated products highlighted above, the scheme was fully funded by the Government of Malaysia. It was introduced in May 2012 by Fisheries Development Authority of Malaysia, also known as Lembaga Kemajuan Ikan Malaysia (LKIM) to provide coverage for the fishermen and their family members in the unfortunate events of accident, disablement or demise. The contribution of RM100 per annum for each of the fisherman was deducted from their Fishermen Subsistence Allowance or Elaun Sara Hidup Nelayan, a monthly allowance<sup>5</sup> paid by the government to licensed fishermen who met certain criteria.

The nationwide fisherman programme had until July 2020 provided coverage for 45,163 fishermen<sup>6</sup> (LKIM, 2020). As at April 2019, 60 fishermen had made claims totalling RM1,015,511 (Awang, 2019). The coverage provided in the takaful scheme included accidental death/ TPD, accidental death at sea, accidental medical reimbursement, wheelchair expense, ambulance allowance, repatriation, hospital allowance, funeral expenses, robbery, and critical illness. Etiqa Family Takaful Berhad was the TO behind the scheme (LKIM, 2020). This scheme was discontinued in 2020 and replaced by Skim Keselamatan Sosial Pekerjaan Sendiri where contributions are now channelled to Pertubuhan Keselamatan Sosial

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<sup>5</sup> In 2021, the monthly allowance given to about 40,000 fishermen was RM300 a month per person (Kementerian Pertanian dan Industri Makanan, 2021).

<sup>6</sup> To qualify for this allowance, the fisherman or his assistance needs to be a Malaysian with valid (or works on valid) vessel license issued by Department of Fisheries Malaysia, Sabah Marine Department, and Sabah Port and Port Department for individual owners, minimum 18 years of age, and possesses e-Nelayan card (BRIM, 2019).

(PERKESO). Total contribution utilised under the PERKESO scheme was RM1.6 million in 2020 (LKIM, 2020).

**(b) 1Malaysia Micro Protection Plan**

The plan was introduced on 15 April 2011 by both insurance and takaful providers (Abdullah, 2021), offering life insurance, family takaful, general insurance as well as general takaful to all Malaysians. With monthly premium/ contribution as low as RM20, members of the public were able to participate in a protection plan against death, illnesses, accidents, fires and loss of properties through financial institutions that collaborate with the insurance/ takaful providers. However, the TOs were generally disinterested in the plan, given the challenges ensued from the offerings. This includes the absence of regulatory framework specific for microinsurance and microtakaful, as well as the difficulty in product distribution and claims management due to the scarcity of appropriate microinsurance/ microtakaful partners (Insurance Research Centre, 2011).

**(c) i-BR1M**

i-BR1M is the first known financial protection plan undertaken by the Government of Malaysia under the Bantuan Rakyat 1Malaysia (BR1M)<sup>7</sup> programme. Under the guidance of BNM, ten (10) TOs<sup>8</sup> were tasked to provide group takaful coverage to BR1M recipients from January to December 2014. The i-BR1M benefits were: (a) natural death benefit of RM1,000, (b) accidental death benefit of RM30,000, and (c) accidental TPD benefit of RM30,000. Under the microtakaful initiative, all the TOs entered into a co-takaful agreement, with Takaful Ikhlas leading the arrangement. Any claims incurred will be co-shared by all the TOs, with each covering

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<sup>7</sup> BR1M was first introduced in 2012, under the recommendation of BNM. The initiative targeted the low-income segment to support their daily livelihoods. This scheme was introduced by the sixth Prime Minister, Dato' Sri Mohd Najib bin Tun Abdul Razak. Under this initiative, eligible individuals received a one-off payment of RM500 each (Bernama, 2018).

<sup>8</sup> Takaful AmFamily Takaful Berhad, Prudential BSN Takaful Berhad, Etiqa Takaful Berhad, Sun Life Malaysia Takaful Berhad, GE Takaful Berhad, STMB, Takaful Ikhlas Sdn. Bhd., HLMT Berhad, HSBC Amanah Takaful (Malaysia) Sdn. Bhd., and MAA Takaful Berhad.

10% of the claims. The initiative saw the government contributing about RM4.6 billion, while each covered person contributed RM50 (Abdullah, 2021). In 2018, there was a significant change to the coverage, where only RM1,000 of funeral expense benefit was given to the claimant from among the BR1M recipients. i-BR1M was officially discontinued in 2018 when Malaysia for the first time changed its ruling party from Barisan Nasional to Pakatan Harapan after having helmed the country for sixty-one (61) years since independence.<sup>9</sup>

**(d) MySALAM**

MySalam was introduced in 2019 following the discontinuation of i-BR1M in 2018. Similar to i-BR1M, MySalam is funded by the Government of Malaysia and was created specifically for the B40 segment, namely the Bantuan Sara Hidup (BSH)<sup>10</sup> recipients who have minimal access to insurance/ takaful coverage due to their inability to participate in financial protection plans. MySalam provides its participants aged 18-65 with a one-off payment of RM8,000 upon diagnosis of any of the 45 critical illnesses, in addition to daily hospital allowance of RM50, up to a maximum of 14 days (MOF, n.d.). The microtakaful product is offered to (a) BSH recipients aged 18-65, (b) single individuals aged 40-65 with income less than RM24,000 per annum, and (c) disabled individuals aged 18-65 with annual income less than RM24,000 (MOF, 2020). MySalam is currently managed solely by GE Takaful Berhad under an arrangement with the government.

**(e) Perlindungan Tenang**

The Government of Malaysia's initiative was first introduced in 2017 under the collaboration of BNM, Life Insurance Association of Malaysia (LIAM), General Insurance Association of Malaysia (PIAM) and MTA to benefit eight (8) million working adults and around 700,000 micro-enterprises

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<sup>9</sup> Following a change in leadership in May 2018, Tun Dr Mahathir Mohamad superseded Dato' Sri Najib Tun Razak as the seventh Prime Minister of Malaysia.

<sup>10</sup> Tun Dr. Mahathir introduced BSH to replace BR1M.

(Povera, 2017). Under BNM guidance, the insurance and takaful industry widened its product offerings to include the B40 segment of the population (Chiew, 2018) who earn less than RM4,849 a month (DOSM, 2019). Out of the 7.9 million working adults in Malaysia who owned at least one insurance/ takaful policy, only 1.7 million were from among the B40 segment (Chiew, 2018). Given the consistently low penetration rate among the B40 working adults, BNM outlined several key criteria for Perlindungan Tenang products to facilitate and encourage participation of the underserved segment. In essence, these products should be (a) affordable, (b) of good value, (c) accessible, (d) easy to understand, and (e) easy to buy and claim by the prospective clients.

When it was first introduced in 2017, Perlindungan Tenang offered only ten (10) affordable protection plans, out of which six (6) were life insurance products. Following the enhancement of the product requirements by BNM in 2021 (BNM, 2021), more insurance companies and TOs joined the initiative to offer affordable, good value and accessible products for the B40 segment. On 30 September 2021, the government officially launched the Perlindungan Tenang Voucher (PTV) programme (Perlindungan Tenang, 2021). Under the PTV programme, the government subsidised the premium/ contribution through issuance of vouchers worth RM50 to each of the Bantuan Prihatin Rakyat (BPR)<sup>11</sup> 2021 recipients, namely the B40 citizens aged 18-60 or born between 1961 and 2003. The free voucher allowed the BPR recipients to choose insurance/ takaful products from nineteen (19) insurance/ takaful providers. From online portals of the respective insurers and TOs, they could select products that suit their financial needs and key in their personal information, and the acceptance will be made by the provider. Out of the 19 providers, eight (8) were TOs, as shown in Table 2.2.

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<sup>11</sup> BPR recipients are individuals who fall under the following categories: (a) household income less than RM2,500 (less than one child receives RM1,200, more than two children receives RM1,800), (b) household income between RM2,501-RM4,000 (less than one child receives RM800, more than two children receives RM1,200), (c) household income RM4,001-RM5,000 (less than one child receives RM500, more than two children receives RM750), and (d) single individuals aged less than 21 years old with income less than RM2,500 receives RM300 (MOF, 2021).

Table 2.2 Perlindungan Tenang Takaful Operators and Insurance Providers

No.	Insurer and TO	Perlindungan Tenang Product	Participation Age	Product Feature
1	AIA Bhd.	AIA Starter Pack	16 – 55	<ul style="list-style-type: none"> <li>• Death benefit</li> </ul>
2	AIA Public Takaful Bhd.	AIA i-Starter Plan	16 – 55	<ul style="list-style-type: none"> <li>• Death benefit</li> </ul>
3	Allianz General Insurance (Malaysia) Berhad	Allianz KampungKu	18 – no limit	<ul style="list-style-type: none"> <li>• Building and/ or household contents against fire and lightning</li> <li>• Emergency relief benefit (a sum of money that is paid out immediately after a loss)</li> <li>• Personal accident for death, permanent disablement and funeral expenses of the insured or one immediate family member</li> </ul>
4		Allianze PerlindunganKu	18 – 59	<ul style="list-style-type: none"> <li>• Accidental death or TPD</li> <li>• Hospital income allowance</li> <li>• Emergency relief</li> <li>• Medical expenses</li> </ul>
5		POS PerlindunganKu	18 – 59	<ul style="list-style-type: none"> <li>• Accidental death or TPD</li> <li>• Hospital income allowance</li> </ul>
6	Allianz Life Insurance Malaysia Berhad	Allianz Kasih Hayat	18 – 70	<ul style="list-style-type: none"> <li>• Death benefit</li> </ul>
7	Chubb Insurance Malaysia Berhad	Protector Guard	16 – 64	<ul style="list-style-type: none"> <li>• Accidental death/ TPD</li> <li>• Hospital income benefit due to accident (inclusive of dengue)</li> </ul>
8	Etiqa Family Takaful Berhad	POS Tenang	21 – 45	<ul style="list-style-type: none"> <li>• Death</li> <li>• Accidental medical reimbursement</li> </ul>
9	FWD Takaful Berhad	FWD Kasih	19 – 49	<ul style="list-style-type: none"> <li>• Death and TPD</li> <li>• Badal haji/ charity</li> <li>• Funeral expenses</li> </ul>

No.	Insurer and TO	Perlindungan Tenang Product	Participation Age	Product Feature
10	GE Life Assurance (M) Berhad	EasyCare Plus	18 – 59	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
11	GE Takaful Berhad	MikroSayang	19 – 55	<ul style="list-style-type: none"> <li>• Accidental death, daily hospital allowance</li> <li>• Accidental death, critical illness</li> <li>• Accidental death, daily hospital allowance, critical allowance</li> </ul>
12	Hong Leong Assurance Berhad	HLA Stackable	20 – 60	<ul style="list-style-type: none"> <li>• Death</li> <li>• Accidental TPD</li> <li>• Accidental daily hospital allowance</li> </ul>
13		Life Protector	18 – 50	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
14	Hong Leong MSIG Takaful (HLMT) Berhad	HLM Takaful Tenang	18 – 60	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
15		HLM Takaful Tenang 50	18 – 55	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
16	MCIS Insurance Berhad	Merchantrade Insure – Life	18 – 60	<ul style="list-style-type: none"> <li>• Natural and accidental death benefit</li> </ul>
17		MyTenang	18 – 60	<ul style="list-style-type: none"> <li>• Natural and accidental death benefit</li> </ul>
18	MSIG Insurance (Malaysia) Bhd.	Mini PA	16 – 65	<ul style="list-style-type: none"> <li>• Accidental death</li> <li>• TPD</li> <li>• Grievance allowance</li> </ul>
19	PruBSN	BSN Takaful Sakinah	19 – 50	<ul style="list-style-type: none"> <li>• Death</li> <li>• Funeral expense</li> </ul>
20		Lindungi	19 – 60	<ul style="list-style-type: none"> <li>• Death</li> </ul>

No.	Insurer and TO	Perlindungan Tenang Product	Participation Age	Product Feature
				<ul style="list-style-type: none"> <li>• TPD</li> </ul>
21	STMB	Takaful myTenang Care	19 – 55	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
22	Sun Life Malaysia Assurance Berhad	Go Life	18 – 50	<ul style="list-style-type: none"> <li>• Death and TPD</li> <li>• Death and TPD (due to certain sickness)</li> </ul>
23	Takaful Ikhlas Family Berhad	Agro Mabrur-i	(Not Available)	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> <li>• Badal haji</li> <li>• Cash waqf</li> </ul>
24	Tokio Marine Life Insurance Malaysia Bhd.	TokioMarine E-ssential Tenang	18 – 50	<ul style="list-style-type: none"> <li>• Death</li> <li>• Accidental TPD</li> </ul>
25	Tune Insurance Malaysia Berhad	Tenang PA Care	18 – 70	<ul style="list-style-type: none"> <li>• Accidental death</li> <li>• TPD</li> <li>• Grievance allowance</li> </ul>

Source: (Perlindungan Tenang, 2021)

Effective 1 January 2022, the government of Malaysia upgraded the subsidy by increasing the amount of voucher from RM50 to RM75 (Perlindungan Tenang, 2021) to eligible Bantuan Keluarga Malaysia (BKM) recipients. In July 2022, a slight amendment was made to the voucher, where eligible recipients were required to pay an upfront fee of RM5 prior to obtaining the RM75 worth of voucher (myPTV, 2022). It should be noted that the term BPR was changed to BKM effective January 2022, given the additional benefits and assistance provided by the government. As shown in Table 2.3, the features of these specific microtakaful products under Perlindungan Tenang are much simpler than the normal products offered to the general public.



Table 2.3 Perlindungan Tenang Products by Takaful Operators

No.	TO	Name of Product	Product Benefit
1	AIA Public Takaful	AIA i-Starter Plan	<ul style="list-style-type: none"> <li>• Death</li> </ul>
2	Etiqa Family Takaful Berhad	POS Tenang	<ul style="list-style-type: none"> <li>• Death</li> <li>• Accidental medical reimbursement</li> </ul>
3	FWD Takaful Berhad	FWD Kasih	<ul style="list-style-type: none"> <li>• Death and TPD</li> <li>• Badal haji/ charity</li> <li>• Funeral expenses</li> </ul>
4	GE Takaful Berhad	MikroSayang	<ul style="list-style-type: none"> <li>• Accidental death, daily hospital allowance</li> <li>• Accidental death, critical illness</li> <li>• Accidental death, daily hospital allowance, critical allowance</li> </ul>
5	HLMT Berhad	HLM Takaful Tenang	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
6		HLM Takaful Tenang 50	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
7	PruBSN	BSN Takaful Sakinah	<ul style="list-style-type: none"> <li>• Death</li> <li>• Funeral expense</li> </ul>
8		Lindungi	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
9	STMB	Takaful myTenang Care	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> </ul>
10	Takaful Ikhlas Malaysia Berhad	Agro Maburur-i	<ul style="list-style-type: none"> <li>• Death</li> <li>• TPD</li> <li>• Badal haji</li> <li>• Cash waqf</li> </ul>
11		Ikhlas Perlindungan Tenang	<ul style="list-style-type: none"> <li>• Death and TPD</li> <li>• Badal haji</li> <li>• Funeral expenses</li> </ul>

Source: (Perlindungan Tenang, 2021)

Hasim (2014) rightly recommended the need for government intervention in making microtakaful feasible in Malaysia. Under the Perlindungan Tenang framework, subsidies were channelled from the government's annual budget to provide free coverage for the underserved. However, government intervention also saw frequent modifications being made to the annual budget for microtakaful. For example, in Budget 2021, the subsidies for free protection had increased from RM50 per individual to RM75 per individual, and was further reduced to RM70 in year 2022 (Selangor Journal, 2023). In addition to the concerted efforts of the TOs through Perlindungan Tenang, these institutions have, at their own initiative, introduced the following microtakaful products to complement the national microtakaful scheme:

(a) **Microtakaful Jariyah**

The microtakaful scheme was first introduced in 2018 by PruBSN. The scheme provides death benefits worth RM10,000 upon the death of the head of family to 12,500 individuals registered under e-Kasih, the national poverty database. With the assistance of the Prime Minister's Office – Implementation Coordination Unit (PMO-ICU), PruBSN obtained the names and addresses of the head of family and sent application and nomination forms for them to register and participate in the scheme. Upon completion of registration, a Microtakaful Jariyah identification card will be delivered to the head of family to indicate that he/ she is a participant of Microtakaful Jariyah (PruBSN, 2018). Under this plan, the participants are not required to pay any contribution, since it is fully funded by PruBSN's Prihatin Zakat Fund, which is the charity arm of PruBSN. Furthermore, additional funding for the free coverage is obtained from donations made by existing participants of PruBSN Anugerah Plus, Warisan Plus and Aspirasi (through Ihsan Rider, which is attached to their existing certificates), employees' contribution (through Caring@Workplace programme) as well as agents' and employees' one-off donation (through One Donation programme). This product, which is managed internally by PruBSN's CSR department, provides the participants a one-year protection only, upon which renewal is not automatic, but subject to the availability of Prihatin Zakat Fund. When it was first introduced, only 12,500 participants

received such coverage. The number increased to 25,000 in 2020 and is expected to reach 28,000 in 2022 (Sinar Harian, 2022).

(b) **Skim Insurans Keluarga Malaysia**

Skim Insurans Keluarga Malaysia (SIKM) was another government initiative in exclusive collaboration with PruBSN which provided coverage to the hardcore poor registered under the eKasih database managed by the PMO-ICU (MStar, 2022). This was a pure Takaful product, despite being named as ‘insurans’. It provided coverage of natural death/ TPD worth RM10,000, and accidental death worth RM20,000 to the head of family. A total of 268,000 hardcore poor families earning less than RM1,169 per month benefitted from this protection for a year, fully funded by the government (MStar, 2022). A total amount of RM13.4 million in contribution was fully funded by the government during the premiership of Datuk Seri Ismail Sabri Yaakob, who launched the product on 25 March 2022. At this point, it is important to highlight that both SIKM and Perlindungan Tenang were funded by the Government of Malaysia. The only difference is that SIKM targeted only 268,000 of the hardcore poor families registered under the e-Kasih database, whereas Perlindungan Tenang provided PTVs for all categories of the B40 segment.

(c) **Skim Insurans Kesejahteraan Rakyat**

Skim Insurans Kesejahteraan Rakyat (SIKR) replaced SIKM pursuant to the appointment of Dato’ Seri Anwar Ibrahim as the 10<sup>th</sup> Prime Minister of Malaysia, who took over the position from Datuk Seri Ismail Sabri Yaakob after the 15<sup>th</sup> General Election on 19 November 2022. Although it is still exclusively offered by PruBSN in collaboration with the PMO, utilising the eKasih database, the coverage for accidental death has increased from RM20,000 to RM25,000 whilst the natural death and TPD benefits remain at RM10,000.

(d) **Yayasan Pembangunan Ekonomi Islam Malaysia**

Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) or Malaysia Islamic Economic Development Foundation is a government agency that offers microtakaful protection to the B40, without collaborating with any TO. Established on 13 October 1976 under the Trustees (Incorporation) Act 1952, the government agency provides microfinancing facility to the B40 through its flagship product, Ar Rahnu-Based Micro Credit Programme, that are based on three muamalat contracts, namely (a) Islamic pawn-broking, (b) safekeeping with a guarantee with a fee, and (c) interest-free loan. Under the microfinancing plan, a B40 individual can pawn his valuable items and get a loan of up to 65% of the value of the pawned item. The loan amount is limited to RM10,000 per transaction and capped at RM25,000 of accumulated loan amount. The pawnee is charged a minimal safekeeping fee, through a simple Shariah-compliant process.

To manage the risk of the facility, YaPEIM offers Skim Khairat Nasional in 2006 to protect the family members of the participants in the event of the loss of the head of family. Upon the death of the head of family, benefits provided by YaPEIM include (a) the higher of RM1,000 or RM200 per dependent, and (b) another RM1,000 for unemployed spouse. An amount of RM5,000 will be awarded to the surviving spouse who wishes to venture into a new business or continue with the deceased's business (Mokhtar et al., 2012). In addition, YaPEIM also works together with Etiqa Takaful to provide takaful protection for the pawned items through Takaful iProtect (YaPEIM, 2021). Under this plan, coverage is provided against the death or TPD of the pawnee. Under this coverage, the beneficiaries of the pawnee are not required to pay back any outstanding balance of the loan obtained from ArRahnu credit facility, and are still able to reclaim the items pawned by the deceased. An interview conducted by Mokhtar et al. (2012) with the then Chief Executive Officer (CEO) of YaPEIM, Dr. Abdul Malik Awang Kecil, which was confirmed by Yaakob Alias, CEO of YaPEIM Smart Ventures Sdn. Bhd. in a meeting in 2012, indicated that there was an attempt by YaPEIM to create its own takaful company. This was subsequent to the

increase in takaful contribution for ArRahnu iProtect in 2012 from RM5 million to RM10 million, despite having only 20% of claims experience (Mokhtar et al., 2012). There was hesitation however, given YaPEIM's lack of expertise in managing a takaful operation and its inability to obtain appropriate rates for takaful contribution for microfinance participants. A concern was also raised on YaPEIM's ability to sustain its operation while staying solvent. This automatically halted YaPEIM's intention of creating its own takaful coverage.

### **2.3 MALAYSIA'S MICROTAKAFUL REGULATORY INFRASTRUCTURE**

This section reviews the matching between the regulatory infrastructure established by BNM and the initiatives undertaken by the industry under the enabling regulatory framework. The gap between the two is illustrated at the end of this chapter.

Microtakaful is a financial inclusion initiative close to the hearts of the Malaysian TOs as well as BNM. In performing its growth-enabling regulatory and supervisory role, BNM elaborated at length the significance of making financial services more accessible for all in its Financial Sector Blueprint (FSBP) 2011-2020 issued in December 2011. Given the nation's then-nascent stage of microtakaful development, BNM recommended for the industry to introduce products that are cost effective, accessible and easy to understand in order "to enhance the offering of insurance and takaful products through non-branch delivery channels. This aims to expand the outreach of insurance and takaful services through more cost-effective means and contribute towards enhancing the insurance and takaful penetration rate in the country."<sup>12</sup> Pursuant to FSBP 2011-2020, BNM issued a discussion paper on Microinsurance and Microtakaful in 2016, which covered the following areas:

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<sup>12</sup> FSBP 2011-2020 calls for the nation to make participation in financial services easier and more accessible by all citizens within the nation (including the low-income group) with the intention to contribute to economic growth and development.

- (a) Established a shared understanding of the overarching vision for microinsurance/ microtakaful development in Malaysia;
- (b) Described BNM’s expectations on the characteristics of microinsurance/ microtakaful products; and
- (c) Clarified the areas of proportionate regulatory treatment that BNM will consider for microinsurance/ microtakaful products.

This discussion paper was timely, given the issuance of the joint issues paper of IFSB and IAIS in November 2015 on “Issues in Regulation and Supervision of Microtakaful (Islamic Microinsurance)”. The emphasis given by the IFSB, IAIS and BNM had since resulted in the local TOs being more vigilant about opening up the financial system to include the low-income population as its participants of the Participants’ Risk Fund (PRF)<sup>13</sup>.

In September 2021, the MTA<sup>14</sup> achieved a major milestone with the launching of VBIT<sup>15</sup>, which outlined the following guiding principles:

- (a) Articulates the TO’s institutional intent or commitment;
- (b) Integrates the key underpinning thrusts of VBIT;
- (c) Provides the basis for formulation of business strategies;
- (d) Incorporates VBIT in the organisation’s culture;

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<sup>13</sup> PRF is defined by the IFSB in its *IFSB-8: Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings* as “A fund to which a portion of contributions paid by Takāful participants is allocated for the purpose of meeting claims by Takāful participants on the basis of mutual assistance or protection.”

<sup>14</sup> MTA was established in November 2002 to promote and represent the interests of its members.

<sup>15</sup> VBIT framework “aims to encourage industry players towards achieving growth that is sustainable and meaningful for all stakeholders. In the effort to create a positive socio-economic impact, TOs aspire to become a major influence on the realisation of prosperity and Maqasid Shariah. The framework operates as a guideline for TOs in their implementation of Value-based Intermediation for Takaful (VBIT) by outlining the best conduct and practices in the industry. The framework is comprehensive and relevant to Family Takaful, General Takaful and Retakaful Operators.” (MTA, 2021).

- (e) Aligns with Maqasid Shariah and the environmental, social and governance (ESG) objectives; and
- (f) Acts as a voice for the aspirations of the TO's leadership.

As initiatives become more granular, moving from international regulatory authorities (IFSB and IAIS) to local regulatory authority (BNM) and aptly adopted by industry association (MTA), a number of microtakaful products have emerged over the years. Some of the products were jointly offered by government agencies and selected TOs, while some were offered independently by the respective TOs. All these initiatives share a common objective, that is to ensure that the spirit of cooperation through donations or contributions from participants be upheld continuously. However, there is now an additional element, that is to provide greater efforts to include the B40 of society in the spirit of mutual assistance.

Based on BNM's findings on Financial Capability and Inclusion Demand Side (FCI) Survey conducted nationwide in 2015 (BNM, 2016), it can be concluded that a majority of the Malaysian population are ill-prepared when it comes to major shocks impacting the family nucleus. According to the survey, only 6% of the respondents indicated certain level of financial confidence in the event of financial loss. In assessing the population's accessibility to the financial system, 92% of the population stated that they have active banking accounts.

Three (3) observations can be made from the survey findings:

- (a) A total of 8% of the population (about 400,000 individuals, based on 30.27 million population in 2015 (DOSM, 2015) did not have access to financial services;
- (b) The same group might also be excluded by the insurance/ takaful industry; and
- (c) This is probably the group of people who was unemployed or not economically active. This requires careful attention from the TOs when

addressing the need for takaful coverage without compromising the TOs' financial stability.

In the findings, BNM had also highlighted its expectation for a gradual growth of financial inclusion initiatives by the takaful industry, given the constraints arising from the lack of data for pricing purposes, the lack of awareness among the financially-excluded individuals, as well as the lack of trust among the B40 of the objectives of takaful coverage.

Chiew (2018)'s article exemplified BNM's attempt to encourage the low-income population to participate in the insurance and takaful industry through the introduction of Perlindungan Tenang in 2017. The first guideline on Perlindungan Tenang, "Introduction of Insurance and Takaful Products Targeted at Underserved Segments", was issued by BNM on 9 November 2017 (BNM, 2021). Following this, an enhanced regulatory framework for Perlindungan Tenang was issued on 2 July 2021 (BNM, 2021). The guideline aims to provide a "more enabling and fit-for-purpose regulatory framework". Among the requirements of the updated guideline include the need for microtakaful products to be (a) affordable, (b) accessible, (c) of good value, (d) easy to understand, and (e) easy to purchase and make nomination and claims. The guideline also highlights the following features to be strictly followed by the insurers and TOs participating in Perlindungan Tenang:

- (a) Maximum term coverage of up to three (3) years;
- (b) Minimum fifteen (15) days free look period and thirty (30) days grace period for policies or takaful certificates with term coverage of at least one (1) year;
- (c) Allows guaranteed acceptance or on-the-spot acceptance or rejection of risk; and
- (d) Without savings or investment feature, or surrender benefits; and claims to be paid out within five (5) working days (for death claims) and seven (7) working days (for non-death claims) from the receipt of a claim notification.

The two (2) prominent initiatives of BNM, namely the Discussion Paper on Microinsurance and Microtakaful and Perlindungan Tenang, signify the firmness of the regulatory and supervisory authority in materialising its commitment to financial inclusion. This was in line with the FSBP 2011-2020 which stated that “Financial inclusion will enable all citizens, including the low-income and rural residents, to have the opportunity to undertake financial transactions, generate income, accumulate assets and protect themselves financially against unexpected adverse events, thereby enabling them to benefit from economic progress.” (BNM, 2011).

In the FSBP 2022-2026 issued on 24 January 2022, BNM reinstates its regulatory and supervisory authority’s roles in Perlindungan Tenang after witnessing the following growth as at end-2020:

- (a) A total of 96% of customers have active deposit accounts (2011: 87%);
- (b) A total of 95% of sub-districts have access to financial services (2011: 46%);
- (c) A total of 45% of business financing is made to small and medium-sized enterprises (SMEs) (2011: 39%); 75% of these were microenterprises;
- (d) A total of 41% share of total financing are from Islamic banks (2011: 24%); and
- (e) A total of 42% of adults own at least one (1) life insurance policy or takaful certificate (2014: 33%).

Perlindungan Tenang had experienced a surge in participation by the low-income citizens, namely the B40 group. However, much needs to be accomplished to meet the objective of covering all individuals that fall under the low-income bracket. In relation to this, BNM has renewed its commitment in making microinsurance and microtakaful more accessible to all segments of society. To widen the scope of microinsurance and microtakaful coverage, BNM has outlined three (3) new strategies in the FSBP 2022-2026, namely the (a) promotion of greater innovation through

flexibilities of Perlindungan Tenang framework, (b) provision of greater access to demand-side information, and (c) advancement of financial literacy initiatives through Financial Education Network (FEN)<sup>16</sup> (BNM, 2022).

These encouraging developments indicate that Malaysia is currently on track in terms of meeting its financial inclusion objectives, and that the ROs may already have what it needs from the regulatory perspective to put a microtakaful model in place.

## **2.4 MALAYSIA'S REDUNDANT MICROTAKAFUL PRODUCTS AND INITIATIVES**

The previous two (2) sections have thus far exemplified the various initiatives of both BNM as well as the TOs. An enabling framework has been established and periodically updated to enable the TOs to offer affordable products while ensuring their financial soundness. The TOs have embraced the regulatory change to uphold Maqasid Shariah for the underserved by relaxing their operational requirements to include simpler process for participation as well as for claims. This section uses the positive correlation between BNM and the market players to elaborate on the inadvertent creation of redundant microtakaful products. As will be illustrated later, the product redundancies have further led to inefficient use of funds in providing free coverage for the B40 segment (Md Ariffin et al., 2023)

The following products were mainly created for the B40 segment (Md Ariffin et al., 2023). The product offerings were made accessible for the B40 through collaboration with government agencies:

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<sup>16</sup> FEN was established in 2016 under the collaboration of BNM, the government and various stakeholders of financial education to coordinate and drive Malaysia's financial education strategy. Its aim is to improve the nation's financial literacy through a two-tiered governance framework, that is (a) a high-level inter-agency steering committee (HSC) to provide strategic direction and oversee the formulation and implementation of the National Strategy, and (b) a working level group, a sub-committee to ensure the execution of Action Plans for each of the Strategic Priorities and report the progress and outcome to the HLSC (FEN, 2016).

(a) **i-BR1M**

i-BR1M initially offered accidental death/ TPD benefits of RM30,000 as well as natural death benefit of RM1,000 to BR1M recipients in 2014.<sup>17</sup> It was then revised in 2018 with a much smaller coverage of RM1,000 for funeral expenses benefit only. This programme was eventually phased out when the new ruling party, helmed by Tun Dr. Mahathir Mohamad under Pakatan Harapan, replaced BR1M with BSH. The justification provided by the seventh Prime Minister over the abolishment of BR1M was that it was a form of bribery to ensure the people would remain loyal towards the then governing party (Barisan Nasional) for as long as BR1M benefit was continued (Mohamad, 2016). Although this research has no inclination towards any political party's point of view, it intends to highlight the impact of changes in government policies on the B40 segment, which in this scenario involves around 7,280,340 of BR1M recipients (Bernama, 2016).

(b) **MySalam**

MySalam was officially launched on 1 January 2019 during the years of Pakatan Harapan, under the premiership of Tun Dr. Mahathir Mohamad. Replacing i-BR1M, mySalam is also meant for the B40 segment, free of charge. The targeted first cohort of 3.7 million BPR recipients were not required to pay anything for the contribution. MySalam is funded by GE Holdings Limited and administered by GE Takaful Berhad for five (5) years, from 2019 to 2024. The funding came in the form of a transfer of RM2 billion from GE Holdings Limited to the Government of Malaysia for not having to divest 30% of their shareholdings to local investors (Sy-Lyn, 2019). In return, the government will use the RM2 billion as a contribution to GE Takaful to provide free coverage to the BPR recipients. The then Finance Minister advocated that the recipients of this benevolent coverage were not the existing GE Takaful participants, but the B40 segment. GE Takaful is merely the administrator of the national protection scheme. It is

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<sup>17</sup> i-BR1M coverage is provided by only Takaful Operators in Malaysia (The Malaysian Reserve, 2017).

envisioned that more TOs will join this initiative upon expiration of the five-year term of mySalam arrangement with GE Takaful in 2024.

(c) **Perlindungan Tenang Voucher**

The PTV programme was funded by the Government of Malaysia. Effective 1 January 2022, from an initial RM50 per person, every BPR recipient would later receive RM75 per person (The Star, 2022) to obtain free coverage from any of the participating insurance/ takaful providers. The amount was further changed, where prior to receiving RM75, each B40 individual was asked to pay a minimal amount of RM5 for administrative cost (MTA, 2022; myPTV, 2022). This translates into a total amount of subsidy given by the government from a total of RM180 million (RM50 x 3.6 million BPR recipients) on 30 September 2021 (LIAM, 2021) to RM270 million (RM75 x 3.6 million BPR recipients) on 1 January 2022 (The Star, 2022), and subsequently dropped to RM252 million (RM70 x 3.6 million BPR recipients) (MTA, 2022).

At this juncture, the researcher wishes to establish a possible gap created by the offerings of mySalam and PTVs. The government provides free coverage to eight (8) million lower-income Malaysians through mySalam at a cost of RM400 million a year (RM2 billion over a period of five years), for a one-off Critical Illness benefit worth RM8,000 upon diagnosis of any of the 45 critical illnesses, in addition to daily hospital allowance of RM50, up to a maximum of 14 hospitalisation days (MOF, n.d.).

From the list of takaful providers who partake in the Perlindungan Tenang programme, GE Takaful is observed as one of the participants. A further examination into the products entailed the benefits provided under GE Takaful Plan 3 of MikroSayang which meets the BNM requirements of Perlindungan Tenang product features. Under this plan, participants will receive benefits of Accidental Death amounting to RM5,000, Critical Illness of RM5,000, and Daily Hospital Allowance of RM50.

This clearly brings about a possible conflict where a BPR recipient may receive two microtakaful products from the government, free of charge, from mySalam and PTV programmes. A 2022 example is provided to illustrate this point. Ahmad (a fictional character), who falls under the first category of 3.6 million BPR recipients, is selected by GE Takaful to receive mySalam benefits at no cost. At the same time, he is identified to be qualified to receive the upgraded voucher worth RM75 from the PTV programme that offers free voucher to the first cohort of 3.6 million BRP recipients (PIAM, 2021). Ahmad then visits the Perlindungan Tenang website (myCoverage, n.d.) to select a suitable plan and decides to take GE Takaful's Plan 3. In the unfortunate event where Ahmad is diagnosed with a critical illness, Ahmad would receive RM5,000 from PTV as well as RM8,000 from mySalam. As previously demonstrated in the earlier sections of this study, mySalam and PTV will only provide coverage to the first group of beneficiaries of the BPR initiative.

This apparent distribution suggests a strategic goal to expand the complementary coverage to include other demographic groups that fall under the BPR framework in the near future. Subsequent questions thus ensue as to whether this possible conflict (where Ahmad receives double payment from two (2) different programmes), created by the redundant offerings of mySalam and PTV, will be better managed if the government provided only one product offering. If more TOs decide to join the mySalam initiative at the end of 2024, would such conflict create greater redundancies of protection to the same group of people? Would it benefit all BPR recipients if the government offers only one product, where every single BPR recipient is included in this scheme?

(d) **Microtakaful Jariyah**

Microtakaful Jariyah is an independent initiative of PruBSN to provide free coverage for the B40, utilising its own funding sources via PruBSN's Prihatin Zakat Fund as well as donations from existing PruBSN participants, employees and agents. Due to the limitation of funding and its

independence from other TOs' involvement, Microtakaful Jariyah was expected to provide free protection to not more than 30,000 participants from among the B40 by year 2022 (PruBSN, 2018). Although this initiative may seem insignificant compared to mySalam and PTV, PruBSN's mechanism of distribution is dependent on the eKasih system used by the PMO-ICU, which may be leveraged on a bigger scale.

PruBSN also participates in Perlindungan Tenang programme via microtakaful products, BSN Takaful Sakinah and Lindungi, which provide coverage against death/ funeral expense and death/ TPD, respectively. This opens up the possibility of a similar redundancy concern, where a qualified recipient of mySalam may also be eligible for PruBSN PTV. Although eKasih has the ability to keep records of individuals and connect the types of assistance provided by various government agencies through one portal, the system still has accessibility issues due to geographical limitations (Social Development Division, 2022). There is still a possibility of Ahmad getting free protection from both GE Takaful's mySalam and PruBSN Microtakaful Jariyah, as well as claiming the PTV which allows him to get free protection from Takaful Ikhlas' Ikhlas Perlindungan Tenang.

The above scenario was observed in the midst of political turmoil engulfing the Malaysia's political scene. This fictitious scenario was created during the leadership of the ninth Prime Minister, Datuk Seri Ismail Sabri Yaakob prior to the 15<sup>th</sup> General Election which was held on 19 November 2022. In the most recent development, the PTV programme has been retracted and is no longer made available for the B40 under the current government, led by Dato Seri Anwar Ibrahim. The PTV website, [www.myptv.my](http://www.myptv.my) is currently inactive. The Perlindungan Tenang products of the TOs however, are still being offered at its website [https://mycoverage.my/en/perlindungan\\_tenang/](https://mycoverage.my/en/perlindungan_tenang/) (myCoverage, n.d.). Dato' Seri Anwar Ibrahim also rebranded the SIKM to SIKR, which is still exclusively offered by PruBSN Takaful together with the PMO-ICU, to the B40 registered under the eKasih database.

Although there are many types of microtakaful initiatives provided by the TOs, the above analysis reveals a significant and critical issue in the funding of microtakaful initiatives, particularly where the microtakaful contribution is provided by the Government of Malaysia.

## 2.5 FUNDING AMBIGUITY FOR MICROTAKAFUL INITIATIVES

The nationwide initiatives by various TOs to provide redundant products to the same target audience have inadvertently led to the outflow of funds by the Government of Malaysia (Md Ariffin et al., 2023). Table 2.4 summarises the microtakaful initiatives where sources of funding came specifically from the government:

Table 2.4 Government Subsidised Microtakaful Initiatives

Microtakaful Initiatives	Start Date	End Date	Contribution
Fishermen Takaful Scheme	2012	2020	RM5.24 million
i-BR1M	2014	2018	RM4.6 billion
Perlindungan Tenang (RM50) voucher	2017	2021	RM180 million
MySalam	2019	2024	RM2 billion
Perlindungan Tenang (RM75) voucher	2021	2022	RM270 million
SIKM/ SIKR	2022	current	RM13.4 million

Source: (LKIM, 2020; Abdul Wahid & Nordin, 2014; Perlindungan Tenang, 2021; MOF, n.d.; MStar, 2022)

The following questions ensue:

- (a) Could potential alterations to subsidised microtakaful coverage (Md Ariffin et al., 2023) policies under the 10<sup>th</sup> Prime Minister's leadership, as discussed by Basyir and Krishnan (2021), lead to significant changes in the country's management and necessitate revisions in budget allocations? Additionally,

is there a possibility of the RM2 billion contribution to GE Takaful under mySalam being withdrawn after 2024?

- (b) What was the reaction of the B40 when PTV was retracted and replaced by SIKR?
- (c) What will happen to the B40 who have benefitted from the subsidised schemes? Who will inform them that the scheme has been terminated and that there is a new scheme which carries similar weightage of protection but with different benefits and terms and conditions?
- (d) Will the B40 have the ability to continue to participate in these microtakaful products if the amount of subsidy for microtakaful programme is channelled to other causes, which the new governing party deems more beneficial for the country?
- (e) Will the remaining B40 be included in the free protection plan provided by the government and/ or TOs?
- (f) Will a new microtakaful initiative for the B40 be introduced in the future, should there be another change of government?

It is important to highlight the impact of a change in the ruling party. Malaysia's swift changes in leadership may be witnessed through the political crisis that occurred between 2018 and 2022. Within four (4) years, Malaysia has changed its Prime Minister four (4) times. Prior to 2018, Dato' Sri Mohd Najib bin Tun Haji Abdul Razak continued the legacy of Barisan Nasional as the sixth Prime Minister of Malaysia after succeeding from Tun Abdullah bin Haji Ahmad Badawi (Md Ariffin et al., 2023).

When the Barisan Nasional lost its majority seats to Pakatan Harapan in Malaysia's 14<sup>th</sup> General Election, Tun Dr. Mahathir Mohamad was appointed as the seventh Prime Minister, which lasted for only 22 months. The Pakatan Coalition collapsed due to internal turmoil and as a result, Perikatan Nasional was born on March 2020. Tan Sri Dato' Haji Mahiaddin bin Haji Md Yasin became the next Prime Minister,

but lasted only for a little more than six months when further turmoil within Perikatan Nasional led to the appointment of Dato' Sri Ismail Sabri bin Yaakob as Malaysia's ninth Prime Minister under the coalition of Perikatan Nasional and Barisan Nasional. The 15<sup>th</sup> General Election held in November 2022 witnessed another change when Dato' Seri Anwar Ibrahim was appointed as the 10<sup>th</sup> Prime Minister of Malaysia. Table 2.5 shows the list of Malaysia's Prime Ministers since the country obtained its independence on 31 August 1957.

This research shall not analyse the political instability that is embroiling Malaysia's political scene. It is however, a concern which leads to the need of having a microtakaful model that is not entirely dependent on subsidies given by the Government of Malaysia. While an enabling framework through regulatory framework is crucial, reliance on subsidy may hinder a stable and consistent growth of microtakaful. One way of approaching the government's assistance is to leverage on what is already successfully developed as well as to consider assistance from the existing Islamic wealth management and distribution system via zakat and waqf (Md Ariffin et al., 2023), which will be elaborated in the next chapter.

Table 2.5 Malaysia's Prime Ministers since 1957

No.	Prime Minister	Governing Coalition	Year
1	Tunku Abdul Rahman Putra Al-Haj	Barisan Nasional	31 August 1957 – 22 September 1970
2	Tun Abdul Razak bin Hussein	Barisan Nasional	22 September 1970 – 14 January 1976
3	Tun Hussein Onn	Barisan Nasional	15 January 1976 – 16 July 1981
4	Tun Dr. Mahathir Mohamad	Barisan Nasional	16 July 1981 – 30 October 2003
5	Tun Abdullah bin Haji Ahmad Badawi	Barisan Nasional	31 October 2003 – 3 April 2009
6	Dato' Sri Mohd Najib bin Tun Haji Abdul Razak	Barisan Nasional	3 April 2009 – 9 May 2018
7	Tun Dr. Mahathir Mohamad	Pakatan Harapan	10 May 2018 – 24 February 2020
8	Tan Sri Dato' Haji Mahiaddin bin Haji Md Yasin	Perikatan Nasional	1 March 2020 – 20 August 2021
9	Dato' Sri Ismail Sabri bin Yaakob	Perikatan Nasional	21 August 2021 – 24 November 2022
10	Dato' Seri Anwar Ibrahim	Pakatan Rakyat	24 November 2022 – present

Source: (PMO, 2022)

## **2.6 THE NEED FOR FINANCIAL PROTECTION AND SECURITY FOR THE B40**

The existing takaful products have thus far been acknowledged to be beyond the financial reach of B40 individuals due to their limited economic resources and the lack of data on the part of the TOs to price the products prudently (IFSB, 2015). Microtakaful hence serves as a logical solution to address the financial exclusion by providing affordable and Shariah-compliant takaful coverage tailored to the specific needs and economic circumstances of the B40 population (IFSB, 2015). In pursuing VBIT, microtakaful becomes a critical tool to offer accessible and affordable financial protection to the B40, thus contributing to the overall economic well-being of this vulnerable group (MTA, 2021).

The B40, characterised by lower-income levels, is particularly vulnerable to financial shocks and economic uncertainties (Yayasan Hasanah, 2020). Financial protection is crucial to provide a safety net for this demographic to cope with unexpected expenses or emergencies. Limited savings further amplify their susceptibility, making mechanisms like takaful essential to prevent deeper financial hardship (Munisamy et al., 2022).

Healthcare expenses pose a significant burden for the B40, as meeting the increasing cost of quality medical services can be challenging. Adequate financial protection, such as health takaful, becomes imperative to ensure that individuals in this group have access to healthcare without facing extreme financial strain (Abdullah, 2021). In addition, individuals in the B40 often work in sectors with less job security, rendering them more exposed to economic downturns and job losses. Financial protection mechanisms, including unemployment benefits and social assistance programmes (Bernama, 2016), play a vital role in providing financial protection during challenging economic times.

In elevating the B40 economic status, access to tertiary education poses a strain to the financial resources of this group. Microtakaful products, with education savings features subsidised by the government, are essential to ensure that children within this demographic have access to educational opportunities (Malay Mail, 2023). In addition,

obtaining affordable housing is integral to ensure a secure shelter for the B40. This prompts the need for financial protection measures, including housing assistance or policies aimed at ensuring affordable housing options for the B40. The B40 also face challenges in saving for retirement due to lower incomes. This highlights the importance of implementing financial protection measures, such as pension schemes or social security programmes to contribute to the long-term financial security of the B40. The availability of affordable retirement microtakaful products will also enable the B40 to responsibly address their retirement needs.

The B40 are also more susceptible to cyclical expenses, given that they have seasonal variations in income or agricultural inputs (Yayasan Hasanah, 2020). Financial protection measures would help to mitigate the financial instability of the B40. The economic vulnerabilities of the B40 are compounded by their increased exposure to various risks such as health emergencies, accidents, and natural disasters (Rapi et al., 2022). Microtakaful serves as a crucial tool to address the complex financial challenges faced by the B40 by offering accessible, affordable, and Shariah-compliant risk protection. The cited literature highlights the potential of microtakaful to not only alleviating economic vulnerabilities, but also enhancing the overall resilience and well-being of the B40 community. By aligning with the principles of financial inclusion in upholding Maqasid Shariah, microtakaful emerges as a strategic initiative to uplift and empower the lower-income segments of society, thereby contributing to broader societal goals of poverty alleviation and sustainable development.

## **2.7 CHAPTER SUMMARY**

Malaysia's relentless efforts in providing microtakaful protection to the B40 have seen the collective takaful industry moving towards financial inclusion, which is forthcoming in upholding Maqasid Shariah. The consistent regulatory nudge, complemented by the TOs' efforts, have resulted in the cooperation of these two stakeholders, with occasional involvement of government agencies to form a more concrete collaboration to provide financial protection for the B40.

As foreseeable, a large-scale collaboration between key stakeholders poses its own challenges. The industry has seen hiccups in the microtakaful product offerings in various perspectives. This includes the low participation rates among the B40, the lack of literacy and awareness of the B40 on the concept of takaful or microtakaful, and the various products offered under different government agencies. This serves as a prerequisite for a proper study to be undertaken to explore in detail various issues and challenges faced by the takaful industry in making financial inclusion part of its mandate, in line with Maqasid Shariah.



## **CHAPTER THREE**

### **MICROTAKAFUL MODELS, PRACTICES AND CHALLENGES: THEORETICAL FOUNDATION AND EMPIRICAL REVIEW**

#### **3.1 INTRODUCTION**

This chapter first reviews the theories of poverty to gain insights into the issues and challenges faced by the B40. This exploration serves to justify the need for the development of a microtakaful model that caters to the diverse requirements of the economically disadvantaged B40 group. This is to set the theoretical foundation for this study. Subsequent to the establishment of the theoretical foundation, the chapter examines studies that had been conducted on microtakaful.

At least two hundred (200) articles from published journals on various topics relating to takaful, microtakaful, insurance, microinsurance, zakat, waqf and other relevant documents were examined. The study also gathered articles from conference proceedings, regulatory reports, issues paper and other relevant literature to ensure extensive coverage of the subjects. Literature review was conducted from several perspectives to provide a holistic examination on the industry's initiatives. Where information or data is sufficient, articles published between 2017 and 2023 were considered. Where data is limited, some leeway was made to include articles published between 2012 and 2023. Some reports and articles prior to 2012 were extracted to support this study, given their substantive contents which remain relevant to present times. Nevertheless, careful selection was exercised to ensure only the relevant and most updated literature was included in this study.

This chapter is divided into the following sections: theoretical framework, challenges of microtakaful initiatives, microtakaful models, sources of funding, as well as literacy and awareness of the B40. Section 3.7 provides the research gaps found from the literature review exercise. Section 3.8 concludes the chapter while providing a brief overview of the conduct of this study to answer the RQs that would in turn achieve all the ROs.

### **3.2 THEORETICAL FRAMEWORK**

Understanding the theoretical perspectives of poverty is crucial, given that this study focuses on the segment of society which is economically and financially challenged and falls under the lowest level of economic status in Malaysia. Literature has shown that many theories of poverty were used to produce community development programmes. Blank (1997) maintained that these theories do not invalidate each other, but each of them carries a certain weight in addressing the various issues faced by the poor. Bradshaw (2006) concurred with Blank (2003), agreeing that poverty is caused by various reasons that shape the condition of a poor person. Bradshaw (2006) studied the five (5) main theories of poverty, which later serve as a foundation for many community development programmes, and opined that the best way to address poverty-related issues is to look at all the theories of poverty, instead of selecting a particular theory in the hope of finding a one-size-fits-all solution.

This research's theoretical foundation, draws on the findings done by Bradshaw's analysis of the five (5) theories of poverty. This study takes cognisance of the various angles and is of the opinion that the five (5) theories, as shown in Table 3.1, should thoroughly be understood in answering the RQs to achieve the ROs for this research. These theories shall form the theoretical foundation to understand the requirements needed to achieve all the four (4) ROs, given that the main aim of the research is to address the needs for financial protection of the B40, which is a group of people within the community who earns the lowest level of income, making them susceptible to be labelled as the poor of the country.

Table 3.1 Theories of Poverty

No.	Theory of Poverty	About the Theory	Significance for the Study
1	Theory of Individual Deficiency	The poor is responsible for their own poverty. If they wish, they could work hard and make better choices to address their own poverty issues.	The willingness of the B40 to expand their knowledge in financial literacy is crucial for the success of any microtakaful initiative.
2	Theory of Cultural Belief Systems that Support Sub-cultures of Poverty	Individuals are to be blamed for their own dysfunctional culture that is inherited from their previous generation. This is especially applicable for poverty.	The goal of microtakaful initiatives for the B40 should address the deeply ingrained cultural belief system. An example would be educating the second generation of the B40 from having to endure the dysfunctional culture, through literacy and awareness programme.
3	Theory of Economic, Political and Social Distortions or Discrimination	Economic, political and social distortions are the reasons why some individuals are poorer than others. This theory believes that capitalism is the source of poverty for certain section of society where the poor get poorer.	The B40 residing in rural areas with minimal access to economic opportunities should be given more exposure to economic enhancement activities.
4	Theory of Geographical Disparities	Individuals are poorer in certain geographical areas because of the incongruences that exist in these regions. These individuals do not have access to resources that would enable income generation.	Economic activities, training and skills enhancement initiatives should be expanded to include the B40 residing in hard-to-reach areas, instead of just focusing on those in the Klang Valley.
5	Theory of Cumulative and Cyclical Interdependencies	Poverty is created when individuals are unable to provide for their basic necessities upon the occurrence of unforeseen circumstances, such as natural calamities, which disrupt their daily livelihood.	The knowledge of microtakaful needs to be introduced to address the cyclical interdependencies among the B40 and help them prepare for unforeseen circumstances.

Source: Bradshaw (2006)

### 3.2.1 Theory of Individual Deficiency

Under the Theory of Individual Deficiency, each individual is answerable for his or her own poverty circumstance (Addae-Korankye, 2019). For the B40 community to raise their economic status, they need to improve their education level through various training programmes provided. Previous studies have affirmed the positive correlation between financial literacy and financial well-being of individuals under this theory (Rahman et al., 2021; Munisamy et al., 2022). The lower the financial literacy, the less savings and more debt will be accumulated by individuals, which will eventually lead to bankruptcies (Johanning, 2014). Similarly, low financial literacy among the poor has made it difficult for them to escape their financial situation (Klapper et al., 2015). These studies also show that respondents reported increased financial literacy upon completing their finance courses and training (Dvorak & Hanley, 2010).

The positive correlation between financial literacy and financial management of the B40 also indicates that the lower the literacy level, the more oblivious they will be in terms of managing their finance. Since the B40 do not have abundant income, the amount of money earned may just be sufficient to meet their daily basic necessities. This translates into their disregard for the importance of financial protection (either through insurance or takaful), savings, financial management and retirement planning. Abdullah et al. (2021) discussed the positive correlation between financial literacy and microtakaful take-up rate among the B40 respondents. The finding is somewhat similar to the discovery made earlier by Hassan et al. (2018), who found that about 25% (out of 503 respondents) indicated that they had no awareness about the existence of takaful although it has been in the industry since 1984. The 25% could also be the gap unveiled by Chiew (2018), who suggested that many of the B40 are still untapped by the insurance and takaful industry.

In analysing the effectiveness of financial literacy training among the poor, several studies demonstrate a clear improvement in the literacy level of the community when they are provided with financial literacy training. Ashade et al. (2021) conducted a study of a group of university students in Kuala Lumpur from B40 background. The students were given four (4) training modules on finance-related topics. Pre-course indicators showed a low financial literacy level among the students, compared to post-

course indicators which revealed a vast improvement in their understanding of financial management. Similar outcome was also reflected in other studies which investigated the connection between financial literacy levels of the poor and their financial well-being. The studies concluded that the higher the financial literacy, the more economically developed the group will be in managing their savings and expenditure (Grohmann, 2018; Rahman et al., 2021).

Meanwhile, Sharizan et al. (2021) drew attention to the need for enhancing financial knowledge among the poor. A low financial knowledge among the B40, despite having basic secondary school education, will result in them being unaware of the services provided by microfinance institutions. In consequence, it leads to low participation in inclusive financial services. Although the theory of individual deficiency suggests that providing literacy exposure and awareness may alleviate such deficiency among the B40 individuals, it is important not to presume that the programmes could resolve all poverty-related issues. Other theories, as highlighted by Bradshaw (2006), must also be taken into account. These theories are explored further in the following sections.

### **3.2.2 Theory of Cultural Belief Systems that Support Sub-cultures of Poverty**

Cultural belief, skills and values of the poor are believed to have been inherited through generations of the past (Bradshaw, 2009). The concept was made popular in the 1960s by Oscar Lewis who believed that the culture of being poor was transmitted from individuals to individuals, until it was ingrained in their mentality to avoid taking economic chances that would make them better than their forefathers (Bourgois, 2015). The poor are poor because they could not unlearn the psychological behaviour of the poor that has been passed down to them from their ancestors (Fukuyama, 2001).

Although Lewis' theory on cultural belief system was deemed controversial and discredited by further findings (Sambe, 2017), the bases which he used to describe the resistance to change should not be rejected entirely. Lewis (1966) advocated that the poor do not assimilate with the higher ranks of society for concern over discrimination and fear of being rejected. The feeling of being dejected further pushes them away from

society as a coping mechanism, in addition to having to deal with the lack of resources for daily sustenance (Sambe, 2017). Lewis persisted by adding that the theory holds true specifically for the poor, since middle-class parents seem to be more encouraging to their off springs and tend to provide resources for them to have a better life, as compared to poor parents who are more submissive, pessimists and authoritative in nature (Sambe, 2017).

Some of the B40 may be comfortable with their current economic status because their parents, grandparents, and great-grandparents somehow managed to make ends meet despite their B40 status. It is pertinent to keep this in mind, given that there will be a certain section of the B40 who may resist change. They might not be keen to participate in the skill enhancement process and would rather stay 'comfortably' in the poverty zone, regardless of the amount of effort put in by the TOs or government agencies to change their mindsets. Mayan and Mohd Nor (2020) concurred with this view in their findings of the B40 attitude which contributes to their unchanged status of poverty. The B40 are too dependent on monetary aid provided by the Government of Malaysia, specifically BR1M. They chose cash assistance over business assistance and literacy trainings (Mayan & Mohd Nor, 2020). Hence, the success rate of any financial literacy and awareness programme will largely depend on the effectiveness of addressing the resistance of change among some of the B40 community. There needs to be an effective mechanism in place to shift their mindsets towards accepting positive economic change.

Bradshaw (2006) advocated that the culture of poverty is picked up by children at the age of six (6) or seven (7). Once they are accustomed to this culture, it will be difficult to diffuse the ingrained ideology. For the B40 segment which may have been shaped by the culture of poverty, they need to be exposed to new cultures via social network and learned skills (Bradshaw, 2006). This however, may only be applicable to the younger generation, given that their minds are still flexible and bendable to accept a change in culture.

Another method of intervention is by subtly changing the culture within the community. This can be undertaken by generating income through small businesses within the community, such as crafts and local produce, although the ideology of paving

poverty away from the community through this means have been said to be overrated (Goldstein, 2001), since small businesses of this nature may have limited impact due to structural issues that hinder economic growth, or face the challenge of competing with larger and more established enterprises.

### **3.2.3 Theory of Economic, Political and Social Distortions or Discrimination**

The Theory of Economic, Political and Social Distortions or Discrimination on the other hand, asserts that poverty is not the fault of individuals. Rather, it is largely due to the way economic, political and social settings are structured, which result in the inability of some sections of society to earn income while another section is presented with various opportunities (Bradshaw, 2006). According to Kerbo (2012), the stratification of society is a result of the rich wanting to be richer, which leads to conflict between their needs and those of the poor. In their attempt to secure more wealth, the rich fully utilise their position to stay rich, sometimes at the expense of the poor. Their ability to garner influence and wealth creates distortions not only from economic sense, but also political and social (Kerbo, 2012). It does not matter how hard an individual works; the distortion in the structure of the economy ensures that certain sections of society will remain poor (Addae-Korankye, 2019). The only way to eliminate such distortion or discrimination is to change the current economic structure. This will help to reduce the gap between the rich and the poor.

Under this theory, poverty is conspicuous in social settings and the rate is observed to be much higher for minority groups, single parents and big families. As discovered by Mayan and Mohd Nor (2020), eight (8) out of ten (10) respondents who participated in an interview on poverty condition of the B40 were single mothers. They were trapped by health issues and low education level, while caring for the children without any financial support after leaving their abusive husbands (Mayan & Mohd Nor, 2020). This illustrates how the social and demographic background arising from the stratification of status in society influences the poverty level of the poor.

From a theoretical perspective, B40 residing in states outside of Selangor and Wilayah Persekutuan tend to have limited access to the city centres with concentrated

economic activities, or have different political inclination. Economic activities tend to be more concentrated in urban areas, thus attracting businesses, industries, and job opportunities. Residents in rural or less economically developed regions may experience limited job options and lower income opportunities, which contribute to their B40 classification. Different regions may also have distinct political inclinations based on historical, cultural or economic factors. Urban and rural areas often have varying political landscapes, with differing priorities and concerns. This can influence the political inclinations of residents in the areas. This in turn makes it more challenging for them to obtain the necessary financial resources or at least the knowledge that would help lift them out of poverty, given that the government may focus on policies that would benefit higher-income groups or particular industries. Similarly, the B40 with big families or who are single mothers tend to have lower chances of getting out of poverty as compared to the B40 with a smaller family structure or healthy family dynamics. All these elements form the basis for the direction of this study and information gathering.

The TOs and government agencies should be cognisant of their own stance when introducing financial inclusion initiatives. They should be aware of the reasons behind the unintentional discrimination of the takaful industry against the B40. One example would be to question as to whether the current pricing mechanism of microtakaful products are justified or more penalising in nature. While it is imposed by BNM that the TOs need to balance the interests of their shareholders and the non-B40 participants, the B40's position in the takaful model which propagates Maqasid Shariah in its modus operandi remains unclear. Does the takaful industry in Malaysia fall under the sector of the economy which discriminates the poor due to the economic, political and social distortions, as claimed by this theory? Should there be a totally different pricing mechanism that does not embed a large amount of commission to the agents or other existing forms of intermediaries (BNM, 2019), or should there be an alternative mechanism of distribution that will motivate the intermediaries to reach out to the B40 without embedding too much operating expenses into the pricing mechanism?

### 3.2.4 Theory of Geographical Disparities

The Theory of Geographical Disparities posits that people in certain areas of the country have less access to resources for urbanisation. This has made it impossible for them to prosper compared to those living in areas with better access, as they lack the ability to generate income and improve well-being. Abdulai and Shamshiry (2014) claimed that the authority's reluctance to encourage the development in one particular location causes house prices to fall, which in turn attract more poor people into the location in order to purchase the low-priced houses. This in return creates the rippling effect where the geographical spread of the poor widens as more of them swamp into the area where disinvestment by property owners begins to take place.

Bradshaw (2006) further split this theory into three viewpoints. The first is economic agglomeration where the concentration of certain economic activities in certain areas will attract other supporting economic activities. For example, the opening up of shopping malls in certain areas are likely to attract smaller-scale economic activities such as food and beverages franchises, clothing boutiques, and the development of surrounding business activities. This subsequently attracts movement of people into these areas in search of better job opportunities. Likewise, as asserted earlier, where there is poverty, the condition itself leads to the widening of poverty spread in the same area (Abdulai & Shamshiry, 2014) and the movement of the poor to obtain cheaper housing facilities.

The second viewpoint of Bradshaw (2006) is on central place theory, which proclaims that areas with economic advantages (resources) tend to grow faster than areas with economic disadvantages, even in a normal economic growth cycle. Bradshaw's third viewpoint stresses on selective out-migration, where the poor in an area will remain poor as the most educated among them decide to migrate in search of better opportunities. The effort to focus on the literacy and awareness programme in order to elevate the knowledge of those in the poverty-stricken areas may unfortunately be counterproductive if the third viewpoint applies (Bradshaw, 2006). This continuous selective out-migration causes the poverty level to remain unchanged, despite having access to good education and exposure for life improvement (Bradshaw, 2006), for the learned poor individuals may discover the power of education and how out-migration

will further elevate their economic well-being. This leaves the remaining individuals in the area with no alternative but to remain where they are, given that they are surrounded by like-minded people.

This theory of geographical disparities is an important theory that is kept in check throughout this research process, given that there are several states in Malaysia, such as Sabah and Sarawak which have limited access to modernisation in most of the populated areas. As stipulated in the 2023 Budget tabled by the Minister of Finance (Malay Mail, 2022), development is urgently required for these two states, especially in the areas of water, electricity, roads, health and education. A total of RM6.3 billion and RM5.4 billion were therefore allocated to Sabah and Sarawak, respectively in the budget (Malay Mail, 2022). These are also the areas of the B40 that require different focus by the takaful industry. According to Zhou and Liu (2022), a small number of studies had concentrated on the geographical dispersion of society which leads to poverty. The authors recommended that countries should look into the Impoverished Areal System which focuses on the conditions of the selected location, human and geographical capital.

Developing microtakaful products tailored to the B40 in diverse locations involves addressing specific challenges unique to each area. For example, in areas where healthcare services are scarce, the takaful industry may wish to consider providing mobile health clinics. In areas where agriculture is the main source of income, the takaful industry may offer agricultural solutions to address farming challenges. In areas where transportation is a challenge, community-driven transportation services may be offered. Cultural sensitivity is crucial, necessitating customised products while respecting local customs. These initiatives should be developed in collaboration with communities to ensure their effectiveness and sustainability.

### **3.2.5 Theory of Cumulative and Cyclical Interdependencies**

The Theory of Cumulative and Cyclical Interdependencies, as Bradshaw (2000) put it, “is by far the most complex and to some degree builds on components of each of the other theories in that it looks at the individual and their community as caught in a spiral

of opportunity and problems, and that once problems dominate they close other opportunities and create a cumulative set of problems that make any effective response nearly impossible”. This theory, which originated from the work of Myrdal (1960), asserts that individuals and communities are interlinked and interlocked in terms of their well-being and progress. The economic activities of the individuals contribute to the economic activities of the community at large, making it susceptible to negative consequence when any of these individuals or communities faces disruption (Myrdal, 1960). An example of this interdependency is the attempt to make education accessible in rural areas (Sher, 1977). According to Sher, when job opportunities are scarce in the community, educated individuals will eventually leave to seek opportunities outside the community. This in consequence leads to the closing down of retail stores and therefore a decline in tax revenues collected by the government. The rippling effect of this leads to the deterioration of the education system, which then brings the community back to the same problem of poverty due to the lack of job opportunities.

Applying this theory to the B40 of Malaysia, the complex interdependence and cyclical recurrence of factors contributing to poverty may be addressed through three (3) methods. First, introducing comprehensive programme and strategy that link individuals to the community. Second, establishing collaboration between key stakeholders within the industry, such as TOs and government agencies, or SIRC. Thirdly, is through a community empowerment programme where both the community and individuals make an effort to understand the problems that link them to each other and find a mechanism to bridge the gap (Kretzman & McKnight, 1993).

Many community empowerment initiatives have been conducted by private corporations in Malaysia to elevate the economic status of the B40. This includes the “Planting Tomorrow” initiative of Yayasan Sejahtera, in collaboration with Yayasan Petronas (Kretzman & McKnight, 1993) with the objective of achieving sustained earnings for 20% of the beneficiaries for at least five (5) years. Another notable initiative is the Economic Empowerment Programme of the Sime Darby Property Berhad to empower the B40 living within its townships (News Straits Times, 2021). The property developer collaborates with People Systems Consultancy which focuses on poverty eradication to provide the B40 with trainings on social media marketing knowledge and enhancing their knowledge on e-commerce. Community empowerment

programme of this nature, in collaboration with other agencies, may serve as a tool for the takaful industry to contribute to the development of the community at individual level through microtakaful.

Having established the theoretical foundation of poverty, which this study deems crucial as a prerequisite to understand the characteristics of the B40 and the constraints faced by this segment, the next section will explore the empirical studies gathered from literature on issues and challenges of microtakaful, microtakaful models, the various sources of funding, as well as financial literacy and awareness of the B40.

### **3.3 ISSUES AND CHALLENGES OF MICROTAKAFUL INITIATIVES: A REVIEW ON EXISTING MICROTAKAFUL PRACTICES**

Microtakaful is not new globally. In Muslim-populated countries such as Indonesia, Pakistan, India and Bangladesh, which are classified as lower-middle and low-income countries by the World Bank, microtakaful has marked its existence (IFSB, 2015). Notwithstanding its noble intention to provide protection for the underserved, past literature has indicated a lack of regulation as one of the key impeding factors for the growth of microtakaful (Mokhtar et al., 2012; Gor, 2013; Sukmana & Hidayat, 2014).

Mohamad Puad (2017) highlighted that the absence of regulatory framework, which includes internal controls and risk management framework, had made it difficult to regulate the product offerings to the poor. When the IFSB and IAIS' Issues in Regulation and Supervision of Microtakaful (Islamic Microinsurance) was published in 2015, four (4) areas concerning the roles to be played by regulatory and supervisory authorities were discussed, namely (a) corporate governance, (b) financial and prudential regulation, (c) transparency, reporting and market conduct, and (d) the supervisory review process (IFSB, 2015).

From the perspective of governance, the roles played by external and internal stakeholders of a microtakaful chain require careful coordination. An example of this would be external support provided by government agencies, regulatory and supervisory authorities and retakaful operators (RTOs) for a national microtakaful

initiative to sustain for a period without jeopardising the solvency requirements to be met by the microtakaful operators (MTOs). Meanwhile, internal stakeholders' support would be obtained from the board of directors (BOD), Shariah committee, shareholders, senior management and existing participants of the MTO. This indicates putting in place concrete strategies based on their good understanding of the nature of microtakaful.

Sound policies and procedures should be established with a proper information management system to ensure that the requirements of a prudent risk management for microtakaful initiative are not compromised through a more relaxed pricing nature and simplification of product pricing to include the B40 into the system. Financial and prudential regulation signifies the importance of preserving the stability of the MTO through appropriate establishment of investment framework, risk management framework, Shariah compliance requirements, solvency and capital adequacy framework, and underwriting requirements. These are similar requirements imposed on normal TOs. Regulatory and supervisory authorities have also been guided by the IFSB (2015) on the need for transparency, reporting and market conduct among the MTOs. Participants of microtakaful should be given equal, if not more enhanced exposure to awareness and education programme to ensure that they know their rights as participants, and that their interests are well-protected by the regulatory and supervisory authorities.

The final element that the IFSB (2015) highlighted, which is an important regulatory function, is the need for a proper supervisory review process. The MTOs should be fully aware of the need to comply with regulatory requirements. For example, MTOs should be licensed by the authorised entity to ensure that the interests of all internal stakeholders within the microtakaful chain are protected (IFSB, 2015).

Pursuant to the issuance of the Issues Paper by the IFSB-IAIS, BNM took note of the concerns raised and subsequently issued a specific guideline on microtakaful/microinsurance products. The Perlindungan Tenang (2021) guideline requires TOs to be cognisant of existing guidelines, particularly the TOF (BNM, 2019). This is to ensure that the offering of products to the underserved do not threaten the TOs' current financial standing. BNM assumes the role of the balancing entity, ensuring that the B40 are provided with affordable and easily accessible products, without compromising the

TOs' financial stability. However, given the guideline's recent nature, the industry has yet to compile statistical data on the profitability of microtakaful products, or confirm the actual issues encountered by the ten (10) TOs involved in the Perlindungan Tenang initiative.

The statistics provided by MTA indicated that there was an increase in microtakaful participation through Perlindungan Tenang products. However, the number was far from encouraging given that out of the 7.28 million (Bernama, 2016) B40 in Malaysia, only 293,946 individuals or 0.04% have participated in the national microtakaful programme (MTA, 2021). The question remains as to whether there are other issues that have not been uncovered that contribute to the still low penetration rate of the initiative.

A lack of awareness among the poor of the existence of microtakaful protection is found to be another reason for the low participation in microtakaful products (Mohd Rom et al., 2012). The poor, especially in the rural areas are not exposed to the various initiatives undertaken by TOs and government agencies. Even if they were aware of such products, they do not have sufficient knowledge to identify and select the products that would suit their financial needs (Ismail, et al., 2013; Che Mohd Salleh et al., 2017; Ayaz et al., 2020). In addition, misconception arising from the lack of knowledge of the core principles of microtakaful has led to further distrust of the microtakaful system (Ismail, et al., 2013). Many of the B40 individuals understand microtakaful to be the same as microinsurance (Che Mohd Salleh et al., 2017). This misconception is similar to that of the general public towards takaful, whereby they believe that the contracts of takaful and insurance are the same; the difference is only in the name and the way the products are marketed (Jaffer et al., 2010; Che Mohd Salleh et al., 2017). While the takaful industry is still trying to clear this misconception, it may take some time for the facts to reach the B40 in the rural areas. This makes awareness programme more challenging, given the various economic constraints faced by the B40 community. This is an issue that requires careful deliberation when addressing the specific microtakaful awareness level among the B40.

The almost negligible disposable income among the B40 also contributes to low participation in the microtakaful products, despite the good intent by BNM and the TOs

to make the product affordable (Ayaz et al., 2020). As indicated by the findings of Mohd Rom et al. (2012), the B40 group is willing to pay only RM35 per month from their pocket for any microtakaful contribution. Given that this is the maximum amount that they are willing to spend, coupled with the lack of awareness of the existence of PTV, any noble attempt by the industry to make microtakaful more inclusive would not entice the B40 into the protection plan that could actually benefit them in the event of loss of life or livelihood due to disablement.

Profitability and lack of technical expertise among the TOs are valid apprehensions, given that the TOs may not have sufficient data to price the B40 individuals into the PRF shared by the non-B40 groups (Mokhtar et al., 2012; Gor, 2013). The risk of mispricing may cause detrimental effect on the PRF and hurt the existing participants in the risk pool. This may affect the solvency level of the TOs and result in regulatory intervention by BNM (Gor, 2013; Mohd Salleh & Padzim, 2018; BNM, 2018). Similarly, the lack of technical expertise raises uncertainties on the TOs' profitability in offering products for the poor (Ayaz et al., 2020).

Absence of cooperation among the TOs as well as lack of standardisation of microtakaful products are found to contribute to the slow growth of microtakaful in Pakistan (Ayaz et al., 2020). There is little literature with the same finding. However, based on the preliminary observation on what is currently happening in the Malaysian microtakaful product offerings, the finding may hold true for Malaysia.

A research conducted using Analytic Hierarchy Process (AHP)<sup>18</sup> to analyse the various problems faced by Takmin Working Group (TWG), a group that focuses on developing microtakaful initiatives in Indonesia, found that their prominent issues are from external and internal sources (Rusydiana & Devi, 2017). External problems include society's perception of takaful, whereas internal problem relates to the size of the MTO. Either way, this study found that there are two ways to address these problems, namely by (a) using information and technology system, and (b) introducing innovative products which can easily be implemented (Rusydiana & Devi, 2017). The issue of data management is a concern easily relatable to the microtakaful experience

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<sup>18</sup> AHP is a multiple-criteria decision-making tool to break problems into specific hierarchical elements containing objective (goal), criteria (sub-criteria) and alternatives (Atanasova-Pachemska et al., 2014).

in Malaysia. As pointed out by Social Development Division (2022), the eKasih database managed by the PMO has geographical constraints. Hence, the Microtakaful Jariah free coverage provided by PruBSN in collaboration with the PMO may only reach certain areas as may be identified by the system (PruBSN, 2018). This signifies a gap that needs to be narrowed to ensure that the issue of geographical constraints be minimised.

### **3.4 MICROTAKAFUL MODELS**

Prior to examining the most recent literature on microtakaful models, the researcher feels the need to highlight an article by Actuarial Partner<sup>19</sup> in 2013 on “Micro Takaful or Micro Insurance” for its periodical, Actuarial Partners – Building Value Together. The article was written by Zainal Abidin Kassim, the first appointed actuary of the Malaysian takaful industry who has been with the industry since its inception in 1984 (LinkedIn, n.d.). Although this article was written nine (9) years ago, it contains elements which the researcher finds relevant to this day. Figure 3.1 shows the model proposed for microtakaful, utilising waqf contributions, as suggested in the article:

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<sup>19</sup> Actuarial Partners is an actuarial consulting firm which has been involved in the development of the takaful industry in Malaysia since STMB was established in 1984.

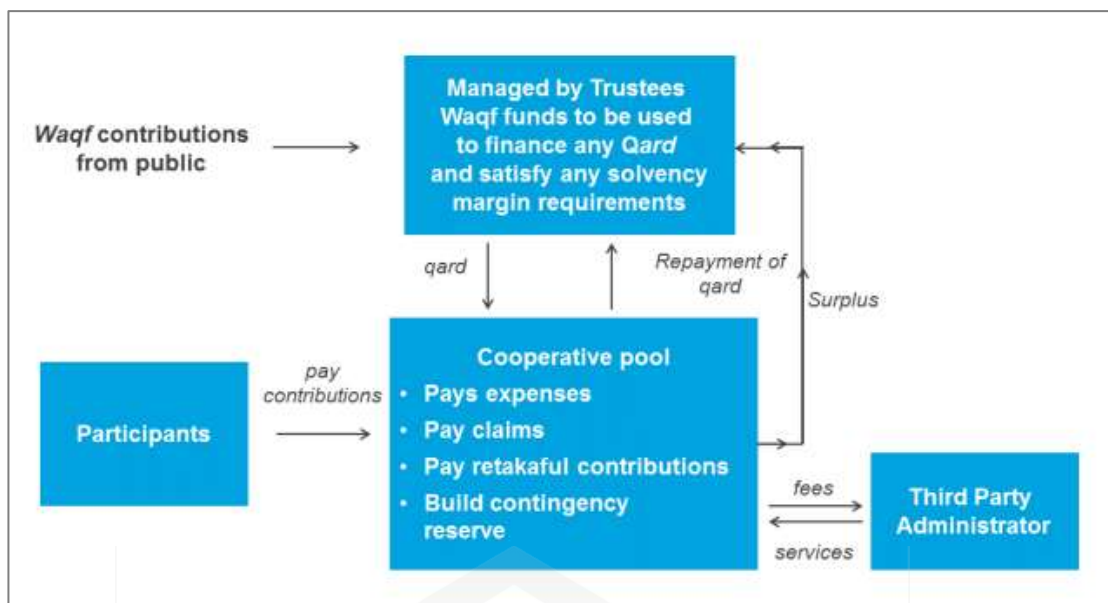


Figure 3.1 Proposed Microtakaful Model Using Waqf Contributions

Source: (Kassim, 2013)

Under this cooperative model, the element that is often seen in any takaful model, namely the shareholders, is removed and replaced by the trustees of the waqf fund. The elimination of shareholders automatically removes the weight for profit generation since the model is no longer profit oriented. Members of the public will contribute cash into the waqf fund for the purpose of providing qard<sup>20</sup> (interest-free loan) in the event the cooperative pool falls into deficit. Microtakaful participants on the other hand will only pay a meagre amount for their participation in simple products, with low benefits and easy-to-claim process. Zakat is also proposed in this model to alleviate the need for contribution payment from the participants, thus ensuring that all the B40, including those without any income, are covered.

Subsequent to the study by Kassim (2013), Hasim (2014) recommended a more elaborated microtakaful model that collates all efforts from TOs, government agencies, zakat funds, donor organisations and NGOs, and properly pools the contributions into appropriate funds for effective and efficient distribution. She suggested the creation of two specific funds:

<sup>20</sup> IFSB defines Qard as “A non-interest-bearing loan intended to allow the borrower to use the funds for a period with the understanding that this would be repaid at the end of the period.” (IFSB-11, 2010).

- (a) Subsidy Fund: To pool contributions from government agencies and zakat funds from zakat institutions, for the purpose of channelling subsidy resources to the targeted B40; and
- (b) Charitable Trust Fund: To pool donations as initial capital to (i) cover initial expenses and community benefits, and (ii) provide *qard* (interest-free loan).

Figure 3.2 shows the flow of funds from contributions from zakat organisations, waqf funds, donations, NGOs and government agencies to support the microtakaful model.

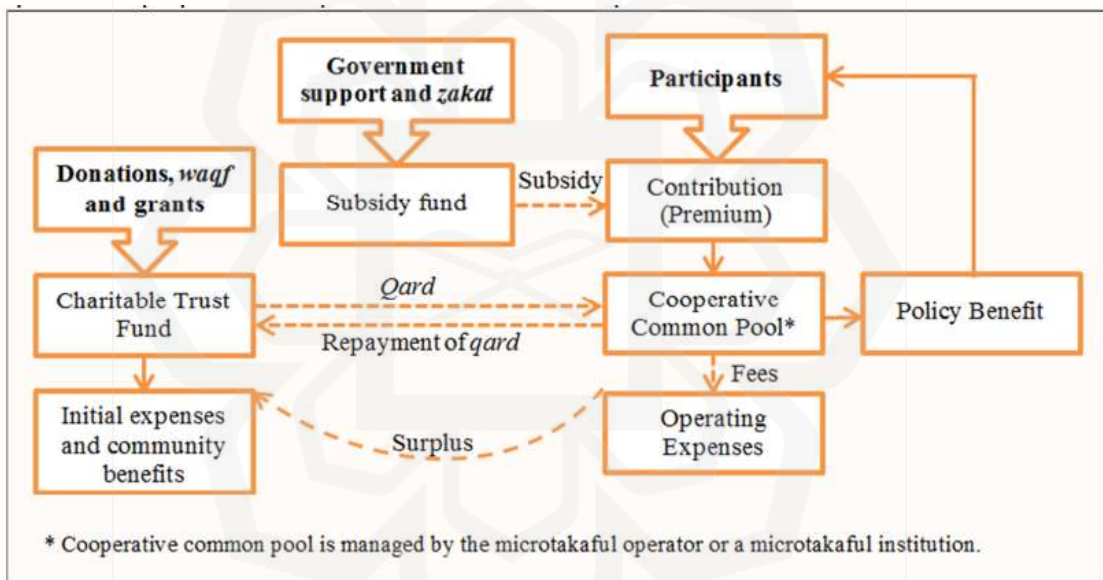


Figure 3.2 Proposed Microtakaful Model Using Zakat, Waqf, Donations, Grants and Government Support

Source: (Hasim, 2014)

Under the proposed model, the microtakaful operation will use a cooperative model where a Cooperative Common Pool is created for the non-profit organisation. Claims for participants will be paid from the pool. At an affordable rate, the B40 will contribute a certain amount (to which the Subsidy Fund will provide additional contribution where needed) into the Cooperative Common Pool. The Charitable Trust Fund, given its one-off and possibly non-recurring nature, will be used for the purpose

of setting up the microtakaful model. Any remaining amount shall be retained in the fund and managed using the same principle as waqf, with occasional assistance provided to the Cooperative Common Pool in the event of deficit. Any surplus generated from the pool will be channelled into the Charitable Trust Fund to build its resilience for the purpose of expanding the operation.

A literature by Mohamad et al. (2019) recommended that instead of relying on any types of subsidies or requiring the B40 to contribute into the tabarru' fund which will cause further strain on their already-minimal income, contribution should totally come from zakat. The proposed model is exemplified in Figure 3.3 below.

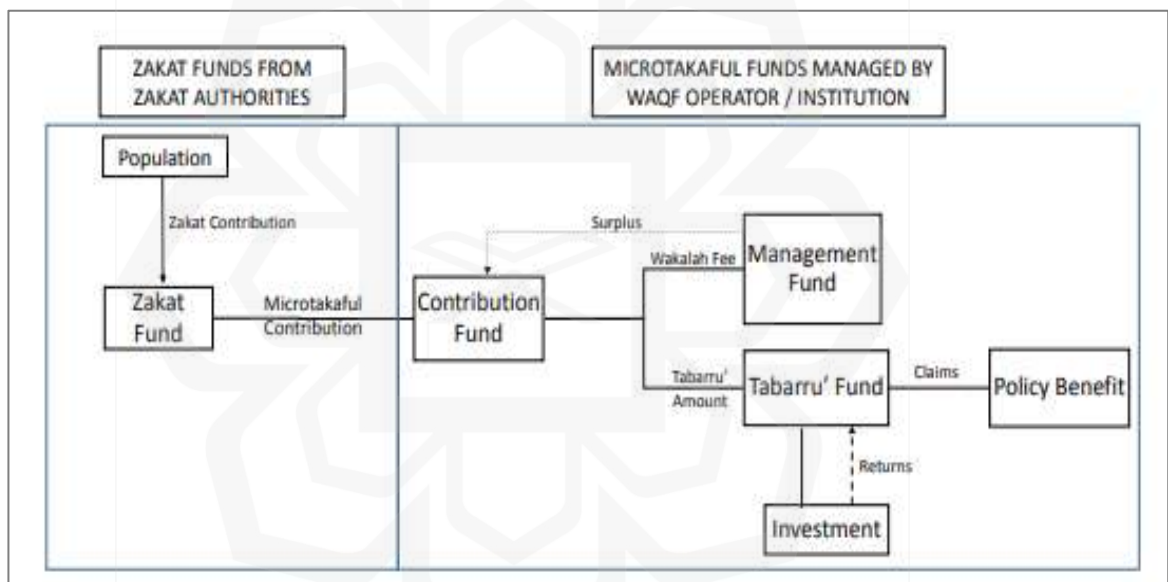


Figure 3.3 Proposed Microtakaful Model Using Zakat

Source: (Mohamad et al., 2019)

Four (4) funds were recommended where contributions from the Zakat Fund (the sole source of this model) will be channelled into the Contribution Fund. This fund will be split into Management Fund and Tabarru' Fund. Management Fund will be used to finance expenses from the operation of microtakaful, upon which any excess from the operation will be channelled back into the Contribution Fund, while the Tabarru' Fund will be utilised for claims. The entire operation is proposed to be managed by a waqf operator.

A comprehensive analysis of six (6) microtakaful models were elaborated by Kamal et al. (2020). Models 1, 2 and 3 are illustrated in Figure 3.4 below.

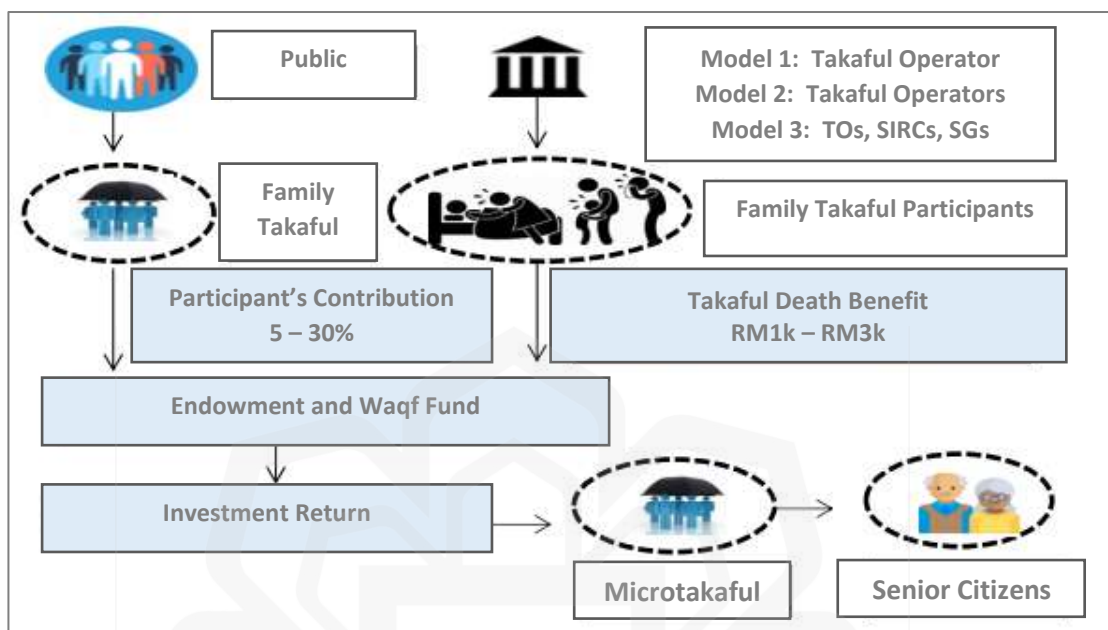


Figure 3.4 Proposed Microtakaful Model Using Zakat, Waqf, Donations, and Contribution from SIRC and SGs

Source: (Kamal et al., 2020)

The proposed Model 1 involves zakat, waqf, donations, SIRC and state governments (SGs). It proposes utilising waqf and endowment funds' investment returns to contribute for the senior citizens' microtakaful plan. However, given the possible low returns of Model 1, Model 2 proposes that all TOs work together as a consortium to ensure sufficiency of funds. Model 3 strengthens the source of funding further with the participation of SIRC and SGs.

Model 4 of Kamal et al. (2020) in Figure 3.5 emulates the CSR model of CSR Johor Corporation (JCORP). Under the CSR waqf model, a dedicated waqf institution is appointed to administer the CSR activities of the waqf fund. From the flow of funds, the CSR amount allocated for waqf will be transferred from the TO to SIRC, to be managed by the waqf institution. The waqf institution shall use 25% of the amount for the senior citizens' microtakaful coverage.

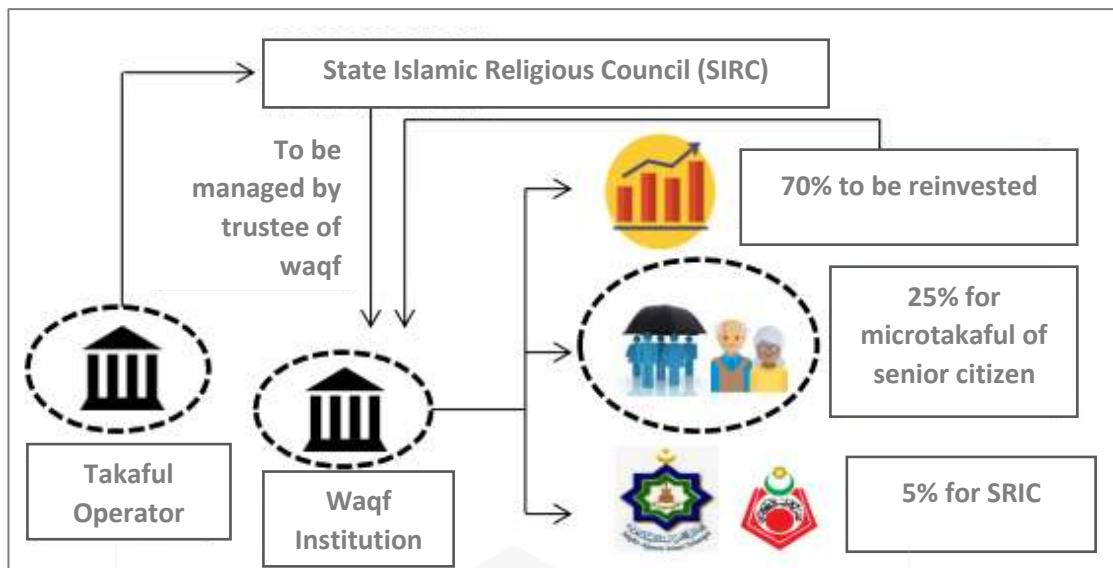


Figure 3.5 Proposed Microtakaful Model Using Waqf

(based on CSR Model of CSR JCORP)

Source: (Kamal et al., 2020)

Model 5 of Kamal et al. (2020), as shown in Figure 3.6, is based on zakat. The TO transfers 100% of its annual zakat amount to State Zakat Centre (SZC), from which 38% and 15% of wakalah fee from business transaction's zakat and employers' zakat contribution, respectively, will be returned to the TO. With the coordination of the Shariah Department, the zakat amount will be used to contribute for senior citizen's microtakaful coverage. Kamal et al. further suggested that a request be submitted by TOs to SZCs for official approval for zakat to be managed 100% by TOs.

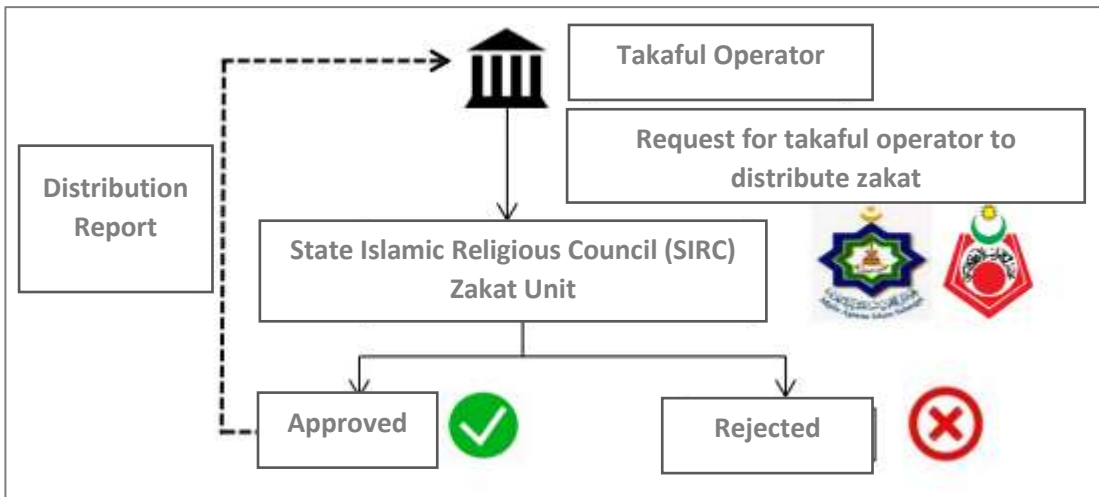


Figure 3.6 Proposed Microtakaful Model Using Zakat  
 Source: (Kamal et al., 2020)

Model 6 of Kamal et al. (2020), as illustrated in Figure 3.7, is currently being adopted by a local TO. The model utilises funds from all sources, namely donation from staff, riders from existing participants, waqf and zakat. However, this model raises possible legal implication with regards to payment of zakat. Under this model, the zakat payment to the asnaf does not go through the SZC and the waqf is not managed by a mutawalli or trustee.

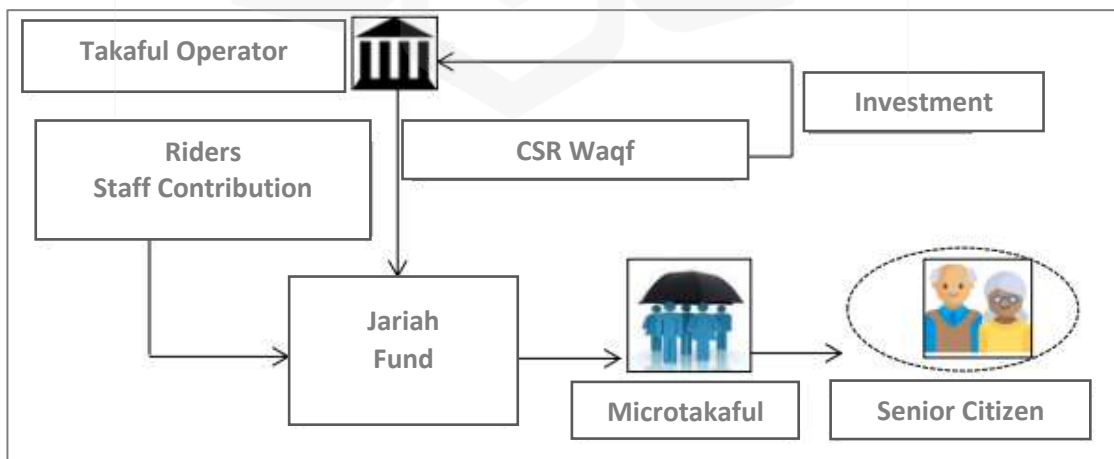


Figure 3.7 Proposed Microtakaful Model Using Staff Donation, Riders, Waqf and Zakat

Source: (Kamal et al., 2020)

All the six (6) models proposed by Kamal et al. (2020) elaborate on various possible avenues for the offering of microtakaful products for senior citizens. They range from single operator model to collaborative model, which involves cooperation among all operators, including SIRC, SZCs and SGs.

A zakat-based microtakaful model was critically analysed by Nik Abdul Ghani et al. (2020), where the fiqh issues relating to the utilisation of zakat fund was explored. Based on this zakat-based microtakaful model, the entire contribution for the microtakaful participants will be obtained from the zakat authority, as shown in Figure 3.8 below.

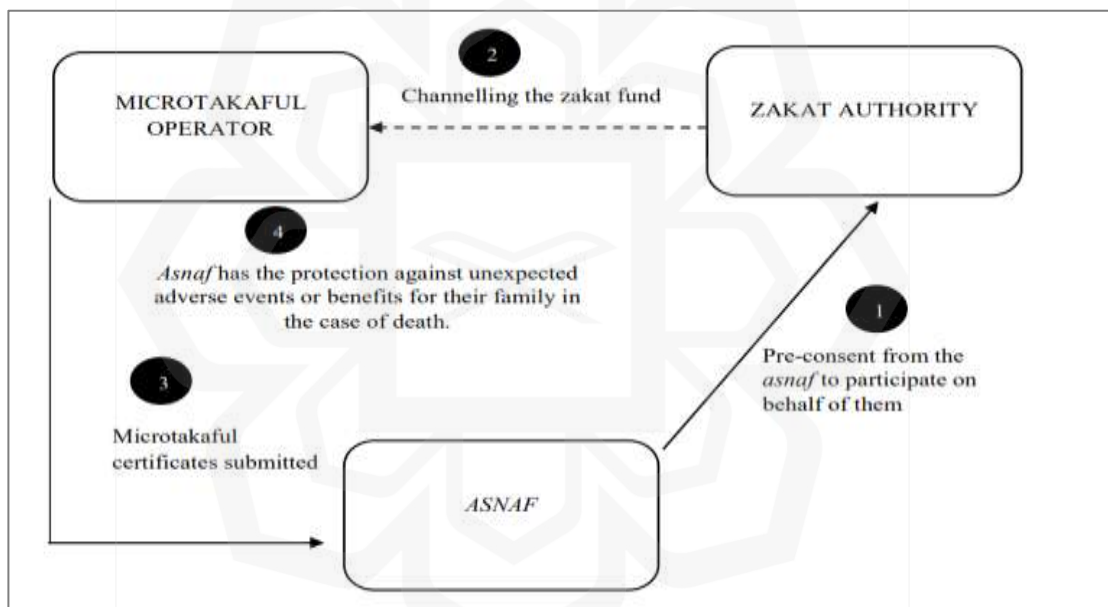


Figure 3.8 Proposed Microtakaful Model Using Zakat

Source: (Nik Abdul Ghani et al., 2020)

Under this model, the MTO will work together with the zakat authority where the contribution for the coverage of asnaf will be provided by the zakat authority to the MTO. In return, the MTO will pay benefits to the beneficiaries for the death of their family member. Given the critical fiqh issue of zakat on tamlik<sup>21</sup> which to date is still

<sup>21</sup> Tamlik means ownership transfer. In a zakat distribution process, the payment of zakat from the zakat authority needs to be done directly to the asnaf, the zakat recipients. The zakat amount needs to be owned by the asnaf before it can be used for anything else. However, when zakat is paid as a contribution to the

debatable (Mikail & Adekunle, 2020), Nik Abdul Ghani et al. (2020) is of the view that the debatable nature renders the zakat-based microtakaful model acceptable.

A hybrid microtakaful model, as shown in Figure 3.9, was introduced by Md Hashim and Badri (2022), whereby the contribution for the microtakaful participation comes purely from zakat and waqf. To eliminate the Shariah concerns relating to direct payment of zakat to the asnaf, the zakat and waqf contribution are to be channelled directly to the asnaf. The asnaf will then channel the contribution into the risk fund under the mutual cooperation spirit of takaful, by which payment of claims shall be made to participants who experience misfortunes or calamities. However, subsequent issue may arise out of this arrangement, whereby the participants who have donated into the risk pool may not be able to benefit from the zakat money (which rightly belongs to them) should nothing untoward happens to them during the participation period. This defeats the purpose of providing zakat to the asnaf in the first place. The model proposes a solution by appointing a TO as an agent to undertake the role of managing the contribution by the asnaf participants. In this model, the TO shall accept the zakat money on behalf of the asnaf, manage the collection in a special fund, and contribute for the microtakaful participation of the asnaf. On the utilisation of cash waqf which comes with various Shariah concerns, the model proposes utilisation of waqf and endowment for the benefit of both the Muslims and non-Muslims. The collected cash waqf and endowment shall be invested by the TO as the wakil with a fee. Any investment return generated from the investment shall be used as microtakaful contribution for the asnaf.

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MTO on behalf of these asnaf, it raises serious implication on whether the requirements of zakat has been breached.

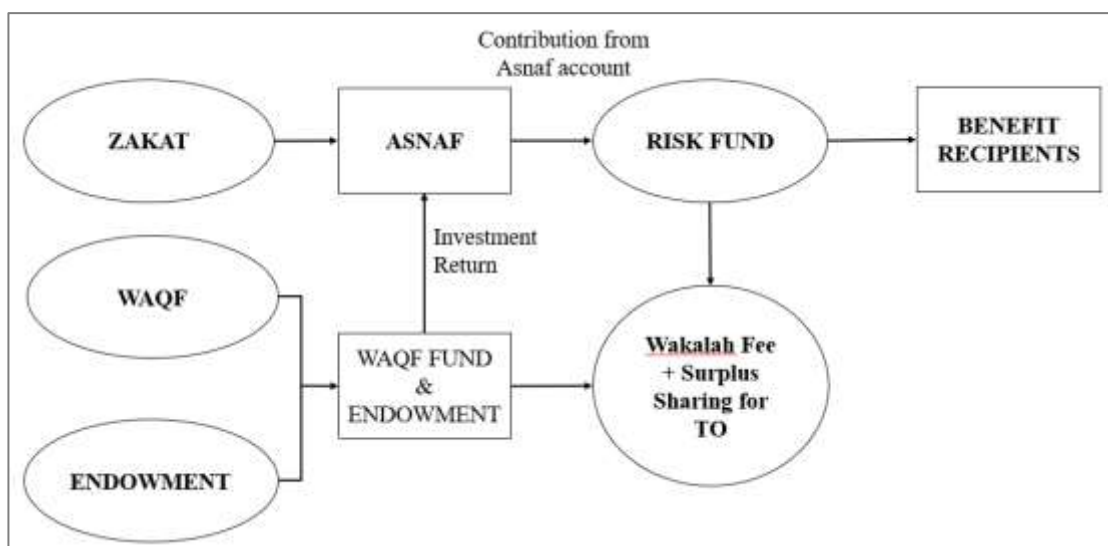


Figure 3.9 Proposed Microtakaful Model Using Zakat and Waqf

Source: (Md Hashim & Badri, 2022)

### 3.5 A REVIEW ON FUNDING MECHANISMS FOR MICROTAKAFUL

The models explored thus far have recommended various funding mechanisms to provide coverage for the B40. This section shall study the literature on microtakaful funding mechanisms, focusing on zakat and waqf.

#### 3.5.1 Sources of Funding for Microtakaful

Islamic social finance instruments have repeatedly been identified in most literature as the sources of funding for microtakaful initiatives. Zakat (almsgiving), sadaqah<sup>22</sup> (charity), waqf (endowments) and qard (interest-free loans) are synonym with Islamic social development agenda (Rehman, 2019). To date, qard is the widely used social finance instrument in takaful operation of most TOs worldwide. As elaborated in IFSB's standards for takaful, IFSB-11: Standard on Solvency Requirements for Takaful (Islamic Insurance) Undertakings, "qard is frequently identified as a mechanism for

<sup>22</sup> Sadaqah is defined as "charity" or 'benevolence' derived from the root word '*sidq*' (or sincerity), has a very wide use. It denotes alms given in Allah's name to poor and needy people and to those who are in captivity, oppression, debt, or difficulty. *Sadaqah* is a reflection of the giver's sincere devotion to the religion and purifies the giver' (Hasan, 2022).

providing capital to a PRF of a takaful operation” (IFSB, 2010). The qard is usually provided by the shareholders of a TO to assist the PRF that belongs to the participants. However, in the context of a microtakaful model under this study, establishing a model that does not focus on profit, as envisioned by Kassim (2013), would require the removal of shareholders’ expectations of profits from the operation. Hence, the nature of qard being a benevolent loan with an expectation of repayment at the end of the loan period may be counterproductive for a microtakaful model as the model is expected to be sustainable indefinitely and not confined to a particular time period. No repayment expectation should be set at the inception of the microtakaful model.

It is with this reasoning that waqf<sup>23</sup> is proposed. Another source of funding is zakat. Given the nature of Muslims’ permanent existence, where for as long as there are Muslims, the source of funding from zakat will never cease. This is contrary to sadaqah which payment nature is voluntary and not obligatory upon the giver.

### **3.5.2 Zakat**

Zakat is one of the five (5) main pillars of Islam. With its literal meaning “that which purifies”, zakat is a method of wealth purification made mandatory to all Muslims who meet the wealth criteria. It is a form of tax to ensure wealth is shared as well as being a form of charitable contribution (Zakat Selangor, n.d.). The amount collected is utilised to assist with the sustenance of the eight (8) groups of asnaf, which include the poor and the needy (Zakat Selangor, n.d.), who are the focus of this study.

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<sup>23</sup> Waqf is defined as “stopping” (of movement, transport, or exchange), is a permanently dedicated property, the usufruct of which is dedicated for public or private charitable purposes. A “public” (*khayri*; pious; or *a'm*) waqf may be created to serve the interests of people outside the creator’s family, for example, for establishing and operating mosques or schools, or for supporting students, scientific research, the needy, travellers, and the like. A “private” (*ahli*; family or *khas*) waqf may be created for the benefit of the founder, her family and their descendants until the line of inheritance breaks, when it auto-transforms to a “public waqf” (Hasan, 2022).

### ***3.5.2.1 Immediate Transfer versus Delayed Transfer***

Literature has thus far noted concerns arising from utilisation of zakat fund for microtakaful initiatives. Mikail et al. (2017) examined the two views of Shariah scholars on the issues relating to zakat. The first view is from the Islamic Fiqh Council of the Muslim World League (IFC-MWL) in its Resolution No. 6 in the 15<sup>th</sup> session, where the Council of Senior Scholars of Saudi Arabia disallows zakat allocation by the zakat authority since the distribution of zakat should take immediate effect, from the payment of zakat by the zakat payer to the payment of zakat directly to the zakat receiver, both without any delay. The second view is from International Islamic Fiqh Academy of the Organisation of Islamic Cooperation (IIFA-OIC) in its Resolution No. 15 (3/3), which allows zakat allocation to be conducted by the zakat authority. This view, which is the preferred view, states that zakat authority is the legal proxy for zakat recipients and hence the way the zakat money is distributed shall be based on the urgent need of zakat. For the ones in dire need, distribution will be immediate. For those whose needs are deemed non-urgent, the zakat money may be invested for as long as the interest and welfare of the zakat recipients are preserved. This is in congruent with the later findings by Mikail and Adekunle (2020) which highlighted the Islamic legal maxim that states: “Act of those with authority over people must take into account the interests of the people”. Nik Abdul Ghani et al. (2020) focused on similar issues concerning zakat: (a) tamlik (ownership) where the zakat money should be transferred directly to the asnaf and not through an intermediary such as an MTO, and (b) the investment of zakat where the fund should not commingle with other non-zakat contributions.

Salleh et al. (2018) emphasised the Malaysia’s zakat authorities’ inability to contribute for microtakaful contribution for the asnaf prior to the National Fatwa Council’s approval on the issues raised, despite an increasing interest among the TOs to offer microtakaful products to the B40. Zakat nevertheless is promoted as the source of funding for the B40’s microtakaful contribution. Mohd Sabri et al. (2021) who shared similar concerns arising from zakat suggested the need for zakat to be integrated with waqf fund in order to ensure the viability of microtakaful efforts, given that the amount of zakat collected varies from year to year. In addition, after deducting the amount that should be distributed immediately and directly to the asnaf, the remaining amount for microtakaful may not be sufficient to hold the risk fund for microtakaful protection

purposes. Muhd Adnan et al. (2017) held the second view of zakat being utilised for productive purposes, namely to generate income for the purpose of long-term sustenance through microtakaful credit facility. This is based on the fatwa issued by contemporary scholars in a Dubai conference (Nik Abdul Ghani, et al., 2019) who allow zakat to be invested, provided that the recipients with dire needs have already received their portion for daily sustenance. Nik Abdul Ghani et al. (2019) similarly accentuated the two issues with regards to the distribution and investment of zakat and reiterated the need for the issues to be addressed, given that the number of asnaf may increase over the years on the back of economic uncertainties. This might lead to higher amount being paid directly to the asnaf, leaving little to be invested.

Despite the numerous concerns, literature nevertheless continues to advocate the importance of zakat contribution for microtakaful initiatives. Kamal et al. (2020)'s six (6) microtakaful models all embedded zakat as the source of funding. They also recommended that collaboration be established with zakat authorities to ensure a smooth flow of funding from the zakat institutions to the MTOs. Hasim (2014) concurred by suggesting that subsidisation for the B40's microtakaful contribution be undertaken through both zakat and government assistance. On the other hand, Mohamad et al. (2019)'s microtakaful model proposed zakat to be the sole contributor for microtakaful contribution for the B40 without additional assistance from other sources of funding.

### **3.5.2.2 Zakat for the Non-Muslims**

Despite the issues of ownership and investments, zakat is widely advocated to be the main source of funding for microtakaful initiatives. However, another significant issue that arises relates to the permissibility of zakat distribution to the non-Muslims.

In surah At-Tawbah (9:60), Allah S.W.T predetermined the eight recipients (asnaf) of zakat in the following verse:

“Sadaqa (here it means zakat) are only for the poor, and the needy and those employed to collect (the funds); and for to attract the hearts of those

who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah's cause (i.e., for Mujahidin – those fighting in the holy wars), and for the wayfarer (a traveller who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise." (At-Tawbah, 9: 60).

The group of asnaf whose position is questionable for this study is referred to as "the hearts of those who have been inclined towards Islam", also known as muallafah qulubuhum. Perlis' Jabatan Kemajuan Islam Malaysia (JAKIM) (2016) divided muallafah qulubuhum into two categories, namely (a) the Muslims (those who have recently converted to Islam), and (b) the non-Muslims who (i) have the potential to accept Islam, (ii) may be reconciled to not make enemy with Islam, and (iii) are influential non-Muslim leaders whose hearts should be tamed towards Islam.

Hamat and Hanapi (2017) highlighted the differences in the interpretation of the phrase muallafah qulubuhum. The first group<sup>24</sup> interpreted the term as those who have recently converted to Islam, whereas the second group<sup>25</sup> interpreted it to include two categories of non-Muslims, namely (a) those who may be convinced to accept Islam, and (b) those who may be convinced to not oppose Islam. On the payment of zakat, the zakat for those who have recently converted to Islam is unanimously agreed upon by all scholars in Malaysia. However, on the payment of zakat to the non-Muslims, in the 79<sup>th</sup> Fatwa Committee of the National Council of Islamic Religious Affairs Malaysia which was held on 6-8 September 2007, the council decreed that "Priority of zakat distribution should be given to the Muslim community according to the group of people identified in the Quran as eligible to receive the zakat; however, the government is allowed to distribute the zakat income to non-Muslims based on Islamic politics and needs for the purpose of Islamic da'wah (issuing a summons)" (Hamat & Hanapi, 2017).

Several Shariah scholars in Malaysia have clarified the public confusion about the payment of zakat to the non-Muslims being without conditions. The Mufti of Perlis stated that zakat may only be given to a "group of people with behaviours and perceptions that can be harmonised towards Islam" (Zahiid, 2017). However, this may

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<sup>24</sup> Consists of Lembaga Zakat Selangor, Pusat Zakat Melaka, Pusat Zakat Negeri Sembilan, Pusat Zakat Sabah, Pusat Urus Zakat Pulau Pinang, Majlis Agama Perlis, Majlis Agama Islam and Adat Melayu Terengganu, and Majlis Islam Sarawak (Hamat & Hanapi, 2017).

<sup>25</sup> Comprises Pusat Kutipan Zakat Pahang, Jabatan Zakat Kedah, Majlis Agama Islam Johor, Majlis Agama Islam Perak, and Majlis Agama Islam Wilayah Persekutuan (Hamat & Hanapi, 2017).

only be determined and decided upon by the authority, consistent with the practices of alms-giving during the era of the Prophet Muhammad (P.B.U.H) (Berita Harian, 2019). One scholar, Dr. Shamsiah Mohamad emphasised that the non-Muslims may receive zakat only if the decision is made by the authority based on the importance, needs and for the benefits of the ummah (Mohamad, 2019).

On the international front, scholars hold different opinions on the issue. Further research into this area led to the literature which summarises the views of Acehese Dayah<sup>26</sup> Ulama (Hashim et al., 2017). Of the four ulama interviewed, three were of the opinion that the non-Muslims do not have any right to the zakat money, whereas Teungku Faisal Ali, the fourth ulama was of the view that the non-Muslims whose faith is almost certain to accept Islam, have the right to the zakat money. Mahajneh et al. (2021) summarises the 76 fatwas issued by Muftis in Arab and non-Arab countries with regards to the distribution of zakat to the non-Muslims. Out of the analysed fatwas in Arab countries, 30.8% supported the giving of zakat to the non-Muslims, 28.8% supported the giving of zakat to the non-Muslims under certain conditions, and the remaining 40.4% were not agreeable to distributing zakat to the non-Muslims. As for the non-Arab countries, 50% of the analysed fatwas opposed the distribution of zakat to the non-Muslims, whereas 33.3% and 16.7% agreed to provide zakat to the non-Muslims without and with conditions, respectively.

In the grand scheme of things, Basri (2016) opined that non-Muslims in any Muslim country deserve zakat as much as the Muslims. His opinion was based on the citation by Imam Abu Yusuf in his book, *Kitab Al Khraj*, and M Hashim Kamali who observed the Caliph Umar (R.A.A.)'s fondness in referring to: "Alms are for the poor, and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to truth); for those in bondage and in debt; in the cause of Allah S.W.T.; and for the way fairer: (thus is it) ordained by Allah S.W.T., and Allah S.W.T. is full of Knowledge and Wisdom." In this reference, Caliph Umar (R.A.A.) did not mention the faith of the poor and the needy (Kamali, 1999).

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<sup>26</sup> Dayah means Islamic School or madrasah. The four ulama/ Muslim scholars who were interviewed were Teungku Hasbi (Interviewed on 11 September 2011), Abu Daud (Interviewed on 20 August 2011), Teungku Muhammad (Interviewed on 10 September 2011) and Teungku Faisal (Interviewed on 19 August 2011) (Hashim et al., 2017).

For the purpose of this study, a conceptual framework for the microtakaful model shall revolve around the possibility of funding microtakaful contribution using zakat for the Muslims and waqf for the non-Muslims. It should be noted that one of the TOs, PruBSN has to date effectively channelled all its zakat money for its Microtakaful Jariah initiative. With its Prihatin Zakat Fund, coupled with other sources of sadaqah from PruBSN agents, employees and existing participants, microtakaful contribution for the poor (Muslims and non-Muslims) are subsidised (PruBSN, 2018) and they do not have to pay anything for the coverage. This however, raises legal implication since the zakat payment to the asnaf is not managed and distributed by the zakat authority (Kamal et al., 2020).

### **3.5.3 Waqf**

Similar to zakat, utilisation of waqf has been proposed in numerous literature to be the source of funding for microtakaful initiatives, with the former being obligatory on the giver whilst the latter voluntary on the donor. Waqf is known for its three main characteristics: inalienable, perpetual and irrevocable (Abdullah & Yaacob, 2012). Inalienable waqf means the waqf properties all belong to Allah S.W.T. As such, no human can alienate the properties for himself or any other parties because they are all owned by Allah S.W.T. (Solanki, 2017; JAWHAR, 2023). It means that once a property is identified to be a waqf property, the ownership is automatically transferred to Allah S.W.T. The second feature of waqf is its perpetual nature. Once a property or cash is given out as waqf, they will remain as waqf which shall benefit the intended beneficiaries (Solanki, 2017; JAWHAR, 2023). The third characteristic of waqf is its nature of being irrevocable, which means that once a waqf fund is declared, it cannot be revoked (Solanki, 2017; JAWHAR, 2023).

Kassim (2013), Hasim (2014), Kamal et al. (2020), and Mohamad et al. (2019) included waqf in their proposed microtakaful models, without highlighting the Shariah or legal issues that may arise when waqf fund is used as contribution for microtakaful coverage for the poor (Md Ariffin et al., 2023). Che Mohd Salleh et al. (2017) proposed a pure waqf-based takaful model to aid flood victims in Malaysia and recommended further studies to be undertaken to address issues relating to waqf in a takaful model.

In order to avoid Shariah issues relating to waqf in this study, the conceptual framework confines the utilisation of waqf fund to the setting up of infrastructure for the microtakaful model. This includes buildings, lands and operational systems where the stakeholders of waqf can be clearly defined and consent easily obtained. However, given that one of the objectives of this study is to propose a sustainable source of funding for a microtakaful model, the possibility of utilising waqf fund as microtakaful contribution should be considered exhaustively (Misbah, et al., 2022). In addition, given waqf's extensive role in the development of learning institutes and medical care centres (Islamic Relief Worldwide, n.d.), this presses for a greater level of understanding on how waqf fund could contribute to the establishment of a microtakaful model that provides financial literacy and awareness programme to the B40 (Md Ariffin et al., 2023).

#### ***3.5.3.1 Waqf from the Shareholders to the Participants' Risk Fund***

Takaful model with waqf is not new and has been practised in countries such as Pakistan and South Africa, namely by Takaful Pakistan Limited, Pak-Qatar Family Takaful Limited, Dawood Family Takaful and Takaful Africa (Pty) Ltd. (The Malaysian Institute of Accountants, 2019). In these models, waqf fund is established by the shareholders of the TO to initiate the PRF through the transfer of waqf (seed money) to the PRF fund. The PRF fund will be managed under the contract of waqf. The fund will then grow over time with continuous contribution of waqf by participants into the PRF. Under this model, the moment participants' waqf contribution is channelled into the PRF, the ownership is automatically transferred to the Almighty (Abdul Jalil & Abdul Rahman, 2015). Both the participants and the TO have contractual relationship with the waqf fund, but not with each other (Abdullah & Yaacob, 2012). As the manager of the waqf fund, the TOs of this model will receive a wakalah fee, which will be paid from the same waqf fund. Any surplus arising from this model will be channelled back to the waqf fund. A survey conducted by the IFSB for the development of IFSB-18: Guiding Principles for Retakaful (Islamic Reinsurance), which was published in April 2016 unveiled the general understanding of the takaful industry of a wakalah-waqf model shown in Figure 3.10.

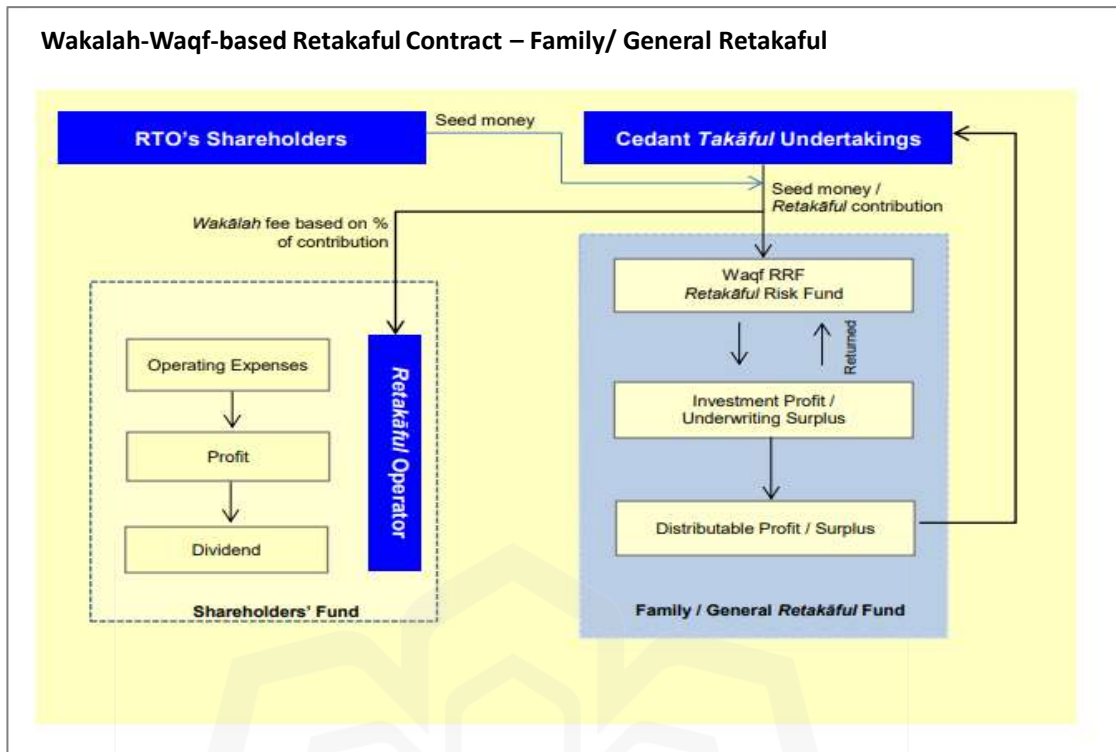


Figure 3.10 IFSB-18: Guiding Principles for Retakaful (Islamic Reinsurance)

#### Wakalah-Waqf Fund Flow

Source: (IFSB, 2016)

Under the IFSB model, the shareholders of the RTO provide the seed money to establish the waqf Retakaful Risk Fund (RRF). The RTO accepts a pre-agreed and clearly-stated wakalah fee for managing the investment and underwriting activities of the RRF. Any surplus generated from the RRF will be channelled back to the waqf fund, unless the terms stated otherwise, such as for the surplus to be channelled to charity or returned to the retakaful participants, which in this scenario are the cedant TOs.

#### **3.5.3.2 Waqf from the Participants to Social Institutions**

Malaysia also has its fair share of waqf element in its takaful models. One known product was introduced by STMB during 2002-2009 under a wakalah-waqf model. Under the STMB model, the element of waqf does not involve the contribution of waqf money by the shareholders into the PRF. Instead, the element of waqf appears during the payment of takaful benefits upon the demise of the participants (Che Mohd Salleh

et al., 2017 ). The lump sum payment will be channelled to any social institutions as identified by the TO as a waqf contribution of the deceased to the community to ensure continuation of his/ her good deeds and to earn rewards even after death.

### ***3.5.3.3 Waqf for Beneficiaries of Participant***

Similarly for Etiqa Takaful Berhad, the waqf element is embedded in its Group Term Takaful (GTT) Hasanah Plan – Malaysia Building Society Berhad (MBSB) Hasanah (MBSB Bank, n.d.), where a RM1,000 death/ TPD benefit is given to the nominee appointed under the plan. It should be noted that this is not the main benefit of the GTT Hasanah Plan, but a small subset of additional benefit paid under the plan. Table 3.2 shows the GTT Hasanah Plan with the waqf benefit embedded in the product.

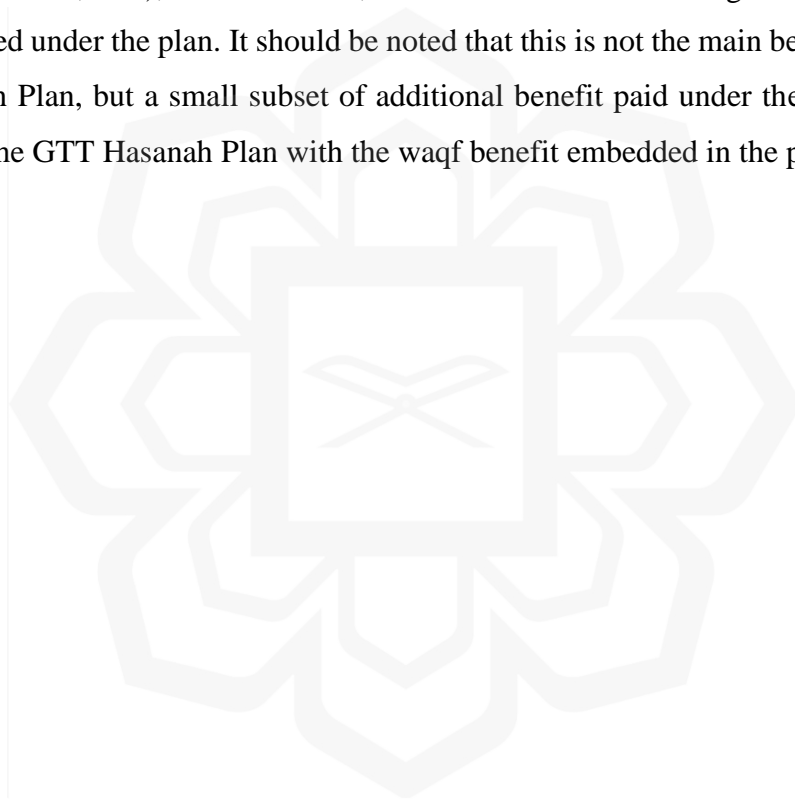


Table 3.2: Etiqa Takaful's GTT Hasanah Plan with Waqf Benefit

For adults aged between 18 and 64 years (age next birthday):			
No.	Coverage/ Benefit	Benefit Payable	Benefit Description
1	Natural death	RM75,000	<ul style="list-style-type: none"> <li>On death of the person covered due to natural causes, before the expiry of the coverage term, the benefit provided for the person covered will be payable in lump sum.</li> </ul>
Supplementary Benefits			
No.	Coverage/ Benefit	Benefit Payable	Benefit Description
1	Natural TPD	RM75,000	<ul style="list-style-type: none"> <li>On TPD of the person covered due to natural causes only, before the expiry of the coverage term, the TPD benefit will be payable. On payment of this benefit, the sum covered of the basic contract shall be reduced by the amount paid.</li> <li>The TPD benefit can only be paid upon the TO's approval and proof that the person covered survives and the disability had lasted continuously for at least six (6) months from the TPD date.</li> <li>In the event of a total one hundred percent (100%) of the basic sum covered having been paid, there will be no more takaful coverage under the contract in respect of the person covered.</li> </ul>
2	Accidental death and disability	RM150,000	<ul style="list-style-type: none"> <li>On death or TPD of the person covered due to accidental causes, before the expiry of the coverage term, the accidental death and disability benefit will be payable.</li> </ul>
3	Badal haji	RM3,000	<ul style="list-style-type: none"> <li>On death or TPD of the person covered due to all causes, before the expiry of the coverage term, the badal haji benefit will be payable in lump sum.</li> </ul>
4	Waqf	RM1,000	<ul style="list-style-type: none"> <li>On death or TPD of the person covered due to all causes, before the expiry of the coverage term, the waqf benefit will be payable in lump sum.</li> </ul>
5	Funeral expenses	RM1,500	<ul style="list-style-type: none"> <li>On death of the person covered due to all causes, before the expiry of the coverage term, the funeral expenses benefit will be payable in lump sum.</li> </ul>

Source: (MBSB Bank, n.d.)

It is worth mentioning at this juncture that a pure waqf takaful model has yet to exist in Malaysia, due to the issues and challenges of implementing a pure waqf takaful model in the country. As stipulated in BNM's TOF (2019), Malaysia currently applies two models for its TOs, namely agency-based wakalah model and profit-sharing mudarabah model. Although BNM is receptive to the adoption of other models by existing or new TOs, any issues relating to such models will have to be addressed prior to obtaining BNM's approval for operationalisation.

#### ***3.5.3.4 Practical Issues of Waqf***

##### ***3.5.3.4.1 SIRC's Lack of Takaful Expertise***

Constitutionally, management of all waqf-related matters falls under the authority of the respective SIRC's. This is clearly stated in Schedule Nine, List II of the State List in the Federal Constitution of Malaysia (Common LII, n.d.; Mat Rani & Abdul Aziz, 2010). Given the differences in the enactment of Shariah rules in all the states, the administrative rules of waqf fund in one state may vary from another. The dissimilarities in the ruling and treatment of waqf fund may invoke inconsistencies in the management of funds created for the purpose of takaful protection as well as operational treatment of the respective participants. Under BNM's TOF (2019), a TO is expected to hire experts and technically-sound individuals to perform the activities of underwriting and claims management. For an SIRC to undertake the roles of a TO, this may pose its own challenges, given that SIRC may not possess the right mix of personnel to qualify for successful application of a takaful license as stipulated in the Islamic Financial Services Act (IFSA) 2013 (Md Ariffin et al., 2023). An alternative option is for SIRC's to appoint TOs as their mutawali or trustee to manage the waqf fund. Abdullah and Yaacob (2012) however, emphasised the challenges that may arise when a TO is appointed to be the trustee or management of the waqf fund under a wakalah-waqf takaful model. Currently, each state's SIRC is the sole trustee of the waqf fund. The appointment of a TO as the trustee would invoke legitimacy issue of it being a trustee under the local law, particularly since waqf in Malaysia is governed by the Trustee Act which is liberal and conventional in nature (Abdullah & Yaacob, 2012; Abdul Jalil & Abdul Rahman, 2015)

and may therefore contradict the roles played by a trustee under a waqf-deed (Mat Rani & Abdul Aziz, 2010).

#### 3.5.3.4.2 Inalienable, Perpetual and Irrevocable Waqf

When cash waqf is collected as microtakaful contribution, the first concern arises as to whether this application would overstep the respective provisions made by different states pertaining to the management of waqf fund. This brings into question the TOs' ability to meet all the different states' distinct requirements on waqf management. In parallel discussion, given the nature of waqf being inalienable, when cash waqf is collected as microtakaful contribution and managed by a TO that does not operate on a waqf takaful model, the cash collected may commingle with other funding sources in the PRF. This is conflicting in nature given that the PRF belongs to the participants whereas waqf belongs to God (Abdullah & Yaacob, 2012; Solanki, 2017).<sup>27</sup> The ultimate concern is whether the TO is qualified to be the trustee of waqf fund since it needs to preserve the inalienable feature of the microtakaful contribution whilst at the same time generate income from new business (in the form of microtakaful coverage) in order to create profits for its shareholders (Md Ariffin et al., 2023)

Similarly, the inalienable waqf means the Almighty is the owner of waqf. This contradicts the current practices of surplus sharing, as adopted by the Malaysian TOs. Currently, any surplus generated from underwriting activities of the PRF shall be returned in an agreed proportion to the PRF which belongs to the participants, and to the shareholders' fund (SHF) which belongs to the shareholders (IFSB-8, 2009). Removing the elements of surplus sharing between the participants and the shareholders (to preserve the inalienable feature of waqf) from the microtakaful contribution will make the microtakaful model less attractive to both parties; the shareholders for not being compensated for managing the underwriting funds prudently, and the participants for not having utilised much of the PRF for claims.

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<sup>27</sup> In its 2009 resolution, Shariah Advisory Council of BNM advocated that contributions made by participants in any waqf-based takaful model in Malaysia shall not form part of the waqf-assets (BNM, 2010). This resolution however is not applicable, given that none of the TOs in Malaysia currently operates on waqf model as each state has its own Shariah rules. This would make operation challenging for TOs.

Investment of microtakaful contribution in the waqf fund by a TO challenges the nature of waqf being perpetual (Md Ariffin et al., 2023). The current takaful models practised in Malaysia, which contain both the contracts of mudarabah and wakalah, are profit-generating models, from which the TOs are responsible for the investment activities of all the funds (BNM, 2019). This naturally means there is a risk of loss on the PRF on the back of unfavourable investment return. BNM (2013) specifies the roles of qard when the TOs' PRF falls into deficit and requires assistance from the shareholders of the TOs. The perpetuity nature of waqf fund managed by a TO will be at stake when qard can no longer sustain the operation of a TO and the winding-up of operation becomes inevitable (IFSB, 2010).

This could also result in the waqf fund being irrevocable. In a winding-up scenario of a TO, priority of payment will be used in meeting the obligations of the TO (IFSB, 2010). This may give rise to the possibility of paying such obligations using the waqf fund, which is irrevocable in the first place (JAWHAR, 2023).

#### 3.5.3.4.3 Shariah Implication on Application of Waqf as Microtakaful Contribution

Mateen (2018) highlighted the four (4) main pillars of waqf: (a) founder, (b) waqf asset, (c) beneficiaries, and (d) expression of intent. While the founder, the waqf asset and the expression of intent for the waqf may be easily identified in a microtakaful initiative for the B40, the beneficiaries may not be as simple since not all B40 individuals are easily contactable and not many have their nominees registered. The consent of the beneficiaries of microtakaful protection is required for the waqf deed to take place. However, there are two views with regards to the consent of the beneficiaries.

The first view advocates that the consent of the waqf beneficiaries is required for the contract to be valid while the second view advocates that the consent is not needed (Mateen, 2018). Majority of the Shariah scholars agree with the second view which states that the waqf contract is valid even if the beneficiaries do not give their prior consent (Mikail et al., 2017). The justification provided is that the issue of waqf no longer arises the moment the waqf money is transferred out as a microtakaful contribution. The amount which shall be used for claims payment to the B40 is no

longer waqf money, but the money belonging to the B40 individual as a waqf beneficiary who has the right to nominate anyone in the event of his or her demise.

Given the various concerns arising from the utilisation of zakat and waqf as microtakaful contribution, the pressure for the MTO to generate profit should be lifted. This will enable the MTO to focus on ensuring that the two instruments comply with the regulatory, operational and Shariah requirements.

#### 3.5.3.4.4 Temporary Waqf – An Alternative as Microtakaful Contribution to Encourage Public Participation

The under-utilised potential of waqf is mainly contributed by the lack of understanding on the permissibility of waqf for reasons other than it being in the form of immovable assets (Islamic Finance News, 2012). The alienable, irrevocable and perpetual elements (Abdullah & Yaacob, 2012) that need to be observed have also posed certain constraints, as mentioned in the previous section. However, in recent years, many literature have started to examine whether the perpetual element is strictly prohibited by all mazhabs or schools of thought (Aldeen et al., 2020), or subject to the jurists' interpretation of the main reference for waqf to be deemed perpetual (Isfandiar, 2008; Ambrose & Peredaryenko, 2022). This deliberation is made with the conscious intention to uncover the possibility of allowing Muslim individuals to not surrender their entire wealth but have the option of regaining it when required for their own subsistence (Jafri & Mohd Noor, 2019). Although cash waqf entails its own set of issues from the practical implementation of microtakaful contribution, it has somehow made its mark and accepted by the majority of Shariah scholars in Malaysia (Rahmalan & Abu Hussin, 2021). However, temporary waqf has yet to be accepted in all the states in Malaysia, given that it has not received official endorsement by Malaysia's official mazhab, the Shafie school of thought (Md Ariffin et al., 2023).

Ambrose and Peredaryenko (2022) however observed that the state of Terengganu as well as Federal Territories have formally recognised the pertinence of temporary waqf. Terengganu defines temporary waqf in Section 18 of the Wakaf (Terengganu) Enactment 16 as 'wakaf muaqqat' which means provision of waqf for a

specified period (Jabatan Hal Ehwal Agama Terengganu, 2016). Federal Territories define temporary waqf as part of special waqf (wakaf khas), which means “a dedication in perpetuity or for a limited period of the capital of property for religious or charitable purposes recognised by Islamic Law, and the property so dedicated, the income of the property being paid to persons or for purposes prescribed in the wakaf.” (Laws of Malaysia, 2002). Ab Rahman and Amanullah (2017) also noted that Section 17 of Rules of Waqf Johor 1983 allows temporary waqf for as long as it is within 60 years and does not extend beyond two (2) generations. The acknowledgement given for temporary waqf by these states is crucial for this study, given that temporary waqf may be considered as a sustainable source of fund for the proposed microtakaful model.

The microtakaful conceptual model in this study envisions the public’s voluntary contribution through either zakat or waqf, or even donation. The strict requirement for zakat and the voluntary nature of waqf and donation bring with them the possibility of a halt in contribution arising from a change in the policy of zakat and waqf authorities, or if the donor of voluntary donation is forced to suspend his/ her contribution due to certain challenges. However, as demonstrated by the mathematical model of Ambrose and Peredaryenko (2022), favourable investment income generated from temporary waqf funds given at different time period will enable the provision of continuous benefit even after the temporary waqf has been returned to the owner upon maturity of the temporary waqf period. Temporary waqf provides an avenue for Muslims who wish to temporarily allocate their wealth for the benefit of the beneficiaries, with a sense of comfort that the temporary waqf may be withdrawn after a certain period without its usufruct being terminated abruptly (Md Ariffin et al., 2023).

### **3.6 A REVIEW ON FINANCIAL LITERACY AND AWARENESS OF B40**

Conceptually, financial literacy is defined as “a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions” (Remund, 2010). This concept revolves around the individual’s financial awareness and knowledge which may include financial products, financial institutions

and financial concepts. It also takes into account an individual's skills in money management and financial planning (Xu & Zia, 2012). In Malaysia, financial literacy is defined as “the level of awareness, knowledge and skills of an individual to manage their finances and guide sound financial behaviour.” (Paul & Ong, 2020).

On 15 November 2016, BNM established FEN “to increase the impact of financial education initiatives and identify new opportunities for improving financial literacy among the Malaysian public through greater alignment, closer collaboration and a strong focus on impact assessments.” (BNM, 2016). It aims to uphold the nation's goal to increase the financial literacy level among the population, including the underserved. It brings together various government agencies and private institutions, utilising each respective sectors' industry experts to provide a platform for training and awareness creation to elevate the financial literacy of Malaysians (FEN, 2016).

Subsequently, National Strategy for Financial Literacy (2019-2023) was articulated in 2019 to improve several areas of concerns highlighted from the FCI Survey 2018, which found that the (a) level of financial knowledge, (b) saving and budgeting, (c) readiness for unexpected life events, and (d) planning for retirement of overall Malaysians need to be improved (FEN, 2019). This initiative is intensified in Malaysia's FSBP 2022-2026's Strategic Thrust 2, which aims to “elevate the financial well-being of households and businesses” through improvement of financial literacy level among all income levels in Malaysia.

In achieving the goals of the National Strategy for Financial Literacy (2019-2023), many nation-wide initiatives have been introduced. The following are some of the initiatives from the insurance/ takaful industry to bring the B40 out of poverty through financial literacy and awareness programme:

(a) **Financial Education Network**

To date, FEN has undertaken over 40 financial literacy programmes since its inception (Yin, 2020). Table 3.3 presents a summary of FEN's major initiatives.

Table 3.3 Initiatives of Financial Education Network

Initiative	Topic
FEN Joint Discussion Room	<ul style="list-style-type: none"> <li>• Financial Literacy for All</li> <li>• Manage with Counselling and Credit Management Agency</li> <li>• Smart Money for Tomorrow</li> <li>• Finances and Mental Wellbeing</li> <li>• Post-retirement Financial Position</li> <li>• Avoid Becoming a Victim of Financial Fraud</li> <li>• Wrong Investment Leads to Loss of Money</li> </ul>
Financial Awareness During Movement Control Order	<ul style="list-style-type: none"> <li>• "Let's go digital in financial matters for your safety and health"</li> <li>• "Loan repayment deferment is automatic. No middleman/agent required"</li> <li>• "Watch out for scammers' tactics such as government aid and incentive scheme fraud, collection of COVID-19 donations, phishing scam, mask scam"</li> <li>• "Use electronic payments – e-wallets, contactless cards, e-remittances and online payments"</li> <li>• "Make sure your bank account is not used by other people"</li> <li>• "Make sure your personal banking information is not disclosed to anyone"</li> </ul>
Financial Carnival by BNM	<ul style="list-style-type: none"> <li>• Perlis, 28-29 September 2019</li> <li>• Sandakan, 12-13 October 2019</li> </ul>
Investment Education by Permodalan Nasional Berhad (PNB)	<ul style="list-style-type: none"> <li>• Invest wisely – Maximise Amanah Saham Berhad (ASB) Dividends with the Power of Compounding</li> <li>• How Trust Shares Can Help You?</li> </ul>
Financial Education by Employees Provident Fund	<ul style="list-style-type: none"> <li>• Moratorium Money</li> <li>• Is There a Need to Withdraw i-Lestari Money?</li> </ul>

Source: (FEN, 2016)

**(b) FWD Takaful**

FWD Takaful is among two of the few partners of FEN from the insurance/ takaful industry. FWD Takaful collaborates with Arus Education Sdn. Bhd. (Arus Academy) to provide financial literacy programme for students, parents and teachers through its digital platform, “Fun(d) for Life” (FWD, 2020). The programmes for its target audience include (a) Games and Puzzles for Kids, (b) Infographic for Teens, (c) Activity Guides for Parents, and (d) Lesson Plans for Teachers.

**(c) Prudential Assurance Malaysia Berhad**

Another partner of FEN, Prudential Assurance Malaysia Berhad (PAMB) also participates in the nationwide initiative to increase financial literacy among Malaysians. Cha Ching and Duit Right are two classroom-based and structured-training programmes customised for specific target groups with students and teachers, respectively. In addition, PAMB has introduced PRUKasih Entrepreneurship Programme to provide skills and competencies enhancement to the community. This is in line with the initiatives undertaken by the Ministry of Entrepreneur Development which intends to produce a million of SMEs in five years (2021- 2026), which would include the B40 community (Segaran, 2021).

**(d) Takaful Ikhlas**

The TO was ahead of the launching date of FEN when it introduced its Ikhlas Young Entrepreneur Programme on 2 November 2015. In collaboration with MoneyTree Malaysia, the aim of the programme is to equip school children with financial literacy, Islamic finance and takaful knowledge. Ten (10) schools in Selangor and Kuala Lumpur benefitted from this programme with participation of 600 students from around the Klang Valley (Takaful Ikhlas, 2015).

To put things into perspective for this study, the numerous initiatives of the relevant stakeholders in improving the financial literacy level of Malaysians as a whole are commendable. This is supported by MTA's 2021 Annual Report which revealed the statistics, as shown in Table 3.4, of the offering of Perlindungan Tenang microtakaful protection for the B40 group over a period of four years.

The table shows that the products participated by the B40 community online had increased from 1% in 2018 to 99% in 2021. This indicates an achievement in enhancing the digital knowledge of the B40, given that Perlindungan Tenang is easily accessed via the respective TOs' websites. However, the collective number of certificates issued (both online and over-the-counter) amounted to 293,946, far less than the total B40 households of 7,280,340 (Bernama, 2016).

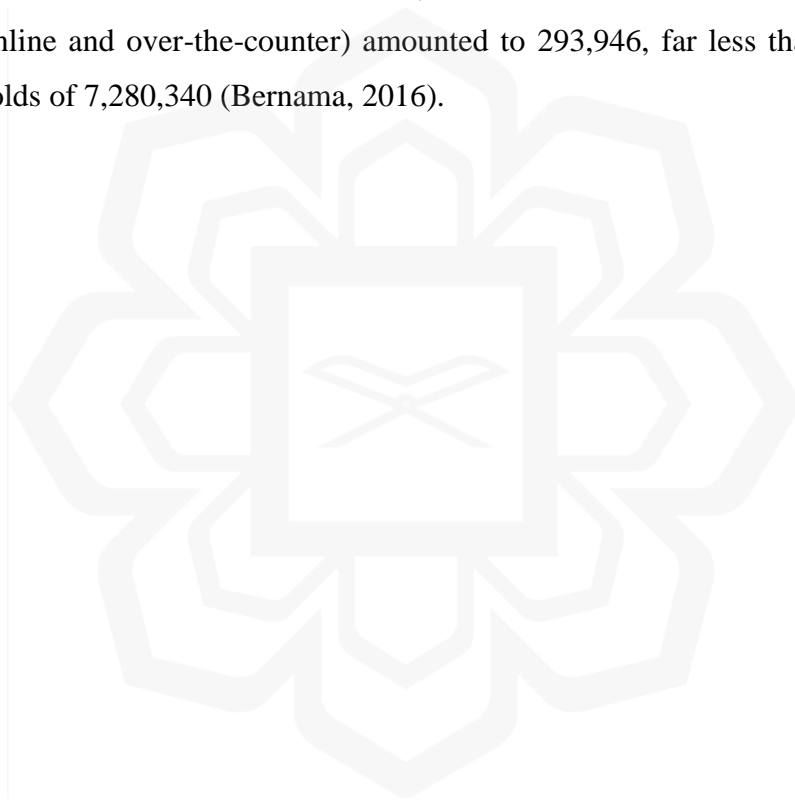


Table 3.4 Perlindungan Tenang Performance (2018-2021)

Perlindungan Tenang	2018	2019	2020	2021
Products Sold via Online				
Number of certificates issued	71	38	541	290,869
Total collected contribution (RM)	7,761	2,839	14,541	17,304,805
Total annualised contribution (RM)	8,116	3,811	58,903	17,846,400
Total sum covered (RM)	2,995,000	1,245,000	14,265,000	2,598,850,800
Overall certificate issued (Online) (%)	1	1	6	99
Product Sold Over the Counter (OTC)				
Number of certificates issued	8,443	6,330	8,910	3,077
Total collected contribution (RM)	8,443	553,965	703,500	268,135
Total annualised contribution (RM)	545,240	553,965	703,500	314,455
Total sum covered (RM)	129,491,000	131,036,000	184,256,394	140,924,200
Overall certificate issued (OTC) (%)	99	99	94	1

Source: (MTA, 2021)

This raises the question as to whether the financial literacy initiatives are sufficient to cover Malaysians nationwide. Has the takaful industry done enough to ensure more B40 in all the states receive the financial literacy skills and knowledge enhancement training? Have all the training providers taken into consideration the elements highlighted in the third and fourth theory of poverty, namely The Theory of Economic, Political, and Social Distortions or Discrimination as well as the Theory of Geographical Disparities (Abdul-Mumin & Shamshiry, 2014)? Different demographic structure and geographical locations of the B40 may require different or customised financial literacy and awareness programme which may not be suitable for other states (Addae-Korankye, 2019). Factors to be taken into account include states (a) where family structure consists of higher number of individuals within a household and vice versa (Abdul-Mumin & Shamshiry, 2014), (b) which are most difficult to be accessed by training providers, and (c) where religious inclination may be stronger than the others.

Meanwhile, from the perspective of asnaf development, the respective SIRC's websites show a different angle of initiatives or rather, customisation of training programmes specific to each state's demographic and geographic disparities, and which may or may not be undertaken under the FEN initiatives. The various states' SIRC's initiatives for the asnaf are summarised in Table 3.5. It should be emphasised however that not all of the B40 individuals fall under the category of asnaf as defined by the respective SIRC's. As such, some of the B40 individuals may not benefit from the services provided by these SIRC's.

Table 3.5 SIRC's Initiatives for the Asnaf

No.	State	SIRC	Initiative Undertaken by	Initiatives
1.	Johor	Majlis Agama Islam Negeri Johor – MAIJ	MAIJ	(Information not available on website)
2.	Kedah	Majlis Agama Islam Negeri Kedah – MAIK	Lembaga Zakat Negeri Kedah (LZNK)	<ul style="list-style-type: none"> <li>• Training for asnaf in the construction industry (plumbing, air-conditioning and mechanical ventilation) with Akademi Binaan Malaysia</li> <li>• Training for asnaf to be a deck officer or a marine engineer with Akademi Laut Malaysia</li> </ul>
3.	Kelantan	Majlis Agama Islam dan Adat Istiadat Melayu Kelantan – MAIK	MAIK	(Information not available on website)
4.	Melaka	Majlis Agama Islam Melaka – MAIM	MAIM <sup>28</sup>	<ul style="list-style-type: none"> <li>• Motivational workshops for children of asnaf</li> <li>• Excellent student awards for the asnaf</li> <li>• Examination preparatory classes for children of asnaf</li> <li>• Economic enhancement forum for the asnaf</li> <li>• Basic business exposure for the asnaf</li> <li>• Skills and entrepreneurship training for the asnaf (in collaboration with Jobs Malaysia and community colleges)</li> <li>• QuickWin Kemas and Asnaf Berdikari programme with Jabatan Kemajuan Masyarakat (Kemas) Melaka (Bernama, 2022)</li> </ul>

<sup>28</sup> MAIM embarked on various initiatives for the asnaf, given the rising number of zakat recipients from this group. Their main focus is to instil academic excellence with good persona among the young asnaf with the purpose of lifting them out of their poverty so as to be able to contribute to nation building (MAIM, n.d.).

No.	State	SIRC	Initiative Undertaken by	Initiatives
5.	Negeri Sembilan	Majlis Agama Islam Negeri Sembilan – MAINS	MAINS	<ul style="list-style-type: none"> <li>• Motivational courses for the asnaf</li> </ul>
6.	Pahang	Majlis Ugama Islam dan Adat Resam Melayu Pahang – MUIP	MUIP	<ul style="list-style-type: none"> <li>• Sponsorship Offer from TWI Technology (S.E. Asia) Sdn. Bhd. – provides training in English classes, Niosh Oil &amp; Gas Safety Passport, etc.</li> <li>• McDonald’s Vocational Academy – for asnaf children to further their studies</li> <li>• Education scholarship in Malaysian Allied Health Sciences Academy (MAHSA) University for the asnaf</li> </ul>
7.	Perak	Majlis Agama Islam Dan ‘Adat Melayu Perak – MAIPs	MAIPs	<ul style="list-style-type: none"> <li>• One-off financial assistance (RM500-RM700) to students under asnaf to further their tertiary studies in private and public universities</li> <li>• Assistance (equipment and tools) to entrepreneurs affected by the Movement Control Order</li> </ul>
8.	Perlis	Majlis Agama Islam dan Adat Istiadat Melayu Perlis – MAIPs	Akademi Transformasi Asnaf MAIPs (ATAM) <sup>29</sup>	<ul style="list-style-type: none"> <li>• Specialised skills enhancement training</li> <li>• Collaboration with various sectors to create employment for the asnaf such as job opportunities in all McDonald’s outlets in Perlis as well as prospects as contena drivers with Integrated Logistics Solutions Sdn. Bhd.</li> </ul>
9.	Pulau Pinang	Majlis Agama Islam Pulau Pinang – MAIPP	Zakat Pulau Pinang <sup>30</sup>	<ul style="list-style-type: none"> <li>• Provides skills training on sewing, agriculture (pineapple farm) and retail (zakat mart)</li> </ul>

<sup>29</sup> ATAM was established on 15 January 2013 to undertake the responsibility of elevating the economic status of the asnaf in Perlis. With the motto “Dahulu Menerima Sekarang Memberi” which means ‘previously a zakat recipient now a zakat giver’, ATAM’s two main objectives are to (a) produce asnaf with adequate education, skills and well-balanced personality and (b) improve the asnaf’s economic status, by organising various programmes to provide knowledge enhancement that would help bring the asnaf out of poverty (MAIPS, n.d).

<sup>30</sup> Zakat Pulau Pinang is a subsidiary of MAIPP. It aims to elevate the economic status of the asnaf from zakat recipient to zakat giver (Zakat Pulau Pinang, n.d.).

No.	State	SIRC	Initiative Undertaken by	Initiatives
10.	Sabah	Majlis Ugama Islam Sabah – MUIS	MUIS	(Information not available on website)
11.	Sarawak	Majlis Islam Sarawak	Majlis Islam Sarawak	(Information not available on website)
12.	Selangor	Majlis Agama Islam Selangor – MAIS	Teraju Ekonomi Asnaf (TERAS) <sup>31</sup>	<ul style="list-style-type: none"> <li>• Skills enhancement trainings and tools</li> <li>• Trainings in seven (7) sectors: food, retail, service, fishery, agriculture, farming and manufacturing</li> </ul>
13.	Terengganu	Majlis Agama Islam dan Adat Melayu Terengganu – MAIDAM	MAIDAM	<ul style="list-style-type: none"> <li>• Six-month confectionary and bakery course for the asnaf</li> </ul>
14.	Wilayah Persekutuan	Majlis Agama Islam Wilayah Persekutuan – MAIWP	MAIWP	<ul style="list-style-type: none"> <li>• Industrial skills training in building construction, welding, electronic, automotive and aviation</li> </ul>

Source: (Respective states' SIRC websites)

<sup>31</sup> TERAS is a subsidiary company of MAIS. It was established in 2011 with the goals to develop and manage the growth of entrepreneurs among the asnaf in Selangor (TERAS, n.d.). It provides necessary skills enhancement trainings and tools to facilitate the learning process of the asnaf, with the intention to elevate their economic status. To achieve these goals, TERAS works together with private corporations to provide necessary knowledge enrichment programmes to the group of asnaf. Since the skills enhancement initiatives began in 2013, by 2021, a total of 1,228 asnaf had been raised from their asnaf status to become successful zakat-paying entrepreneurs (Zain, 2022). An average of 150-160 asnaf are lifted out of poverty. TERAS provides training in seven (7) sectors with funding obtained from the zakat authority of Selangor (TERAS, n.d.).

Given the gap, the Ministry of Human Resources of Malaysia has undertaken a major initiative under Strategic Initiatives Implementation Guideline – B40 Development in August 2020. The main objective of the initiative is to “equip trainees with skills and knowledge to enable them to gain employment or to venture into business to generate a better income” (Ministry of Human Resources, 2020). The guideline provides direction for training providers and trainees to observe when providing training courses for the B40. Some of the initiatives offered by organisations under this initiative for the B40 are summarised in Table 3.6.

Table 3.6 Other Initiatives for the B40

Initiatives by	Programme
Human Resource Development Fund (HRDF) B40 Development/ Penjana HRDF Programme	<ul style="list-style-type: none"> <li>• Specific training for the B40 group (whose income is less than RM3,860)</li> <li>• Skills enhancement and entrepreneurship training in various industries (confectionaries, women’s clothing, video editing, development of corporate website, graphic design, etc.)</li> </ul> <p>(Source: School of Professional, n.d.)</p>
B40 Capacity Building Programme (B40CaB)	<ul style="list-style-type: none"> <li>• Upskilling trainings for the B40 group to venture into entrepreneurship, to increase their employability and to attain industry courses</li> </ul> <p>(Source: New Straits Times, 2019)</p>
National Technical and Vocational Education and Training (TVET) Empowerment Agenda/ Government of Malaysia under the 12 <sup>th</sup> Malaysia Plan	<ul style="list-style-type: none"> <li>• TVET and Skills Development Programme for the B40</li> </ul> <p>(Source: Muthiah, W., 2022)</p>

Suffice to say that the nation as a whole is aware of the literacy and awareness needs of the lower-income group, and various initiatives have been introduced to address the gap in literacy and awareness. Based on secondary data sourced from the various websites, preliminary observations are noted as follows:

- (a) Most of the literacy and awareness programmes are provided to increase the B40's economic status through skills enhancement programme in various industries.
- (b) Not many financial knowledge and literacy and awareness programmes are offered by the TOs in Malaysia. Even then, the programmes are concentrated in Kuala Lumpur and Selangor.
- (c) The financial literacy and awareness programme should be customised to suit various cultural, demographic and geographic specificities of the B40 in all the different states.

### **3.7 IDENTIFICATION OF RESEARCH GAPS**

This section identifies the research gaps from the evidence and information gathered from the theories of poverty, as well as from past literature and current practices of local and international MTOs. The gaps found are as follows:

- (a) The current microtakaful initiatives indicate that the B40 community may be underserved due to the various issues and challenges arising from an uncoordinated mechanism to reach out to the B40. In addition, there may be other issues and challenges that have not been uncovered by the industry.
- (b) The microtakaful models proposed in various literature did not address the need for operational effectiveness and efficiency of the third-party administrator, namely the MTO. The need for separation of funds between the PRF, waqf fund, zakat fund and other donation funds was neither mentioned nor addressed accordingly. The need to establish a microtakaful

model which understands the requirement and collaboration mechanism with SIRC and SGs was also not elaborated.

- (c) Sustainability concerns of the microtakaful initiatives heighten the need to explore other sources of funding in order to reduce reliance on government subsidies. This includes Islamic social finance instruments, such as zakat and waqf. However, the proposal for zakat as a source of funding did not address the Shariah issues relating to tamlik or ownership transfer of zakat. The issues pertaining to inalienability, perpetual and irrevocability elements of waqf were also not addressed in the existing proposals. Failure to address these Shariah requirements may prompt Shariah non-compliant backlash. These crucial issues must be solved if such sources of funding are to be utilised for microtakaful contribution of the B40.
- (d) The current literacy and awareness programme for the B40 community mainly focus on the Klang Valley with little aim on takaful literacy and awareness, per se. In addition, the specific needs and constraints faced by the various levels of the B40 (B1, B2, B3 and B4) were not investigated, which may render the current literacy initiatives ineffective.

### **3.8 CHAPTER SUMMARY**

Although numerous microtakaful models have been proposed and implemented to a certain extent, utilising various sources of funding such as zakat and waqf, this study feels the need to further scrutinise the feasibility of the proposed models and funding sources. This is important in order to establish a sustainable microtakaful model that would not only benefit the poor and hardcore B40, but also effectively utilises the sources of funding without compromising the regulatory and supervisory and Shariah compliance requirements.

To narrow the gap identified in the current financial literacy programme for the B40, appropriate knowledge enhancement programme needs to be introduced prior to providing the B40 with microtakaful protection sourced from the zakat and waqf funds

and other possible sources of funding. In addition, there are issues and challenges of microtakaful in the context of Malaysia's takaful industry that need to be addressed. This includes challenges in regulatory gaps, profitability concerns, and the lack of standardisation, which may hinder effective implementation, despite recent regulatory guidelines and initiatives issued and introduced by BNM.



## **CHAPTER FOUR**

### **METHODOLOGY**

#### **4.1 INTRODUCTION**

This chapter provides a detailed acumen of the research methodology adopted for this study. Section 4.2 elaborates on the qualitative research approach used to conduct the study, while section 4.3 focuses on the research design. A conceptual framework will then explain how the ROs will be achieved, followed by a simple hypothesis in section 4.5. Further elaboration will be made on the data collection method, exemplifying the process of respondent selection, the research instruments used for the study, and the approach applied for the interview process. Section 4.7 explains the methods used for data analysis and a summary is provided at the end of the chapter.

#### **4.2 RESEARCH APPROACH**

Qualitative method was selected for this study for several reasons, namely (a) the insufficiency of data due to the nascent stage of microtakaful practices in Malaysia, which makes quantitative research unfeasible to be conducted effectively, and (b) the unique experiences of the selected respondents, which are best collected through one-to-one interaction to enable a better understanding of their worldview of the study. The method is explorative in nature where the respondents provided their feedback on the preliminary microtakaful model and were aware of the study's limitations, due to the evolving nature of the industry (Desai, 2002). Qualitative research is the most befitting approach to be adopted, given that this study falls under the spectrum of understanding rather than predicting (Desai, 2002). It enables the respondents to provide their views critically and to furnish the researcher with new ideas based on their understanding of the objectives of the research.

### 4.3 RESEARCH DESIGN

Figure 4.1 illustrates the research design of this study which used a content analysis technique to conduct a literature review on various secondary sources of information. This is important for the researcher to obtain a general overview of the study. This was followed by data collection which was undertaken through in-depth one-to-one interviews with key stakeholders of the industry, namely the MTA, TOs and their respective Shariah Committee members, a member of a BOD, as well as selected SIRC. Upon completion of data collection, data analysis was performed to achieve the intended outcome for the study

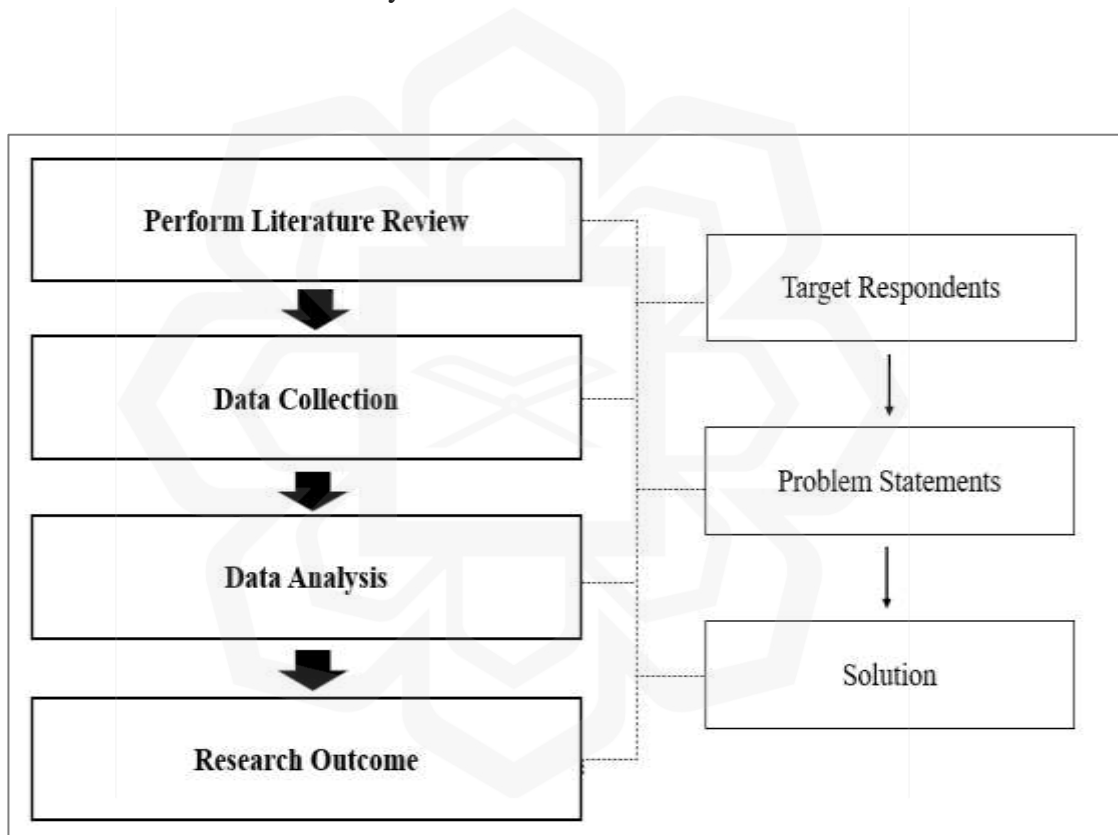


Figure 4.1 Research Design Diagram

### 4.4 CONCEPTUAL FRAMEWORK

Figure 4.2 illustrates the conceptual framework that was carefully executed throughout the research process. This conceptual framework was derived based on the related theories of poverty, the literature review of the current microtakaful initiatives in

Malaysia, as well as the data collected for this research. The convergence of perspectives between the theoretical foundation and empirical studies then contributed towards addressing the four (4) ROs and RQs of this study.

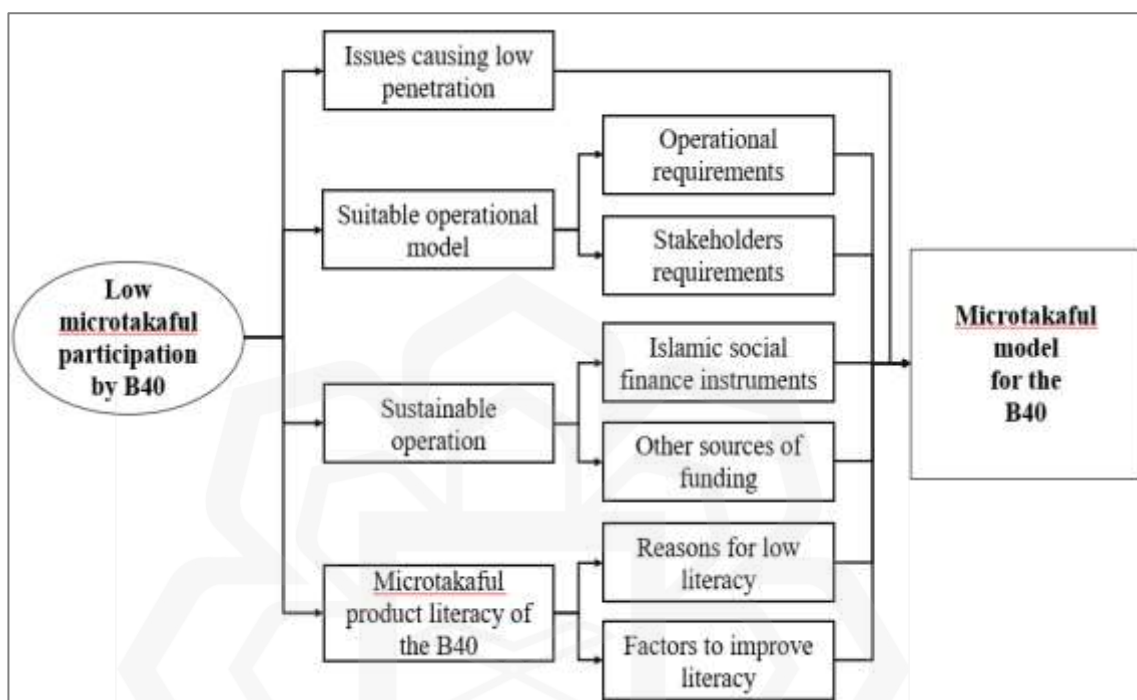


Figure 4.2 Conceptual Framework

Notwithstanding the numerous microtakaful products, subsidies provided by the government, enabling framework put in place by BNM, and the various recommended microtakaful models, the current takaful industry faces challenges in increasing the participation rate of microtakaful among the B40. The reasons for this are manifold. The researcher's preliminary assumption was that there may be resistance to change among the B40 because they were largely unresponsive to the various initiatives introduced by the industry for the group. Based on this preliminary assumption, the researcher further examined the theories behind poverty. This subsequently led to the formation of the theoretical foundation, which is important prior to studying the empirical evidence presented by past journal articles. Five theories of poverty analysed by Bradshaw (2006) were seminal for this study. They are the (a) Theory of Individual Deficiency, (b) Theory of Cultural Belief Systems that Support Sub-cultures of Poverty, (c) Theory of Economic, Political and Social Distortions or Discrimination, (d) Theory

of Geographical Disparities, and (e) Theory of Cumulative and Cyclical Interdependencies. Although different community development programmes claimed that one theory of poverty may be superior than the others, Bradshaw's analysis (2000) of each of these theories proved to be significant for this study, especially given that the B40 in Malaysia is made up of different races with different cultural beliefs, geographical spread, economic advantages and political inclination. These factors were taken into consideration when attempting to achieve the ROs of this study.

Subsequent to understanding these theories and how they could serve as a foundation for this study, a comprehensive literature review was conducted to identify the issues of microtakaful. Investigation of the various issues of the current microtakaful initiatives have deduced that there may be a need to (a) uncover other issues which may have been unnoticed; (b) identify a microtakaful model that can bring together all the initiatives under one umbrella to help increase the participation rate of microtakaful among the B40, (c) find sustainable sources of funding, including utilising Islamic social finance instruments such as zakat and waqf, and (d) improve the literacy and awareness of the B40 to assist them in understanding the microtakaful products available for them. Data collection was then performed based on the gaps identified and recommendations from the literature review.

The data collected through primary sources (interviews with the takaful industry stakeholders, namely the MTA, the TOs, the Shariah Committee members of the TOs, a member of a BOD of one TO, and selected entities of SIRC, as well as secondary sources (literature review and document analysis) were processed for modelling purposes. The research outcome then utilised the necessary research instruments identified in section 4.6.2 to answer all the RQs in order to achieve all the identified ROs.

The expected convergence of theoretical foundation and empirical studies was envisioned to achieve the ROs by answering the RQs. This conceptual framework served as a visual guide to the undertaking of this study.

## **4.5 HYPOTHESES**

The following hypotheses were established at the onset of the study as a benchmark to ascertain that the end-to-end research methodology was scientific and valid.

H<sub>1</sub>: A sustainable microtakaful model for the B40 community in Malaysia may be established.

H<sub>2</sub>: Islamic social finance instruments can be adopted to develop a sustainable microtakaful model for the B40 community in Malaysia.

The above hypotheses helped the researcher to test the ideas put forward at the beginning of this study. They also provided the researcher a linkage between the theories behind her research and the RQs formulated in Chapter 1.

## **4.6 DATA COLLECTIONS**

This qualitative research embarked on content analysis of both primary and secondary data sources. According to Creswell and Poth (2016), data sources may be divided into four (4) categories: audio-visual materials, documents, observations and interviews. In the context of this study, the data extraction process comprised two distinct stages. The initial stage involved extracting data from documents, while the second stage involved collecting data through interviews.

At the initial stage, the study attempted to establish a thorough understanding of the microtakaful practices of the takaful industry by examining various secondary data sources such as textual articles published in journals and presented in conferences, takaful industry reports, book chapters, news, BNM reports and guidelines, as well as international standards published by standard-setting organisations such as IFSB and IAIS. The researcher was aware of the need to have a thorough understanding of the topic of interest in order to commence the research process. It was also at this stage that the current industry practices, microtakaful product offerings and collaborations among

the key stakeholders were analysed and documented to identify possible issues and challenges faced by the TOs. Research gaps were also established at this stage.

Once the theoretical ideas of the microtakaful practices and a preliminary microtakaful model were visualised based on the secondary data sources, interview questions were constructed for the purpose of primary data collection through 18 one-to-one interviews with key industry stakeholders of the takaful industry. These interviews were conducted with MTA, TOs, Shariah Committee members of TOs and a board member of a BOD of a TO – all of whom are involved in various microtakaful initiatives – as well as relevant subsidiaries of SIRC in charge of zakat or waqf collection and disbursement. The purpose of conducting these interviews was to obtain the interviewees’ independent feedback on the preliminary microtakaful model shown in Figure 4.3.

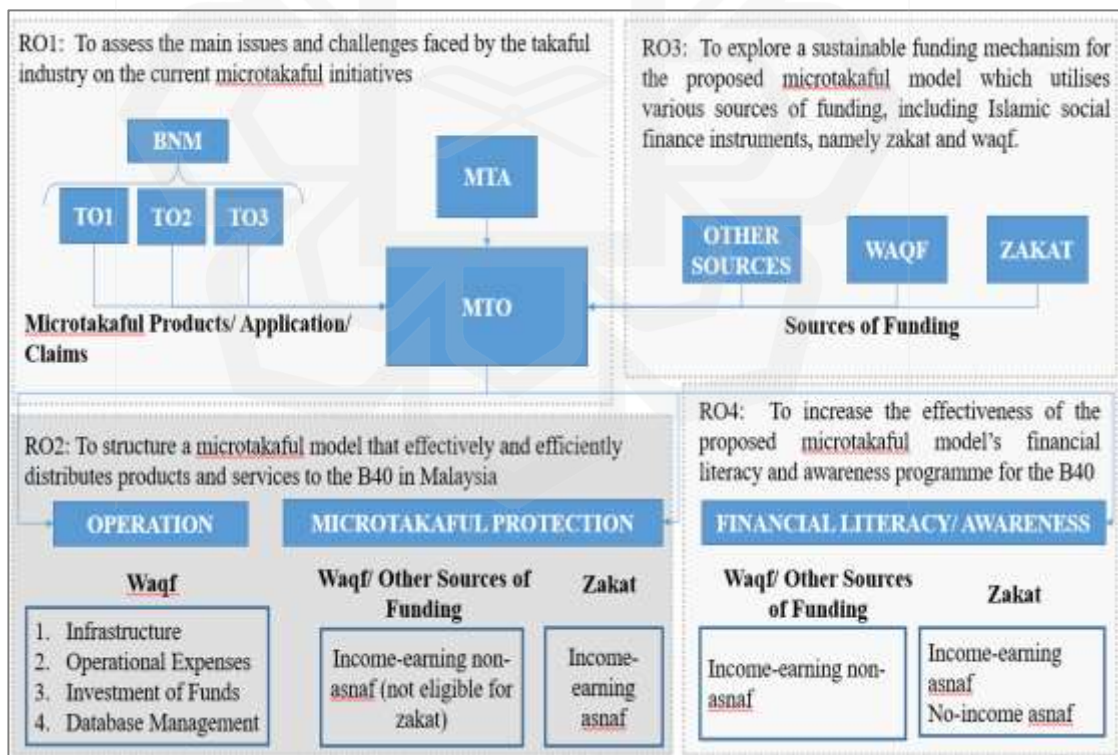


Figure 4.3 Preliminary Microtakaful Model

Through independent interviews, this study aims to identify new evidences and materials to help improvise the microtakaful model.

The researcher had also adopted the method of segregating data at this stage to facilitate understanding of how the data would be analysed later. To ensure a smooth process of segregating the preconceived ideas (based on the literature review) and emerging ideas (based on the one-to-one interviews), data analysis software, ATLAS.ti was utilised to first generate deductive codes derived from the analysis of secondary data sources. As for the data collected from the primary sources, inductive codes were generated. These concepts of deductive and inductive codes will be more apparent in the subsequent sections.

#### **4.6.1 Selection of Respondents**

The initial list of respondents was subsequently established using purposive (experts) sampling where microtakaful subject matter experts from the takaful industry were gathered based on the institutions mentioned in Chapter 3. These institutions are active in creating and offering microtakaful products for the B40. From these institutions, key persons in charge of the microtakaful initiatives were identified and individuals who are experts in their fields were selected, as shown in Table 4.1.

Table 4.1 List of Initial Respondents

No.	Institution	Respondent/ Department
1	TO 1	Head, Risk Management
2	TO 1	Head, Microtakaful
3	TO 2	Head, Strategy
4	TO 3	Shariah Committee member
5	TO 4	Shariah Committee member
6	TO 5	Shariah Committee member
7	SIRC of State 1	Selangor
8	SIRC of State 2	Wilayah Persekutuan Kuala Lumpur
9	SIRC of State 3	Negeri Sembilan
10	SIRC of State 4	Perak

#### 4.6.2 Research Instruments

The instrument used for this research was face-to-face interviews, which utilised three (3) sets of questions specific to the TOs, Shariah Committee members of the TOs, and SIRCs, respectively.

Table 4.2 shows the questions for the three (3) targeted respondents which were divided into four (4) sections, and arranged accordingly based on the structure of the ROs:

Table 4.2 Four Sections of the Questionnaire

Section	Area
A	Issues and Challenges of Microtakaful
B	A Microtakaful Model
C	Sustainable Funding Mechanism
D	Financial Literacy and Awareness Programme for the B40

The questions for the TOs revolved around the TOs' current microtakaful initiatives and the challenges faced from the operational and regulatory perspectives. The questions for the Shariah Committee centred around the various Shariah perspectives on the operational framework of microtakaful and the utilisation of Islamic social finance instruments in microtakaful product offerings. The questions for the SIRC focused on their thoughts on collaboration with the TOs and possible issues that could arise from such collaboration.

The three (3) sets of questions were drafted based on the presumption that specific questions may only be answered by specific respondents. However, the researcher was fully aware that this may not reflect the actual flow and the outcome of the interviews. Hence a pilot study was undertaken to test the validity of the questions.

#### **4.6.3 Pilot Study**

The researcher embarked on a pilot study prior to the full-scale exercise to (a) assess the validity of the interview questions, (b) experiment with the setting of the interviews with the key industry players, (c) test the interview protocols, and (d) ascertain the appropriate number of respondents for a comprehensive study to ensure there are no elements of data saturation nor data insufficiency due to excess or lack of respondents. This is in line with the procedural recommendation (Creswell, 2012) to ascertain that appropriate steps are undertaken to ensure a holistic research process.

Table 4.3 shows the five (5) respondents from the above list were interviewed for the pilot study, where three (3) were from the TOs, and the other two (2) were the Shariah Committee members of the TOs. The respondents for the pilot study had collectively indicated their preference for anonymity for participating in the interview. However, they had granted consent to the request to state their designation in their respective organisations. The declaration of designation is crucial to signify their experience, level of expertise and involvement in the topic of study, as well as justify their engagement as purposive samples.

Table 4.3 Pilot Study Respondents

No.	Institution	Code	Respondent/ Department
1	TO 1	A1	Head, Risk Management
2	TO 1	A2	Head, Microtakaful
3	TO 2	A3	Head, Strategy
4	TO 2	B1	Shariah Committee member
5	TO 6	B3	Shariah Committee member

#### ***4.6.3.1 Gaps Found in Pilot Study***

From the pilot study, seven (7) major gaps were discovered, as summarised in Table 4.4:

Table 4.4 Pilot Study Gaps

No.	Findings
1	Weight given on specific topics may not represent the whole sentiment of the industry. An example is on the Shariah principles surrounding waqf. The respondents were not as concerned about the principles of waqf as compared to the restriction (for TOs to manage waqf) posed by SIRC. This may not be true if a wider audience was engaged in this research.
2	Thorough understanding of a Shariah issue could not be obtained from only two Shariah Committee members. The researcher felt the need to engage more Shariah Committee members to obtain their views about utilisation of zakat money for microtakaful initiatives. The two Shariah Committee members were uncertain about the rationale of one TO allowing zakat to be utilised for microtakaful (as stated in Chapter 3).
3	Assumptions made on the B40 may not reflect the actual scenario on the ground, such as the financial literacy level of the B40. All the five respondents did not provide any new information on financial literacy needs of the B40 beyond what was reported in Chapter 3.
4	Questionnaire did not cover the core elements of microtakaful, such as the type of microtakaful products to be offered. The respondents indicated the need to re-examine all the microtakaful products that are currently being offered to the B40.
5	Over-optimistic view that all 14 states' SIRC. Attempts to contact several states were unsuccessful.
6	Flow of the interviews needed to be changed from structured to semi-structured interview where the respondents would be given opportunities to offer supplementary insights for questions beyond their areas of expertise.
7	All the five (5) respondents indicated preference for a centralised microtakaful model which the researcher felt may not necessarily represent the view of the takaful industry as a whole.

#### 4.6.3.2 Reformation of Respondent List and Research Instrument

Based on the gaps of the pilot study, the list of respondents was further reviewed, amended and expanded, as shown in Table 4.5. The new list now has additional TOs, where personnel from the Product Development unit, CSR unit, and Strategy unit were included. The list now also includes more Shariah Committee members of TOs, two key personnel of MTA, the CEO of a training institute, one personnel from the private entity of a zakat authority, as well as one personnel from a waqf authority. The researcher also managed to secure a member of a BOD of a TO, who had played a key role in the development of BNM's Financial Sector Masterplan (FSMP) 2001-2010, to participate in this study. The questionnaire was also amended to take into consideration additional inputs provided by the initial list of respondents. Similar to the pilot study, the respondents' consent to disclose their background was individually obtained. The researcher took careful steps to ensure that no obvious identification can be made by any reader of this thesis in order to preserve the respondents' wish to remain anonymous.

Table 4.5 List of Revised Respondents

No.	Institution	Code	Respondent/ Department
1	TO 1	A1	Head, Risk Management
2	TO 1	A2	Head, Microtakaful
3	TO 2	A3	Head, Strategy
4	TO 2	B1	Shariah Committee member
5	TO 3	A4	Head, Strategy
6	TO 3	A5	Head, Shariah
7	TO 3	A6	Head, Product
8	TO 3	C1	Member, BOD
9	TO 4	A7	Head, CSR
10	TO 4	A8	Head, Shariah
11	TO 5	B2	Shariah Committee member

No.	Institution	Code	Respondent/ Department
12	TO 6	B3	Shariah Committee member
13	TO 7	B4	Shariah Committee member
14	MTA	D1	Key Personnel 1
15	MTA	D2	Key Personnel 2
16	Training institute	D3	CEO
17	Private entity of zakat authority of State 1	E1	Head
18	Waqf institution of State 2	F1	Former CEO

Instead of requesting the respondents to answer questions that were specific to their areas of expertise, a semi-structured interview was conducted to enable the respondents to provide additional and relevant feedback on the questions. The respondents were also given the opportunity to provide additional input on areas not highlighted in the questionnaire.

#### 4.6.4 The Interview Process

The interview process began with the preparation of the finalised interview questions for the respondents, as shown in the Appendix. Three (3) separate sets were maintained, targeting the (a) TOs and a board member, (b) Shariah Committee members of the TOs, and (c) SIRC. The interviews were arranged and scheduled via emails and/ or telephone calls to the respective personnel. The interviews were conducted at the respondents' preferred locations to ensure they were comfortable. Some of the respondents opted for online interviews (via zoom), to which the requests were also granted.

Based on the outcome of the pilot study, a semi-structured interview was chosen to enable the respondents to provide feedback and information in the manner most comfortable with them (Charmaz, 2006). The respondents were provided with the questionnaire several days prior to the actual interview. They were also informed of the

semi-structured and informal interview settings so as to prepare themselves mentally of the flexibility of providing additional information beyond those stipulated in the questionnaire, or not responding when they do not have the answers to the questions.

A constant comparative method was embedded in this semi-structured interview setting. In addition to the questionnaire provided beforehand, enhanced questions were added during the interviews. Creswell (2007) and Glaser and Strauss (1999) provided insight on this constant comparative method where the researcher either added new questions to the subsequent respondents, or take a step back to ask the previous participants for additional insight. This method provides the researcher an opportunity to reaffirm the thoughts of the respective respondents which may arise from time to time, and which may not have been brought up by the previous or subsequent respondents. For example, the initial questionnaire prior to the pilot study did not contain questions on the types of microtakaful products to be offered because the researcher had a pre-conceived notion that new products were unnecessary, given the abundance of microtakaful products in the market. However, when a respondent reiterated about the introduction of new microtakaful products throughout the interview session, the researcher identified this as a signal for the question to be posed to other respondents to determine if they shared the same sentiment. This constant comparative process proved to enrich the data. In this particular example, the majority of the respondents had constructive ideas on microtakaful products.

All the interviews were conducted by the researcher. They were audio-recorded upon receiving the consent of the respondents and subsequently transcribed verbatim without any paraphrasing or alterations. All the respondents had requested for anonymity when being referred to in this study and agreed to be given codes to represent their participation. Given the sizeable number of respondents and amount of information obtained from the interviews, the researcher had split the transcription process into two. The first half of the transcription was undertaken personally by the researcher, whilst the second half of the transcription was outsourced. It was recommended that transcription be performed personally by the researcher, given that careful re-listening of the recorded interviews would enable a more thorough understanding of the thoughts of the respondents. However, after reviewing the outsourced transcribed data, the researcher concluded that it did not lessen the quality

of understanding. The researcher also had the opportunity to recollect the contents of the interviews when the data was inserted into ATLAS.ti during the coding process. This data insertion proved to be similarly tedious since the transcription was read line by line for inductive codes extraction. The entire process, from the first interview until the last transcription, commenced on 30 January 2023 and was completed on 7 April 2023. Figure 4.4 shows a flowchart representation of the interview process.

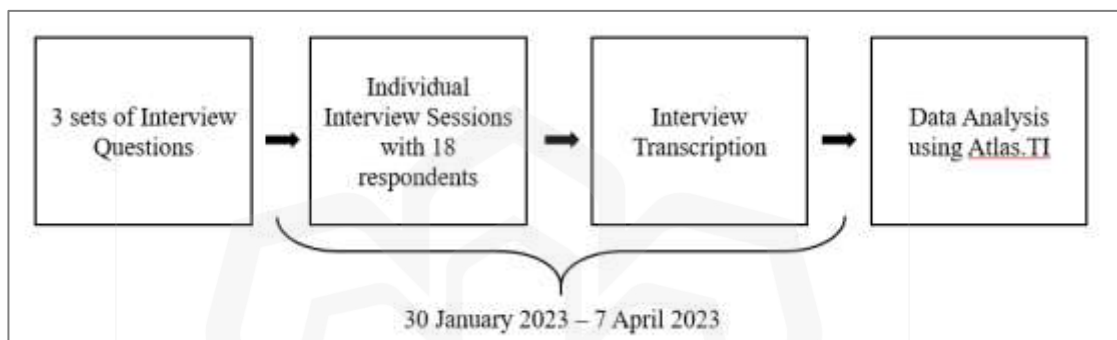


Figure 4.4 Summary of Interview Process

#### 4.7 METHOD OF ANALYSIS

Qualitative data analysis requires five (5) key steps to be undertaken (Castleberry & Nolen, 2018). They are (a) compiling, (b) disassembling, (c) reassembling, (d) interpreting, and (e) concluding. To ensure these steps were strictly followed, two (2) data analysis software, Nvivo and ATLAS.ti were considered before selecting the most suitable for this study. As advocated by various literature, researchers have their own preferences in choosing the best qualitative data analysis software (Barry, 1998), subject to the complexity of the research. For this study, ATLAS.ti was found to be more suitable for analysing the large amount of data gathered from 18 respondents. The software's inter-connected and hypertext structure made the interface user-friendly (Barry, 1998). Furthermore, the software facilitated the generation of maps and networks from the codes, which were extracted from a substantial volume of texts at the project's inception (Muhr, 1991), and provided a simple visual of the outcome of each of the ROs. While this does not invalidate the ability of Nvivo to generate the same outcome, the researcher has found it unnecessary to test its functionality since both

software are recognised to provide the same functions (Barry, 1998). A detailed comparison between ATLAS.ti and Nvivo by Lewis (2004) suggested that ATLAS.ti was far more superior than Nvivo since the latter could not import rich-text files containing graphics or tables. However, this was 19 years ago. The latest comparison between the updated versions of the two software has shown improved performance, where the two software are now equally capable of achieving the objective of this study (Gaur, 2023). Based on this, the researcher is assured that ATLAS.ti is able to meet the objectives of this study, without disregarding the ability of Nvivo to achieve the same outcome.

**Compiling** is the stage where interviews are conducted, and then transcribed from audio format to word format. Once the researcher had decided on the software to be used, the compilation of data began. The compiling stage had enabled the researcher to have a comprehensive understanding of the data, especially since the interviews were conducted by the researcher herself, and part of the transcription was personally undertaken while the remaining was outsourced. Through the one-to-one interviews, the researcher obtained a thorough understanding of all the respondents' views and concerns on the various aspects of the study. This was further strengthened during the process of transcription and data insertion into ATLAS.ti. The whole process of re-listening to the audio recordings and converting them into written texts had enabled the researcher to understand the topics from different and refreshed angles. This process helped to widen and deepen the researcher's perspectives and comprehension of the data set as a whole.

**Disassembling** is the beginning of the challenge of data analysis. Data coding commenced when the researcher started reading the transcripts line by line to identify ideas, concepts and themes and attempted to make connections between these elements (Castleberry & Nolen, 2018). This in turn led to the theoretical development of the entire study. To ensure a thorough process and avoid intertwining of data, a step-by-step process of coding was developed to identify the deductive codes and inductive codes, categories and final themes. This was structurally facilitated by ATLAS.ti, which helped to simplify the management of the large amount of data generated from the 18 transcripts. During the disassembling stage, deductive codes were derived from secondary sources of data stipulated in Chapter 3, where an initial set of codes was

deduced from all the information collated in the literature review. Deductive coding was deployed to organise data in order to ascertain alignment of both ROs and RQs throughout the data analysis process. This is a top-down approach where codes were generated from the existing literature (Castleberry & Nolen, 2018), and an initial theory was established based on the available data from the literature review. At this stage, specific deductive codes were assigned to the identified data, as shown in Table 4.6.

Table 4.6 Deductive Codes

Sections in Chapter 3	Deductive Codes
3.1 Issues and Challenges of Microtakaful Initiatives	Code 1.1 Unorganised Microtakaful Initiatives Code 1.2 B40's Priority of Needs Code 1.3 Microtakaful Distribution Channels Code 1.4 Regulatory and Fiscal Policies
3.2 Microtakaful Model	Code 2.1 Microtakaful Model Code 2.2 Distribution Mechanism Code 2.3 Strategies for Effective Model
3.3 A Review of Funding	Code 3.1 TO's Charity Fund Code 3.2 Government Funding Code 3.3 Zakat and Waqf Funding Code 3.4 Sustainability Strategies
3.4 A Review on Financial Literacy and Awareness of B40	Code 4.1 Value Proposition Code 4.2 Literacy and Awareness Initiatives Code 4.3 Market-driven Initiatives

Identification of deductive codes helped form the basis of an existing theory. The researcher however, was aware that the information obtained from the deductive codes did not provide comprehensive facts that would answer the RQs and achieve the ROs of this study. Hence, the transcriptions of the 18 interviews were further scrutinised. A meticulous approach was taken to identify inductive codes emerging from the data. Utilising constant comparative analysis method, the researcher analysed the data further to identify the differences that substantiated the data from each other. It

was at this stage that the inductive codes were generated through identification of new ideas emanating from the spoken words of the respondents. This was a process that originated from the unique thought process of the researcher, from which the perspective was given to the code. Identifying new ideas from the transcripts required the researcher to examine the transcripts a few times to ensure nothing was missed nor misread. This was a time-consuming procedure as the researcher needed to give careful consideration to each word or sentence uttered by the respondents. Nevertheless, this process succeeded in identifying new thoughts and ideas, which were then assigned with new inductive codes. These new thoughts and ideas are beyond the theories established through the deductive codes derived from existing literature. The researcher then utilised ATLAS.ti to inductively code these new thoughts and ideas and separate them from the deductive codes.

The next stage of data analysis is **reassembling** the data. At this point, all the thoughts and ideas from the respondents were already assigned inductive codes which were theory-generating in nature. The researcher then went through each of the inductive codes to try to create connections between the codes and identify possible patterns emerging from the codes. The respondents' words and ideas captured during the interviews were all examined to find possible linkages between them.

In reassembling the data, connections between the inductive codes for each of the ROs were established to identify both the categories and themes. There are no specific rules applied in establishing the connections between the thoughts and ideas of the respondents (Smith & Osborn, 2008). All of the texts were given equal importance in finding the possible connections between the inductive codes, which would in turn determine the categories. As advocated by Saldana (2016):

“Qualitative codes are essence-capturing and essential elements of the research story that, when clustered together according to similarity and regularity (i.e., a pattern), actively facilitate the development of categories and thus analysis of their connections.”

Saldana further exemplified the connections between the codes and the categories through the network shown in Figure 4.5.

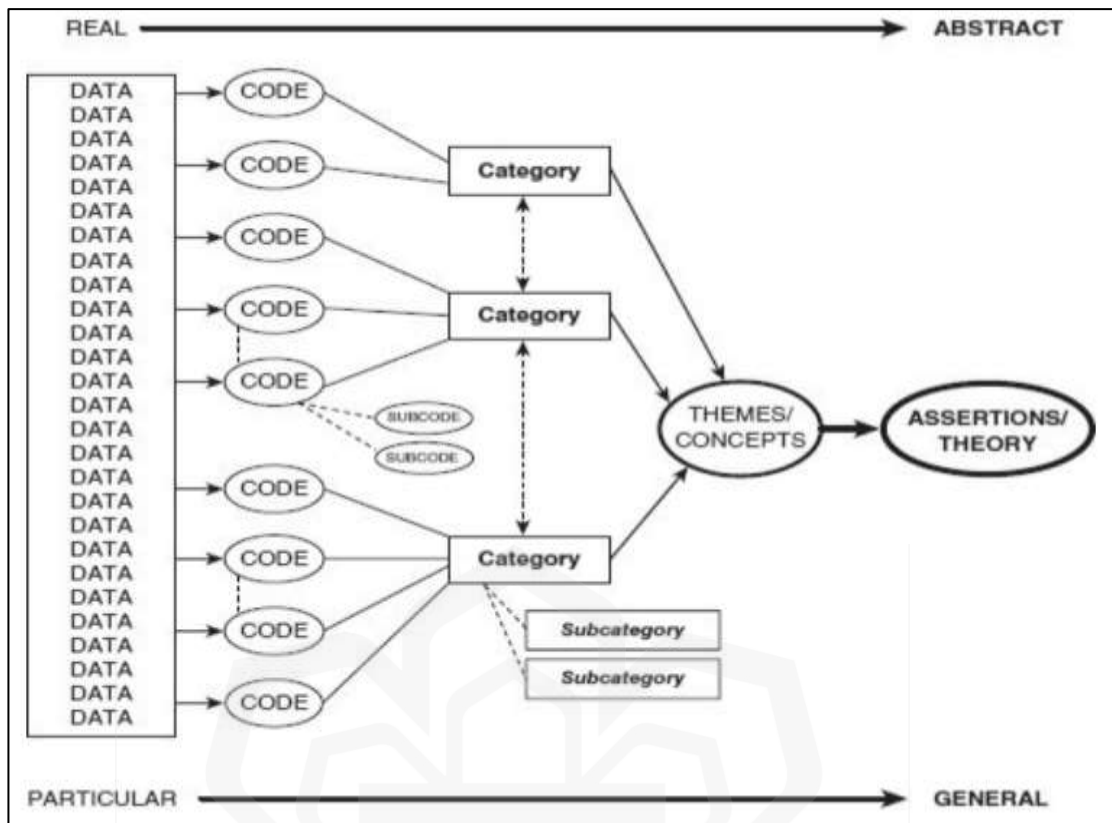


Figure 4.5 Network of Codes and Categories

Source: (Saldana, 2016)

The inductive codes for each of the ROs were appropriately categorised. These categories were further clustered to form themes or concepts. As further clarified by Richards and Morse (2012):

“Categorising is how we get ‘up’ from the diversity of data to the shapes of the data, the sorts of things represented. Concepts (or themes) are how we get up to more general, higher-level, and more abstract constructs.”

ATLAS.ti helped to visualise the reassembling of codes and categories through networks and eventually led to the creation of new themes for this study. The networks of codes and categories are presented for each of the ROs in the next chapter.

Following the completion of the networks, the fourth stage begins, that is **interpreting** the data. As suggested by Yin (2015), a good interpretation of data involves five (5) steps: completeness, fairness, empirical accuracy, value added and

credibility. This stage stresses the importance of having analytical thinking skills to make sense of the data that are intertwined through networks. At this stage, a recursive process occurred between understanding the raw data and the initial conclusions derived from the networks. It was also at this point that the researcher had to resist the temptation to tamper or influence the formation of new ideas. Instead, the researcher had to allow the data to be self-evident, while ensuring that the data and the interpretations were aligned with the ROs. It was not a one-way process, but a loop that required the researcher to revisit the codes and the categories repeatedly, and to recode and recategorise where appropriate in order to answer the RQs correctly to achieve the ROs.

The final stage is **concluding** the data analysis. This is the stage where the researcher wrote down her thoughts based on her understanding of the raw data and the connections between the data, to arrive at her own conclusion. At this stage, the researcher had to be able to illustrate the significance of these data, and how the network created through the analysis process helped her arrive at the concluding narrative of the study (Braun & Clarke, 2012).

#### **4.8 CHAPTER SUMMARY**

This chapter provides the overarching research methodology employed by the researcher to achieve the intended ROs through answering the RQs. RO1 and RO2 were achieved through literature review and interviews with respondents from among the TOs and a member of the BOD of a TO. RO3 was achieved through literature review and interviews with respondents from among the Shariah Committee members of the TOs and two representatives of SIRC. RO4 was achieved through obtaining feedback from all the respondents from among the TOs, Shariah Committee members of the TOs, a member of a BOD of a TO, as well as the representatives from SIRC. Table 4.7 summarised the ROs and ROs, as well as the method used to collect the necessary data.

Table 4.7 Research Objectives, Research Questions and Strategy

Research Objectives	Research Questions	Data Collection Strategy
RO1: To assess the main issues and challenges faced by the takaful industry on the current microtakaful initiatives.	RQ1: What are the main issues and challenges faced by the takaful industry with regards to the current microtakaful initiatives?	<ul style="list-style-type: none"> <li>• Literature review</li> <li>• Interviews with TOs and a member of a BOD</li> </ul>
RO2: To structure a microtakaful model that practically and smoothly collates and distributes products and services to the B40 in Malaysia.	RQ2: How can a microtakaful model practically and smoothly collate and distribute products and services to the B40 in Malaysia?	<ul style="list-style-type: none"> <li>• Literature review</li> <li>• Interviews with TOs</li> </ul>
RO3: To explore a sustainable funding mechanism for the proposed microtakaful model which utilises various sources of funding, including Islamic social finance instruments, namely zakat and waqf.	RQ3: How can funding from zakat, waqf and other sources of funds be utilised efficiently and effectively for this microtakaful model to sustain indefinitely?	<ul style="list-style-type: none"> <li>• Literature review</li> <li>• Interviews with Shariah Committee members and SIRC's</li> </ul>
RO4: To increase the effectiveness of the proposed microtakaful model's financial literacy and awareness programme for the B40	RQ4: How can financial awareness, training and skills enhancement be improved for the B40 through this microtakaful model?	<ul style="list-style-type: none"> <li>• Literature review</li> <li>• Interviews with all respondents</li> </ul>

## CHAPTER FIVE

### DATA ANALYSIS

#### 5.1 INTRODUCTION

This chapter analyses the data obtained through the semi-structured interviews with 18 respondents from among the senior officers and Shariah Committee members of several TOs, a BOD member of a TO, two key personnel of MTA, the CEO of a training institute, and a personnel each from the private entity of a zakat authority and a waqf authority. The findings from the interviews have been inductively coded, categorised, and finally arranged based on four (4) major themes with the assistance of ATLAS.ti. These identified themes, as shown in Table 5.1 below, reflect the proposed microtakaful model, and concurrently achieve the four (4) ROs of this research.

Table 5.1 Four Major Themes for Research Objectives

Theme	Major Theme
1	Microtakaful Business Operation
2	Microtakaful Organisational Management and Strategy
3	Microtakaful Social Responsibility
4	Microtakaful Economic Strategies

Each of the themes addresses the various issues raised in the Problem Statements, ROs and RQs stipulated in Chapter 1 of this study.

This chapter is divided based on all the four (4) major themes and are presented in Sections 5.2-5.5, respectively. Section 5.6 discusses the findings from the themes. A summary is provided to conclude this chapter.

## **5.2 THEME 1: MICROTAKAFUL BUSINESS OPERATION**

RO1 focuses on identifying the issues and challenges faced in the current microtakaful initiatives. The respondents were given insights into the initial findings provided in Chapter 3: Literature Review, derived from responses to the interview questions shown in the Appendix (Section A).

The semi-structured interview for RO1 had led to the discovery of new issues and challenges. The deductive codes were constructed from the secondary data sources. From these codes, new information obtained from the respondents was subsequently given inductive codes and can be identified based on the prefix of the deductive codes. Following this, connections between the inductive codes were established to identify the categories and themes. Table 5.2 on Thematic Analysis Matrix for RO1 illustrates the formation of new themes that emerged from the classification of deductive codes.



Table 5.2 Thematic Analysis Matrix (TAM) for Research Question 1

RQ	Deductive Codes/ Theories	Strategy of Inquiry	Inductive Codes		
			Coding	Category	Final Theme
RQ1	1.1 Unorganised Microtakaful Initiatives	In-depth Interviews	1.1.1 Unorganised Microtakaful Initiatives – The Need for Centralisation	Structured Operation	Microtakaful Business Operation
			1.1.2 Unorganised Microtakaful Initiatives – Product Redundancy		
			1.1.3 Unorganised Microtakaful Initiatives – Awareness		
			1.1.4 Unorganised Microtakaful Initiatives – TO’s Products and Expenses		
	1.2 B40’s Priority of Needs		1.2.1 B40’s Priority of Needs - Misalignment of Priorities	Strategic Management	
	1.3 Microtakaful Distribution Channels		1.3.1 Microtakaful Distribution Channel - Reaching Out Strategy	Business Transformation	
			1.3.2 Microtakaful Distribution Channel - Digitalisation as a Channel		
	1.4 Regulatory and Fiscal Policies		1.4.1 Regulatory and Fiscal Policies – BNM Rules and Regulation	Governance and Policy	
			1.4.2 Regulatory and Fiscal Policies – Government Fiscal Policies		
			1.4.3 Regulatory and Fiscal Policies – Authority of the Rulers of the States		

## **5.2.1 Unorganised Microtakaful Initiatives**

Throughout the process of acquiring additional feedback on the issues and challenges of the current microtakaful initiatives, it was observed that each of the question led to the respondents mentioning the need for a more organised and coordinated effort by the TOs to efficiently offer microtakaful products to the B40. They emphasised the necessity of centralising microtakaful initiatives among industry stakeholders to effectively address the challenges faced by the industry. One key aspect is product distribution, where respondents advocated for a single centralised entity responsible for distributing microtakaful products to the B40 instead of the current scenario where multiple TOs independently distribute microtakaful products to the same B40 demographic. Centralisation is also expected to address concerns related to the financial literacy and awareness programme, since it will prevent multiple TOs from concurrently offering similar programmes to the B40 within the same jurisdiction. Furthermore, centralisation will facilitate the collation of B40 data. The consolidated data pool will simplify outreach efforts by the takaful industry. The following four (4) sections summarised the respondents' concerns in relation to unorganised microtakaful initiatives.

### ***5.2.1.1 The Need for Centralisation***

The general consensus obtained from all the respondents skewed towards the notion of having a centralised MTO to collate and manage the initiatives instead of the TOs operating individually. They believed that a centralised effort will help to address the issues arising from redundancy and variation of products, operational and regulatory challenges, expense management of the TOs in offering microtakaful products, the lack of awareness of microtakaful initiatives, as well as inadequate collaboration among the TOs and with SIRC. However, one respondent was not in favour of the centralised microtakaful model, given the possible lack of technical expertise as well as the high cost involved in establishing an infrastructure akin to that of a TO. The respondent was also of the view that the microtakaful initiatives should be spearheaded by a leader from among the TOs, similar to the Perlindungan Tenang initiative where the TOs'

representatives attended all discussions with the government agencies. The initiatives should be undertaken independently by each TO:

“It will not be a third party. It should be managed by a group of TOs. Not even MTA because MTA does not have the technical expertise to manage this. They are just a secretariat.” B2

The respondent’s views were however refuted by other respondents who believed that the benefits of having a centralised microtakaful model will outweigh the dispersed initiatives of individual TOs. According to two (2) respondents:

“On whether the collaboration should come in the form of (a) all TOs work together but separately, i.e., each takes certain share of microtakaful, versus (b) creation of a single entity to manage microtakaful, I would go with the single entity because this is a long-term thing.” C1

“So there should be a third-party entity, an external non-profit entity, which is a non-TO.” F1

When the idea of centralisation was posed to D2 of MTA, he positively commented:

“Yes, I agree on the centralisation. As a matter of fact, the MTA has been offering ourselves as the operator for this idea. If we look at it, the role of MTO is more as the administrator. When you use the word ‘operator’, our connotation is known as LI (Liaison Institution). Yes, because what are the things that we need to do? Claim and everything will be handled at the TO level. Technically, we are the centralised MTO now for the Perlindungan Tenang. Let’s say if there are issues, complaints, they will look for us.” D2

### **5.2.1.2 Product Redundancy**

Product redundancy, based on the respondents’ feedback, stems from the lack of coordination among the TOs. In reviewing literature for thorough evaluation of the industry initiatives and academia research for microtakaful, the preliminary conclusion deduced that the TOs have been attentive and cooperative in responding to the regulatory and governmental call for financial inclusion. This has led to the creation of

many microtakaful products under the Perlindungan Tenang label. However, enquiries posed to respondents with different experiences and functions within their respective institutions uncovered a perspective which was not obviously highlighted in Chapter 3.

In relation to the concerns on the abundance and redundancy of microtakaful products, two respondents were of the view that the issue is non-existent in the industry:

“The abundance of products is good for the market because the objective of the government is to create awareness for the Malaysians and especially the B40.” A2

However, many of the respondents believed that the lack of synchronisation by the industry is the reason for the concern on the abundance of microtakaful products under Perlindungan Tenang. They understood the initiative of Perlindungan Tenang as a regulatory drive by BNM to promote creation of microtakaful products by the TOs. The PTV programme was also a commendable move by the government to create awareness among the B40. Although the PTV was not fully utilised, the respondents concluded that it was a nudge to create awareness among the B40 of the existence of takaful. Several respondents were sceptical about the reaction of the TOs in the Perlindungan Tenang guideline. They felt that the TOs may have created too many products out of compliance with the regulatory push instead of developing them voluntarily, given that the products are not profitable. As opined by a respondent who believed that the issue of abundance may have inadvertently been produced by the unmatched intention of the TOs and the nudge created by the government and regulator:

“On the abundance of products, it really depends on the companies’ objectives. Do they really offer that many products because they really want to offer many products, or because of certain nudge by the regulators or government? Usually it is motivated by the government.” A3

Responding to the companies’ intent in reacting to the regulatory push, another respondent suggested that perhaps the issue could be addressed with the establishment of a centralised model:

“Currently we do not have a proper centre to collate all the microtakaful products under the market.” B3

As the respondents continued to share their opinions and thoughts on the centralised microtakaful initiative by the industry during the interview, their responses had also inclined towards the introduction of several new microtakaful products which are standardised and likely offered by all TOs, with the inclusion of fees befitting the efforts undertaken by microtakaful distribution channel for the takaful industry. The respondents indicated their preference for standardised products, similar to Teras Malaysia<sup>32</sup> and Sihat Malaysia<sup>33</sup> which are underwritten by all insurance companies and TOs. As highlighted by some of them:

“I’m suggesting to you to have only one (1) product. It could be under MTA. One common product where all takaful companies offer the same generic product like Sihat Malaysia, Teras Malaysia, and association product underwritten by insurance/ takaful companies.” A1

“It can also be many products, two (2) or three (3), but under one (1) umbrella, like MTA. Takaful Life, Takaful Motor, Takaful Hospital, all under MTA. Government promotes under MTA. But when they want to sign up, they can choose their preferred companies.” A2

The discussion on the types of products to be offered by the centralised microtakaful model led to more suggestions on the types of products with features that meet the needs of the various generations of the B40. This includes creating products for the second generation of the B40:

“The product to be sustainable for the beneficiaries only, or to protect the dependents of the beneficiaries only. Example: this is a single mother with a 15-year-old child. By age 22, the child can already work. So this mother no longer need to subscribe to this plan. So this short-term plan is good in this sense. I would prefer if you give education plan. Example: if you keep contributing, we will give you two years free coverage, then you co-sponsor. You can’t make them pay 100% because they do not have the money. Or you get someone else to sponsor. And when your dependents wish to continue education, they already have the money.

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<sup>32</sup> Teras Malaysia was a national protection plan offered by only four (4) providers namely MCIS Zurich, Hong Leong Assurance Berhad, Malaysian Insurance Assurance Berhad and Etiqa Insurance Berhad. The plan contained savings feature, daily hospital income benefit, critical illness benefits, as well as TPD benefit (ezoodeen, 2009). This plan was offered under National Insurance Association Malaysia (NIAM). A visit to NIAM’s website showed that the product information is no longer available online.

<sup>33</sup> Sihat Malaysia Holdings Berhad was established in July 2020. It is a national programme which provides financial assistance to patients of life-threatening diseases. They provide instant credit of RM1,000 where approval is given within five minutes, and RM10,000 where approval is given within 48 hours (SMHB, 2020).

This is a way to bring them out of poverty. This is how they will see the importance.” B3

Another suggestion is for the introduction of products with medical coverage. However, this would require careful consideration to avoid anti-selection:

“From technical perspective, it’s very difficult because of pricing where it will be very expensive and we don’t know if they can afford it. I guess we need scoping like you cannot put it open-ended hospitalisation. I’m not keen about hospitalisation. We don’t know how big it’s going to be.” A6

D2 of MTA indicated the need to be vigilant about the medical benefits to be offered to the B40, given the risk of high claims which might jeopardise the financial standing of the TOs. The suggestion given was to provide a one-off limited medical benefit instead of continuous coverage. An example would be a reimbursement of a certain sum, which is standardised for all age bands, when claims are incurred. Therefore, a fixed amount will be provided regardless of the type of sickness or hospitalisation. This will limit the outflow of claims from the risk fund.

Some suggestions were also made on the amount to be charged to the B40 for basic product coverage or the type of coverage (individual or group) to be provided:

“For the B40, it will be normal product and our normal product is specific. Our product for the B40 is very cheap. There’s RM2 per month if the age is up to 40 or 50. Then it will times four (4). So it will be RM8 a month for RM10,000. First, the basic coverage should be provided, and second is education on managing money.” A4

“These tailors are contracted with us for service, as in when there is a job, they have to be available to finish the job. In terms of benefits, they are provided with group takaful coverage.” E1

“There are certain things that you can do in terms of pricing to make it cheap. For example, for medical, you can have high deductible medical coverage. Another way is that in terms of coverage, you can actually limit the coverage.” D1

The above suggestions indicate the need to consider the types of microtakaful products for the centralised initiative, as well as the introduction of generic products that would meet the various requirements of each segmented B40.

### **5.2.1.3 Awareness**

The issue on awareness, according to the respondents, will be addressed more effectively through a centralised initiative. One respondent highlighted that during the formulation of the VBIT framework, one pertinent discussion was on the redundancy of literacy and awareness initiatives undertaken by her organisation and another TO. She reiterated that during the discussion, both TOs highlighted that they were focusing on the same area of the programme. She stated that:

“So this model will be a good effort to consolidate the initiatives of all the TOs. All TOs want to do good. It will be good if all TOs work under the same umbrella.” A3

According to the respondent, with a centralised microtakaful model, educating the public on the values of takaful may be conducted more efficiently. Instead of the TOs disseminating different selling points to the B40 on the benefits of microtakaful protection, a centralised microtakaful model would serve as a platform for educating the B40, giving them a focused understanding from only one source of information.

The respondent from the training institute believed that the industry should take a different approach in creating awareness for the B40 and not impose product participation on them. This initiative should be undertaken at the national level or as a centralised initiative. It may be initiated through a training institution such as Islamic Banking and Finance Institute Malaysia (IBFIM). The B40 should be informed of the need to protect their well-being. He cited an example of an outreach programme created by ASB to raise awareness on the importance of savings through short video clips on “*Merah sangatlah mak ngah*” aired on television in the 1980s (PNB, 2020). The outreach programme still continues until today, with the same concept and title surviving several generations and versions. He believed that the awareness programme for the B40 should be undertaken as a national initiative rather than by individual TOs.

A respondent from the TO concurred with the approach to increase the awareness of microtakaful among the B40. According to her, the way TOs promote the values of microtakaful is crucial for them to secure the buy-in of the B40:

“How do you pitch it in such that it creates awareness in them; that they need this? Because if you say ‘If you pay RM10, you will get RM10,000,’ they will say, ‘So what?’ But if you approach from a different perspective on survival, on continuation of life, they will understand it differently. I will need it for my kids, for my business, etc.” A3

From another perspective, the respondents have indicated the need to include SIRC's into the centralised awareness programme since they seem to be disconnected from the Islamic financial services industry's increasing role in utilising the Islamic social finance instruments for the benefits of the ummah. While acknowledging BNM's expertise in their domain, the respondents were also of the view that the MTO initiative would also benefit from the regulator's deep understanding of the actual conditions of the B40 demographic when formulating related guidelines. It is important to note that this viewpoint does not undermine BNM's capabilities but rather seeks a more comprehensive and inclusive decision-making process. The following are highlights of the respondents' concerns:

“Regulators talk from the theoretical perspective. I know their roles are to nudge people. For example, the digital bank matters. The idea sounds good, to reach out to provide financing facilities to the poor. But in terms of reaching out to the underserved market, the issue is these are people who still prefer to have human touch – to explain to them how to fill up the form, what to fill in, and what to do. The digital platform is good for the well-to-do but not for the underserved. For example, a tailor, she still needs to attend talks provided by MARA the funder, to attend trainings, etc. You know they want funding, and the only way for them to apply is to approach a person to ask questions on how to fill up the form and what to do to get the loan approved, etc. Digital platform will not work for the poor. She might even get help from someone else since she is not well-versed with the digital platform.” A3

“But until you know what exactly is wrong with the B40, we might not be able to create something that is feasible for them. I give you an example of someone who does not like to eat vegetables. We know vegetables are good. We create brochures and talks to tell this someone about the benefits of vegetables. Do you think he will care?” D3

“Quite frankly, does BNM think about the long-term implications of the products that they asked the TOs to do? I don’t know who in BNM, but it must have been triggered by someone. I don’t blame BNM because they are the regulators and they regulate the commercial IFIs (Islamic Financial Institutions). At the end of the day, it falls back to the cost of producing new products. It is too costly for the TOs. The Perlindungan Tenang products are just good to show to the public that we have it. But whether it reaches the objectives, it is a totally different story.” A8

The respondents suggested that a centralised awareness programme be established to include both the key stakeholders, namely the TOs and the B40. Several other inputs suggested the inclusion of the SIRC’s personnel into the awareness programme. They perceived the existing SIRC’s are being managed by personnel with minimal knowledge of the Islamic financial industry:

“He was known to be the waqf expert but when he spoke, you know his knowledge is only theoretical. He lives with his own theory. When we bring our proposal, he couldn’t understand and he didn’t try to even understand. There was no attempt to tweak the arrangement.” A8

“Because the ones who lead our SIRC’s, they do not have financial background. Whatever that is happening in the Islamic financial institutions are way far off from their background.” F1

Given that each state is governed by different rules and protocols, the respondents believed that an awareness programme tailored specifically for SIRC’s will only be effective if a centralised effort is channelled towards addressing each state’s different knowledge gap.

#### ***5.2.1.4 Takaful Operators’ Products and Expenses***

As the issues and challenges dived into the operational constraints faced by the TOs, the idea of a centralised initiative intensified. The respondents were of the view that a centralised model would enable the TOs to share the operational expenses instead of incurring them individually, as per current practice. The intensity for the need of a centralised model led to the respondents emphasising that the microtakaful initiatives of the industry should not be complimentary. The TOs were licensed to operate with specific mandates in order to preserve the interest of all the stakeholders. This includes

ensuring that profits are generated for the shareholders and the business is profit oriented and not entirely charity oriented. While the industry has been encouraged to include the B40 into the financial system, with simpler product features and flexibility given on the underwriting requirements, the respondents reiterated that they have the following issues to be considered if such initiatives were to be undertaken nationwide:

“We can’t be providing free coverage because expenses have been incurred. From TO perspective, it is not 100% charity. We still need to pay people to create products, to develop the system. We still need people to run this programme.” A3

“We cannot have a CSR microtakaful model, because then no one will want to do this.” A1

Several respondents highlighted that when the PTV was withdrawn, the Perlindungan Tenang products’ participation dropped, which led to the products being shelved. They raised the question of the product’s break-even points where operational expenses have been incurred but are yet to reach such points. They therefore emphasised that any future microtakaful initiatives should ascertain that the products are sustainable, taking into account the expense loading in pricing of the products.

Operational expenses will be incurred in creating new products. This includes customising the system requirements for simplified products, the man hours of the staff to be utilised to meet the proportional requirements set by BNM, and administrative cost to be incurred even if the microtakaful products were not commission based. An example cited by one respondent was the change in the RM75 voucher for Perlindungan Tenang products. The interview with one respondent whose TO led the Perlindungan Tenang project unveiled the following:

“The Perlindungan Tenang Voucher was initially offered at RM50, then increased to RM75, then later reduced to RM70 and the B40 are required to pay RM5 in order to get the voucher. This RM5 is to cover for the administrative cost. Initially the intention was to provide free coverage, but after discussion with the government and all operators where the expenses threshold had been reached, everyone agreed that certain amount should be charged to the B40 prior to obtaining the RM75 voucher.” A3

The subsidies provided by the government through the PTV managed to cover the expenses incurred by the TOs, but only up to a certain threshold when they could no longer sustain the government-led charity-based products. This was the reason the RM5 administrative cost was imposed on the B40. After the PTV was suspended following a change in the government, the TOs experienced a plunge in participation by the B40. The group saw no motivation in continuing the protection of their wellbeing. This leads to the second reason why the respondents felt that microtakaful products should not be provided freely to the B40. As opined by D2 of MTA:

“In order to make the fund sustainable, there must be a portion for the free product offerings and paid version. Not everything has to be free because the fund does not generate itself. There has to be an element of profits. A product should have these three elements: claim portion, expenses portion and margin portion. This product should have the value for money kind of product, whereby you have a high claim ratio, lower margin and hopefully with the efficiency, you’ll have lesser expenses. You have to have the margin portion, you can’t do it like MySalam because they have the expenses portion only, but not the margin portion.”  
D2

Other respondents further added that the commitment to protect oneself will only materialise if a minimum amount is imposed on the B40. As pointed out by two respondents:

“When people have to pay RM1, they will start to listen. There will be somekind of commitment. This should not be driven by BNM because this is not about regulating the TOs. It is about the public at large.” C1

“B40 can co-sponsor, so that will create certain kind of commitment in them.” B3

Augmenting the two reasons stipulated above is the cost of healthcare in Malaysia. To expect the government to continuously provide subsidies for medical products which costs are consistently on the rise will not be sustainable in the long run. It will be disruptive for the healthcare providers, specifically the government hospitals. Hence the microtakaful products should not be provided complimentary to the B40. A certain amount of commitment should be imposed on the B40 to ensure continuity of the protection.

Having ensured that the three (3) crucial elements for the financial stability of the TOs are observed in providing microtakaful products, namely (a) operational expenses of the TOs, (b) commitment by the B40, and (c) rising healthcare costs, the issue that remains unanswered is the ability of the B40 to afford the minimal amount. Most of the respondents were of the view that this issue needs to be addressed for the microtakaful model to succeed. Given that the B40's utmost concern is basic necessities, they may not have the urgency to set aside a minimal budget for microtakaful coverage. Several respondents suggested segregating the B40 based on their economic affordability, that is their (a) ability to contribute 100%, (b) ability to contribute partially, and (c) inability to contribute at all:

“The B40 contribution, you need to differentiate who exactly will sponsor and which group will be the beneficiaries. Need to be specific. For the sponsor or sources of funding, to specify whether contribution will be sponsored by waqf, zakat, others (donations), or the B40 themselves. Waqf and zakat will not be enough.” B3

Some respondents also echoed that for the inclusion of other distribution channels such as NGOs and SIRC's into the microtakaful model, pricing needs to include fees to be paid to the distribution channels. This includes administrative expenses that will be incurred by the distribution channels when approaching the B40 in their reaching-out initiatives.

### **5.2.2 B40's Priority of Needs**

This leads to the next pertinent issue which the respondents believed would require careful consideration by all stakeholders in the microtakaful initiatives. The first reaction given by the respondent from the training institute was as follows:

“The industry currently assumes that the B40 does not know anything about financial literacy, when in actual fact they may know a lot. Our literacy rate is high. They have access to information, they watch tv, they may even use touch-screen handphomes.” D3

He reiterated that perhaps the industry should regress, unlearn its perception of the B40 and relearn the actual reason for their non-participation, and understand the

core issues faced by the B40. Since the B40's main concern is survival, microtakaful coverage is often relegated to the bottom of their list of priorities.

### *5.2.2.1 Misalignment of Priorities*

A false generalisation may have been drawn by the industry stakeholders in concluding that in order to increase the microtakaful penetration rate among the B40, they should address the literacy and awareness among the group. However, insights derived from the semi-structured interviews underscore the necessity of not only enhancing the understanding of the B40, particularly in terms of their demographic structure and needs, but also extending the awareness efforts to include BNM, TOs, and SIRC. The false understanding of the B40's priority of needs was similarly made when the industry focuses more on the B40's list of life priorities. The industry stakeholders should therefore take a step back and prioritise their own objective of providing financial services to the B40.

While it is crucial for the industry stakeholders to holistically comprehend the B40's priorities, it is also important for them to prioritise the literacy and awareness agenda. As stated by the respondent from the training institute:

“Before we think about the kind of literacy programme for the B40, we need to change the mindset of the private sector. B40 is about ‘not having enough’. In the ‘70s, not enough is probably from the perspective of agriculture not producing enough, or there is not enough technology to produce rubber. But now the B40 may have a stable source of income, but because of the cost of living, they do not have enough. For me, the issue of not having enough will always be there. Partly because in life, the want for more will always be there. For the B40, their wants are just basic necessities. They may have the knowledge on financial literacy, but they may not know how to use that knowledge.” D3

This statement highlights the need to look at priorities from two perspectives. The first is to examine the priorities of the B40. Secondly, to study the priorities of the industry stakeholders in terms of the areas that need to be covered or accomplished prior to focusing on the microtakaful penetration rate agenda of the TOs.

Priorities of the B40 are generally well understood by all the respondents. From their statements, they unanimously agreed that the B40's basic necessities top the hierarchy of needs, as can be deduced from the following comments:

“What is important for the B40 people first? Food and shelter are their priorities. Insurance or takaful will be the last in their minds from the list of important items for them.” A1

“My view is, we should not focus on (microtakaful) products.” D3

“B40's focus is on survival only. If we were to talk about takaful to them, it is not their priority.” B1

It is agreeable that from the perspective of the B40, their priorities do not include microtakaful protection. However, another perspective arises as to how the industry stakeholders should prioritise the types of products and services to be offered to the B40 in order to create the demand for financial protection through microtakaful.

It is suggested that priorities for the industry stakeholders should first focus on understanding the B40 in terms of their education background, geographical spread, access to information, and rank in the B40 classification, that is whether they are from B1, B2, B3 or B4. This requires profiling of the B40 which can be based on data obtained from DOSM. This information is important, given that the B40 residing in the Klang Valley may possess more financial management knowledge as compared to the B40 residing in rural areas. Similarly, B40 from the B1 category may have different types of exposure as compared to the B4 category. Likewise, B40 residing in areas where internet access is constrained by technological advancement may not be as motivated to search for information as compared to those residing in areas equipped with advanced internet access. Understanding this important information about the B40 will enable the industry stakeholders to create suitable products and services for the B40.

The second aspect which requires careful deliberation is the type of products and services to be offered to the B40. BNM issued its exposure draft on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators Exposure Draft on 25 November 2022 to (a) cater for the unserved and underserved market, (b) provide

competitive offerings, and (c) enhance consumer experience (FMT, 2022). While the aim is virtuous, the respondents highlighted several issues pertaining to the B40's readiness in embracing the change in participation method through digitalisation. As advocated by a respondent:

“The digital platform is good for the well-to-do but not for the underserved.” A3

She further exemplified her own personal experience where the first generation of the B40 had sought her guidance in understanding digital participation requirements for some of the products offered by the financial industry. Hence, the idea of digitalisation, no matter how technologically advanced it would make the financial industry, will require a suitable transition period to ensure that the targeted audience as envisioned by BNM would not be left behind. The regulator needs to be cautious in understanding the receptiveness to change among the public, specifically the B40. Similarly for the TOs, designing a literacy programme or creating a standard microtakaful product on the assumption that they are appropriate for all levels of the B40 may not result in meeting the intended objective. The industry stakeholders may need to unlearn their assumptions about the B40 and relearn from a different perspective on how the B40's needs may be appropriately met. A Shariah Committee member of a TO, who is also an Associate Professor teaching Islamic Finance, voiced out her strategy on how she would approach the subject of financial literacy for the B40:

“Over the years of my teaching experience, at initial stage, we are excited to teach. We want to transfer all knowledge. But throughout time, we realise that even if you teach one item and that is the only item that they absorb, that is enough for the educators.” B3

Priorities therefore need to be understood not only from the perspective of the B40, but also from the industry stakeholders to ensure a match of needs and wants from the industry stakeholders versus those of the B40. The complexity of the literacy and awareness programme also needs to be matched against the demographic dispersion of the B40.

### 5.2.3 Microtakaful Distribution Channel

In formulating their responses on the issue regarding the abundance and redundancy of microtakaful products, the respondents highlighted the need for an effective distribution channel. They believed that such issue may not arise if an appropriate channel is created to reach out to the B40. Currently, limited resources within the TOs and the commission-based motivation for the current sales force have contributed to the slowing down of the penetration rate.

#### 5.2.3.1 *Reaching Out Strategy*

One of the constraints faced by the current microtakaful initiatives is the limitation of the reaching-out mechanism to the B40 communities. The amount of wakalah fee embedded in the microtakaful products is insufficient to entice the current sales force to strive in promoting the products. Several respondents felt the need for the TOs to work together with alternative channels of distribution in reaching out to the B40. Based on the current individual experience of the TOs, it can be deduced that they do not have sufficient resources to reach out to the nationwide B40 who are scattered in both urban and rural areas across all the 14 states. As advocated by a respondent:

“With a national programme, what we need is missionaries who are able to go down on the ground and do what our team does. It is not as simple unless we have a mechanism we can automate. We send them SMSes (Short Message Service), and they start having the coverage automatically. We need to explore this mechanism at the industry level.”

A1

The earlier section provides the respondents’ opinion on digital participation for the B40 where many felt it is not appropriate at the current stage. A transitional period is suggested prior to having a full-scale digital environment for the B40. Further inquiries about effective reaching-out strategies revealed three new main ideas which involve the inclusion and collaboration of SIRC, NGOs and TOs.

The respondents felt that SIRC should also be involved as partners in the microtakaful model, given that each state’s SIRC has access to the poor who seek

financial assistance. The SIRC's determine the category of asnaf and non-asnaf, have direct contact with them, and in many cases provide assistance to this group of the B40. As highlighted by the respondent from the subsidiary of a zakat authority:

“The number of asnaf families registered under Selangor only is about 65,000-70,000. What we serve is only food aid. There are other aids under Lembaga Zakat in terms of financial, education, house rental assistance, medical assistance, etc. An assistant Amil qariah who is appointed by Lembaga Zakat to carry out census and must be verified by Lembaga Zakat. Once approved, Lembaga Zakat will determine whether the asnaf falls under the poor or other category.” E1

It is also advocated that census is carried out by the SIRC to ascertain the eligibility of the zakat recipients in order to ensure that only qualified asnaf will receive assistance. This signals good data coordination between the SIRC and the poor, which can be utilised by the microtakaful model should SIRC's be included as partners to implement the reaching out programme:

“So, if we find out that the lifestyle of the receiver has improved after three (3) or four (4) years (due to children being grown up and has become working adult, married and move out, etc.), then we will report to Zakat and they will carry out another census. Zakat will carry out a census or review twice a year: mid year and end of the year.” E1

The respondent from SIRC also indicated the positive, gradual changes observed in other states' SIRC's. He believed that the microtakaful model may eventually reach a stage where SIRC's will be open to consider microtakaful for the asnaf and the non-asnaf. As a start, the respondent suggested that the microtakaful model focus on the literacy of the B40:

“Let's say if the entrepreneurs were given RM500 as capital, they must get the RM500. We can encourage them but cannot force them to take out RM1 from that money to pay something else. You have to influence them. What we can do is to provide space for you to meet them and create awareness that this requires commitment from them to pay for RM1 only because they are subsidised for the balance of RM19.” E1

The respondents also highlighted that for a centralised microtakaful model to work effectively in reaching out to a wider audience, the model needs to include the NGOs as they have a better reach-out mechanism with the B40. Given the nature of

NGOs which is non-profit generating, the B40 would be more receptive to the NGOs' modus operandi and feel less threatened by any profit-oriented agenda. At the same time, for a centralised model to be successful, the microtakaful model needs to work closely with DOSM to obtain a complete database of the B40. One respondent insisted that the exclusion of NGOs from a microtakaful model would not benefit the microtakaful initiatives. In her view:

“But don't ignore the NGO. Why? Because even the Lembaga Zakat is actually using the NGO to reach the beneficiaries. Yes, they are short of staff. But on the other hand, it is because of the database. Of course, the officers know who the zakat receivers are. But for them to have the programme that can benefit everyone, they need external party to execute it. Let me give you an example. Lembaga Zakat of Penang and Selangor, apart from giving zakat to asnaf, they need to cater the issue that happened to our current society. Let's say they are getting youth, so what are actually the issue with youth. So, they come up with the solution. In urban poor, they don't have enough space. Their house is small with just a few square feet only. When the kids come home, the parents are not at home because they went to work. And probably the younger siblings have occupied the house, so where are they going? They will probably go out without doing anything. So, there are NGOs that will help to tackle these kids and put them in one place. Then, Lembaga Zakat will fund that one place and the NGO will help the kids to have activity after school. Make sure that they don't mix up with other gangster kids. They will help to improve their homework because by making them finish their homework, it will actually help them go to school with full of confidence.” A7

The respondent felt strongly of the role of the NGOs as she had worked with several NGOs prior to joining the TO. She believed that if there was any channel that could convince the heads of villages in promoting microtakaful, it would be the NGOs. This is because the villagers do not see any harm in the non-profit initiatives of the NGOs as compared to the profit-oriented TOs.

### ***5.2.3.2 Digitalisation as a Channel***

While it was advocated that digitalisation will enable easy access to the B40, the B40 may not be as susceptible to the concept of digital participation as BNM would like them to be, as cited by a respondent on the need of the B40 to be guided one-to-one

when filling in a MARA loan online application. However, this does not suggest that digitalisation is not required at this stage. As mentioned by one respondent:

“If you look at today’s direction, we talk about timeline, we talk about ESG, VBI (Value-based Intermediation), VBIT, they are all skewed towards economic prosperity, wealth for all, equity for all. But this is somewhat new to many people. To come up with the framework itself revolves around the question of what exactly do we want to do. So we are not so certain as to what will become our risk, business change that will transpire through all these efforts, towards meeting all these objectives. In a way, today as it is, I would say it is still in a draft stage. It is something that people push for, but it has to go through a journey of discovery for people to actually understand what this is all about.” C1

This comment was well received from the perspective of the TOs, who were fully aware that digitalisation is the way forward in reaching out to the B40. The transition phase however is needed prior to making microtakaful a 100% digital participation. Several suggestions were given by the respondents on how the industry may utilise the existing IT infrastructure used by some of the TOs in reaching out to the B40:

“If we want to use their technology, we can utilise on mySalam technology because they are covered automatically. BNM will be happy if we use that mechanism to reach out because currently not many people know that they are covered.” A1

A suggestion was also given on how the industry may utilise the present-day technology for the reaching out initiative:

“If you look at today, the likes of TnG, they do have certain kind of coverage where people just need to pay RM1 or RM2 for certain coverage. So first of all, if everyone wants to do it, everyone should have the apps. All of us should have a platform which we are all participating in. We don’t want people to use the ATM (automated teller machine), not go through banks. Just use your phone to transfer. The phone will now become the medium. So everyone will have a smart phone. Second, you must have an apps residing in the phone that enable people to participate in it. Say they have TnG, and the balance is RM1 or RM2, and they use this amount to participate in takaful. Immediately this becomes seamless to be covered.” C1

## **5.2.4 Regulatory and Fiscal Policies**

Throughout the interview, it was noted that the biggest constriction felt by the TOs specifically, is their inability to act beyond the rules set by either BNM or the rulers of the respective states.

### **5.2.4.1 BNM Rules and Regulations**

The matter of product redundancy which was highlighted earlier did not seem to be a concern to the respondents from among the TOs as they felt that the main issue is the lack of product coordination and cooperation among the TOs. A respondent however traced this inadequate coordination to BNM's lack of guidance which resulted in the TOs producing too many products for the purpose of meeting the regulatory requirement. He believed that the initiative should be driven by BNM. The member of a BOD respondent who had extensive working experience with BNM rebutted this idea and reiterated the function of BNM:

“BNM will not tell what you should do anymore. During my time, it was more of a directive style. Now BNM says the industry will do it. Like MIFC, it used to be led by BNM, now it is led by AIBIM (Association of Islamic Banking and Financial Institutions Malaysia) secretariat, led by Tan Sri Azman Yahya. There is no longer any need for BNM to call for meetings. So now we should get everyone together, all TOs to form a company, then we set a target for them to achieve. They can come together, present it to BNM and tell them that the industry wants to do this.” C1

BNM has changed its regulatory function from prescriptive to principles-based regulation. The TOs however are still undergoing an adjustment period, given that the industry is used to receiving directions rather than spearheading a change in the industry under BNM's minimal supervision. Summarising the thoughts of the respondents, the issue of redundancy prominently highlighted in Chapter 3 can now be eliminated. The main issue felt strongly by the respondents was not redundancy, but the lack of planning and coordination among the industry players in producing microtakaful products and services to the B40. The redundancy issue might not arise if the industry worked

together to understand the needs of the B40 and the effective distribution mechanism.

As stipulated by a respondent with Shariah background:

“First, get the view from all TOs, get the views from SIRC where the sources will come from, identify the product needs of the B40. Sometimes we feel the products are needed but in actual fact they do not need it. You may wish to go to the field and ask questions, in rural areas, in urban areas, they have different needs. Different groups in different states have different needs.” B2

It was emphasised during the interview session that the transition from prescriptive-based regulation to principles-based regulation has caused disorientation among the industry players when interpreting BNM’s call for change. The confusion is apparent from the tone of the respondents:

“TOs are of the view that ‘BNM knows the best. You know what you are doing, we will just follow’, because BNM has their own research on the industry.” A3

“There is an oversight on this issue and currently there is no clear direction nor decision from BNM.” B1

While the views of the two respondents may not represent the understanding of the whole industry, they suggest a disturbing misunderstanding regarding the shift in regulatory guidance of BNM. The member of a BOD respondent reiterated the function of BNM when this misinformation was presented to him:

“The mindset these days is everything should be market-driven. Market must decide what they want to do.” C1

While BNM wishes the industry to take the lead, the industry players still believe that any statement from BNM signals strong regulatory imposition for them to comply. The member of a BOD respondent reemphasised the function of BNM:

“BNM will intervene only in three (3) aspects. One is financial stability; second is monetary stability; third one is settlement risk. So then when we look at the safety and soundness of the financial institutions, for those who are going into some risky business, we have to supervise them from aggressively doing it because it may then impact their financial position.” C1

The industry players need to bridge the gap in understanding prescriptive-based regulation versus principles-based regulation. While the TOs need to understand that they are now driving the market, they also need to be conscious of the roles played by BNM. A respondent from another TO shared her experience in dealing with BNM when her institution started offering microtakaful product funded by the TO's charity fund. Her institution had received earnest encouragement from BNM for the initiative to offer microtakaful products to the B40:

“Prior to offering the Microtakaful Jariyah product, we have many engagements with BNM to brief them on the operational model. BNM had some suggestions and many long questions. We engaged with JPIT (Jabatan Perbankan Islam dan Takaful) and SAC (Shariah Advisory Council) and ultimately they approved our model and had no further questions. It has been 5 years now since 2018. So I would say it is not a challenge, but more of getting regulatory buy-in or confirmation on the model because BNM is very keen on microtakaful products.” A1

A change in the mindset of the TOs is crucial in altering the direction of the industry's initiatives for microtakaful. Areas that the TOs may wish to explore include (a) convincing BNM on the need for proportional regulation, (b) persuading the government to intervene, and (iii) assisting relevant authorities in the issuance of a fatwa that allows utilisation of zakat and waqf for microtakaful.

The TOs are currently binded by the TOF (BNM, 2019) which specifies that certain operational requirements must be met prior to being awarded a license to operate. They should however be aware that the strict framework may not work well for microtakaful initiatives, given that the targeted participants are different. The industry needs to convince BNM that for microtakaful initiatives to prosper, proportionality principles may need to be applied to the operation. As pointed out by a respondent:

“You don't necessarily need to impose the TOF framework in totality on this because we can argue that there will be opportunity lost if we were not to do this.” C1

In putting in place a governance structure for the centralised microtakaful model, one respondent highlighted a crucial element to be taken into account when considering the need for a BOD:

“For institutions where they have many stakeholders, sometimes it doesn’t work. They have their own problems within their institutions, and they will not be committed to this agenda. Another thing is that, their objective and target market is and maybe different so this becomes a part time job without much efforts being put in place.” C1

#### **5.2.4.2 Government Fiscal Policies**

In general, the respondents did not feel that the microtakaful model should fully rely on government subsidies for microtakaful initiatives. The sentiment shared revolves around the uncertainty of subsidies, especially given the country’s current political instability. The following are the responses provided by the respondents:

“The subsidies from the government is not sustainable. I suggest we stop depending on government subsidies. If they provide funding, it will be a bonus. If they don’t, we should be able to sustain on our own. They should not be a show stopper. At the onset of the MTO, we say we do not depend on the government.” A3

“From the perspective of Perlindungan Tenang, the budget is limited. Policy wise, they will change when the ministers change. Budget is the issue, whether they have it or not, or whether their focus will change according to what the minister wants. Like what is the flavour of the month. If this is how it works, microtakaful will not be sustainable.” B3

“I don’t think takaful is one of the important agenda for the government.” A5

The respondents however, suggested the following to be initiated by the government:

“Unless you get a commitment, say getting them to agree to commit for 10-20 years. Commitment in the form of a 10-year Economic Plan. Get it fixed that way, so there is a long-term commitment.” B3

“Government should give a policy direction. They should start this initiative through some seed capital and establish a law to support this and give the mandate to the promoter/ organiser/ entity to run it.” C1

“Usually for the B40, the initiative is driven by government. It is very obvious in that sense. The initiative seldom comes from the TOs.” B2

“Everyone talking about one product, one direction, government also helps to promote that.” A2

The general understanding from the responses indicates the need for a more committed support from the government instead of relying on subsidies. In particular, a binding commitment that will not be influenced or adversely affected by unstable agenda of the ruling government.

#### **5.2.4.3 Authority of the Rulers of the States**

Selected respondents hesitated to respond to the idea of a TO utilising its corporate zakat or wakalah zakat. Currently, TOs with majority non-Muslim shareholders are not required to pay zakat. However, if they do, they are required to abide by the legal framework of zakat payment. The respondents’ hesitation was due to the issue of whether or not the microtakaful model should take the risk of violating the law set by the Federal Constitution if the TOs were to manage the zakat money on their own, regardless if strict observance of Shariah principles were set in place. Some respondents indicated that if the microtakaful model was to be initiated on a national scale, it should start on a positive note by not contravening the Federal Constitution.

The most critical issue that requires careful consideration is the ability of the microtakaful model to manage the Islamic social finance instruments. As raised by several Shariah Committee respondents, zakat and waqf matters fall under the purview of the respective states in Malaysia, as stipulated by the Federal Constitution. Including zakat and waqf into the microtakaful model would require strict adherence to the rules set by the Federal Constitution and Shariah principles. The breach of either one of them will render the microtakaful operation non-compliant with the regulatory and Shariah framework. As cited by a respondent:

“Let’s put it this way. The source of authority is from the states. Like myWaqf under AIBIM, they collaborate with each state, for example Terengganu and all other states, because waqf falls under respective state. For example, you start a collection and you get RM10 million, which you then use to buy a building. You claim that it is a waqf building. You should register under the state, not under i-Waqf or your own company because that is state waqf asset. Any waqf asset should be registered under SIRC. Therefore it depends on the respective SIRC. I heard that the SIRC of Negeri Sembilan is flexible. But whatever it is, be it reporting or registration, the SIRC still monitors the private waqf.” F1

Although it was recommended by one respondent that BNM does not impose its TOF upon the microtakaful model, the prerequisite for fund separation is an element that should not be taken for granted, especially for the microtakaful model. There needs to be strict separation between the PRF where tabarru’ is the basis of the contract, the zakat fund where only the asnaf will benefit from it, and the waqf fund where only the investment income generated from it will be utilised. For these funds to be managed prudently, the personnel of the microtakaful model will need to possess the required technical and operational knowledge. As proposed by a respondent:

“Because this zakat cannot be lumped together with other money. It cannot be mixed with normal charity money or waqf. And the recipients have to be carefully selected. So, this product has to be a special product specific for the *fakir miskin*. Even then the money cannot commingle with other sources of fund.” B2

Additional thoughts on waqf from another respondent:

“When you waqf your money, the seed money should not be depleted. So the money will always be there. The RM100,000 that you waqf cannot be touched. The investment income can be used for contribution. But for zakat, if you receive RM100,000, you have to give out RM100,000. Perhaps, they put a time frame for utilisation of the RM100,000. Say, within five (5) months, we pay out zakat worth RM50,000. And the remaining RM50,000 we will make sure we pay it all out before end of the year. Perhaps they put a condition on it. Even then who will monitor it? Hence the zakat money is an extremely challenging element to be used to microtakaful contribution because it is difficult to monitor.” B3

The microtakaful model needs to be extremely cautious in handling the funds that go into the framework, particularly since there are legal and Shariah implications.

However, in doing this, the takaful industry may be able to change the negative perception of the SIRC towards profit-oriented TOs.

A respondent of a TO shared his institution's plan in initiating the issuance of a national fatwa to allow the utilisation of zakat and waqf monies for microtakaful initiatives. He was fully aware of the challenges faced by the industry in dealing with bureaucracy across all the 14 states. Nevertheless, as he rightly put:

“You see, we can propose all kinds of initiatives. But the zakat money to be used for this product, you need to get fatwa from Jawatankuasa Fatwa, only then can this be done. So we are waiting for the fatwas to be issued. But for that to happen, we have to send them questions. The proposal will contain questions, such as ‘Can we use the zakat wakalah to assist the elderly asnaf under respective SIRC? Can we use our wakalah zakat for this purpose?’ This question is to be forwarded to respective states’ muftis. Because for SIRC to allow zakat to be used, they have to get approval of the muftis. Currently there is no fatwa saying that this can be done even though our Shariah Committee says it can be done. Yes, even the wakalah zakat that we receive for our own distribution will need approval through official fatwa.” A8

With regard to the collaboration with all the 14 states for utilisation of zakat and waqf monies to fund the microtakaful initiatives of the B40, several respondents indicated that it would be more efficient to establish collaboration between one microtakaful model and all the various states, instead of having many TOs establishing distinct and disparate collaboration with the various states. Separate arrangements between different TOs and SIRC will only lead to confusion among the SIRC on which TOs’ products would be the best for the B40:

“The MTO can be the centralised centre to collect the waqf money.” A3

From the perspective of reaching out to the B40, two respondents shared their personal experiences in offering their own microtakaful products:

“We are using our zakat and charity fund to provide free microtakaful coverage. The capacity will need to be provided by not just single operator, but collectively the industry should be working together.” A1

On their plans to expand the coverage to a wider audience:

“We want to cover a bigger audience. As at now we can cover up to only 30,000 recipients a year. So, we need funding. But with 13.4 million, we managed to cover 208,000 B40 recipients. These are the same people registered under Zakat, under ICU, under JAKIM. With this track record, hopefully they can use our model to utilise the zakat money to cover the microtakaful for the asnaf. You complete your framework, we will also talk to the zakat authorities. One day, this initiative will merge eventually.” A2

Another respondent suggested the following:

“If we tie up with the SIRC’s, coverage can be easily spread.” A3

While the feedback obtained from the respondents shows that the TOs have been proactive in utilising their corporate zakat money for microtakaful coverage, these concerns remain unaddressed: did they breach the requirements set forth by the Federal Constitution? Are the TOs aware of the severity of the breaches if the SIRC’s decided to intervene in the TOs’ management of the zakat money?

### **5.2.5 Network View of Research Question 1**

Figure 5.1 shows the network view generated by ATLAS.ti, of how the four (4) initial deductive codes for RQ1, differentiated by four (4) different colours are further split into ten (10) inductive codes, which are then grouped into four (4) identifiable categories to form Theme 1: Microtakaful Business Operation.

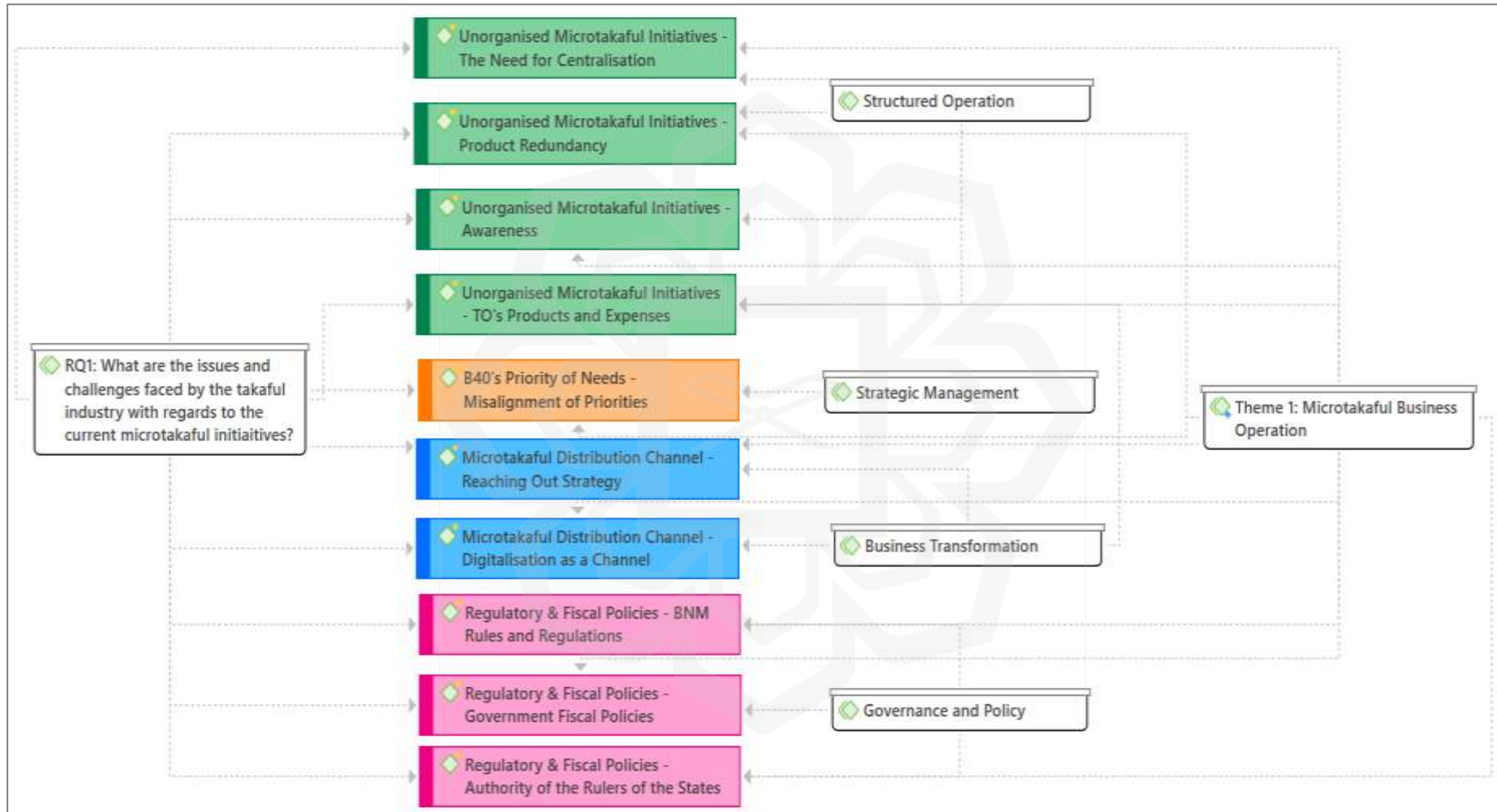


Figure 5.1 Network View of Research Question 1

### **5.3 THEME 2: MICROTAKAFUL ORGANISATIONAL MANAGEMENT AND STRATEGY**

RO2 focuses on the proposal of a microtakaful model that collates, manages and distributes the existing microtakaful products effectively to B40 recipients. The respondents were guided to the establishment of a microtakaful model from several angles, as shown in the questionnaire in the Appendix (Section B).

The respondents' various inputs derived from the semi-structured interview questions have led to the emergence of new ideas which are useful in establishing a microtakaful model. Table 5.3 illustrates the generation of inductive codes, categories and finally a new theme for RO2, which is Microtakaful Organisational Management and Strategy.

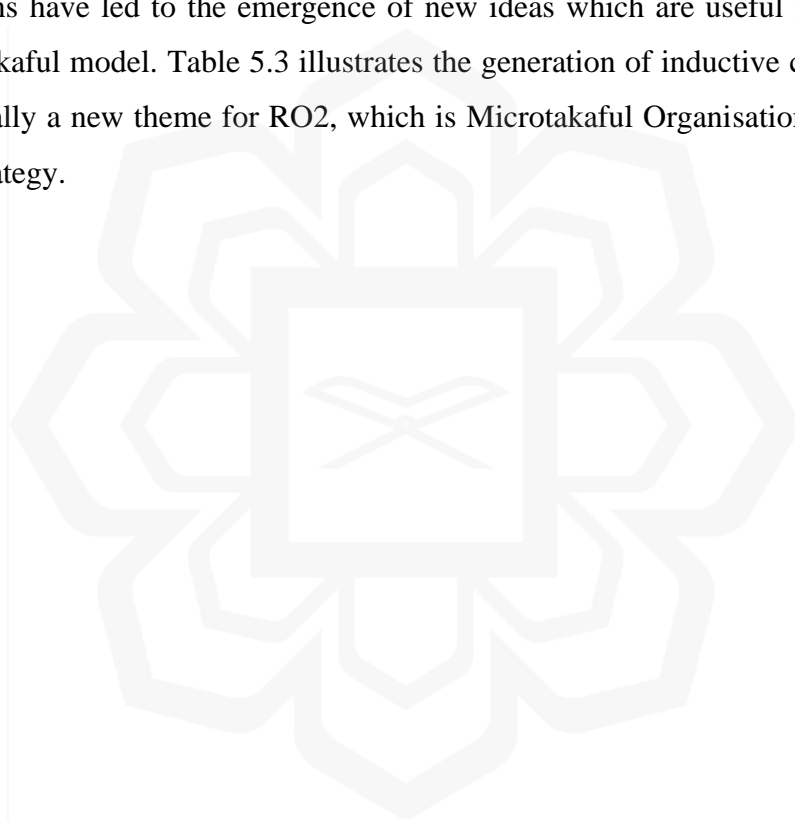


Table 5.3 Thematic Analysis Matrix for Research Question 2

RQ	Deductive Codes/ Theories	Strategy of Inquiry	Inductive Codes			
			Coding		Category	Final Theme
RQ2	2.1 Microtakaful Model	In-depth Interviews	2.1.1	Microtakaful Model – Shariah Committee	Microtakaful Governance	Microtakaful Organisational Management and Strategy
			2.1.2	Microtakaful Model – The Model		
	2.2 Distribution Mechanism		2.2.1	Distribution Mechanism – NGOs	Outreach and Engagement	
			2.2.2	Distribution Mechanism – Reaching Out Missionaries		
	2.3 Strategies for Effective Model		2.3.1	Strategies for Effective Model – Value Creation for Microtakaful	Business Planning and Execution	
			2.3.2	Strategies for Effective Model – Microtakaful Model Initiation		
	2.3.3	Strategies for Effective Model – TO's Microtakaful Strategies				

### 5.3.1 Microtakaful Model

The interview sessions saw the respondents being open to the idea of establishing a microtakaful model for the industry. They provided many constructive comments with regards to the microtakaful model that is envisaged to be established by this study.

#### 5.3.1.1 *Shariah Committee*

When posed with the question on the roles of Shariah Committee in the microtakaful model, the respondents provided mixed views on the need of having such committee in a charitable organisation. A Shariah Committee respondent suggested that the Shariah Committee play a similar role as that of a Shariah Committee of a TO. This is to ensure that the operations of the microtakaful model are Shariah compliant, especially if the elements of zakat and waqf were to be embedded in the model. She further added:

“Unless we feel that the Shariah Committee should also play the role of going to the field together with senior management to introduce microtakaful, or when there is discussion with SIRC such as zakat authority. We might expand the function of the Shariah Committee to this.” B1

Another respondent reiterated the need for the Shariah Committee to be vigilant on the operational framework of the microtakaful model:

“They should play strong roles in ensuring that the money is managed appropriately. They need to understand the operation of the MTO comprehensively, and not just on the management of zakat and waqf.” A3

A Shariah respondent raised the issue of orphan surplus, which she believed is on the rise and should be utilised by the industry. Another respondent provided his feedback on how the issue could be addressed by the Shariah Committee:

“This is about ownership. You know we have the Unclaimed Money Act right? You have this amount of money where you are supposed to give back to the owners. So it is an obligation by law, that you have to put it aside and give it back. Similarly, it is for the SC (Shariah Committee) to

decide, that they have used up all the means and ways to locate all these people to return the surplus to the owners.” C1

Another respondent emphasised that the Shariah Committee of the microtakaful model should be aware that the model is established exclusively for charitable purposes and not purely for profit purposes. The focus of the microtakaful model is charity. D2 of MTA added that depending on the type of model that the industry wishes to establish, this may require the involvement of the Shariah Advisory Council of BNM, given that it is an industry-wide initiative involving microtakaful and Shariah principles need to be observed at all costs.

### **5.3.1.2 The Model**

The inclination towards having a centralised model in the first part of the interview had steered the respondents towards providing suggestions on how the model may be established if the industry agreed to undertake a centralised approach. The model will be known as the first MTO of the industry.

The respondents were of the view that the centralisation of the microtakaful initiative will facilitate coordination between the MTO and the various government agencies, including SIRCs. The MTO will be the sole centre that collects waqf and zakat monies, and other types of donations. At the same time, it can be the sole centre that coordinates with NGOs and SIRCs to reach out to the B40. This suggests the important role of the MTO, particularly given that each TO has its own goals and motivation in order to preserve the interest of its stakeholders. The respondents reiterated several times that:

“Because TOs are commercially oriented. At the same time, they want to do good. If they do it on their own, the efforts are still scattered and the outreach is not comprehensive.” A3

The respondents emphasised that the microtakaful model envisaged by this study should be continuously conscious of its mandate which differs from that of the TOs, where the former is designed for charity purposes whilst the latter exist to generate

profit. It is also expected that a centralised microtakaful model would result in more organised microtakaful initiatives:

“Anything that is organised and centralised is definitely better. It is more cost effective.” B3

A respondent added that centralisation is important to ensure sustained focus on the needs of the B40. As he aptly said:

“The current initiatives of Perlindungan Tenang, which are one initiative but managed by each TO. It is like a part-time job for each TO. Their strategic intent would probably be on the let’s-help-out kind of intention, not very serious. So, the viability of that will be questionable.” C1

Based on the input provided by the respondents, the general consensus received was that the microtakaful model should not be established with its main objective being increasing the participation rate of the microtakaful products by the B40. The ultimate aim of the centralised model should instead focus on the literacy and awareness programme. For this to materialise, as disclosed in RO1, literacy and awareness of all the stakeholders within the microtakaful network should be the main focus. In addition, addressing the priority of needs of the B40 and the knowledge gap of the industry stakeholders on B40 should be the main emphases of this microtakaful model. For microtakaful to be appreciated, the first thing that should be done is to address the literacy level of all stakeholders, namely the TOs, NGOs, SIRC’s and the regulator.

The respondents also proposed a detailed structure on the establishment of funds. The first suggestion is the creation of an internal charity fund for the microtakaful model, where donations from individuals or sponsors may be accumulated in this fund. The suggestion was based on existing internal practice of the TOs:

“Like in Takaful Ikhlas, we have Ikhlas Barakah House (IBH). This money belongs to the participants. As you know, where there is surplus distribution, in our General Takaful contract we mentioned that any amount below certain threshold, for example, RM10, the money will be channelled to charity.” A3

Another respondent added other possible sources of funding for the microtakaful model:

“For the sponsor or sources of funding, to specify whether contribution will be sponsored by waqf, zakat, others (donations), or the B40 themselves. Waqf and zakat will not be enough. B40 can co-sponsor, so that will create certain kinds of commitment in them. So, for RO3, there should be two additional boxes, i.e., donation and B40 contribution.” B3

The respondents also indicated the need to impose a clear separation between the zakat fund, waqf fund and the donation funds to avoid commingling of funds and ensure that the operation is Shariah compliant:

“I am just worried on the commingling of zakat money with waqf and the normal charity and donation. This will trigger Shariah issue, because we need to know which money belongs to who.” B2

Similar concern was raised by D2 of MTA:

“We have to be careful with waqf and zakat. These can't be together because the implication is different, in terms of infaq<sup>34</sup>, waqf and zakat. In terms of flexibility, infaq is more flexible, whereas zakat is the least flexible which can only be used for asnaf. For waqf, to a certain extent, is just an endowment which the operation involves investment which you can use to contribute for the coverage. For example, let's say I receive RM1,000, it's not that I can use all of it for the protection contribution for all the B40. I have to invest a certain amount of money and only the profit from the investment can be used for the protection contribution. So, it is up to me to give it to Muslims or non-Muslims. The restriction is more on zakat.” D2

The earlier respondent also reiterated the need to observe the aqad for each of the waqf and zakat funds, which are different from the aqad of the normal PRF:

“Each of the sources of funds will have a different contract. The contract of tabarru'/donation is different than the contract of waqf and also different from zakat. So, when we want to gather all the sources of funds, the respective sources of funds will need to sign a different contract.

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<sup>34</sup> Infaq means 'spending' in Arabic. It is a non-obligatory form of charity in Islam without expecting any return. One provides infaq purely for the purpose of pleasing Allah the Almighty as well as for the betterment of society (Zakat Foundation, n.d.).

Tabarru' contract cannot represent zakat and waqf because they are different." B2

On whether the model should incorporate government subsidies, overall feedback obtained from the respondents suggests negative perception of subsidies, indicating the need to stop relying on government subsidies. Based on the previous experiences of microtakaful initiatives, many felt that the uncertainty and the lack of focus on microtakaful would make reliance on subsidies a hindrance to the growth and expansion of the microtakaful initiatives.

"I suggest we stop depending on government subsidies. If they provide funding, it will be a bonus. If they don't, we should be able to sustain on our own. They should not be a show stopper. At the onset of the MTO, we say we do not depend on the government." A3

The respondent's view was echoed:

"I am someone who does not believe in one-off government assistance, because this is political economy." A5

Their concerns were shared by the respondent from MTA, who offered an alternative if the government were to provide assistance:

"I really want to speak out to the government, rather than providing the 'Perlindungan Tenang' voucher worth RM350 million, why don't they give the money to us so that we can form one microtakaful company."  
D2

Suggestions were also provided to ensure that appropriate coordination be made with the respective waqf and zakat authorities, given that the microtakaful model may not have the expertise to handle the funds which have specific Shariah requirements:

"This MTO will work together closely with the actual zakat and waqf body to manage this money." A3

The respondent who works directly with SIRC also revealed that it would be more appropriate to collaborate with the zakat authority:

“Zakat is providing financial assistance based on a calculation. Threshold for zakat is very detailed. For example, if the threshold is RM4,500 but the household is for a single person, then this person is not an asnaf. But if that person has ten children then he is an asnaf.” E1

There was also a suggestion by one respondent to offer the public an opportunity to sponsor the contribution for the B40:

“Your model can be based on waqf, or it can be based totally on donation. Say, we create a product where we aim only 5,000 beneficiaries. Who wish to sponsor us? We open it to public. Like a bank deposit product, when you have a product, that will attract people because people will see that this is organised and systematic.” B3

The respondents also reminded the importance of ensuring that appropriate usage of waqf and zakat funds be clearly determined to assure that observation of the rights of Muslims and non-Muslims do not breach the Shariah principles of these funds:

“So far, the wakalah zakat that we get back is used to pay the asnaf staff, asnaf participants, then the normal non-Muslim asnaf. So far we pay only to the asnaf Muslims. There are different views.” B2

Apart from the products to be offered by the microtakaful model, a respondent mentioned the current additional services offered by her TO to the existing takaful participants. She felt that such services could also be offered by the microtakaful model to the B40 group:

“We did give a grant to MSU (Management and Science University) to do research on Palliative Care where it provides home care or comforts for patients towards the end of their lives. It’s not necessarily for elderly. Anybody can benefit this service as well. We term it as post-claim services whereby it’s free for customers. We tied up with Aspire, where they have all these services (with capped), i.e., ambulance, cleaners, transportation. It’s not necessary for you to sign up for medical product; it could be anything. For example, this person signed up for Death, TPD (Total and Permanent Disablement), CI (Critical Illness). Then suddenly something happened, this person’s life has changed and they need adaptation. So that’s where we provide that service. Palliative Care is like an extra service, not necessarily for terminal illness, not limited to elderly. There’s home-nursing care, medical appliances, home setup, transportation, etc.” A6

### 5.3.2 Distribution Mechanism

The operational framework of the microtakaful model would require careful deliberation. Given that the B40 are dispersed in areas that may have limited access to information, the respondents' view were sought on the establishment of a workable model to ensure that the B40 receive maximum benefit from the model's distribution channel.

#### 5.3.2.1 Non-governmental Organisations

A fundamental channel of distribution suggested by the respondents is the involvement of the NGOs. The justification provided was that the respective TOs' own distribution channels have limited resources in reaching out to the B40 who are scattered in areas where there are no TO branches. In addition, the TOs' sales force is motivated by sales income. Serving the poor with products that offer minimal commission as part of the TOs' CSR initiatives does not provide sufficient motivation for the sales force. These are observed in some of the comments:

“Our sales force motivation is money. They will not be motivated to reach out to the poor purely for microtakaful.” A3

When asked how this could be managed more efficiently, the respondent stated:

“Collaborate with the NGOs because they have better access to the underserved.” A3

Recommendations were also made to include certain amount of expenses to be incurred by the NGOs into the pricing of microtakaful products. It was also suggested that the NGOs be given appropriate training to equip them with the right knowledge to approach the B40. As mentioned by one respondent:

“From perspective of increasing outreach, to motivate the NGOs to work for the TOs, they need to spend resources to key in information, to reach out. So, we need to pay them.” A3

She further added:

“The best way is to approach the NGOs with real interest, educate them on takaful, then provide them with appropriate facilities to approach the poor. They can even be the corporate agents for the TOs, gain certain amount of commission to run their activities as well.” A3

It was also suggested that if the NGOs were to be engaged as agents of the MTO, then the products to be introduced need to be simplified for ease of understanding of the NGOs as well as the B40.

### ***5.3.2.2 Reaching Out Missionaries***

The current reaching-out approach of the takaful industry revolves around commission-based agents, brokers and corporate agents, among others. However, this has resulted in more expensive takaful products since the distribution channels need to be compensated for their efforts in distributing the products. For the microtakaful initiative, incorporating the commission into the pricing of products will only increase the price and subsequently leads to the non-participation of the B40.

Highlighting this issue to the respondents have resulted in a few recommendations on other types of reaching-out mediums besides the industry's existing distribution channels. Apart from the NGOs, the microtakaful model could also engage educators in colleges and schools to help transfer knowledge on financial management to the second generation of the B40. An example given by a Shariah respondent:

“Give the literacy workshop to school teachers. Because the government servant, majority is made up of school teachers. The high debt ratio is also among the school teachers. They have comfortable salary because they are time-based. Example: someone your age (47 years old), they are already at Grade 54, with RM7,000-RM8,000 per month. But they do not have the financial awareness. Focus on giving workshop to teachers in schools with many B40 students. Don't focus in Damansara. You can go to Seksyen 7, Bangi. Many B40 from that area.” B3

The respondent believed that teachers would be the best channel to educate the second generation of the B40. It is akin to killing two birds with one stone, that is educating the teachers to better themselves in financial management and at the same time, educating the B40 children through the experiences of the teachers. She reiterated that this method should also be emulated in universities and colleges to enable a paradigm shift among the second generation of the B40. Moreover, she suggested to bring the best of the B40 children out of their normal environment to allow them to be surrounded by like-minded children, and to provide sponsorship for them to pursue their studies at the best universities and compete with the Top 20% (T20) and Middle 40% (M40) students. The resulting change in lifestyle arising from such exposure may in turn serve as a catalyst for a bigger change when they return to their own B40 community. Her thoughts concurred with that of another respondent who highlighted his organisation's collaboration with universities in literacy and awareness programme, which was conducted along this line:

“We are involved in BNM FEN. Financial literacy programme just started. We venture this collaboration with USIM (Universiti Sains Islam Malaysia), using their expertise in providing financial literacy awareness to the B40 using Muamalat Interactive Game. It depends on what we have, how much we have and how many people we want to reach out. As you know, we have 13 million B40. Each year we can reach out to only 432 only. If every company is doing that, it will be good for the people. It will not take a few years.” A1

The respondent had raised two significant points. The first is the need to engage with universities, given that they have greater access to the B40 and secondly, to have an industry-wide initiative in order to reach out to more of the B40 community.

A second respondent highlighted that government agencies can be the change agent by assuming the role of a distribution channel. According to him, participation of *microtakaful* should be made compulsory for medical products for a significant change to occur to the B40. The B40 are known to frequent government hospitals more than the T20 and M40. The respondent mentioned that literacy and awareness programme has continued for a very long time and it is therefore timely that mandatory participation is imposed by the government agencies. To make it affordable, the B40 could be charged a minimal contribution. The benefits to be derived are two folds. First, it

reduces the expenses incurred by government hospitals, and second, it encourages curiosity among the B40 about microtakaful. As he explained it:

“Okay, my idea is like this. If the hospitals can impose RM5 for patients to see the doctors and to pay for medicines, why can’t they impose an additional RM1 for microtakaful coverage for purpose of future visits. *“Pakcik, lepas ni nak datang kena ada microtakaful coverage ni ya? Kalau tak, tak dapatlah kami tanggung kos semurah ni.”* It can be imposed not just on the elderly; it can be imposed on all ages. The pressure will come from the hospital side, that is Kementerian Kesihatan Malaysia. They will advertise and say, “You just need to pay RM1 only for microtakaful coverage, because we now have limited budget, and price of medication is on increasing trend and budget allocation is limited. To expect additional funding from the government will be difficult. So, we come to this concept of togetherness by paying only RM1.” Through this payment, the B40 will begin to try to understand what microtakaful is; else they will not bother to understand what microtakaful is. When people have to pay RM1, they will start to listen; there will be some kind of commitment. This should not be driven by BNM because this is not about regulating the TOs; it is about the public at large. So, in this approach, TOs will work with the hospitals. Hospital is the owner and their outsourced service provider is the TOs. This will be the hospital agenda where the takaful benefits can cover partially their costs.” C1

A TO respondent drew attention to an initiative currently undertaken by her organisation in reaching out to the poor. Working closely with the government agency from ICU-PMO, the census takers were deployed to collect data as well as provide additional assistance to the TO:

“We have *pembanci* (population census) from the ICU-PMO who help us with the distribution of certificates for Microtakaful Jariah. We go into rural areas, put a few nights in the villages before reaching the targeted areas. Through distribution of certificates, they add in the financial literacy and awareness elements to teach the B40 about takaful. Get them to fill it up the form, and pass it back to us.” A1

Distribution may also be conducted through agencies that collaborate with SIRC. This approach is currently being adopted in Selangor:

“Most of them are actually not poor in terms of property but mentality. We even have this programme called a soul purification programme (Pemantapan Usahawan Potensi) whereby we engaged with ustaz to open up their minds.” E1

The final suggestion for the reaching-out initiative is the utilisation of village leaders. The lack of trust of the B40 towards TOs have over the years remained unchanged. The notion that TOs focus on profit instead of helping people remains strong in their minds. However, they are more likely to trust their money with the village or community leaders of their areas of residence:

“Reaching out to the B40 community, we should leverage on the appropriate channels which could allow us to access into this market. With this community, what is a very good channel that they trust is the mosques and surau. The trust level is very high, and whatever programme by mosques or surau will be seen as Shariah compliant. It is something that’s appoved by Imam or Majlis Agama Daerah.” D1

His views were endorsed by another respondent:

“Maybe the community agent or the affiliate business model referral, for example. The community agent works for khairat. Nowadays, you can see almost all mosques have khairat and it is quite successful.” D2

The above are perspectives provided by the respondents on the utilisation of different types of reaching-out mechanisms for the microtakaful model, for consideration.

### **5.3.3 Strategies for Effective Model**

In several instances throughout the interview process, the respondents highlighted the need for the industry stakeholders to devise strategies on how to effectively approach the B40 in order to increase their microtakaful penetration rate. This section focuses on a few areas which had been prominently highlighted by several respondents. This includes the roles of the regulator, collaboration with SIRC’s, adherence to Shariah principles, time frame for the development of microtakaful initiatives, and emulating the model introduced by other industry initiatives.

### 5.3.3.1 Value Creation for Microtakaful

The respondents' suggestions were sought on ways to introduce microtakaful to the B40, given their low literacy on financial management. Suggestions include spreading awareness on microtakaful through television or social media channel via videos that are packed with information. According to the respondent, a subtle sharing of information which is undertaken over a period of time will eventually reach the subconscious of the B40 viewers:

“We use the same concept which PNB used to introduce the B40 to Amanah Saham Nasional in 1980s, entitled *‘Merah Sangatlah Mak Ngah’*. This approach has gone through generations till today.” D3

The respondent from the training institute cited an example introduced by Tan Sri Dr. Mohd Daud Bakar on Kedah's football club:

“One example that is good is Kedah's football club, through Tan Sri Dr. Daud Bakar. The football fans are among the B40 community. You teach them through football. You touch them through the core of their hearts. B40 is not about products.” D3

He further added:

“My view is, we should not focus on products; we should just focus on literacy. One stop centre is good. But until you know what exactly is wrong with the B40, we might not be able to create something that is feasible for them.” D3

From the perspective of the TOs, responses came from several angles. The TOs were suggested to lower their expectations on information sharing:

“We need to go real down to their level, and teach them ‘how much you earn today, and this is how much you need to save today’. Only then we can create the next level of teaching.” A1

Another respondent suggested targeting the younger generation of the B40:

“My suggestion is, if you want to do financial literacy programme, do not aim the B40. Aim at the children of the B40, from teenagers onwards.

Because if you aim the B40, they will not attend. Because you are giving workshop to the group that does not have money. They don't even have money to save. We might as well go for the second generation. Like I always advocated to Ustaz as he is with MAIWP. MAIWP has its own university. For its Tertiary College Baitulmal, if you want to bring the asnaf out of their poverty, you have to go to the lower level, below the tertiary level. Because the tertiary level is made up of only 5% of the asnaf. You need to cater to the primary level. You provide tuition to these primary kids, provide transport for them to attend the best tuition classes where only the rich can attend. Make sure that these kids can score well, and be placed at the best universities, not in college baitulmal because college baitulmal kids have the same asnaf mentality. We want to bring them out of that mentality. Let them score real well in SPM (Sijil Pelajaran Malaysia). Change the mindset. So this applies to financial awareness programme. Attend to the lower level, not the B40." B3

The SIRC respondent was receptive to the idea of TOs providing literacy and awareness programme to the asnaf:

"You can create a module but not specifically mention takaful. Probably like financial management. But you can include the elements of takaful."  
E1

#### **5.3.3.2 *Microtakaful Model Initiation***

Operationalising this microtakaful model for the benefit of the entire B40 community is a massive exercise which requires careful consideration of the sources of funding as well as the support to be provided by the stakeholders. Given the low participation rate of the current microtakaful products, the microtakaful model should introduce additional efforts to prevent similar mistakes from recurring.

In relation to the microtakaful operation, the feedback provided during the interviews was encouraging. The respondents were of the view that the microtakaful operation may be successful if the model undergoes a few phases of operationalisation, instead of having full implementation at the start. The first suggestion came from the perspective of products. Currently, besides their own internal microtakaful products, each TO has a number of products under the Perlindungan Tenang label. One respondent suggested that all the existing products under Perlindungan Tenang be offered to the B40 at the initial stage. As the operation continues, the MTO will monitor

and offer the best-selling products. Over time, this will reduce the number of products being offered to the B40. This will eliminate confusion among the B40 and facilitate their participation, while allowing the MTO to focus on product distribution. In her own words:

“At initial stage, we offer all, then see which are the best-selling products. Based on what, we narrow down the products to only the best.” A3

The second suggestion is for only one or two TOs to participate in the microtakaful model at the initial stage. This would be similar to the existing operation of one of the TOs, where microtakaful products are offered based on the availability of funding of the TOs:

“Perhaps, at the beginning we can start with one or two TOs. Even one is okay to start with. To minimise the challenges, let us start with one TO, work with one SIRC, one government body to run this. Because the more agencies the more problem we will have.” B2

Another respondent agreed to the suggestion and added that the microtakaful fund should have two portions:

“That’s where the fund is important. In order to make the fund sustainable, there must be a portion for the free product offerings and paid version. Not everything has to be free because the fund does not generate itself. There has to be an element of profits.” D2

Profitability of the model is important for the fund to grow and be utilised to expand the microtakaful initiative to enable it to underwrite more B40 individuals in the long run.

Commenting on the various challenges in dealing with different states’ SIRCs, one respondent expressed his optimism that moving forward, there will be positive changes among the SIRCs, albeit slowly:

“I haven’t lost my hope with these states. But there are states which are open to these ideas. We can ignore those states which resist change.” A8

His views were echoed by another respondent:

“I suggest approach two states (MAIWP and Selangor) first. You need to have success stories first. Because if you approach all the 14 states at once, it will take you 14 years to complete this.” F1

As highlighted by one respondent who manages the zakat money in Selangor, poverty eradication is currently being undertaken in phases, where targets have been established for a certain number of asnaf to be brought out of asnaf-hood on an annual basis.

“Our role this year is to bring an estimated number of 130 asnaf out from asnaf the poor. Meaning, their income has exceeded the ‘*had kifayah*’ income limit.” E1

The above may be established as the targets for this microtakaful model, where only the B40 who have been identified by SIRC’s will be offered products and services of the MTO.

### **5.3.3.3 *Takaful Operators’ Microtakaful Strategies***

The member of a BOD highlighted the need for BNM or the government to make participation of the B40 mandatory, to a certain extent. He cited the following example:

“Maybe we can channel the literacy to the contributors. I was listening to the radio the other day. Zakat Pahang was talking about setting a platform for people to pay zakat on regular basis. What they did was, they went to employers and employees and explain to them about their liabilities of giving zakat. If you don’t do it, you will be penalised in the hereafter. So you bring the level-of-fear to them.” C1

He reiterated that the literacy and awareness programme for the B40 has been continuing for a prolonged period, but the penetration rate remains unchanged. Therefore, a mandatory participation, even if at a minimal cost, will encourage the B40 to enquire about the benefits of microtakaful. In the long run, this will increase their awareness of the needs for microtakaful coverage.

In terms of collaboration with SIRC, all respondents were fully aware of the challenges in dealing with SIRC's different perspectives and skills. This includes their resistance to new ideas from the industry and failure to comprehend or equip themselves with the technicalities of Islamic financial system. As highlighted by one respondent:

“Because the ones who lead our SIRC, they do not have financial background. Whatever that is happening in the Islamic financial institutions are way far off from their background.” F1

The respondents have identified SIRC as the biggest stumbling block for the effectiveness of the microtakaful model. Several respondents were reluctant to include SIRC into the microtakaful model and suggested that other mechanisms be utilised to fund the microtakaful model. However, several other respondents were motivated and hopeful that the situation will eventually improve. They observed that states such as Selangor and Wilayah Persekutuan have illustrated steady progress towards accepting ideas from the industry stakeholders. As mentioned by one respondent:

“I don't think all SIRC personnel behave this way. Because when we spoke to Majlis Agama Islam Selangor (MAIS), they were more than willing to listen and to understand.” A8

A respondent who has extensive experience in dealing with all the 14 SIRC suggested the following:

“It depends on the states actually. Currently I see many people approaching MAIWP. Maybe you can approach Selangor because it is quite advanced. I suggest approach these two states first. You need to have success stories first. You can try Penang, Selangor, MAIWP, maybe Kedah. It's just that my experience with Kedah, they are slow. If you go for a meeting it will all sound very good. But after that everything will quiet down. You basically need to run the show because they will not come up with a proposal. That is why the industry is tired of collaborating with the SIRC. The industry has come up with ideas, even the implementation is being done by the industry. The SIRC seem to want to just receive the benefits, they just want to sign it because they believe this is their territory.” F1

The microtakaful model envisaged in this study has elements of zakat and waqf embedded in the contribution fund. The purpose is for the two Islamic social finance instruments to contribute on behalf of the B40. When the idea was posed to the

respondents, two (2) Shariah Committee respondents highlighted the need to observe the Shariah principles and legal requirements in handling both the zakat and waqf monies. An example provided is the aqad for the payment of zakat and waqf, which differ from the aqad of tabarru' under a takaful contract.

“Tabarru' contract cannot represent zakat and waqf because they are different. Let's say a rich man wants to provide zakat into this model. He has to sign an ijab qabul contract for zakat, not donation. But we have to be careful with zakat. Because this zakat cannot be lumped together with other money. It cannot be mixed with normal charity money, or waqf. TOs will need to have a proper and efficient management because SIRC's would want to know if the zakat money reaches the intended recipients and they would want to know how TOs manage this money? Similarly for waqf, SIRC's also would want to know if this is '*waqf am*' or '*waqf khas*'?” B2

The microtakaful model's ability to take into consideration the specific requirements of zakat and waqf, and BNM's roles in governing the management of the two funds are crucial to preserve the Shariah principles and requirements. Given the various approval levels required and the procedures involved in managing both instruments, the respondents recommended that experts on such instruments be placed within the microtakaful framework to ensure a smooth flow of work process between the MTO and the SIRC's. In addition, these experts will ensure ongoing observation of the Shariah principles of fund management for the tabarru', zakat and waqf funds.

The next strategy revolves around the time frame for the full implementation of the microtakaful model. The challenges surrounding the respective stakeholders, specifically the SIRC's are expected to require more time to be addressed. With the different conditions and procedures imposed by all the 14 states, the microtakaful model needs to set targets, as suggested by the respondent with the regulatory background:

“I would set targets. Set targets for these TOs. For example, when we started with Islamic banking, we say we should have 20% market share by year 2000, so everyone started making changes to their strategies to meet the FSMP 2001-2010. So now it is 44%, much higher.” C1

The same approach of setting targets can be adopted when planning the phases for implementation of the microtakaful model. Instead of trying to secure the buy-ins

from all the 14 states at the onset of implementation, the microtakaful model could take the path of least resistance by first engaging with the states that are open for change and have a good understanding of Islamic finance, as envisioned by another respondent:

“We assume SIRC’s will eventually open up because Selangor already seems to be moving towards the positive direction. Perak is trying to emulate Selangor progressively. Once you have one or two states doing it, other states will follow suit in no time.” C1

Time also plays a role in changing the mentality of the SIRC’s:

“Because in their minds, zakat is the basic zakat where you have to distribute it to the fakir miskin. They don’t see this mechanism. We have to explain to them. Whether they accept it or not that is secondary. The first thing is to get their buy-in, to get them to understand. Once they are convinced only then they will bring it to Majlis Agama. Only with the Majlis Agama’s approval, only then they will release the allocated amount.” F1

The respondents also suggested for the microtakaful model to emulate the models that have seen successful collaboration between the industry players and the SGs. The examples given were as follows:

“Just like i-Tekad, there are many philanthropists involved in this. SME Bank has a programme for the asnaf. They created a programme where they get their borrowers who are more established to donate RM10,000-RM20,000 to create training programme for the poor.” C1

Another respondent suggested studying Wilayah Persekutuan’s SIRC programme:

“You can study MAIWP’s plans. They have about 20 schemes. You can actually see their big billboard along the Sungai Besi highway.” F1

He further added:

“Like the AIBIM’s myWaqf. They work together with the states. So Bank Islam might work with Perlis. They have their own method. The various waqf that we see now, like Waqf Annur, i-Waqf, Awqaf Holding, those are corporate waqf. The Waqf Annur is the brainchild of arwah Tan Sri Azli Hashim from JCORP. JCORP is in Johor. Johor’s state waqf

gave JCORP the status of mutawwif and hence it can run as a corporate waqf. From the equity they get about RM100 million plus with the price of about RM800 million. This kind of arrangement is easy for us to approach because they have corporate mindset. So they actually obtained the rights or mandates from Johor's SIRC to run waqf." F1

Another respondent shared Amanah Ikhtiar Malaysia's model:

"We should emulate Amanah Ikhtiar Malaysia. Have a model similar to that. Because it does not have the elements of BNM. Why not we create Amanah Ikhtiar Takaful? But we have to propose this to the government. AIM was initiated by Anwar Ibrahim. Back to my question, do the TOs want to do this independent of each other? Or do they want to do it via a consortium? There should be a vehicle like AIM. You can say in your model that commercial TO cannot run this model because this is not a profit-generating initiative. Based on our experience, the Perlindungan Tenang products are not profitable at all. But they are on the shelves because BNM asked for it." A8

#### **5.3.4 Network View of Research Question 2**

Figure 5.2 shows the network view generated by ATLAS.ti, of how the three (3) initial deductive codes for RQ2, differentiated by three (3) different colours, are refined into seven (7) inductive codes, which are then grouped into three (3) identifiable categories to form Theme 2: Microtakaful Organisational Management and Strategy.

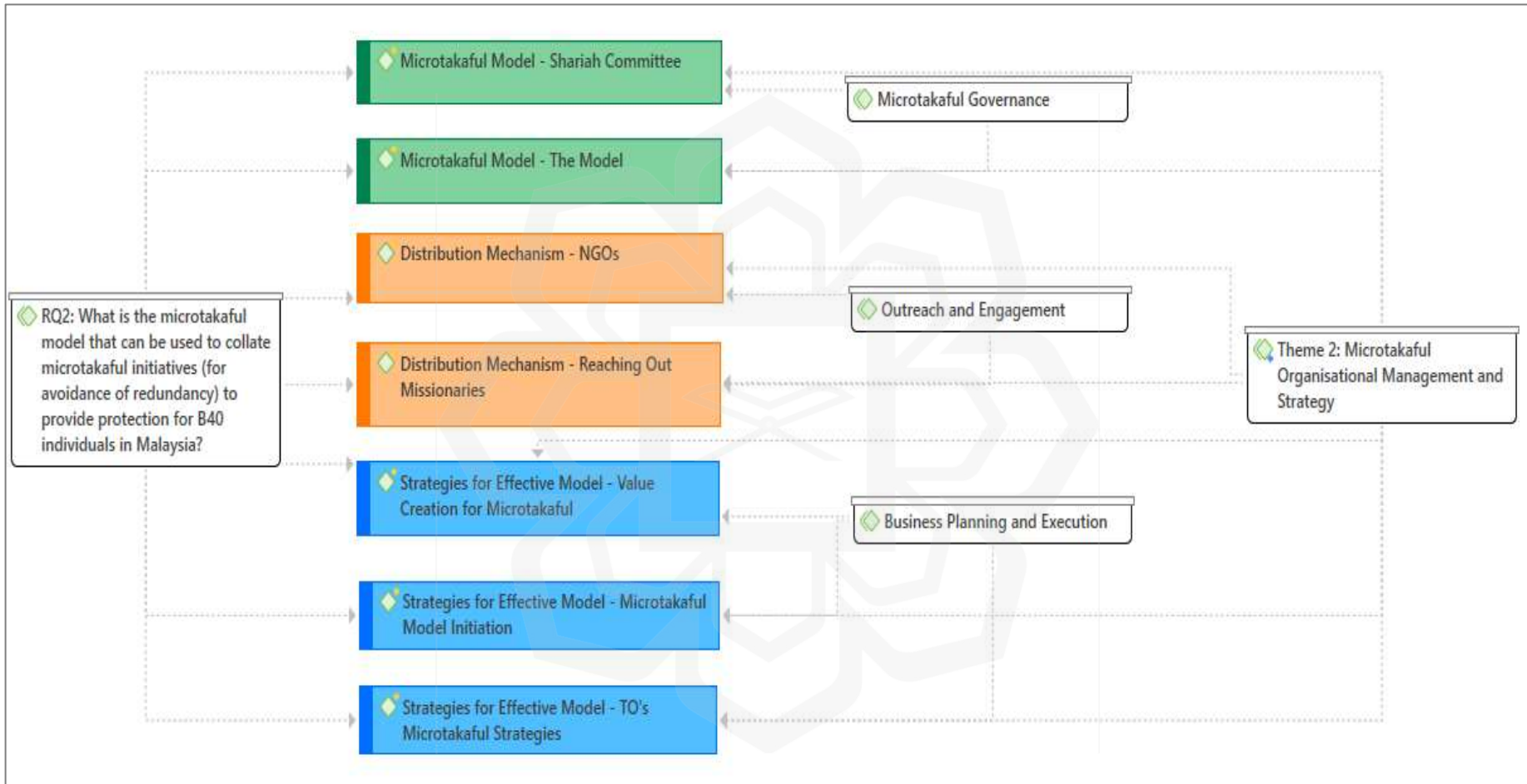


Figure 5.2 Network View of Research Question 2

#### **5.4 THEME 3: MICROTAKAFUL SOCIAL RESPONSIBILITY**

The most confounding matter for microtakaful initiatives is the ability to sustain operations, particularly given the non-mandatory requirement for the B40 to make contributions, the unpredictable nature of government subsidies, as well as SIRC's stringent protocols and deeply rooted resistance to change. When the questions (as shown in the Appendix: Section C) were posed to the respondents, the general feedback indicated negative reactions to the sustainability of the funds. The microtakaful model which proposes the utilisation of zakat and waqf was also presented and explained to the respondents. This includes the flow of waqf and zakat monies into the microtakaful model.

The questions posed, which were based on the deductive codes from Chapter 3: Literature Review, have led to the discovery of additional ideas. Table 5.4 illustrates the process of inductive coding, categorising and creating a new theme for RO3, which is Microtakaful Social Responsibility. The inductive codes, which better fit the coding structure for this section, were created based on the overall feedback provided by the respondents.

Table 5.4 Thematic Analysis Matrix for Research Question 3

RQ	Deductive Codes/ Theories	Strategy of Inquiry	Inductive Codes		
			Coding	Category	Final Theme
RQ3	3.1 TO's Charity Fund	In-depth Interviews	3.1.1 TO's Charity Fund – TO's Internal Charity Fund	CSR	Microtakaful Social Responsibility
	3.2 Government Funding		3.2.1 Government Funding – Government Commitment	Public Administration or Governance	
	3.3 Zakat and Waqf Funding		3.3.1 Zakat and Waqf Funding – SIRC's Commitment	Zakat and Waqf Funding	
	3.4 Sustainability Strategies		3.4.1 Sustainability Strategies – Fund Sufficiency 3.4.2 Sustainability Strategies – Marketing 3.4.3 Sustainability Strategies – Non-bank Apps 3.4.4 Sustainability Strategies – Orphan Surplus 3.4.5 Sustainability Strategies – Sponsors	Financial Management and Promotion	

#### **5.4.1 Takaful Operators' Charity Funds**

The TOs' charity funds were repeatedly mentioned throughout the interview process. All of the TOs approached in this study indicated their willingness to utilise the internal charity funds, provided a proper procedure is put in place to ensure the effectiveness of the microtakaful model.

##### ***5.4.1.1 Takaful Operators' Internal Charity Funds***

Several respondents shared their respective initiatives on CSR activities. One respondent highlighted his TO's microtakaful product that currently provides coverage to the B40, with the assistance of the ICU-PMO. This product funds the contribution through the TO's own zakat contribution, as well as donations from employees, agents and existing participants via participation in a specially created rider that goes 100% into the charity fund. The TO will continue to provide complimentary coverage, subject to its internal charity fund's ability to sustain the CSR initiative for the B40.

Another respondent elaborated on her TO's IBH initiative where the fund belongs to the participants. Any surplus that falls below a certain threshold will be channelled into this fund under the agreement of the participants. The respondent added that similar approach could be applied to the microtakaful model in funding the coverage:

“IBH is in charge of this pool of money belonging to the participants. On top of surplus distribution, there are other money coming into IBH, for example, the zakat wakalah money. When we pay zakat to zakat authority, certain amount of wakalah fee will be given back to Takaful Ikhlas. So this money is channelled into IBH. Even MNRB's zakat wakalah is pooled into IBH. Whatever is meant for charity it will be channelled into IBH. IBH will consolidate the money. So what we can do is, to see if we can use this pool from IBH to fund for microtakaful. Maybe not 100% free coverage. Perhaps in the form of vouchers, like what PruBSN is doing.” A3

Similar to the first respondent, she also highlighted her TO's internal rider which involves the non-B40 participants funding the TO's charity activities. The respondent

felt that if the industry could create riders for charity purposes, this would provide the coverage for the B40.

When the concern on sustainability was raised, the respondents believed that time is of the essence. They were of the view that the MTO charity fund should be allowed to accept donations from among others, philanthropists, public donations and employee contributions.

“We find individuals who are interested to contribute on behalf of the B40. If the government provides tax exemption for sponsors of the B40, then it may attract many individuals to contribute.” B1

However, given the nature of non-fixed contribution, the respondents suggested that the microtakaful model emulate the PruBSN approach, that is to offer products only when there is sufficient money in the internal charity fund. They believed that eventually, the fund will grow and expansion of coverage may be provided by the TOs.

“We can provide coverage for as long as the allocation for microtakaful is enough.” A3

A respondent also suggested a crowdfunding mechanism to attract investors:

“In our Islamic banking system, we already have this mechanism. A few banks come together to establish crowdfunding. They create another entity, they invite money. They decide where to spend the money on.” B3

Another respondent proposed giving the existing participants the option to donate part of their claim benefits to the microtakaful initiative:

“... in fact, it can come from the participants itself. For example, when the participant passed away, part of the benefits can be waqf. It can be from the participant or from outside. The concept is there such as “Badal Haji”, where it is a way of how we could earn reward even after our death. However, if you do waqf, you will get even better rewards or continuous rewards.” D2

A Shariah Committee respondent mentioned that the current takaful certificate stipulated that if the surplus level falls below a certain threshold, the amount will be channelled into the charity fund. She suggested that amendment be made to the certificate to state that any surplus for individuals, which is usually very minimal, will be channelled specifically into the microtakaful initiative:

“Maybe we can incorporate that unclaimed surplus be channelled into this initiative. In fact, we can put a clause, whatever surplus, all be channelled into this initiative. Surplus is something extra which TOs give to the participants. But this amount is too little, so we might as well encourage the participants to contribute into this.” B4

The above suggestion however, may require approval of BNM, given that the regulator stipulated that regardless of the amount, the surplus has to be returned to the certificate owner.

#### **5.4.2 Government Funding**

The respondents were asked if government subsidies would still be required in order to sustain the operation and product offering of the microtakaful model. They agreed that government subsidies would contribute to the sustainability of the microtakaful model. However, to depend on government subsidies would be indefensible as they are subject to the country’s political stability. As one of them indicated:

“Subsidy is not the word I like to use, as I see it as not sustainable. I think the better question to ask is that how can we make this sustainable in the future.” D1

The respondents also felt that the dependency on government subsidies would adversely affect the participation rate. When subsidies are discontinued or withdrawn, this would invariably lead to the withdrawal of participation. Hence, government subsidies are not sustainable:

“Overall industry shares the same concerns too, is that when the government suspends the vouchers, the take-up rate will decrease

because these people participate simply because of the free vouchers.”  
B4

#### **5.4.2.1 Government Commitment**

The respondents suggested that government involvement in the initiative could be undertaken in the form of providing seed capital or through a contract of commitment to provide for the microtakaful model:

“Unless you get a commitment, say getting them to agree to commit for 10-20 years. Commit in the form of 10-year Economic Plan. Get it fixed that way, so there is a long-term commitment.” B3

To encourage participation from the TOs and the public at large, the government is also suggested to provide tax incentives to TOs or individuals who are involved in the initiative:

“The government can inject certain amount of money to kickstart this consortium. They can also give certain tax deduction to TOs that are involved in this initiative.” B2

A respondent suggested two ways to include the government into the initiative:

“In fact, we tend to split those sources. One is from the government, which is a fixed thing. The non-fixed thing is where we are not sure whether we will get it or not. This one is more like a philanthropic fund source. For example, PruBSN has their own programme that works some sort of like a levy where they are committed to give RM50,000 per year. The government has two (2) ways of providing the fund, either by giving the seed money or by guarantee; for example, the excess of loss. Let’s say your levy is small. You may cover, but if you experience more, then we might top up.” D2

### **5.4.3 Zakat and Waqf Funding**

Collaboration with SIRC's in all 14 states was discussed in Chapter 3. When this subject was raised to the respondents, the feedback came from various angles and is worth mentioning for sustainability mechanism purposes.

#### **5.4.3.1 SIRC's Commitment**

The respondents collectively agreed that utilising the zakat and waqf monies without the knowledge or approval of the SIRC's will only invoke the risks of going against the Federal Constitution. Although one TO indicated that it did not obtain the SIRC's approval on utilisation of zakat as microtakaful contribution, this should not be deemed the course of action to be considered by other TOs:

“As long as Majlis Agama gives permission, then it is fine. The problem is that if we do it without their permission and if they know this, they can take it back anytime.” A5

However, when the Shariah Committee of the TO (which allows zakat money to be utilised as microtakaful contribution) was interviewed, his perspective was that the issue of tamlik does not arise since the TO accepts the contribution on behalf of the asnaf who are microtakaful participants. Therefore, the requirement for direct transfer from zakat payor to the zakat recipient has in effect been met. He reiterated that if all TOs are amenable to this mechanism, then this would address the sustainability issue of the microtakaful model. The suggestion was also echoed by another Shariah Committee of a different TO, who mentioned that:

“Then it will be Shariah Advisory Council of BNM, to get their approval to see if the TOs' zakat can be channelled into this microtakaful model. But not all 100%, just a portion only.” B4

The collective respondents on the other hand mutually agreed that if the challenges faced by the TOs in dealing with the SIRC's are addressed effectively and efficiently, the sources of funding from zakat and waqf will be able provide a sustainable mechanism for the microtakaful model. In order to address the challenges,

the respondents proposed a number of suggestions, which also reflected their attempts over the years to secure the involvement of zakat and waqf monies for microtakaful initiatives.

The first perspective is the acknowledgement that the TOs may not possess the necessary knowledge and know-how to handle the zakat and waqf monies. Hence, the microtakaful model should solicit the involvement of technical experts from SIRC, as fairly mentioned by one respondent:

“But we need to remember that TOs are not zakat authorities. We do not have the expertise to determine who are the asnaf and who are not. B40 definition is something that we do not know. We can also allocate some money in the form of donation, not just corporate zakat. We need to be clear about the recipient of the zakat money.” A3

The second perspective is on the utilisation of waqf, with the approval of SIRC, to generate investment income which will be used as microtakaful contribution for the B40. However, most of the SIRC are regarded as the major stumbling block for the utilisation of waqf. This has led to the following suggestions by the respondents:

“Some states are very protective over their waqf. That is why we chose Waqf Annur which is established and we know they are open for collaboration. It is owned by Johor. They don't set specific Shariah requirements and they are okay with working with TOs. In fact, they are very supportive of our initiative. Many TOs are working together with Waqf Annur, not just HLMT.” B4

The concern is further emphasised by a respondent who used to deal with all the 14 states' SIRC:

“Anything that has to do with the term 'waqf', it will go under the authority of the states, regardless whether it is corporate waqf or not.” F1

This respondent further reiterated that careful consideration should be given when dealing with different states. For the purpose of this study, it was suggested that a clear proposition on the implementation of the microtakaful model be submitted to Yayasan Waqaf Malaysia (YWM), whose members are from all the 14 states, to ascertain their involvement:

“You need to make sure that your implementation proposition is clear. They will want to know where the money is coming from. That needs to be clear. Will the money come from waqf or if TO wishes to contribute RM5 million, I am sure we want contribution from YWM, maybe about RM5 million. Then we request another RM5 million from another waqf, then that will make it a total of RM15 million. So YWM will give their consideration based on that. That is what usually happens.” F1

A Shariah Committee member of a TO highlighted the SIRC’s concerns when zakat and waqf monies are transferred to the TOs:

“I think SIRC’s biggest concerns are on utilisation of zakat and waqf funds. Even the wakalah zakat that they give us, they request for reports from us. Quarterly report on who gets the money, and how much and what is the balance. MAIWP specifically. Other states are not as strict. Some states do not question at all.” B2

#### **5.4.4 Sustainability Strategies**

Although the respondents were fully aware of the sustainability concerns of the microtakaful model, they were confident that sustainability may be achieved if the right strategies are put in place, with specific steps to be undertaken by each of the TOs.

##### **5.4.4.1 Fund Sufficiency**

One of the strategies identified is the provision of coverage based on the availability of funds within the microtakaful model. As mentioned by one respondent:

“We can provide coverage for as long as the allocation for microtakaful is enough.” A3

This statement was supported by the TO’s current practice:

“PruBSN Prihatin depends on zakat declaration, and whenever we have funds, we will cover the people.” A1

#### **5.4.4.2 Marketing**

One respondent highlighted the need for a comprehensive marketing strategy to be formulated to enable the microtakaful initiative to achieve its objectives:

“I think marketing is important to get funding. First establish the product, then do proper marketing for this model. Promote it, because now the takaful fund is important. If you do not have enough funding, you will not be able to operationalise it. So, market it to get bigger contributions. Get very stable funding that continuously flows in.” B2

#### **5.4.4.3 Non-bank Applications**

Another strategy proposed is the utilisation of the now commonly and widely used applications or apps such as the Touch ‘n Go eWallet. With a deduction of RM1 or RM2 for microtakaful coverage, the B40 will have easy access to the microtakaful products.

“All of us should have a platform which we are all participating in. So now in urban areas, we have all sorts of apps. In PayNet we are having a platform for P2P transfer using DuitNow and we are expecting people to use DuitNow more and more. We don’t want people to use the ATM, not go through banks. Just use your phone to transfer money. The phone will now become the medium as almost everyone has a smart phone. Second, you must have an app residing in the phone that enable people to participate in the microtakaful. If they have Touch ‘n Go app, they can transfer RM1 or RM2 to participate in takaful. Or if you have Grab, you can do the same. This will provide seamless coverage and access to the microtakaful platform.” C1

One respondent suggested to observe how SIRC’s utilise their zakat app to reach out to the asnaf:

“... all lembaga zakat and asnaf have the lembaga zakat app. Without the app, they will not get the zakat. Meaning, everyone can use the app to a certain extent. Unless that person has digital difficulties or issues, then he will have to go to the counter. Since the pandemic, counter visits have become very minimal. Also, those who went to the counter mostly are not from the asnaf that have received the aid, but from those who had never received any. But the moment their name has been listed under asnaf, they will have the app and the aid will be provided to them. There are definitely people arguing about not receiving any, etc., but we will

ask if they have registered. They need to register first in order lembaga zakat can investigate and approve if they are eligible.” D2

#### **5.4.4.4 Orphan Surplus**

Another strategy proposed is the utilisation of orphan surplus. It is important for the industry to know how to manage the surplus which falls under the Unclaimed Money Act. The first approach is to ensure that the orphan surplus do not increase over time. One method is by putting in place a mechanism, such as specifying in the contract with participants that they will forgo their rights to the surplus and agree to channel their money into the charity fund:

“Which means we want to forego their rights. Which means we will change the contract and say that instead of you getting the surplus, we will channel this surplus to this fund.” A5

The second method is to address the regulatory constraints imposed by the Unclaimed Money Act, as highlighted by a respondent:

“Principle wise, this money has to be given back to the owners. To overcome this, the TOs must first exhaust all means, i.e. you have published it all in media and make a decision on when you have passed the legal test to find the owner. The law may also need to be redefined to allow for other public use of the money unclaimed by the rightful owners, as there are no void since the owners are no longer interested in the money. You have to argue that the money is no longer belonging to the owners because they have lost their rights, although they did not give their consent at the onset of the agreement. It could be proven and argued that you have actually exhausted all resources to ensure that they knew about the unclaimed monies, and yet they do not come forward, nor have the interest to claim the money.” C1

#### **5.4.4.5 Sponsors**

Donation of sponsors for microtakaful is another strategy proposed by one of the respondents:

“Say we create a product, where we aim only 5,000 beneficiaries. Who wish to sponsor us? We open it to public, like a bank deposit product. When you have a product that will attract people, because people will see that this is organised and systematic.” B3

One respondent suggested obtaining tax exemption for microtakaful initiatives:

“If the government provides tax exemption for sponsors of the B40, then it may attract many individuals to contribute. This mechanism means that we are not tied down to any state at all. So there will be no regulatory hindrance and the operation will be much easier. Malaysians are generous.” B1

The involvement of philanthropists was also suggested:

“Just like iTEKAD, there are many philanthropists involved in this. SME Bank has a programme for the asnaf. They created a programme where they get their clients who are well established to donate RM10,000-RM20,000 to create training programme for the poor.” C1

Another respondent suggested a mechanism where TOs collaborate to launch a crowdfunding platform, similar to those undertaken by Islamic banks:

“A few banks come together to establish crowdfunding. They create another entity, they invite money. It is a crowdfunding mechanism to attract investors and decide where to spend the money on.” B3

#### **5.4.5 Network View of Research Question 3**

Figure 5.3 shows the network view generated by ATLAS.ti, of how the four (4) initial deductive codes for RQ3, differentiated by four (4) different colours, were refined into eight (8) inductive codes, which were then grouped into four (4) identifiable categories, to form Theme 3: Microtakaful Social Responsibility.

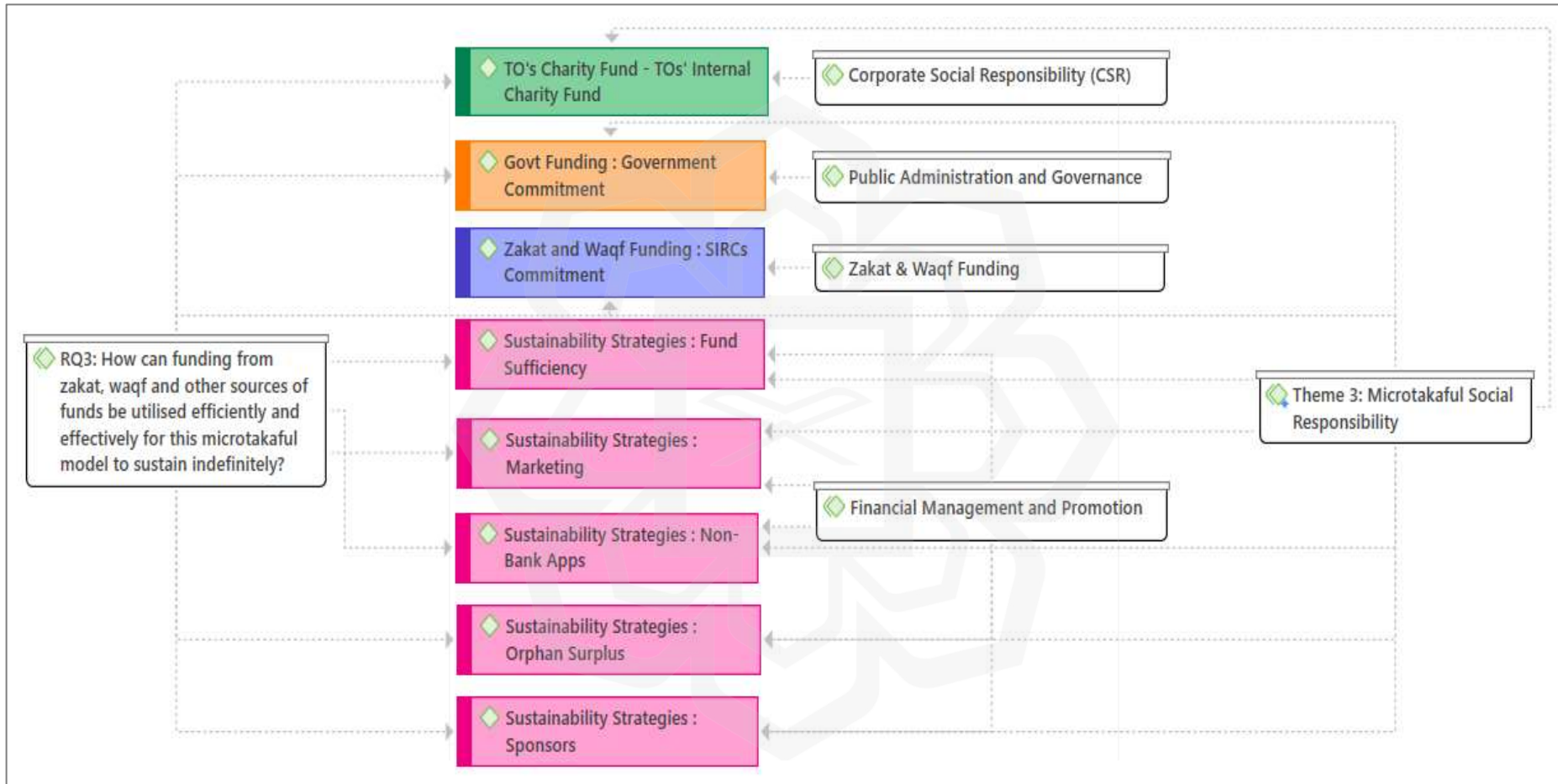


Figure 5.3 Network View of Research Question Q3

## **5.5 THEME 4: MICROTAKAFUL ECONOMIC STRATEGIES**

The final RO revolves around the need to increase the effectiveness of the literacy and awareness programme for the B40. The respondents were guided to the findings of literature review in Chapter 3, based on the questionnaire shown in the Appendix (Section D).

The interview session led to the emergence of new perspectives on the literacy and awareness programme for the B40. Inductive codes for the new ideas reflect the views of the respondents, as elaborated in the following sections. Table 5.5 illustrates the process of inductive coding, categorising and finally creating a new theme for RO4, which is Microtakaful Economic Strategies.

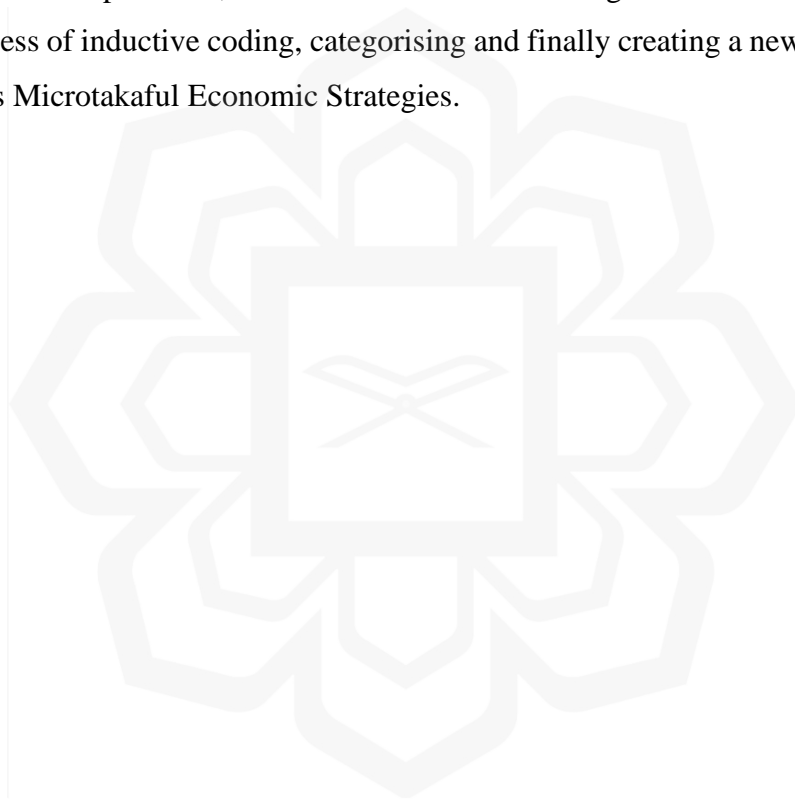


Table 5.5 Thematic Analysis Matrix for Research Question 4

RQ	Deductive Codes/ Theories	Strategy of Inquiry	Inductive Codes		
			Coding	Category	Final Theme
RQ4	4.1 Value Proposition	In-depth Interviews	4.1.1 Value Proposition – Mutual Cooperation 4.1.2 Value Proposition – Out of Poverty 4.1.3 Value Proposition – Priority of Needs	Social and Economic Development	Microtakaful Economic Strategies
	4.2 Literacy and Awareness Initiatives		4.2.1 Literacy and Awareness Initiatives – Industry Outreach Programme 4.2.2 Literacy and Awareness Initiatives – Under-utilised Technology	Technology Adoption and Industry Engagement	
	4.3 Market-driven Initiatives		4.3.1 Market-driven Initiatives – Guided by BNM	Business and Market Strategies	

### **5.5.1 Value Proposition**

The existing mechanism of awareness creation for microtakaful initiatives have yet to generate the intended outcome, as witnessed by the persistently low participation rate, except in 2021 when the government offered the PTVs. The respondents' ideas to address this issue were garnered and grouped into the following inductive codes.

#### **5.5.1.1 Mutual Cooperation**

An element which one respondent felt was key to the entire literacy and awareness programme of the microtakaful model is the way the value of microtakaful is positioned and explained to the B40.

“My pitch is along this line: if you have a friend whose house is burnt, the most you can offer as a poor, is probably RM10. But if you participate in a microtakaful plan, when a house is burnt down, you will realise that you have contributed to the rebuilding of the house through your participation in microtakaful. Meaning, your participation is really not for you. Because you may have paid RM800 in total for the contribution and not claimed a single cent, but this RM800 has actually helped someone else to continue with their living and get back on their feet. So let's say in Takaful Ikhlas, the company has helped 10,000 people in rebuilding their houses in a year. You actually have a share in assisting others! This should be the pitching point for your model.” A3

Several other respondents concurred along the same line, which is to promote the value of mutual cooperation in order to create the need for financial protection in the minds of the B40. If they are instilled with the knowledge of how donation by others could assist them in times of hardship, or how their own donations could collectively create bigger funds in the event of calamities, they might be interested to learn how microtakaful could facilitate this. The focus should entirely be on mutual cooperation rather than the B40 benefitting from surplus sharing, or how the microtakaful model under the purview of BNM could offer products which would in turn benefit the B40.

### 5.5.1.2 *Out of Poverty*

The respondents concurred in unison that the literacy and awareness programme should aim to lift the poor out of poverty. The awareness on microtakaful shall form part of the programme but shall not be its main focus. A respondent highlighted that the complimentary microtakaful coverage should serve as an initiator to expose the B40 to the concept of financial protection, with the main aim of elevating them out of poverty. However, the complimentary coverage will cease the moment the B40 have stepped out of poverty and are able to self-contribute to the microtakaful coverage:

“We should focus on bringing them out of poverty. Free coverage can be used to kick-start their participation. But it should not be forever. We should create awareness in them that, despite not being able to contribute, they can at least come up with a minimal amount to participate in a takaful product because they need it for financial resilience.” A3

As advocated by the Shariah Committee respondent, the focus on financial literacy should be on the second generation of the B40 instead of the first. Literacy should be provided to those in school while exposing them to the mentality of the T20 and M40:

“We want to bring them out of that mentality. Let them score well in SPM. Change the mindset. So this applies to financial awareness programme.” B3

The point was echoed by another respondent:

“... awareness need to start from early age, because as you're getting older, changes or new things is something that is not easily accepted.” A6

The feedback of the respondent from the SIRC also reflected the industry's view on the subject:

“We make it a point to let them know that if they are out of asnaf, it means they are successful. At the beginning of the year, we provide courses such as business, marketing, accounting, how to do business, and so on. So, by year end we give this soul purification programme.” E1

### 5.5.1.3 *Priority of Needs*

The respondents were of the view that instead of focusing on the technical information, the literacy and awareness programme should offer the most basic concept of finance which the industry feels is currently lacking among the B40 community. Several suggestions were provided by the TOs on the areas that should be imparted first to the B40:

“We should focus on financial resilient element. Because if we say they need takaful, they will not see the importance. But if we teach them about financial resilience, i.e., we want our kids to continue studying even when we are no longer around, then they will be able to understand it better.” A3

Another respondent however, held a different view:

“Savings. Most of the literacy programme focus too much on high level contents. For the companies, they deem these programme as ‘basic’ when in actual fact for the B40, this programme is not basic at all. We need to go down to their level, and teach them ‘how much you earn today, and this is how much you need to save today’. Only then we can create the next level of teaching.” A2

One respondent felt that it was important for the B40 to be aware of the rise in medical costs, as well as the concept of pooling:

“We should create awareness among the B40 about the high medical cost. Educate them about pooling. When we as a group contributes or donates for charity, the charity activities will be managed by a formal institution. So, if anything happens to anyone within the group, assistance will be provided using the money from the pool. Make it known to them that if they are on their own, it will be impossible for them to manage the medical cost on their own. We need to emphasise on how helping each other out will bring impactful benefits to them, to their children and to their family. Through this, they will realise that takaful is actually a tool to assist them.” B1

One respondent cautioned that the literacy programme should be carefully customised to meet the needs of the targeted audience:

“So if we want to create the literacy programme for the imam, what do you think we should teach them? Because if we tell them about takaful, that is technical for them right? The teaching should be in terms of what?”  
A5

The respondents felt that it is important for the microtakaful model to match the literacy and awareness needs with the matrix of needs of the various B40 levels. This would ensure sufficient level of awareness of each of the B40 categories is achieved.

### **5.5.2 Literacy and Awareness Initiatives**

The literacy and awareness initiatives of the industry have thus far not achieved the objective of increasing the knowledge of microtakaful among the B40. This is reflected in the penetration rate of the various microtakaful products which is still very low among the B40. The respondents provided additional input from various perspectives to complement their thoughts on expanding initiatives on literacy and awareness programme for the this group.

#### **5.5.2.1 Industry Outreach Programme**

The respondents collectively agreed that the current literacy and awareness programme does not reach its intended objective of elevating the B40 from their current lack of knowledge on financial management, especially on microtakaful. When conducted independently of each other, the TO’s literacy programme does not seem to reach out to a bigger audience since many of the TOs emphasised on the same geographical areas:

“During the formulation of VBIT, the discussion raised the possibility of redundancy of outreach programme by the different TOs. GE Takaful and Takaful Ikhlas could be focusing on their VBIT efforts in the same area. There are areas where TOs do not even reach out to.” A3

Another respondent felt that too many microtakaful products in the market have made literacy and awareness initiatives challenging since a lot of explanation is required

for each of the products. He felt that there should be only one product offered by the industry and promoted by the government to facilitate easy understanding of the B40:

“I am suggesting to you to have one product. It could be under MTA. One common product where all Takaful companies offer the same generic product like Sihat Malaysia, Teras Malaysia, an association product underwritten by insurance/ takaful companies. Everyone talking about one product, one direction. Government also helps to promote that. That would be a better synergy among the industry players.” A2

The same respondent shared his views that literacy and awareness programme should be executed together with higher learning institutions such as universities:

“We venture into this collaboration with USIM, using their expertise in providing financial literacy awareness to the B40 using Muamalat Interactive Game. It depends on what we have, how much we have and how many people we want to reach out.” A2

Another approach suggested by a Shariah Committee respondent was to provide literacy and awareness programme to school teachers – a group that has close interaction and relationship with young children. She further added how she would personally implement the idea:

“I want to be on the field and teach the teachers just basic information so that they know how to teach the students. Do not focus on savings. Savings is for those who have the money.” B3

She also added that since many of the Shariah Committee members of the TOs are educators at universities, they could also play a role by subtly inserting or sharing information on financial management to university students, some of whom may come from the B40 segment. She advocated that her current method of teaching is ensuring that the students learn at least one skill:

“For awareness, do not aim to teach the B40 everything. Even if they change one habit, it is enough.” B3

Another respondent reiterated that the focus for the B40 group should not be on microtakaful since these are not their priorities. Instead, he believed that the industry

should come together as one through the training institute such as IBFIM to create awareness among the B40:

“The regulators understand the concept of B40. They have the data but they cannot provide solution. So instead of providing student-kind of training, we should pitch and touch the core of the hearts. Because even if you create carnivals to reach out to them, if they come that’s because they want the souvenirs. TOs should come together to create awareness of this sort; not to sell products.” D3

One respondent felt that literacy and awareness initiatives should also focus on SIRC, given that their personnel are directly involved with the well-being of the B40, particularly the asnaf. Their personnel need to possess the right knowledge of Islamic finance:

“We should provide them with basic financial knowledge on Islamic financial institutions first, only then it will be easy for them to make decisions.” F1

The respondent from the SIRC who dealt with the asnaf on a daily basis pointed out the following, based on his observation of the asnaf:

“Personally, for now it is more on awareness and a complete understanding on why it is necessary. It’s not that they are not aware, but they do not see the importance of it.” E1

### **5.5.2.2 Under-utilised Technology**

The respondents were generally aware of the under-utilised technology in microtakaful participation. Although 96% of the population have access to the internet, as exemplified in Chapter 3, one respondent questioned this:

“Do the underserved really utilise their handphones to access our products? They do not even know how to use it, despite having androids. Are they utilising it for the purpose of microtakaful?” A3

Another respondent added that a mechanism should be established nationally for automated text messages on microtakaful participation to be sent to the B40 to enable them to easily participate through a simple agreement:

“It is not as simple unless we have a mechanism we can automate. We send them SMSes, and they start having the coverage automatically. We need to explore this mechanism at the industry level. eKasih has the database for all the B40.” A1

### **5.5.3 Market-driven Initiatives**

The respondents proposed that BNM take the lead in directing the literacy and awareness programme, given that the regulator would have access to data on B40 as well as close connection with the industry and government agencies. This may facilitate coordination of the literacy and awareness programme to help achieve the desired outcome.

#### **5.5.3.1 Guidance by BNM**

As put forward by a respondent from the TO:

“Technically, it should be nudged by the regulators. There is currently lack of awareness among the TOs to provide literacy and awareness programme. The regulators should give a push to the TOs on this.” A3

From another perspective, the member of a BOD indicated that it is not the function of BNM to lead literacy and awareness programme of the industry:

“Although BNM has its own literacy and awareness programme within its Consumer and Market Conduct department, it may not necessarily be expected or positioned to lead the literacy initiatives of the industry players. BNM however, may concurrently organise literacy programme with the industry. It is true that BNM may have sufficient data with regards to the B40, but the ones who are physically closest or have direct interactions with the B40 are the TOs, the industry and relevant government agencies. Similar to the VBIT initiative, literacy and

awareness programme should be led by the industry, charted by the industry and created by the industry.” C1

#### **5.5.4 Network View of Research Question 4**

Figure 5.4 shows the network view generated by ATLAS.ti, of how the three (3) initial deductive codes for RQ4, differentiated by three (3) colours, were refined into six (6) inductive codes, which were then grouped into three (3) identifiable categories to form Theme 4: Microtakaful Economic Strategies.



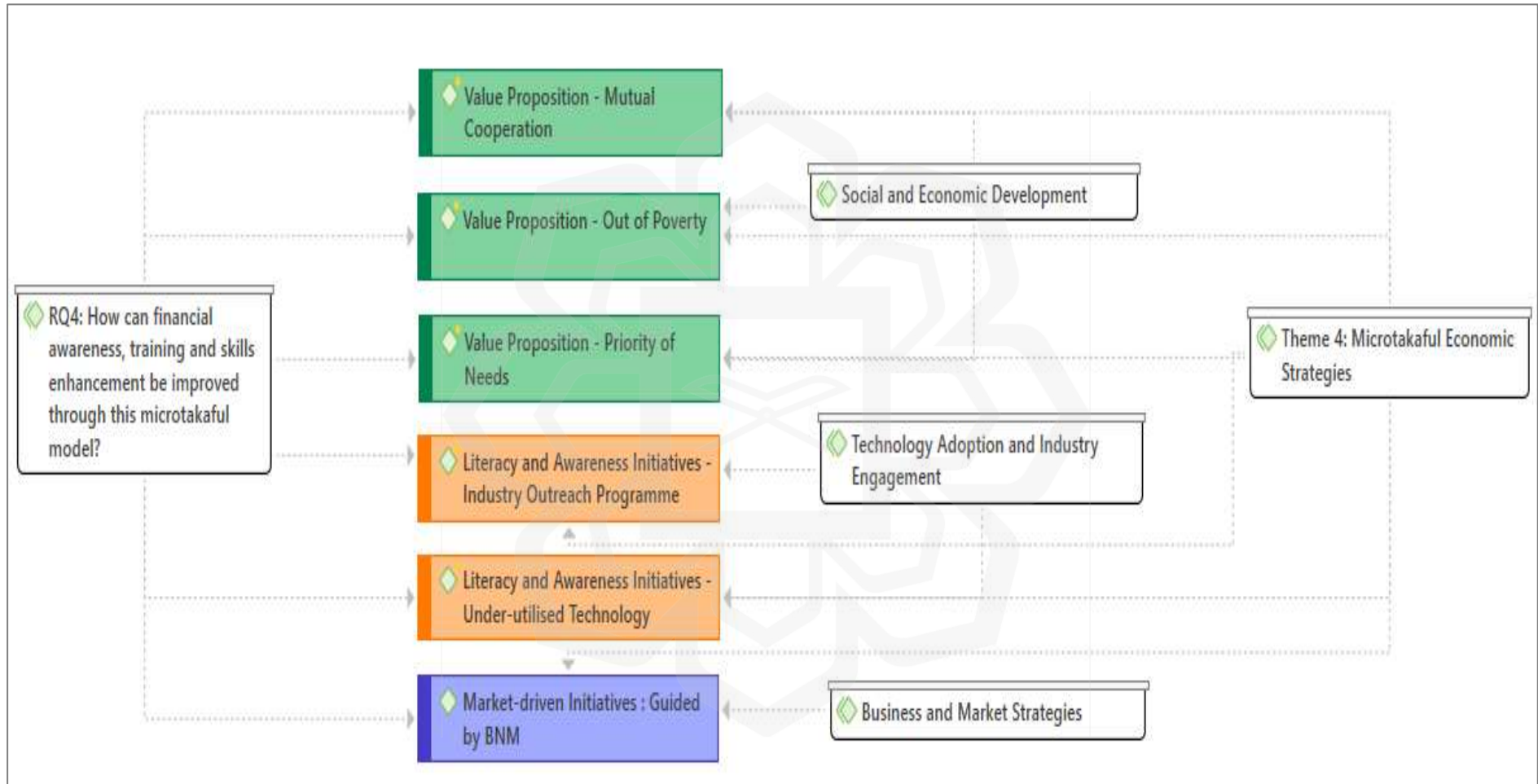


Figure 5.4 Network View of Research Question 4

## 5.6 DISCUSSION OF THE STUDY

This section discusses the extensive input provided by the respondents that contributed towards the formation of the four (4) major themes, which will in turn be applied in the structuring of the proposed microtakaful model. The discussion takes into consideration the minute details provided by the respondents, with the intention to set the base for the establishment of an MTO in Malaysia. Figure 5.5 illustrates the proposed microtakaful model which incorporates all inputs provided by the 18 respondents in response to the RQs designed to meet the ROs. This is subsequently followed by a visual breakdown of each of the ROs, and a list of operational recommendations to ensure the success of the microtakaful model to be implemented by the takaful industry. The recommendations of the respondents, which are non-exhaustive, are reflected in this section. Some of the recommendations which have been identified as proposed areas for future studies or research initiatives are presented in the next chapter.

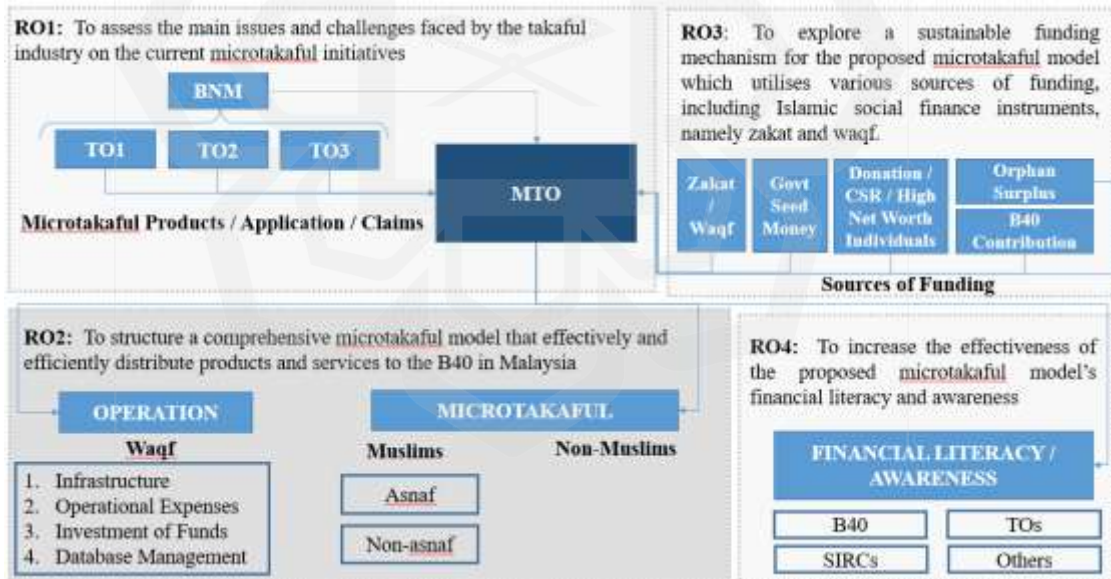


Figure 5.5 Proposed Microtakaful Model

### 5.6.1 Elaboration of Functions Based on Research Objectives

In analysing the data for all the four (4) major themes, the respondents frequently suggested the roles and functions of all the stakeholders involved in the establishment

of an MTO – the MTO itself, TOs, BNM and SIRC’s – based on the proposed microtakaful model. The following sub-sections attempt to elaborate on the suggestions in order to facilitate the industry’s understanding and implementation of the microtakaful model. Subsequent sections will explore each quadrant of the ROs to provide detailed recommendations for the implementation.

**5.6.1.1 Research Objective One (1): Issues and Challenges of Microtakaful**

Figure 5.6 shows the first quadrant of the proposed microtakaful model, illustrating the relationships between BNM, TOs and the MTO.

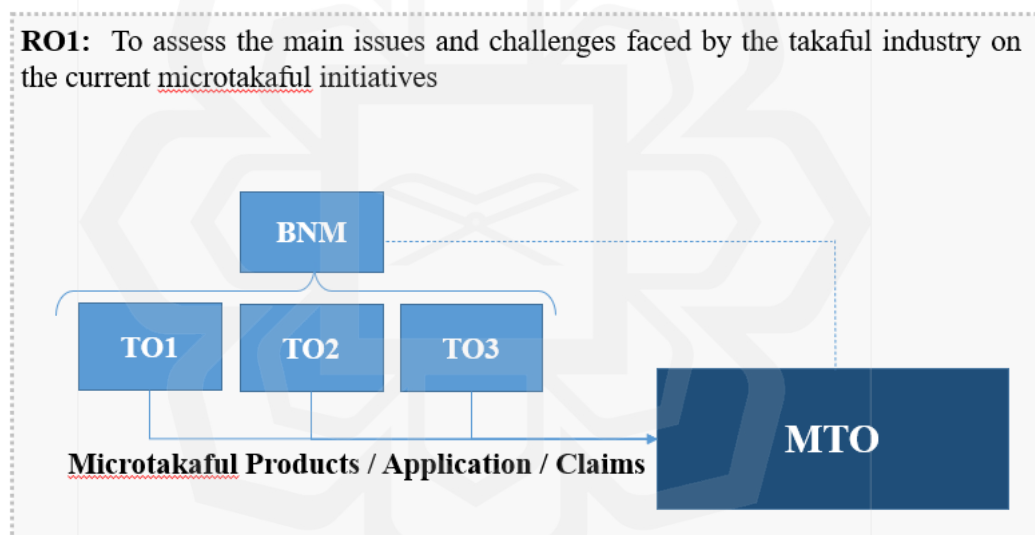


Figure 5.6 First Quadrant of Proposed Microtakaful Model

Figure 5.7 provides a visual representation of the stakeholders, where each has a role to play to help address the issues and challenges faced by the MTO during implementation.

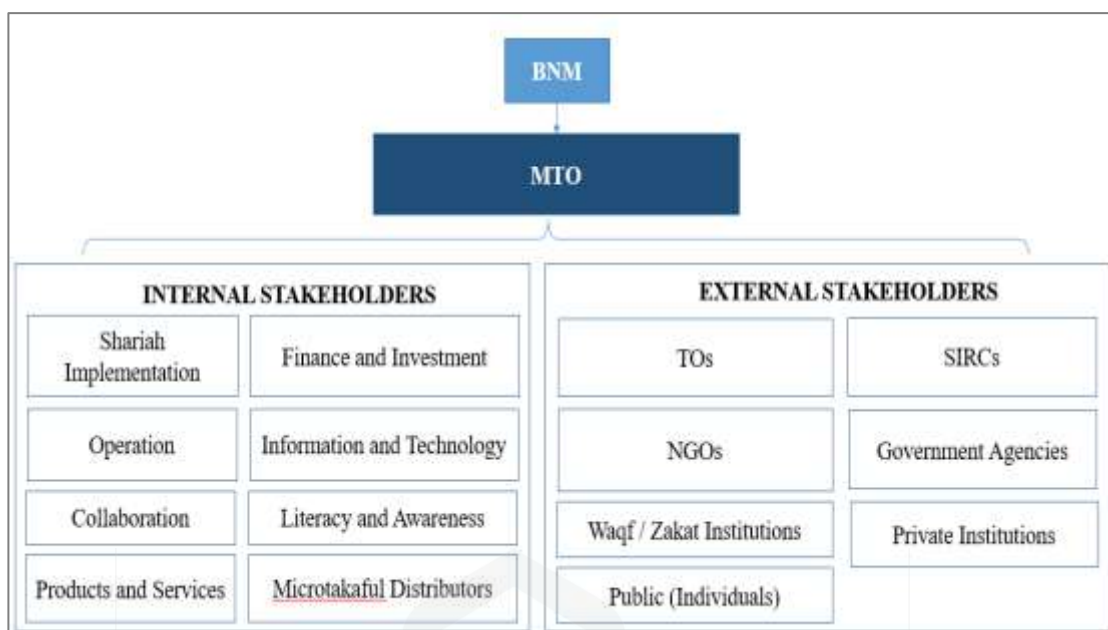


Figure 5.7 Stakeholders Involved in Addressing the Issues and Challenges of Microtakaful Initiatives

Based on the two (2) figures above, the following elaborates in detail the functions of BNM, MTO, and the MTO's internal and external stakeholders.

#### 5.6.1.1.1 Roles and Functions of BNM: Policy Recommendations

- (a) To continue to supervise the TOs to ensure that the products and services provided to the MTO do not compromise the financial stability of the TOs. Although the industry is operating under a more principle-based regulatory regime, close inspection of the operation of the MTO would be required, given that this would be the country's first MTO.
- (b) To authorise a proportionate regulatory and supervisory framework on the operations of the MTO to maintain financial and monetary stability and mitigate settlement risk.

- (c) To provide guidance on the financial literacy and awareness programme through its FEN initiatives. However, the programme will be driven by players in the takaful industry.
- (d) To facilitate further discussion on the utilisation of orphan surplus by the takaful industry to provide microtakaful protection to the B40.

#### 5.6.1.1.2 Roles and Functions of the MTO

- (a) To collate and manage all TOs' microtakaful products to avoid product abundance and redundancy.
- (b) To put in place an effective infrastructure and operationalise it effectively and efficiently using waqf money.
- (c) To have a direct relationship with the TOs for policy issuance, claims processes, database management, and generation of annual reports of microtakaful operation.
- (d) To abide by BNM's regulatory requirements for microtakaful products, via the TOs. BNM may choose to regulate the MTO on a proportionate regulation and supervision basis.
- (e) To submit microtakaful participants' listing for new application and claims notification to the respective TOs.
- (f) To act as the middle entity between microtakaful participants and the TOs to facilitate operational (application, underwriting and claims) flows.
- (g) To segregate the B40 participants according to the respective TOs to enable the monitoring of best-participating products.

- (h) To identify the best-participating microtakaful products for improvement-of-features purposes.
- (i) To create a database of the B40 with assistance from the respective TOs, SIRC's and government agencies, and segregate the data according to (i) Muslims and non-Muslims, (ii) asnaf and non-asnaf, and (iii) employed and unemployed.
- (j) To liaise with the respective states' SIRC's and to comprehend in detail the specific requirements of each state's SIRC.
- (k) To identify the best distribution channels to reach the B40.
- (l) To work with the TOs, IBFIM and BNM (under FEN initiatives), to identify training modules for the B40, TOs, SIRC's and other relevant stakeholders.
- (m) To segregate the B40 into two distinct groups: (i) have the ability to contribute, and (ii) have no ability to contribute.
- (n) To prepare annual reports which will include, among others, updates on penetration rate, claims ratio, and literacy and awareness initiatives.
- (o) To segregate funds into four (4) distinct categories: (i) operation, (ii) waqf (non-asnaf contribution), (iii) zakat (for asnaf only), and (iv) others (government seed money/ donation/ CSR/ high net worth individuals/ orphan surplus/ B40 contribution), and to manage the four (4) funds based on their distinct Shariah requirements.
- (p) To put in place a governance structure for the MTO.
- (q) To collaborate with the relevant government agencies to obtain tax exemptions for the TOs, philanthropists and donors involved in the initiative.

#### 5.6.1.1.3 Roles and Functions of MTO Internal Stakeholders

- (a) *Shariah Implementation Unit.* To work closely with the respective SIRC's on state-related matters and to ensure strict compliance with Shariah principles in the operations of the MTO. The unit will strictly monitor the distinct requirements of each of the 14 states in managing the zakat and waqf monies. The unit personnel should possess sufficient Shariah background and knowledge to ensure compliance with Shariah principles and rules, as required by each SIRC.
- (b) *Finance and Investment Unit.* To ensure strict separation of funds, as well as prudent and Shariah-compliant investment activities and transactions.
- (c) *Operation Unit.* To ensure smooth flow of operational process with all stakeholders, particularly in relation to the issuance of certificate of the B40, contribution distribution to respective TOs, and claims process for the B40. An appropriate standard operating procedure should be established between the TOs and the MTO to ensure that the operational flow of zakat, waqf and other sources of funds strictly abide by the Shariah requirements of fund separation.
- (d) *Information and Technology Unit.* To maintain a database of the B40, and ensure smooth operational flow of the MTO and clear segregation of funds based on sources of funding. This unit will collaborate with government agencies and SIRC's of the respective states to ensure that all the data of the B40 be accurately captured.
- (e) *Collaboration Unit.* To work closely with SIRC's and government agencies. This unit will also act as an intermediary between the MTO and SIRC's and other stakeholders within the microtakaful value chain.
- (f) *Financial Literacy and Awareness Unit.* To design the financial literacy and awareness programme for the B40, TOs, SIRC's and other relevant stakeholders, ensuring alignment with BNM's FEN initiatives. The B40

programme will be segregated based on their classification of B1, B2, B3 and B4 as well as the geographical dispersion of the group. The unit will also monitor the effectiveness of the programme.

- (g) *Product and Services Unit.* To work closely with the TOs and SIRCAs to establish the types of products and services for the B40, and to ascertain and monitor the take-up rate of microtakaful products.
- (h) *Microtakaful Distribution Unit.* To work closely with the stakeholders (SIRCAs, NGOs, government agencies) in engaging with the B40 through product offerings as well as literacy and awareness programmes.

#### 5.6.1.1.4 Roles and Functions of MTO External Stakeholders: Policy Recommendations

- (a) *TOs*
  - To provide the MTO with microtakaful products;
  - To perform all the operational roles (pricing, underwriting, policy issuance, claims, etc.) for the MTO;
  - To provide the MTO with technical expertise and advice from various perspectives, including providing B40 claims experience;
  - To abide by BNM's regulatory requirements on microtakaful; and
  - To abide by Shariah requirements to ensure a strict fund separation for funding received from zakat, waqf, orphan surplus and other sources of funds.
- (b) *SIRCAs.* To provide the MTO with specific requirements to be taken into account when preparing the standard operating procedures for collaboration, and to supply updates on changes in the states' fatwa, as and when they occur.

- (c) *NGOs*. To provide the MTO with requirements for collaboration and a list of B40 under their care, if applicable.
- (d) *Government Agencies*. To provide the MTO with a database of B40 to facilitate the assimilation of data received from other external stakeholders, and to collaborate on financial provision from the government via seed funding.
- (e) *Waqf/ Zakat Authorities*. To provide the MTO with requirements for collaboration and a list of recipients under the respective authorities' care to facilitate the assimilation of data.
- (f) *Private Institutions*. To provide the MTO with requirements and areas for collaboration and to facilitate relevant procedures to ensure a smooth operational flow, in particular for funding purposes.
- (g) *Public/ Individuals*. To provide the MTO with personal details and preference for sponsorship to facilitate coordination and data collection.

#### **5.6.1.2 Research Objective Two (2): A Microtakaful Model**

Figure 5.8 shows the second quadrant of the proposed microtakaful model which provides the breakdown of the comprehensive microtakaful model to fulfil RO2.

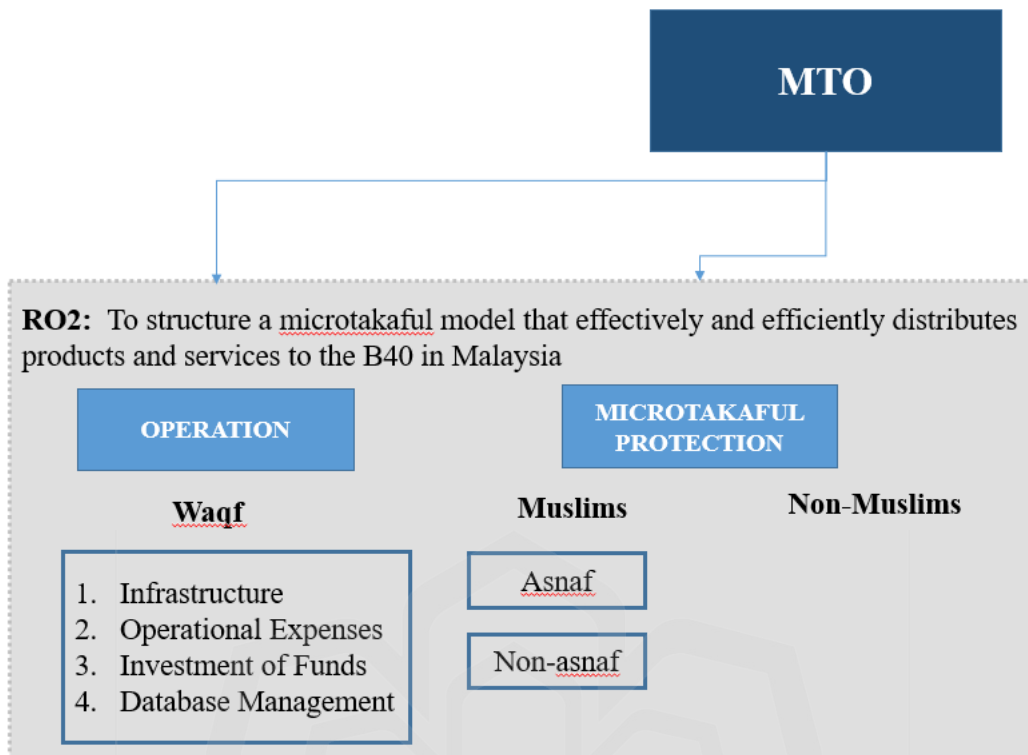


Figure 5.8 Second Quadrant of Proposed Microtakaful Model

Figure 5.9 illustrates the structure of the MTO operation, products and services, based on the proposed microtakaful model.

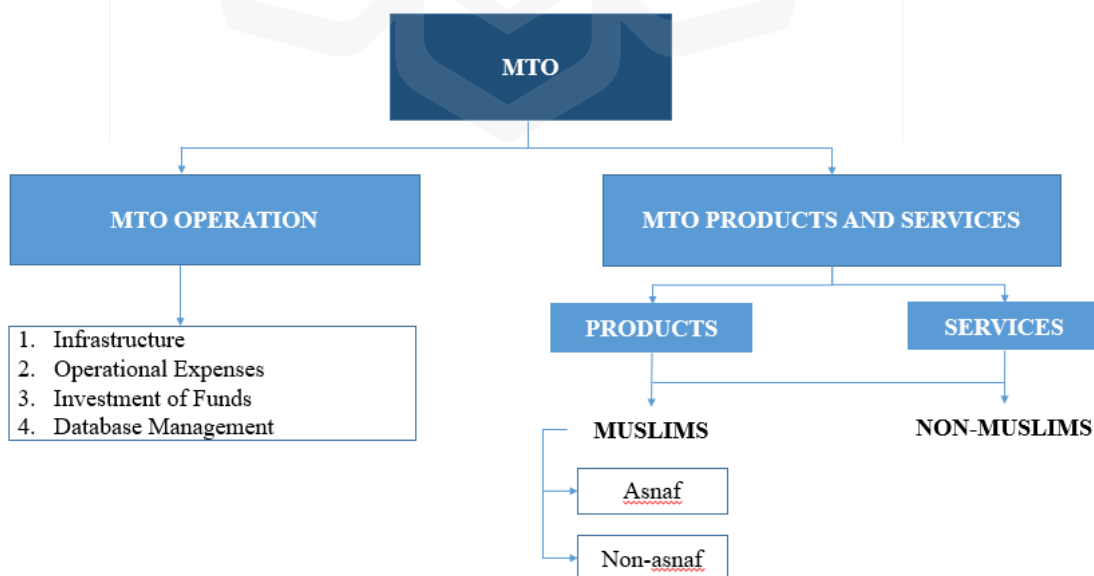


Figure 5.9 A Comprehensive Microtakaful Model

Based on the two (2) figures above, the following elaborates in detail the functions of MTO and its Operation, Products and Services in the microtakaful model for the B40. The categories of the B40 and their entitlement to the products and services will also be elaborated in this section.

#### 5.6.1.2.1 Roles and Functions of MTO

- (a) To divide its organisational structure into two functions, namely (i) MTO Operation and (ii) MTO Products and Services.
- (b) To categorise B40 information into (i) Muslims and non-Muslims, (ii) asnaf and non-asnaf, and (iii) employed and unemployed.
- (c) To register information on the B40 which will be maintained by the Information Technology unit of the MTO.
- (d) To offer microtakaful products and services of the TOs according to the various categories of the B40 (B1, B2, B3 and B4).

#### 5.6.1.2.2 Roles and Functions of MTO Operation

- (a) To operationalise the MTO, the capital is to be obtained from waqf fund (private or state owned). This can be in two forms: infrastructure/ property and seed money. The capital may also be obtained from the government's seed money.
- (b) To ensure funding obtained from private waqf be disclosed and registered with the respective states' SIRC's to avoid legal implications.
- (c) To fund operational expenses (including staff remuneration) through the investment income of the waqf fund and government's seed money.

Operational expenses may also be funded by the respective TOs, subject to reaching a consensus among the TOs.

- (d) To utilise waqf money to establish the Information Technology infrastructure, which includes the B40 database management system.

#### 5.6.1.2.3 Roles and Functions of MTO Products

- (a) To identify best-selling products of the TOs for the purpose of product enhancements.
- (b) To strictly abide by the B40 categories to ensure compliance with Shariah and regulatory requirements for the various sources of funding.
- (c) To liaise with the respective TOs to focus on product development and offerings for the B40.

#### 5.6.1.2.4 Roles and Functions of MTO Services

- (a) To work closely with BNM and liaise with the respective TOs and SIRC on financial literacy and awareness programme and other services that MTO decides to offer to the B40.
- (b) To continuously improve the services to be provided to the B40.
- (c) To strictly abide by the B40 categories (B1, B2, B3 and B4) to ensure compliance with Shariah and regulatory requirements for the various sources of funding.
- (d) To ensure that financial literacy and awareness programme for the TOs, SIRC and other relevant stakeholders be funded by sources other than zakat.

#### 5.6.1.2.5 B40 Muslim Asnaf Entitlement Specification

- (a) The MTO will determine the microtakaful coverage eligibility for unemployed Muslim asnaf based on their individual circumstances. This is to encourage them to acquire a livelihood instead of continuously relying on zakat for sustenance.
- (b) Employed Muslim asnaf will be provided coverage with minimal contribution.
- (c) The minimal contribution required for microtakaful coverage is expected to serve as a subtle initiative to promote literacy and awareness and generate curiosity about microtakaful among the B40.
- (d) Zakat (which received SIRC's approval for utilisation) is to be used for microtakaful contribution for employed Muslim asnaf.
- (e) Investment income from waqf (which received SIRC's approval for utilisation) is to be used for microtakaful contribution for employed Muslim asnaf.
- (f) Other sources of funding, such as government's seed money, donation, CSR, high net worth individuals, orphan surplus and B40 contribution are to be used for microtakaful contribution if it is not permissible to utilise both zakat and waqf.
- (g) Financial literacy and awareness programme to be customised for both employed and unemployed Muslim asnaf in order to narrow the knowledge gap.

#### 5.6.1.2.6 B40 Muslim Non-asnaf Entitlement Specification

- (a) The MTO will determine the microtakaful coverage eligibility for unemployed Muslim non-asnaf based on their individual circumstances. This is to encourage the non-asnaf to acquire a livelihood instead of continuously relying on zakat for sustenance.
- (b) Employed Muslim non-asnaf will be provided coverage with minimal contribution.
- (c) The minimal contribution required for microtakaful coverage is expected to serve as a subtle initiative to promote literacy and awareness and generate curiosity about microtakaful among the B40.
- (d) Investment income from waqf (which received SIRC's approval for utilisation) is to be used for microtakaful contribution for employed Muslim non-asnaf.
- (e) Other sources of funding, such as government's seed money, donation, CSR, high net worth individuals, orphan surplus and B40 contribution are to be used for microtakaful contribution if it is not permissible to utilise waqf.
- (f) Financial literacy and awareness programme to be customised for both unemployed and employed Muslim non-asnaf in order to narrow the knowledge gap.

#### 5.6.1.2.7 B40 Non-Muslim Entitlement Specification

- (a) The MTO will determine the microtakaful coverage eligibility for unemployed non-Muslims based on their individual circumstances. This is to encourage the non-Muslims to acquire a livelihood instead of continuously relying on financial assistance for sustenance.

- (b) Employed non-Muslims will be provided coverage with minimal contribution.
- (c) The minimal contribution required for microtakaful coverage is expected to serve as a subtle initiative to promote literacy and awareness and generate curiosity about microtakaful among the B40.
- (d) Zakat (which received SIRC's approval for utilisation) is to be used for microtakaful contribution for employed non-Muslim.
- (e) Investment income from waqf (which received SIRC's approval for utilisation) is to be used for microtakaful contribution for employed non-Muslim.
- (f) Other sources of funding, such as government's seed money, donation, CSR, high net worth individuals, orphan surplus and B40 contribution are to be used for microtakaful contribution if it is not permissible to utilise both zakat and waqf.
- (g) Literacy and awareness programme to be customised for both employed and unemployed non-Muslims to narrow the knowledge gap.

### ***5.6.1.3 Research Objective Three (3): Sustainable Funding Mechanism***

Figure 5.10 which illustrates the third quadrant that represents RO3 shows the sources of funding for the proposed microtakaful model. It comprises zakat, waqf, government seed money, donation, CSR funding, contribution from high net worth individuals, orphan surplus and B40 contribution. The sustainability of the model is expected to be achieved through appropriate strategy and utilisation of available funding.

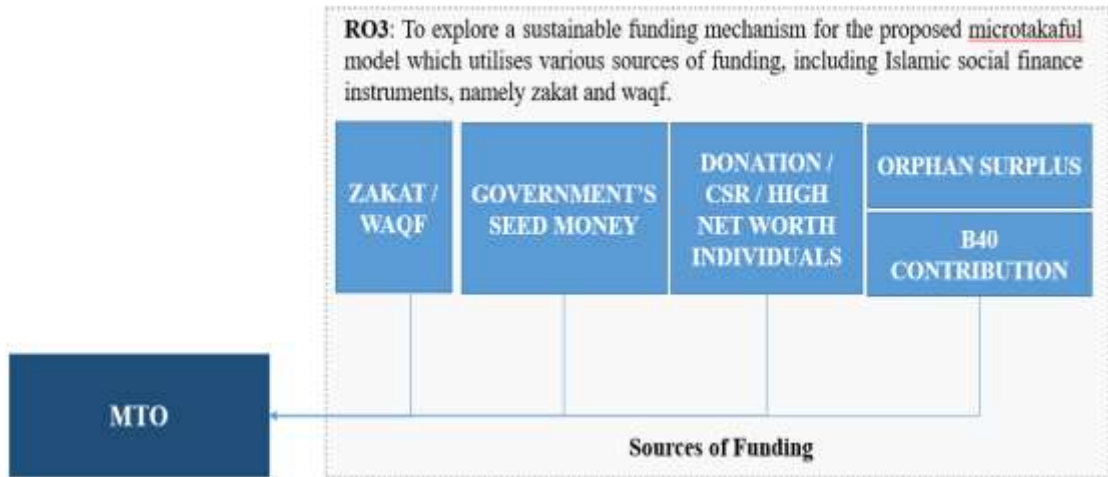


Figure 5.10 Third Quadrant of Proposed Microtakaful Model

Figure 5.11 further illustrates the structure of sources of funding within the MTO and how they are converged and managed by the MTO.

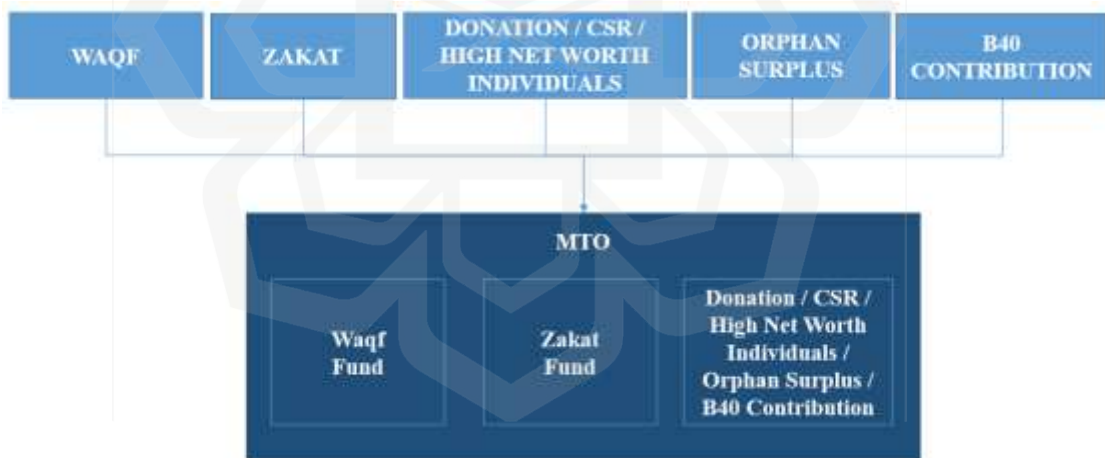


Figure 5.11 Sustainable Funding Mechanism for MTO

MTO will establish three (3) major funds, namely (a) Waqf Fund, (b) Zakat Fund, and (c) a fund which consists of government's seed money, donation, CSR funding, contribution from high net worth individuals, orphan surplus and B40 contribution. Three (3) separate aqad will be established for the three funds, with MTO observing strict compliance with Shariah requirements for waqf and zakat if it were to

collaborate with SIRC's. MTO shall put in place standard operating procedures for flow of funds from all the sources of funding.

Based on the two (2) figures above, the following sub-sections provide details on the management of the sources of funding by the MTO.

#### 5.6.1.3.1 Waqf Fund Specification

- (a) MTO to ensure that Waqf Fund be managed by qualified Shariah personnel who possess a sound understanding of the waqf requirements.
- (b) MTO to ensure that SIRC's' feedback, input and guidance be consistently sought on matters relating to Shariah requirements on waqf.
- (c) MTO to continuously keep itself abreast of the respective SIRC's' fatwa on utilisation of waqf as a source of funding for microtakaful initiatives, or establishment of a private waqf for microtakaful purposes.
- (d) MTO to ensure that if a private waqf is utilised as a funding mechanism, it will be disclosed and registered with the respective SIRC's to avoid legal implications.

#### 5.6.1.3.2 Zakat Fund Specification

- (a) MTO to ensure that Zakat Fund be managed by qualified Shariah personnel who possess a sound understanding of the zakat requirements.
- (b) MTO to continuously keep itself abreast of the respective SIRC's' fatwa on utilisation of zakat as a source of funding for microtakaful initiatives, or utilisation of wakalah zakat or corporate zakat for microtakaful purposes.

- (c) MTO to continuously keep itself abreast of the respective SIRCs' fatwa on utilisation of zakat as a source of funding for non-Muslims.

5.6.1.3.3 Government's Seed Money, Donation, CSR, High Net Worth Individuals, Fund Specification

- (a) MTO to establish standard operating procedures for the acceptance of government's seed money, donation, CSR funding, and contribution from high net worth individuals.
- (b) MTO to ensure that there be no legal or Shariah restrictions in the commingling of funds from the above sources.

5.6.1.3.4 Orphan Surplus

- (a) MTO to facilitate discussion with BNM and Shariah Advisory Committee to resolve Shariah-related issues pertaining to the utilisation of orphan surplus to fund the B40 contribution.
- (b) MTO to facilitate discussions with BNM and Shariah Advisory Committee to resolve Shariah-related issues pertaining to the channelling of future surplus to fund the B40 contribution.
- (c) MTO to ensure that there be no legal or Shariah restrictions in the commingling of orphan surplus with funds from government's seed money, donation, CSR, and high net worth individuals, and B40 contribution.

5.6.1.3.5 B40 Contribution

- (a) MTO to determine and segregate the B40 according to their level of income, asnaf or non-asnaf, employed or unemployed, and Muslims or non-Muslims.

- (b) MTO to ensure that appropriate contribution be charged to the B40 according to their respective B40 categories (B1, B2, B3 and B4).
- (c) MTO to ensure that there be no legal or Shariah restrictions in the commingling of B40 contribution with funds from government's seed money, donation, CSR, high net worth individuals, and orphan surplus.

**5.6.1.4 Research Objective Four (4): Financial Literacy and Awareness Programme**

Figure 5.12 illustrates the fourth quadrant which represents RO4. It shows the structure of the MTO from the financial literacy and awareness perspective. The initiative is expected to increase the financial literacy and awareness of not only the B40, but also the TOs, SIRC's and other relevant stakeholders, particularly in areas which may be unfamiliar to them, as highlighted by the respondents.

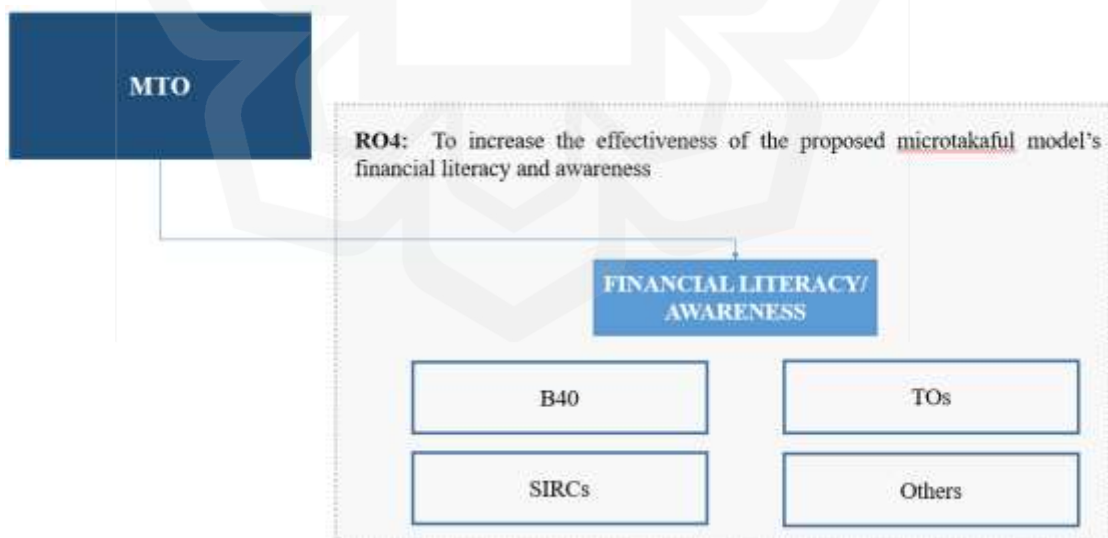


Figure 5.12 Fourth Quadrant of Proposed Microtakaful Model

Figure 5.13 depicts the structure of the financial literacy and awareness programme, which is divided into four (4) categories: the B40, TOs, SIRC's and other relevant stakeholders.

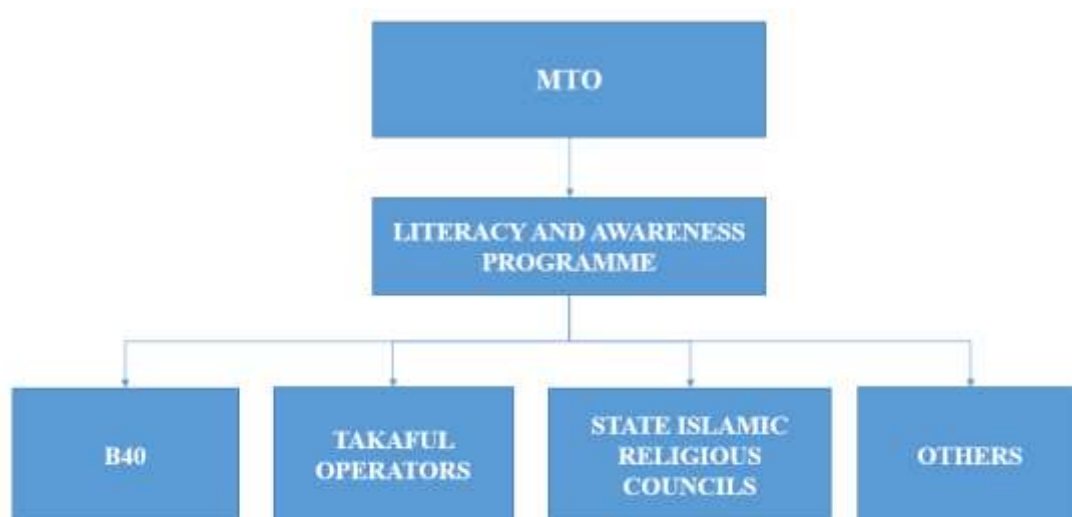


Figure 5.13 MTO Literacy and Awareness Programme

Based on the two (2) figures, the following outlines the financial literacy and awareness programme for the four (4) target audience:

- (a) *The B40*. The programme for the B40 will focus on various financial aspects such as savings, responsible spending behaviour, the importance of financial protection, and other areas which will be determined upon further understanding of the B40 demographic, cultural and geographical differences, and priorities.
- (b) *TOs*. The programme for the TOs will include the importance of understanding the demographic, cultural and geographical differences between the various B40 categories and the resulting financial constraints. Other relevant literacy and awareness programmes for the TOs will be customised upon the identification of the knowledge gap of the TOs.
- (c) *SIRCS*. The programme for SIRCS will include the understanding of the TOF. Continuous customisation will be made based on SIRCS's feedback.
- (d) *Others*. The MTO may also design programmes for other relevant stakeholders such as the NGOs to help increase their knowledge and

understanding of the model. Additional pertinent stakeholders may be identified as the MTO commences its operations.

Given that the MTO will undertake the literacy and awareness programme for four (4) target audiences mentioned above, careful thought process should be put in place prior to outlining the programme.

Financial literacy and awareness programme will be designed and customised with assistance from the respective stakeholders, specifically BNM, to ensure the objective for each of the target groups is achieved. The financial literacy and awareness programme will be carefully accounted for based on the requirements of each of the funds, namely waqf, zakat and others (government's seed money, donation, CSR funding, contribution from high net worth individual, orphan surplus and B40 contribution). The MTO may also consider collaborating with institutions that provide training for the industry stakeholders, such as IBFIM.

### **5.6.2 MTO Organisation Structure and Implementation Phase**

This section discusses the proposed organisation structure for the MTO. Figure 5.14 shows the proposed structure which also depicts the roles and functions of the respective stakeholders, as elaborated in Section 5.6.1.

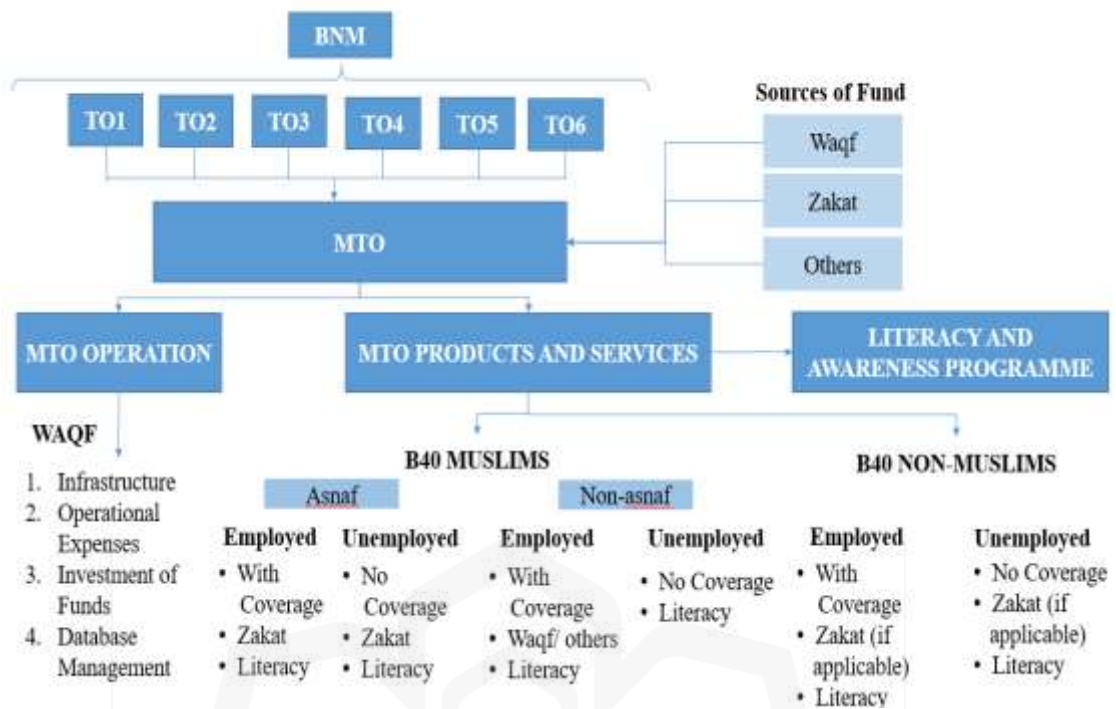


Figure 5.14 Proposed MTO Organisation Structure

The analysis presented in the earlier sections of this chapter demonstrates the various challenges to be encountered by the MTO should implementation of the proposed microtakaful model be undertaken through collaboration with the industry's stakeholders. The main obstacle is in forming alliance between the MTO and the SIRC's on utilisation of waqf and zakat monies to fund the microtakaful contribution of the B40. This study is however encouraged with the development currently observed in Selangor SIRC where productive use of zakat has been implemented to elevate the asnaf out of poverty. The positive change has motivated other states, namely Perak, to emulate the structure.

Given that change takes time, this section proposes three (3) phases of implementation for the MTO, taking into consideration the time frame required for financial literacy and awareness to be effective for all the four (4) targeted audience, and for a constructive collaboration to materialise between the stakeholders. The implementation stages are exemplified in Table 5.6.

Table 5.6 MTO Implementation Stages

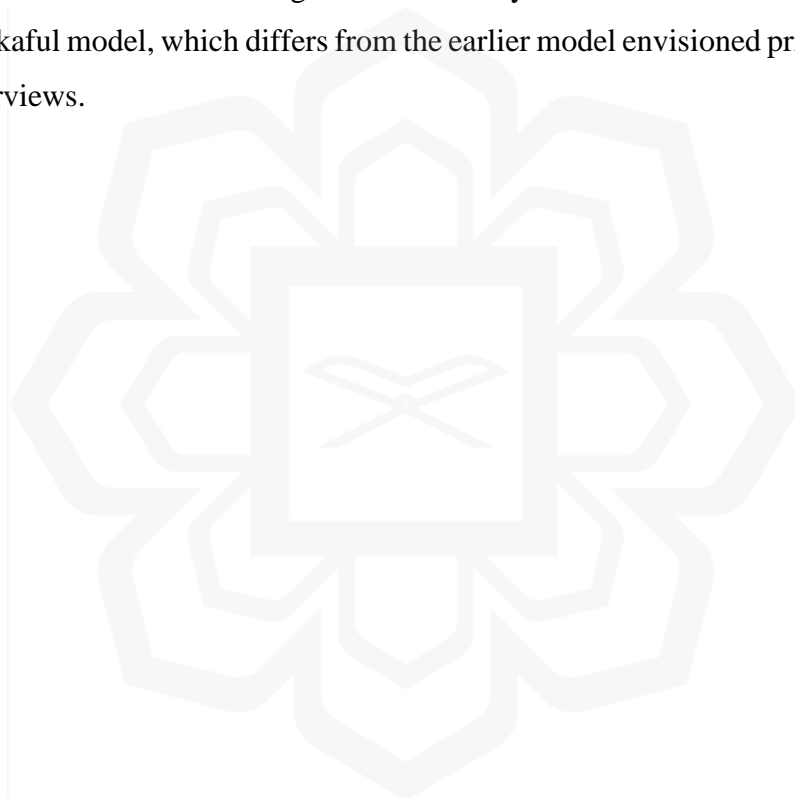
Phase	Milestones
Establishment Phase (3 years)	<ul style="list-style-type: none"> <li>• To formulate its Vision and Mission statements.</li> <li>• To establish the governance and risk management framework, based on guidelines stipulated by BNM.</li> <li>• To design appropriate remuneration structure which emphasises its establishment as a non-profit-generating organisation.</li> <li>• To select and appoint professionally qualified personnel as its human capital.</li> <li>• To ensure all its personnel be equipped with Shariah knowledge to assure strict observation of Shariah requirements.</li> <li>• To strictly observe the Shariah requirements when establishing the funds for its products, services and operation.</li> <li>• To offer existing products of the TOs and monitor the take-up rate of these products with the objective of identifying the best products that fit each of the categories of the B40.</li> <li>• To launch its financial literacy and awareness programme through collaboration with BNM and TOs, benefitting from BNM’s FEN initiatives and the TOs’ existing financial literacy and awareness initiatives.</li> <li>• To collate data of the B40 with the assistance of government agencies, particularly the ICU-PMO which manages the eKasih database containing the data of the B40.</li> <li>• To establish a standard operating procedure for each of the process flow for its internal and external stakeholders.</li> <li>• To collaborate with only one state (Selangor or Wilayah Persekutuan), given the state’s experience in managing the asnaf. This will facilitate the extension of products and services to the B40 during this phase.</li> <li>• To establish a standard operating procedure for the collaboration with the state.</li> <li>• To consider initiating the operation with one or two TOs for simplicity purposes, but may consider extending it to all TOs if the initiative receives encouraging response from them.</li> <li>• To begin offering the products and services to a small group of B40 based on the fund’s availability to ensure sustainability of the operation. To widen the group as it receives more funds for the operation.</li> <li>• To identify the most appropriate NGO(s) for collaboration. To begin with one or two NGOs during this phase.</li> <li>• To study other possible distribution channels, including digital approach to bank on B40’s wide access to internet.</li> <li>• To expect issues and challenges faced by newly set-up companies.</li> <li>• To obtain government’s commitment to turn microtakaful into a national agenda by including it in the 5- or 10-year economic plan.</li> <li>• To submit proposal to government for tax exemptions for the donors of this initiative.</li> </ul>

Phase	Milestones
Growth Phase (4-6 years)	<ul style="list-style-type: none"> <li>• To monitor the take-up rate, claims ratio and penetration rate of all the products offered by the TOs, based on the B40 categories.</li> <li>• To suggest best-fitting products and services for each of the B40 categories.</li> <li>• To analyse the success rate of the financial literacy and awareness programme, and make the necessary enhancement and improvement.</li> <li>• To recognise the best distribution channel to approach the B40.</li> <li>• To begin approaching other states' SIRC's for collaboration upon successful partnership with the first state.</li> <li>• To obtain other sources of funding from other states.</li> <li>• To widen its products and services coverage to include a wider group of the B40, while continuously ensuring the sustainability of funds.</li> </ul>
Maturity (6 years and above)	<ul style="list-style-type: none"> <li>• To continuously identify room for improvement for its operation.</li> <li>• To continuously improve its efficiency in its collaboration with internal and external stakeholders.</li> <li>• To further identify other sources of funding to elevate the economic status of the B40.</li> <li>• To continuously monitor the take-up rate, claims ratio and penetration rate of all the products offered by the TOs to ensure they meet the needs of the B40.</li> </ul>

## 5.7 CHAPTER SUMMARY

This chapter exemplifies the findings of the study, based on data collected through semi-structured interviews with all the 18 respondents. The findings which are grouped under Theme 1: Microtakaful Business Operation, Theme 2: Microtakaful Organisational Management and Strategies, Theme 3: Microtakaful Social Responsibility, and Theme 4: Microtakaful Economic Strategies are further broken down into categories which group the common comments provided by the respondents.

The overall feedback guided this study towards the creation of a feasible microtakaful model, which differs from the earlier model envisioned prior to conducting the interviews.



## **CHAPTER SIX**

### **CONCLUSION**

#### **6.1 INTRODUCTION**

This chapter provides a conclusion to this study. The chapter is divided into six (6) sections. Following the introduction, section 6.2 presents the major findings of the study, which were derived from analysis of data presented in Chapter 5. This is followed by section 6.3 which discusses the study's contribution to the body of knowledge, the B40, government agencies and the stakeholders of the takaful industry. Section 6.4 meanwhile sheds light on the limitations encountered by the researcher in conducting this study. This is proceeded by sections 6.4 and 6.5 which outlines the limitations and recommends future areas of research, respectively. A summary of the chapter is provided in section 6.6.

#### **6.2 MAJOR FINDINGS OF THE STUDY**

The feedback and findings from the respondents as presented in Chapter 5, supported by the initiatives and literature as outlined in Chapter 3, have led to the building of a foundation for a microtakaful model framework that may be feasible in Malaysia. The knowledge and experiences of the key stakeholders of the industry, in addition to the gaps found from the past and current literature, have presented opportunities for the nation's microtakaful initiative to prosper in a constructive manner. Notwithstanding the issues and challenges ascertained based on the data collected, the study concludes that with collaboration and commitment of the key stakeholders of the takaful ecosystem, such issues and challenges would be dealt with effectively.

The findings obtained through the data analysis affirmed that the following hypothesis formed at the onset of the study cannot be rejected.

H<sub>1</sub>: A sustainable microtakaful model for the B40 community in Malaysia may be established.

H<sub>2</sub>: Islamic social finance instruments can be adopted to develop a sustainable microtakaful model for the B40 community in Malaysia.

However, several key observations during the data collection and analysis process unveiled the need to look into specific areas in establishing the proposed microtakaful model. While sustainability may be theoretically established through Islamic social finance instruments, the current limitations set by BNM's regulatory framework and Malaysia's Federal Constitution will require due diligence to be undertaken before the model can be operationalised.

### **6.2.1 Findings Based on Research Objectives**

The major findings are elaborated based on the four (4) ROs of this study. This helps to substantiate and confirm the achievement of all the four ROs in order to conclude the study.

#### ***6.2.1.1 Research Objective One (1): Issues and Challenges of Microtakaful***

The first RO, which is the identification of issues and challenges surrounding microtakaful product offerings and initiatives, has been achieved. Under the new theme, **Microtakaful Business Operation**, 10 major issues contributing to the low penetration rate among the B40 group can be categorised under (a) structured operation, (b) strategic management, (c) business transformation, and (d) governance and policy.

Under the **Structured Operation** approach, the finding suggests the establishment of a centralised MTO to efficiently manage microtakaful products and financial literacy and awareness programme. The MTO is expected to play the role of an administrator and foster collaborations with stakeholders such as BNM, SIRC, NGOs, TOs and government agencies. However, the finding emphasises the importance

of expertise, good intentions, and collaboration for the effectiveness and efficiency of this approach. Given MTA's status as the industry association and its readiness to assume the role of MTO, it is recommended the centralised model be initiated and operationalised by MTA.

**Strategic Management** highlights the shifts from financial literacy to financial management for the B40. The transition from financial literacy to financial management signifies a paradigm shift, emphasising not just the acquisition of basic financial knowledge but also the cultivation of practical skills and strategic approaches necessary for effective financial decision-making within the B40 demographic. In addition, the need for literacy programmes extends to TOs' workforces, who should have a better understanding of the demographic structure of the B40. The importance of literacy programmes is emphasised not only for TOs and SIRCAs, but also for the general public.

In the context of **Business Transformation**, the finding recommends a realignment of marketing strategies, advocating a shift from placing emphasis on monetary aspects to promoting values such as mutual cooperation. Collaboration with NGOs is proposed for a wider outreach, and the potential of digital channels is highlighted to align the business transformation with the regulatory push for digitalisation.

The section on **Governance and Policy** highlights concern about the effectiveness of digitalisation without a deep understanding of the B40's characteristics. It is important to comprehend the specific need of each level of the B40 before implementing nationwide digitalisation for the B40. Concurrently, government subsidies are deemed crucial for the affordability of microtakaful products by the B40. The finding further advocates the need to address the Federal Constitution's complexities concerning zakat and waqf, which are important for a workable and sustainable microtakaful model.

Overall, the findings aim to guide the structuring of a microtakaful model that could effectively address the issues and challenges, which would in turn ensure efficient product distribution to the B40 in Malaysia.

### **6.2.1.2 Research Objective Two (2): A Microtakaful Model**

The study has also accomplished RO2, which focuses on the establishment of a microtakaful model that is capable of organising and systematising microtakaful product offerings for effective distribution to the B40. The microtakaful model, as defined in this study, involves modifications to the industry's mandate to address and efficiently resolve the issues highlighted in section 6.2.1.1. The new theme for RO2, **Microtakaful Organisational Management and Strategy**, centres around (a) microtakaful governance, (b) outreach and engagement, and (c) business planning and execution.

From the perspective of **Microtakaful Governance**, the microtakaful model, although designed with a more flexible governance approach, places significant importance on the Shariah Committee. The Shariah Committee is expected to play an expanded role beyond its normal functions. This includes overseeing Shariah compliance and ensuring separation between zakat fund, waqf fund and other sources of funding. The Shariah Committee is also expected to address concerns related to orphan surplus. It is proposed that the Shariah Committee collaborate with the Shariah Advisory Council of BNM to find solutions to the existing issue of orphan surplus, in addition to improving the aqad for future takaful certificates. Fund management complexities, including diverse funding sources, are also highlighted, emphasising adherence to distinct Shariah requirements for zakat and waqf.

The third category, **Outreach and Engagement**, suggests that effective engagement with the B40 be central to the proposed microtakaful model. NGOs are identified as one of the crucial partners. They would however, require technical knowledge and adequate compensation to ensure their support and help them play an active role in the national microtakaful initiatives. Other missionaries, including educators, community leaders and census takers, are proposed to enhance their awareness and understanding of the B40. The shift in perspective, from a profit-driven approach to a non-profit orientation with a smaller remuneration package, is also acknowledged as one of the essential components for the success of the microtakaful model.

In designing an appropriate **Business Planning and Execution**, executing the business plan is recognised as a significant challenge for the microtakaful model. Setting the right values for microtakaful offering is also identified as a crucial aspect, emphasising the need to realign the industry initiatives with the core values of takaful. Education on the mutual cooperation element of takaful is proposed, focusing on subtle advertisement techniques and impactful engagement in activities that are of interest to the B40. The phased execution plan suggests starting with one or two states, identifying popular microtakaful products, and gradually expanding as the operation matures. Development strategies include making microtakaful participation mandatory for B40 children, setting MTO targets, and studying industry models for emulation.

In summary, RO2 achieves the need to establish a microtakaful model, with key findings emphasising the enhanced role of the Shariah Committee, the need for diverse funding sources, and the importance of effective outreach programmes through NGOs and other stakeholders. Business planning involves having a set of values, education on mutual cooperation, and a phased execution plan. Development strategies focus on mandatory participation, successful collaboration stories with specific SIRC and government agencies, and setting goal-oriented targets. The success of the microtakaful model hinges on comprehensive strategies addressing governance complexities, outreach effectiveness, and meticulous business planning and execution.

### ***6.2.1.3 Research Objective Three (3): Sustainable Funding Mechanism***

The study has achieved RO3, where a sustainable funding mechanism has been explored and established, with modifications to be made to include the constructive feedback of the respondents. Sustainability of the funding mechanism in the context of this study is defined as the ability of the microtakaful model to continuously offer products to the B40, with minimal disruption to the microtakaful funds' ability to manage the operation of the model. While constructing RO3, the researcher had identified that a collaboration between TOs and zakat and waqf authorities might ascertain a continuous flow of funding. Chapter 3 elaborates the roles of the two instruments in elevating the B40 out of poverty. However, upon collection of data from the respondents, it was found that the ideal scenario of establishing such collaboration with the authorities that manage

these two instruments may actually be difficult to achieve. A new theme is established for RO3, that is **Microtakaful Social Responsibility**. This approach emphasises on funding and support derived solely from social finance instruments, comprising (a) CSR funds, (b) public administration or governance, (c) zakat and waqf funding, and (d) financial management and promotion.

Multiple avenues for funding have been proposed under **CSR**. The establishment of an MTO's CSR funds involves creating riders attached to participants' basic plans, voluntary transfer of surplus by participants, public donations, contributions from philanthropists and employees, and crowdfunding. However, concerns arise regarding the MTO's ability to categorise and manage funds effectively, thus necessitating a unique advertising mechanism to build public confidence.

The second category, **Public Administration or Governance**, requires a more structured government involvement to make microtakaful a national agenda. This includes consolidating government initiatives under one microtakaful scheme for the B40, obtaining fixed or committed government funding, and enacting laws requiring children's participation. The objective is to enhance sustainability and efficiency in microtakaful operations.

The third category of social finance instrument, **Zakat and Waqf Funding**, is expected to address the challenges posed by the Federal Constitution. Collaboration with SIRC's presents major hurdles, due to varying state requirements for zakat and waqf. The dubiousness in utilising the states' respective waqf funds prompted consideration of alternatives such as private waqf funds among TOs. However, this poses potential legal and Shariah complications, necessitating cautious actions to be undertaken by the takaful industry. The research underscores the importance of bridging the gap between SIRC's and TOs to retain zakat and waqf as viable funding sources.

The fourth category on **Financial Management and Promotion** involves developing strategies for financial sustainability. It encompasses simulations to ensure fund sufficiency, extensive marketing emphasising mutual cooperation values, and digital-based outreach to the B40, as well as to address orphan surplus challenges and create a sponsorship programme for specific B40 groups. It is also proposed that

sponsors be granted tax exemptions to enhance commitment to the sponsorship programme.

In conclusion, the microtakaful social responsibility model aims to secure continuous funding from diverse sources, while emphasising the importance of a collaborative and sustainable approach in offering microtakaful coverage to the B40.

#### ***6.2.1.4 Research Objective Four (4): Literacy and Awareness Programme***

Finally, RO4 has successfully addressed the need to improve the effectiveness of financial literacy and awareness programme, focusing on the B40 and other target audiences such as the TOs, SIRC's and other relevant stakeholders. The new theme, **Microtakaful Economic Strategies**, encompasses three main categories: (a) social and economic development, (b) technology adoption and industry engagement, and (c) business and market strategies.

The **Social and Economic Development** category underscores the importance of a unified message across all stakeholders in the takaful industry. This involves constructing a harmonious financial literacy programme with mutual cooperation as the core value. Concurrently, it highlights the significance of tailoring the programme to alleviate poverty among the B40, taking into account the distinct and diverse needs of various B40 segments based on their demographics and geographical locations. It is also important to understand the priorities of the B40. Equipping the TOs with knowledge about the B40 community is recommended, to enable them to design differentiated literacy programme for the B40 based on income levels. This may be undertaken by aligning the TOs' literacy programme with BNM's FEN initiatives. In addition, the study emphasises the need to expose SIRC's to TOs' values, while narrowing the skill and knowledge gaps and enhancing financial literacy programme.

From the perspective of **Technology Adoption and Industry Engagement**, the finding recommends targeting the second generation of the B40 for better industry outreach. Strategies include leveraging teachers as key influencers and providing scholarships to outstanding B40 students. At the same time, the research outcome

underscores the role of technology in increasing financial literacy. Given the widespread smartphone usage among the B40, utilising digital applications to impart subtle information and reminders on financial management and financial protection is identified as a viable approach under this category.

Meanwhile, the findings under the **Business and Market Strategies** category stress the importance of industry collaboration to ensure the effectiveness of literacy and awareness programme. It suggests a collective effort across the takaful industry, with specific emphasis on the leadership role of BNM under the FEN initiatives. In summary, RO4 recommends a comprehensive strategy that involves tailoring programmes, utilising technology, and fostering industry-wide collaboration to effectively enhance financial literacy and awareness among the B40.

### **6.2.2 Implications of the Major Findings on the MTO**

The achievement of the four (4) ROs collectively contributes to a comprehensive understanding of microtakaful challenges, the development of a model to address the challenges and strategies for sustainable funding, as well as an evaluation of the effectiveness of literacy and awareness programme. The insights obtained serve as a guide to the establishment and enhancement of microtakaful initiatives for the B40 community in Malaysia.

The establishment of an MTO will be the first of its kind in Malaysia, given the absence of an institution that collates the industry's microtakaful initiatives in the country. In anticipation that the research outcome is accepted and implemented by the takaful industry, several implications arising from the proposed model need to be addressed by the industry. This section discusses the various aspects to be taken into consideration when establishing an MTO. It elaborates on the areas of concerns, based on the researcher's personal experience in the takaful industry since the early 2000s to date. These challenges shall serve as a guide to help mitigate errors from recurring during the operationalisation of the MTO.

### **6.2.2.1 Shariah Requirements of an MTO**

The first and foremost requirement of an MTO is Shariah compliance. When the takaful industry started to grow in Malaysia in the 1990s, the TOs were driven by the regulatory guidance to increase their market share to 20% of the overall insurance and takaful industry by 2010 (BNM, 2001). In its effort to grow, inadvertent breaches of Shariah principles occurred, due to the industry's minimal knowledge and experience at the time. Although BNM was also new in regulating the takaful industry, it soon began to aptly pick up the TOs' mistakes and introduce appropriate measures and regulations to tighten the regulatory requirements.

Some of the key oversights include the breach of Shariah principles during the product development process. An example experienced by the researcher was in the formulation of aqad. In developing a takaful product, the key element that requires careful attention is the formulation of aqad between the TO and its participant (IFSB, 2013). In 2005, an oversight occurred arising from an attempt by a TO to produce a profitable takaful plan. However, the approved aqad by the Shariah committee was deemed to be counterproductive by the TO. Hence, the aqad, which was already approved by the TO's Shariah Committee was altered by the TO during the printing of the marketing collateral process<sup>35</sup>. BNM discovered the modification and this led to the issuance of two key documents in 2007 and 2009 (BNM, 2015) on product development process and Shariah Governance Framework, respectively. These two guidelines entail strict product development process, which includes verification of all product documentation by all senior management members of the TOs, particularly the Shariah Department.

Another example of an unintentional breach of Shariah principles was discovered in the nomination process of the beneficiary in the event of the participant's demise. Given the not yet matured nature of the industry, the TO had inadvertently failed to take into consideration the inclusion of a clause on Faraid Law in the

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<sup>35</sup> This incident was a personal experience of the researcher. However, due to the confidential nature of the oversight and negligence records, the researcher is unable to provide the citation for the event.

application form<sup>36</sup>. In this particular case, a participant named his fiancée as the beneficiary for a death benefit of RM350,000. Following his death in an accident, both the fiancé and his family had come forward to claim the proceeds. However, under the Faraid Law, the fiancée had no rights to the proceeds. Instead, the claim amount should be awarded to the deceased's family. BNM then intervened and under the pretext that all TOs should honour the oversight made in the application form, instructed the TO to pay out a total of RM700,000, out of which RM350,000 to be disbursed to the fiancée and the remaining to the deceased's family. The amounts paid to the fiancée and the family were sourced from the TO's SHF and the PRF, respectively<sup>37</sup>.

Another inadvertent error occurred during the development of sales illustration for the KWSP Annuity Takaful product which was created in year 2000 (Perdana, 2001). What was originally a projected amount of investment income was misunderstood by the participants of the product as a promise of investment income by the two TOs involved in the national scheme. Instead of the 6.5% projected investment income as presented in the sales illustration, the actual investment income amounted to only 4%, which resulted in lower-than-expected benefits to the participants. Again, BNM intervened and imposed on the TOs to honour the benefits based on the projected amount of 6.5%, where the difference between the projected and actual amounts was to be drawn from the respective TOs' SHF. The subsequent issuance of "Guidelines on Submission of Actuarial Certificate under Section 142 of the Insurance Act 1996 (Revised 2006)" (BNM, 2015) witnessed a strict requirement imposed by BNM to ensure that any projected investment income be clearly stated as such. This is to address the element of Participants' Reasonable Expectation (PRE) where at any point of a contract, the TO might give a slight indication of expected return, which could be interpreted as final and binding by the participants. In this instance, the TO would be liable for creating the PRE (BNM, 2013).

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<sup>36</sup> Faraid is defined as "the distribution of a deceased person's estate among their rightful heirs. It is based on the principles outlined in the Quran and Sunnah and aims to ensure fairness and justice in the division of inheritance. Faraid provides clear guidelines on how the estate should be distributed, specifying the shares of different heirs, including spouses, children, parents, and other relatives." (AmanahRaya, 2023).

<sup>37</sup> This incident was a personal experience of the researcher. However, due to the confidential nature of the oversight and negligence records, the researcher is unable to provide the citation for the event.

The incidences that occurred during the formation years of the takaful industry had since resulted in a surge of regulatory guidelines by BNM, specifically on the issuance of Shariah Governance Framework in 2010 by BNM (2010), which was then superseded by Shariah Governance Policy Document issued in 2019 (BNM, 2019).

The incidents and experiences of the takaful industry in the early years serve as significant reference points to the stakeholders if the MTO were to be established for the B40. As a segment of the population which has yet to possess a major share in the PRF, the B40 is a new domain to be explored by the takaful industry. Given their lack of exposure to the financial system, the B40 may not be aware of their rights as participants. What the non-B40 believe to be Shariah non-compliant may not be similarly understood or accepted by the B40. Hence, this is an area that requires careful consideration when drafting the MTO's operation procedure. Focus should be given to the aqad undertaking between the MTO and the B40. The requirement to "read and acknowledge with intention to participate" may not necessarily be undertaken by the B40, especially if the product participation sheet is transferred to the participant without any human interaction. Potential errors which may lead to Shariah non-compliant activities and the misconception that the MTO is profit oriented need to be mitigated at the inception of the MTO. With significant involvement of key stakeholders, such as SIRC, NGOs, and government agencies in the MTO operation, the likelihood of errors is expected to increase. This is primarily due to the fact that these entities lack the necessary knowledge and experience in takaful operations.

#### ***6.2.2.2 Clarity in Fund Separation***

The TOF imposes strict separation of funds (BNM, 2019) between the PRF, Participants' Investment Fund (PIF) and SHF. The rationale for the separation stems from the fact that the ownership of the SHF differs from those of the PRF and PIF. The detailed structure of the TOF was developed in line with the evolvement of the takaful industry. In the early days of takaful operation in the 1990s, the separation of funds between the PRF, PIF and SHF was undertaken on notional basis. The separation was only performed in financial statements, where in actuality, all the three (3) funds commingled physically. This approach was found to be ineffective, given the different

interests of the stakeholders. In addition, the possibility of combining or making errors in the numbers presented a thin line between Shariah-compliant and Shariah non-compliant reporting. This led to the regulatory intervention that requires TOs to physically separate the three funds from each other. As stipulated in IFSA 2013, Section 91 of the Act imposes that all TOs should separate the PRF and PIF from the SHF (BNM, 2013). Moreover, the Shariah Advisory Council of BNM in its 62<sup>nd</sup> meeting dated 4 October 2006, has resolved that separation of funds between the PRF and PIF is permissible, given that the PRF belongs to the participants collectively, whereas PIF belongs to individual participants (BNM, 2010).

In terms of the MTO's operation, the delicate issue of fund separation requires a more thorough scrutiny. The waqf aqad differs from the zakat aqad, which also differs from the contract of tabarru' of the PRF and PIF. The stakeholders' interests in these three funds carry a larger stake since the waqf and zakat funds fall under the authority of the individual fourteen state's SIRC. Whether or not the MTO receives approval from the respective SIRC to operate its own waqf or zakat funds, it remains uncertain that these states would embrace the changes in fatwa and authority. However, the slow transition in the change of fatwa and authority should not deter the MTO from observing fund separation since its inception. Regardless of whether or not the fourteen states would approve the establishment and utilisation of waqf and zakat funds by the MTO, the MTO should not ignore the Shariah and operational implications of non-separation of funds. In the event that the states prohibited the management of the waqf and zakat funds, the MTO is still obliged to ensure that the seed money for the waqf fund do not shrink, and the zakat money be strictly distributed to the eight (8) asnaf. It should be re-emphasised at this stage that the establishment of an MTO should be with the sole intention of expanding microtakaful products and services to the B40 instead of generating profits, other than to ensure the sustainability of the funds. This is because the industry is moving towards making takaful inclusive, with the objective of upholding Maqasid Shariah. By strictly observing the waqf and zakat rules, this indicates that the MTO is upholding its mandates.

### ***6.2.2.3 Securing Funding without Compromising the Mandates of the MTO***

The MTO model illustrated in this study stresses the importance of operationalising the MTO in phases instead of going full force at the onset. This is due to the uncertainty surrounding sources of funds. The SIRC's require an extensive amount of time to alter their perceptions of TOs. Some states have already started to slowly adjust their *ijtihad* on waqf and zakat, acknowledging the financial industry's evolution within Shariah principles. However, the process is still ongoing. Meanwhile, the government's subsidy commitment continues to remain uncertain. There is also a critical need for a substantial knowledge expansion in financial literacy and awareness among the B40, TOs, SIRC's and BNM. Changes of this nature require patience and perseverance on the part of the MTO, especially since the intentions are to uphold Maqasid Shariah and prove that Islamic social finance is the best tool for economic empowerment of the poor. To disregard waqf and zakat in the creation of the MTO, as suggested by some of the respondents in this study, would mean to give up on the best financial tools stipulated in the Quran.

In general, people are impatient for results, especially if the outcomes could help enhance their reputation or popularity. During the evolvement process of the MTO, some political leaders may appear to be genuinely interested in the mandates of the MTO. This may mislead the MTO into believing that the politicians truly have the poor's best interest at heart. While giving someone the benefit of the doubt is highly encouraged in Islam, the MTO should continuously cross-examine the politicians' actions and decisions to ensure that their crave for political mileage do not overshadow the objective of empowering the B40 economically. An example where cross-examination is required is during the campaign period ahead of the General Election where empty promises are made without any supporting data or information. The MTO should not be used by politicians to serve their own interests.

The MTO needs to be professionally run. The code of ethics imposed on the TOs should be enhanced for the MTO. Several respondents from among the TOs indicated the challenges faced in safeguarding the interests of the stakeholders, especially the shareholders. The need to make profits outweighs their good intention to provide affordable products and services for the poor. While VBIT is currently the

subject of widespread enthusiasm in the industry, materialising the goals set forth in the roadmap proves to be a challenge of its own. The proposed MTO would run on a non-profit-generating platform, which would make it susceptible to a different set of challenges. This includes politicians' personal intention or interests. Therefore, a stricter code of ethics based on Shariah principles needs to be put in place. If the current TOs' Shariah compliance is observed and monitored mainly by the senior management team, then the MTO should adopt a top-down approach where all levels of personnel are cognisant of all aspects of Shariah requirements. The MTO should not compromise its mandates to serve the poor and to uphold Maqasid Shariah when securing funding from various sources. This approach ensures that the organisation maintain its integrity and stay true to its mission of socio-economic empowerment within the framework of Islamic principles.

#### ***6.2.2.4 Finding the Solution to Fit the Needs of the B40***

The B40 is made up of four (4) different levels of income bracket. While some of the B40 possess adequate tertiary education to enable them to manage their finance responsibly, the same may not be said about those located in other geographically-challenged areas where knowledge is confined and financial management is regarded as an insignificant component of education. This is the segment of the B40 that is affected by geographical restrictions, as highlighted by the Theory of Poverty.

A respondent of this study envisioned an improved literacy and awareness level of the teachers in schools where the B40 reside. Instead of focusing on the first generation of the B40, her conviction revolves around the importance of teaching the second generation basic knowledge of financial management. This includes budgeting, saving and making informed decisions on money matters. The key point exemplified is the current initiative introduced by MAIWP, where it sponsors students from the B40 to further their studies in Kolej Professional Baitul Kuala Lumpur (Ministry of Higher Education, 1992). While the respondent applauded the joint efforts of MAIWP and the Federal Territories Foundation in providing knowledge enhancement opportunities to the B40 children, she believed that the initiatives could be further improved. Her main proposition for the effectiveness of the literacy and awareness programme is to change

the mindset, cultural and societal belief of the B40. This is in line with the Theory of Cultural Belief Systems that Support Sub-cultures of Poverty, which advocates that poverty may be attributed to the cultural belief system of the poor, which may have been inherited from the previous generations. Instead of sending the B40 students who excel in their studies to Kolej Profesional Baitulmal, she suggested that they be placed in colleges attended by students from the M40 and T20 groups. This is to expose the B40 children to a different mindset, where competition is no longer among them but also among the M40 and T20 excellent students. This process would allow their mindset to expand to include distinct values that make the M40 and T20 who and what they are today. The respondent also suggested that these excellent students from among the B40 be sponsored tertiary education in the world's top universities for international exposure. Although the proposition may seem quite far-fetched, the respondent believed it is worth pursuing.

Lifting the B40 children out of poverty requires vertical elevation of mindset, in addition to horizontal expansion of knowledge. However, as discussed in the Theory of Geographical Disparities, the risk of out-migration might arise once the selected students have acquired sufficient knowledge to enable them to move out of the mindset of the poor. Therefore, there needs to be in place a mechanism that gives the out-migrated B40 children the responsibility to contribute to their B40 community. This leads to the biggest challenge in financial literacy and awareness of the B40. This study discovers that in order to change the mindset, financial literacy and awareness programme need to be designed for all the stakeholders. Under the current education system, all children in the national primary schools are required to go through the same syllabus. Some of the children are able to excel in their studies while some may find themselves having difficulties in comprehending even the basic reading, writing and arithmetic skills. The disparity in knowledge does not mean that the latter is intellectually inferior than the former. Rather, it reflects the education system's inability to customise the syllabus according to the children's disparate abilities. Taking this into the context of the financial literacy and awareness programme of the MTO, this would pose a challenge to the MTO if the programme is not developed according to the different needs and privations of the B40. Based on these two factors, the MTO may wish to consider the proposed matrix of literacy and awareness needs of the B40, as shown in Table 6.1 below:

Table 6.1 Sample Matrix of Literacy and Awareness Needs of the B40

B40 Category	Region	Topic of Interest	Programme Mode
B1	Klang Valley	Savings	Media commercial
B2	Kelantan	Savings	Indirect exposure
B3	Sarawak	Financial resilience	Face-to-face
B4	Kuala Lumpur	Financial resilience	Financial carnival

The biggest challenge would be putting in place the right financial literacy and awareness programme for the right target segment. This requires research and understanding of the B40 from the respective regions, given that what is good for say, the B1 category in the Klang Valley may not be effective for B1 in Kelantan; what is considered good knowledge for B4 in Kuala Lumpur may not be relevant for the same category in Sarawak. This is the crux of the financial literacy and awareness challenge. The example in Table 6.1 is only from the angle of financial literacy and awareness programme for the B40. This matrix should similarly be created for the literacy and awareness programme for the TOs, SIRCAs and other relevant stakeholders. The respondents' concern on the stakeholders' lack of familiarity with the authentic demographic structure of the B40 can be addressed by integrating the literacy and awareness programme of the MTO with BNM's FEN initiatives. This exercise however takes time. In addition, allocating resources for this exercise will only be counterproductive for the TOs since preserving the financial interest of the stakeholders outweighs the preservation of the B40's interest.

Hence, a collective effort is required from the industry. The process is expected to be slow. However, once true understanding of the needs of each relevant stakeholder of the literacy and awareness programme is achieved, this will enable such programme to be conducted constructively and the results measured. It should also be emphasised that the core of financial literacy and awareness programme should not revolve around the need for microtakaful or takaful, per se. Rather, the crux of the matter should revolve around the basic knowledge of financial management. The B40 should be exposed to essential knowledge of savings, cash flow management, and financial resilience.

Obtaining a microtakaful coverage should be a by-product of the B40's successful apprehension of basic financial knowledge. It is envisioned that holistic comprehension of the B40 demographic structure, cultural and geographical spread take into consideration the findings of this study, which are supported by empirical studies conducted by past researchers as well as the theoretical foundation established under the five (5) theories of poverty.

#### ***6.2.2.5 Obtaining the Right Mix of Personnel and Creating a Healthy Working Environment***

The TOF specifies that the TOs need to strictly observe the following requirements in its operational framework (BNM, 2019):

- (a) Application of Shariah contracts;
- (b) Establishment and maintenance of takaful funds and SHF, including, where applicable, establishment of additional takaful funds or consolidation of additional PRF(s);
- (c) Product structuring;
- (d) Management of underwriting;
- (e) Management of retakaful;
- (f) Management of investments;
- (g) Management of claims;
- (h) Remuneration for management of takaful funds;
- (i) Management of operating costs;
- (j) Management of surplus in PRF; and
- (k) Management of deficiency and loss rectification.

Each item indicates specific and crucial prerequisite of hiring the right personnel to perform the tasks competently. The measures are put in place by BNM to ensure the TOs' responsibility as the fund manager of the participants be undertaken with the right combination of technically qualified individuals who will work together to ensure the sustainability of the takaful operation.

While the microtakaful model proposed in this study recommends the detachment of the MTO from being directly supervised by BNM, it does not recommend relieving the operator from observing the requirements set forth in the TOF. The reason is obvious. The MTO has the sole responsibility towards its set of participants, who are the B40. As the industry's charitable and non-profit generating initiative, the MTO should be exempted from reporting directly to BNM. The responsibility of observing the requirements of the TOF lies entirely with the TOs as they have invested considerably in human capital. Due to its nature of a charitable organisation, minimal cost should be incurred by the MTO.

Nevertheless, despite it being a charitable entity, the MTO should be able to generate enough investment on its own to cover operational costs as well as have enough reserves to sustain its operations. The question is whether the MTO could obtain the right mix of technical professionals to manage the MTO in a healthy environment – an environment that is not profit-oriented, conscious of regulatory requirements, and has the interest of the B40 at heart without threatening the stability of the MTO. The IAIS in its “Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets” provides guidance to the industry on proportionate regulation for financial inclusion. The two-way approach of proportionality principles is, simpler and less burdensome guidelines will be used for low-risk activities, and more sophisticated methods and techniques will be used for high-risk activities (IFSB, 2015). Taking the proportionality approach into the context of the MTO, the governance framework should consider embedding the relevant requirements, as outlined in the TOF. The governance framework should also take into account the involvement of other stakeholders that fall outside the realm of BNM, specifically the NGOS and SIRC.

As explained by the respondents of this study, there exists a dissimilar working culture between the TOs, SIRC and the NGOs. What is deemed professional by the TOs may be deemed too inflexible by SIRC and the NGOs. A balance needs to be achieved for the MTO if collaboration between the stakeholders were to be effective. Understanding the financial industry's stringent regulatory framework is equally important as understanding the Federal Constitution's justification in placing Shariah matters under the authority of each different state. Similarly, understanding the working culture of the NGOs will enable the TOs and SIRC to customise specific arrangement

for collaboration without compromising their core values. Given that this would be the first MTO in Malaysia and collaboration of such nature has never been undertaken on a large scale, there is a possibility that each of the stakeholders might attempt to exert its influence over the management of the MTO. As such, an in-depth study on the MTO's management structure should be initiated to address the challenges.

#### **6.2.2.6 Complimentary Microtakaful Coverage for B40 Elderly**

The proposed microtakaful model in this study excludes complimentary coverage to the B40. There are a few justifications for this. First, there is the need to ensure financial stability of the TOs, given that the B40 is a group whose mortality and morbidity experience are yet to be understood thoroughly by the TOs for the purpose of pricing the microtakaful products prudently. Second, the minimal contribution imposed serves as a starting point for learning, which is to ignite the B40's interest in the coverage that they are paying for and encourage them to ask questions to learn more about the coverage. Thirdly, the coverage provided to the employed B40 will motivate those unemployed to find a job in order to elevate themselves economically.

Given these rationalisations, the question concerning B40 elderly arises as they may not be able to fund their own microtakaful contribution due to age-related factor. Will the MTO be upholding Maqasid Shariah if the B40 elderly is not included in the MTO products and services? As suggested by a respondent, mandatory participation should be imposed on the children of the B40 elderly. Contribution for the B40 elderly should be paid by the children. A law should be enacted for such obligation to take effect. This is pertinent especially if the microtakaful product offered by the MTO includes medical treatment in hospitals. If mandatory participation by the children is not imposed or the B40 children do not have the means to contribute for their elderly, the contribution for the B40 elderly may be funded by the government or zakat. By year 2030, 15% of the Malaysian population will be 60 years old and above and Malaysia will be categorised as an ageing society or an old country (DOSM, 2015). This is an area of concern that should be taken into consideration by the MTO, especially since 2030 is only about six (6) years away, and some of the B40 may turn into B40 elderly by the end of the decade.

### **6.2.3 Summary of the Major Findings and Implications on the MTO**

Table 6.2 provides a summary of the major findings from all the four (4) ROs and RQs, and the implications of these findings on the takaful industry.



Table 6.2 Summary of Major Findings and Implications on the MTO

<p>RO1: To assess the main issues and challenges faced by the takaful industry on the current microtakaful initiatives</p> <p>RQ1: What are the main issues and challenges faced by the takaful industry with regards to the current microtakaful initiatives?</p>	
<p><i>Major Findings</i></p>	<ol style="list-style-type: none"> <li>1. The microtakaful initiatives of the various TOs may be improved if a structured operation is put in place via a centralised MTO.</li> <li>2. The oversupply of microtakaful products in the takaful industry is a result of the TOs' reaction to meet the regulatory call for financial inclusion.</li> <li>3. The motivation to meet the regulatory call has resulted in the TOs giving the expansion of the financial literacy and awareness programme beyond the Klang Valley a low priority.</li> <li>4. The concerns among the TOs still revolve around the ability to manage their expenses in developing and offering microtakaful products.</li> <li>5. Misunderstanding the priority of needs of the B40.</li> <li>6. Realignment of the marketing strategies for the TOs to reach out to the B40.</li> <li>7. Minimal utilisation of digital channel to reach out to the B40; B40 is not familiar with digital participation.</li> </ol>
<p><i>Implications on MTO</i></p>	<ol style="list-style-type: none"> <li>1. The risk of emergence of Shariah compliance issues which the industry has never experienced before.</li> <li>2. Unfamiliarity with the PRE of the B40.</li> <li>3. Unfamiliarity with the collaboration mechanism with all the stakeholders.</li> </ol>
<p>RO2: To structure a microtakaful model that practically and smoothly collates and distributes products and services to the B40 in Malaysia</p> <p>RQ2: How can a microtakaful model practically and smoothly collate and distribute products and services to the B40 in Malaysia?</p>	
<p><i>Major Findings</i></p>	<ol style="list-style-type: none"> <li>1. The need for the Shariah Committee of the MTO to not only look at the Shariah compliance elements of the microtakaful products, services and operational activities, but also to focus on the requirements of zakat and waqf.</li> <li>2. To put in place appropriate structure of the microtakaful model, especially in the management of microtakaful funds.</li> <li>3. NGOs to form part of the microtakaful model.</li> <li>4. Engagement of other types of missionaries such as the educators of schools and universities, heads of communities, or census takers.</li> <li>5. Setting the right values of the microtakaful model from the beginning.</li> <li>6. MTO's mandates to be split into several phases of execution.</li> <li>7. Putting in place development strategies for the microtakaful model.</li> </ol>

<i>Implications on MTO</i>	<ol style="list-style-type: none"> <li>1. Challenges in managing the separate zakat and waqf funds as well as other sources of funds.</li> <li>2. Unfamiliarity with the type of aqad to be established.</li> </ol>
<p>RO3: To propose a sustainable funding mechanism for a microtakaful model which utilises Islamic social finance instruments, namely zakat and waqf.  RQ3: How can funding from zakat, waqf and other sources of funds be utilised efficiently and effectively for this microtakaful model to sustain indefinitely?</p>	
<i>Major Findings</i>	<ol style="list-style-type: none"> <li>1. Establishment of the MTOs' CSR fund to collect funding from various sources.</li> <li>2. A more structured and committed involvement of government in making microtakaful a national agenda.</li> <li>3. The need to collaborate with different states according to the different rules and regulation.</li> <li>4. Fund sufficiency is highlighted as the main concern of all the respondents.</li> <li>5. Marketing is proposed to be undertaken extensively in order for the MTO to obtain more funding.</li> <li>6. Utilisation of non-bank applications to allow for microtakaful participation.</li> <li>7. Orphan surplus to be utilised for microtakaful participation.</li> <li>8. Creation of a sponsorship programme for the B40 coverage.</li> </ol>
<i>Implications on MTO</i>	<ol style="list-style-type: none"> <li>1. Impatience to let the fund grow in phases, leading to possible interference and manipulation by self-focused politicians.</li> <li>2. Compromisation of the code of ethics.</li> </ol>
<p>RO4: To increase the effectiveness of the proposed microtakaful model's financial literacy and awareness programme for the B40  RQ4: How can financial awareness, training and skills enhancement be improved for the B40 through this microtakaful model?</p>	
<i>Major Findings</i>	<ol style="list-style-type: none"> <li>1. The need for all the industry stakeholders to be coherent when designing financial literacy and awareness programme for the B40.</li> <li>2. To focus on getting the B40 out of poverty.</li> <li>3. To include TOs, SIRC's and other relevant stakeholders in the financial literacy and awareness programme.</li> <li>4. Educating the second generation of the B40 rather than the first generation.</li> <li>5. The roles played by technology and the entire takaful industry to increase the financial literacy and awareness of the B40.</li> <li>6. Financial literacy and awareness programme to be led by BNM under the FEN initiatives.</li> </ol>
<i>Implications on MTO</i>	<ol style="list-style-type: none"> <li>1. Longer duration to reach out to the B40, given the different requirements of B1, B2, B3 and B4.</li> <li>2. Prolonged resistance to change by the B40.</li> </ol>

### **6.3 CONTRIBUTION OF THE STUDY**

This study serves as a platform for the (a) takaful industry to improve their products and services for the B40, (b) B40 to enhance their lifestyle to ensure inclusion into the financial system, (c) researchers to further evaluate the model to benefit the body of knowledge, and (d) government and government agencies to expand their services to the public.

#### **6.3.1 Contribution to the Takaful Industry**

The findings of this study will benefit the takaful industry in several ways. The TOs, in particular, are able to refer to the findings of the study as a guide for them to utilise other types of funding which includes Islamic social finance instruments. This will enable them to offer more comprehensive and sustainable microtakaful products, as well as achieving the VBIT goals set by BNM. The implementation of microtakaful for the B40 would enable the TOs to offer more innovative products and collaborate with government agencies to improve the financial sector, thus strengthening Malaysia's leading role in Islamic finance at the global front, as envisioned in the BNM's FSBP 2022-2026.

#### **6.3.2 Contribution to the B40**

The microtakaful model proposed in this study is expected to benefit the B40 group from various aspects. First, it would enable them to obtain microtakaful protection at an affordable contribution, thus improving the financial inclusion among the low-income group. The microtakaful scheme is expected to have the following features: affordable, readily accessible, straightforward to understand, simple to join, and uncomplicated to claim. The new model is anticipated to meet the national agenda of ensuring the ability of the B40 to live a dignified and prosperous life and continue to contribute to national development. Second, a comprehensive microtakaful model is envisioned to smoothen the process of reaching out to the B40, whilst ensuring the stability of the financial industry when the higher-risk B40 are included in the PRF. Thirdly, the proposed model

aims to provide the B40 with microtakaful coverage with a sustainable financial assistance made available by the zakat and waqf funds and other sources of funding, without compromising the legal and Shariah implications when dealing with the respective SIRC. Finally, the B40 group will be provided with the necessary knowledge of financial services, education and skill-development training to help them upgrade their lifestyle and eventually leave the poverty zone.

### **6.3.3 Contribution to the Body of Knowledge**

This study bridges the gap in microtakaful by contributing valuable insights to the body of knowledge, thereby enhancing the understanding of microtakaful principles and practices. The theories of poverty set the foundation of understanding the nature and characteristics of the B40, which in turn helps to improve the way microtakaful is offered to this community. The various theories facilitate a thorough understanding of the characteristics and mindset of the B40, and the reasons they remain poor. Such comprehension is required if proposals were to be made by future studies to elevate the economic status of the B40. In addition, as highlighted throughout the chapters of this study, it was observed through literature review and respondents' feedback that the microtakaful initiatives in Malaysia are still at its nascent stage. Although a number of literature has attempted to narrow the gaps between the regulatory, operational and model perspectives, a thorough and comprehensive research to uncover issues surrounding the microtakaful environment has yet to be conducted. In addition, to the best knowledge of the researcher, the various models proposed in the literature have yet to provide a holistic view of how a sustainable microtakaful model may be established through Islamic social finance instruments, or suggestions on how a microtakaful model may operationalise while addressing the various constraints faced by the industry. This study, however, has revealed several areas in relation to the offering of microtakaful for the B40, for improvement.

### **6.3.4 Contribution to the Government and Government Agencies**

The involvement of the Islamic social financial sector such as zakat and waqf is expected to reduce the burden on the government finances in subsidising the contributions of financial protection for the B40. The outcome of this study will also provide important input to the relevant ministries and government agencies when allocating financial resources for microtakaful coverage to the B40. The direct involvement of Islamic financial social institutions in the planning and managing aspects of microtakaful protection, undertaken in an integrated manner, will contribute towards the successful achievement of the national aspirations of providing the B40 with access to financial services at affordable costs, as outlined in the SDGs: SDG1 No Poverty, SDG3 Good Health and Well-being, and SDG10 Reduced Inequality.

### **6.4 LIMITATIONS OF THE STUDY**

As indicated in Chapter 1, this study revolves around the microtakaful initiatives within the setting of the Malaysian takaful industry. It has identified several limitations concerning the confined geographical area of study, as well as access to local regulatory body and government agencies. These limitations should be observed by future researchers on microtakaful.

Firstly, this study is limited to the involvement of only the senior officers of the TOs, Shariah Committee members, a board member of a TO, and two state agencies. It excluded BNM since the researcher's several attempts to obtain the regulator's feedback were met with deferment. As this would hinder the researcher from moving forward, the decision was made to exclude BNM from this study. This study is also intentionally delimited to an examination of the perspectives within the microtakaful industry, with a primary emphasis on industry players and regulatory frameworks. The exclusion of the B40 population is a deliberate choice aimed at providing an in-depth analysis of the industry landscape from the viewpoint of key stakeholders, including regulatory bodies and TOs.

Secondly, the study is limited to personnel from a few departments of the TOs. Although the initial intention was to obtain respondents from departments of product development, Shariah and CSR, not all three departments of the respective TOs provided consent to participate in the interview. Hence, the study is limited to only the departments that provided agreement to participate in this study.

Thirdly, the study is limited to only one state, namely Selangor, given that this is the only state recognised for its responsiveness in collaborating with Islamic financial institutions. Although other states have shown their readiness to consider collaborating with the TOs, the study took the approach that focus should be given to only one state for a start.

Finally, the study limits itself from attempts to run mathematical simulations, specifically on the sustainability of funding mechanism. This is due to the complexity of calculating pricing of products, simulating income to generate revenues for the MTO, as well as projecting claims and withdrawals, which under a normal TO circumstances would require the expertise and endorsement of a qualified Appointed Actuary. While access to the Appointed Actuary is not a challenge, the dependency on the actuaries' thought process may influence the researcher and prevent her from producing original ideas.

## **6.5 RECOMMENDATIONS FOR FUTURE RESEARCH**

The limitations identified in the current study are expected to pave the way for promising areas of future research, expanding the scope of inquiry into crucial areas. One prospective research direction involves a regulatory perspective on microtakaful, particularly in the context of regulating initiatives under a proportionate regulatory regime. Delving into the regulatory viewpoint, future research may seek detailed feedback from BNM to gain insights into how they envision further development of microtakaful initiatives in Malaysia. Understanding regulatory considerations and recommendations would contribute significantly to shaping the landscape of microtakaful. The hurdles faced by the researcher in approaching BNM during the course of this study has made it challenging to cover a wider scope of regulation for

microtakaful. Future researchers may wish to find a better mechanism to reach out to BNM, taking into consideration the amount of time required to obtain approval from the various units or departments within the regulatory body.

Exploring the perception of the B40 demographic regarding microtakaful initiatives initiated by the TOs represents another promising avenue. Future research could systematically investigate the B40's feedback, encompassing their views on existing products, awareness of industry efforts, overall perception of the takaful sector, and reception of various government initiatives tailored for the B40. This study strand holds the potential to offer valuable insights into the alignment between industry efforts and the preferences and needs of the B40 demographic. Obtaining direct feedback from the B40 will also assure them that there is earnest interest by the takaful industry to improve the financial products and services offered to them. This exercise will concurrently fuel the B40's curiosity and interest about microtakaful, encouraging them to learn more about the product.

Simultaneously, the study acknowledges the constraint experienced by the researcher in engaging with SIRC. The current data collection phase revealed their lack of willingness to collaborate. Future research can address this limitation by conducting in-depth investigations into the views and perceptions of SIRC from other states. Gaining insights into their perspectives on microtakaful initiatives, understanding the factors influencing their collaboration decisions, and tracking changes in their views over time would provide a more comprehensive understanding of the dynamics between TOs and SIRC. SIRC have within their institutions experts and scholars in Shariah Law who may have extensive knowledge of Islamic social finance instruments compared to the Shariah scholars of the takaful industry. Engaging the SIRC in future research to obtain their comprehensive view on microtakaful will enable the stakeholders of the takaful industry to obtain a better understanding of Shariah issues relating to zakat and waqf, operational perspective of all types of Islamic social finance instruments, and other relevant matters that would be of benefit to the takaful industry.

Moreover, future research undertakings could involve a specific focus on simulating the MTO business model. This simulation could delve into the potential profitability of the MTO, offering valuable insights into the economic viability and

sustainability of the proposed model. Simulations may be performed from the perspective of identifying the types of microtakaful products that would offer the best coverage to the B40 without threatening the financial stability of the MTO. Simulations may also be expanded to include projecting future revenues for the MTO, with sources of funding emanating from zakat, waqf, donations, government fund, and other sources of funding. Analysing the financial aspects of the MTO business model would contribute to a more nuanced understanding of its potential impact and effectiveness in the takaful industry. Overall, these future research directions hold great promise for advancing the understanding and implementation of microtakaful initiatives in Malaysia.

## **6.6 CHAPTER SUMMARY**

This chapter provides a detailed examination of the challenges faced by the takaful industry in its current microtakaful initiatives in Malaysia, focusing on the B40 segment of society. RO1 has successfully uncovered the main issues faced by the takaful industry, namely the oversupply of products, limited financial literacy programmes, and the industry's focus on regulatory compliance rather than meeting the needs of the B40.

The chapter also proposes an effective structure of a microtakaful model for the B40 through RO2. RO2 also explores the various strategies and garners insights, such as the importance of Shariah compliance, appropriate fund management, involvement of NGOs, and engagement with key community figures, to find the right mix of distribution channels for a better reach of the B40.

The subsequent section on RO3 tackles the critical issue of establishing a sustainable funding mechanism for the microtakaful model by utilising Islamic social finance instruments. The corresponding RQ3 uncovers the need for CSR funds, increased government involvement through funding commitment apart from subsidies, collaboration with states' SIRC's, and addressing concerns related to fund sufficiency and marketing strategies.

Meanwhile, RO4 aims to improve the financial literacy and awareness programme for the B40 through the proposed microtakaful model. It highlights the importance of stakeholder coherence, poverty alleviation focus, and involvement of BNM, TOs, SIRC and other relevant stakeholders, placing particular emphasis on educating the second generation of the B40, leveraging on the current technology, and placing BNM as the leader for literacy and awareness under the FEN initiatives. The collective findings contribute to a comprehensive understanding of the challenges and potential solutions in advancing microtakaful initiatives tailored for the B40 population in Malaysia.

In conclusion, the microtakaful model envisaged in this study is expected to facilitate appropriate coordination among the key takaful industry players to ensure sustainability, efficiency and effectiveness of the microtakaful initiatives. In addition, this model anticipates an increase in the penetration rate of the B40 population in Malaysia, underpinned by affordable products and effective literacy and awareness programme offered by the microtakaful model.

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## APPENDIX

### DEVELOPING A SUSTAINABLE MICROTAKAFUL MODEL AND ENHANCEMENT OF FINANCIAL LITERACY FOR THE B40 COMMUNITY IN MALAYSIA

The main objective of this discussion is to get your input on the microtakaful initiatives of the industry. I would like to (a) understand the issues and challenges faced by the industry in offering microtakaful products, (b) get your input on the establishment of a microtakaful model for Malaysia, (c) get your thoughts on the possibility of collaboration between TOs and SIRC's in utilising zakat and waqf for the B40, and (d) get your feedback on the financial literacy and awareness programme for the B40.

#### Section A:

No.	Issues and Challenges of Microtakaful	TO	Shariah Committee	SIRC
1	Do you have <b>concerns about the abundance and redundancy</b> of microtakaful products?	✓	✓	
2	You currently offer Perlindungan Tenang as well as your own TO's microtakaful product, what are some of the <b>issues faced when offering more than one microtakaful products</b> to the B40?	✓		
3	What are some of the encountered <b>Shariah-related issues</b> when offering microtakaful products to the B40?	✓	✓	✓
4	What are some of the <b>operational challenges</b> faced when offering microtakaful products to the B40?	✓		✓
5	What are some of the <b>regulatory challenges</b> faced when offering microtakaful products to the B40?	✓		✓
6	What are some of the issues faced when <b>working together with government agencies</b> in providing microtakaful products?	✓	✓	
7	What are some of the <b>issues faced when working together with the TOs</b> in providing microtakaful products?			✓

**Section B:**

No.	Comprehensive Microtakaful Model	TO	Shariah Committee	SIRC
1	What is your <b>recommendation</b> on how the takaful industry could tap the B40 more effectively to make takaful more inclusive?	✓	✓	✓
2	If all the TOs work together under one (1) microtakaful model, to offer free microtakaful products to the B40, how will this initiative be <b>perceived</b> by the TOs/ government agency?	✓		
3	If a microtakaful model is established to champion this initiative, how would you embed the <b>roles of Shariah scholars</b> into this model?	✓	✓	
4	What are your <b>thoughts on this proposed microtakaful model</b> ? Do you have recommendations on how this framework may be further improved?	✓	✓	✓
5	Would you, as a Shariah committee member of your TO, be <b>willing to support this initiative</b> for the industry? Why?		✓	
6	How can this one-stop microtakaful model further <b>enhance the roles of TOs</b> in upholding Maqasid Shariah?		✓	
7	Have you <b>collaborated with any TO/ Zakat Authority</b> in providing microtakaful products to the B40?	✓		✓
8	Is your institution <b>open to the idea of collaborating</b> with the TOs and contributing funding to provide microtakaful products to the B40?			✓
9	Is your institution willing to <b>impart B40 data and information</b> to the Takaful industry to facilitate the microtakaful product offerings to the B40?			✓

### Section C:

No.	Sustainable Funding Mechanism	TO	Shariah Committee	ZA
1	Is your institution open to the idea of <b>utilising your corporate zakat</b> to fund microtakaful products for the B40?	✓	✓	
2	Do you have <b>concerns about channelling the TO's corporate zakat</b> solely for this microtakaful initiative for the B40?	✓	✓	✓
3	Is your institution willing to <b>authorise TOs</b> to manage the zakat/waqf fund?			✓
4	Is your institution open to the <b>idea of providing/ allowing temporary waqf</b> to fund microtakaful initiatives?		✓	
5	Is your institution more <b>willing to contribute waqf</b> than zakat for this microtakaful model?	✓	✓	
6	If there is a proposal to utilise your institution's zakat/waqf money for the microtakaful contribution of the B40, what would be the <b>major concerns of your institution</b> with regards to delaying zakat contribution for asnaf?			✓
7	Do you think that using zakat fund for micro-takaful against the principle of Tamlik "Transfer of ownership"?			✓
8	If your institution allows using zakat fund for microtakaful, where do you generate this fund (Gharimin, Faqir, Miskin or any other fund)?			✓
9	If all the TOs work together with SIRC's of the respective state, to utilise zakat and waqf funds to provide free microtakaful coverage to the B40, what would be the <b>biggest concerns among the TOs/ Shariah Committee</b> ?	✓	✓	
10	What are some foreseeable changes in the amount of subsidies provided by the government for Perlindungan Tenang?	✓		✓
11	What would be your suggestion in the creation of a microtakaful model for the B40 that is sustainable?	✓	✓	✓

**Section D:**

No.	Financial Literacy and Awareness Programme for B40	TO	Shariah Committee	SIRC
1	If all the TOs work together to provide financial literacy and awareness programme to the B40, how will this initiative be <b>perceived by the TO</b> ?	✓	✓	
2	What are the <b>kinds of financial literacy and awareness programme</b> that the industry should provide to the B40?	✓	✓	✓
3	What is the <b>biggest challenge faced by your institution in providing financial literacy and awareness programme</b> to the B40?	✓		✓
4	How does your institution <b>contribute to BNM's FEN initiatives</b> ?	✓		✓

## GLOSSARY

**Cedant.** The participant in the retakaful contract or in the conventional reinsurance contract, whereby part of the risks are ceded in accordance with the retakaful or reinsurance contract.

**Corporate Governance.** A defined set of relationships between a company's management, its board of directors, shareholders and other stakeholders that provides the structure through which relationships are organised in accordance with the laws, regulations and by-laws of the institution and requirements of the regulatory and supervisory authorities.

**Deficit.** The situation where claims and other expenses exceed contributions for a financial period.

**Fatwa.** A juristic opinion given by the Shariah board, on any matter pertinent to Shariah issues, based on the appropriate methodology.

**Fiqh.** Knowledge of the legal rulings pertaining to conduct, which have been derived from specific evidence.

**Maqasid Shariah.** The fundamental principles of Shariah, which aim to promote and protect the interests of all human beings and avert all harm that impairs their interests.

**Mudarabah.** A partnership contract between the capital provider (rabb al-mal) and an entrepreneur (muḍarib) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider unless the losses are due to misconduct, negligence or breach of contracted terms.

**Participant.** A party that participates in the takaful product with the takaful undertaking and has the right to benefit under a takaful contract.

**Participants' Investment Fund.** A fund to which a portion of contributions paid by takaful participants is allocated for the purpose of investment and/or savings.

**Participants' Risk Fund.** A fund to which contributions paid by takaful participants is allocated for the purpose of meeting claims by takaful participants on the basis of mutual assistance or protection.

**Qard.** A non-interest-bearing loan intended to allow the borrower to use the funds for a period with the understanding that this would be repaid at the end of the period.

**Reserves.** Amounts appropriated from the profit/ net income to meet unforeseeable liabilities or statutory requirements, and forming part either of shareholders' capital or of accumulated surplus.

**Retakaful.** An arrangement whereby a takaful undertaking cedes a portion of its risks on the basis of treaty or facultative retakaful as a representative of participants under a takaful contract, whereby it would contribute a portion of the contribution as tabarru' into a common fund to cover against specified loss or damage.

**Retakaful Operator.** Any establishment or entity that manages a retakaful business, usually, though not necessarily, a part of the legal entity in which the participants' interests are held.

**Retakaful Risk Fund.** A fund to which a proportion of contributions paid by cedants to retakaful operators is allocated for the purpose of meeting claims by cedants on the basis of mutual assistance or protection.

**Risk Management.** The process through which risks are managed, allowing all risks of a takaful undertaking to be identified, assessed, monitored, mitigated (as needed) and reported on a timely and comprehensive basis.

Shareholders' Fund. A fund that represents the assets and liabilities of a takaful or retakaful operator that is not attributable to participants.

Shariah. The practical divine law deduced from its legitimate sources: the Quran, Sunnah, consensus (ijmā'), analogy (qiyās) and other approved sources of the Shariah.

Shariah Committee. Jurists specialising in contemporary transactional jurisprudence, who are well acquainted with and experienced in the Islamic financial system in particular and the Islamic economic system in general. They issue binding Shariah pronouncements and recommendations, and oversee the task of supervising and auditing the institution.

Solvency Requirements. The financial requirements that are set as part of the solvency regime and relate to the determination of amounts of solvency resources that a takāful undertaking must have in addition to the assets covering its technical provisions and other liabilities.

Surplus. The Participants' Risk Fund's or Retakaful Risk Fund's financial result from the risk elements of its business, being the balance after deducting expenses and claims (including any movement in technical provisions) from the contributions income.

Tabarru. The amount of contribution to be relinquished by the takaful participant as a commitment for fulfilling the obligation of mutual help and to be used to pay claims submitted by eligible claimants.

Takaful. A mutual guarantee in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks.

**Takaful Operator.** Any establishment or entity that manages a takaful business – usually, though not necessarily, a part of the legal entity in which the participants’ interests are held.

**Technical Provisions.** The amount that a takaful operator sets aside to fulfil its takaful obligations and settle all commitments to takaful participants and other beneficiaries arising over the lifetime of the portfolio, including the expenses of administering the policies, retakaful/ reinsurance and the capital required to cover the remaining risks.

**Treaty.** A retakaful arrangement that covers the whole or part of all contracts written by a takāful undertaking, of a nature specified in the arrangement.

**Underwriting.** The process of evaluating new applications, carried out by a takaful or retakaful operator on behalf of the takaful or retakaful participants, based on an established set of guidelines to determine the risk associated with an applicant. The takaful or retakaful operator could accept the application, assign the appropriate rating class, or decline the application.

**Wakalah.** An agency contract where the takaful or retakaful participants (as principal) appoint the takaful or retakaful operator (as agent) to carry out the underwriting and/ or investment activities of the takaful or retakaful funds on their behalf in return for a known fee.

**Zakat.** An obligatory financial contribution disbursed to specified recipients that is prescribed by the Shariah on those who possess wealth reaching a minimum amount that is maintained in their possession for one lunar year.

Source: (IFSB, 2024)