



# Dynamic In Family Takaful Product Offerings for Senior Citizens: Exploring the Potential of Integration Between Takaful and Banking Product

Muhammad Fakhrol Razi Zakaria<sup>a\*</sup>, Muhammad Hafiz Shamsuddin<sup>b</sup>, Hafiza Harun<sup>c</sup>

<sup>a,b,c</sup> Takaful Malaysia, Malaysia

\*Corresponding author: razizakaria999@gmail.com

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## Abstract

This research will explore how the banking products can be creatively integrated for the utmost protection for the elderly certificate holder and at the same time allowing them to remove the financial hardship through guaranteed income protection during this critical phase of life. In addressing the research questions and meeting the objectives, this study employs a qualitative research methodology by conducting literature review by studying primary and secondary references from academic papers, books and article related to the topic of this research. In addition to the textual analysis, researchers have also conducted non-structured interviews and discussions with stakeholders of one of the Takaful Operator (TO) which are representatives from Product Development, Legal, Appointed Actuary and Compliance Division. As a result, the study proposes three structural models, evaluating their strengths and weaknesses, with the aim of ensuring a reliable income stream post-retirement. After analyzing the proposals and considering the common key challenges and comparisons, researchers acknowledge the pros and cons of the proposals. However, it is evident that the third proposal offers the most advantages for all related parties which are the senior citizens, TO and banks.

*Keywords: Takaful, banking, financing, reverse mortgage, senior citizens*

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## 1. Introduction

Future life planning is truly needed by senior citizens to ensure they are ready with sufficient and comfortable financial support. One of the main pension schemes initiated by government is employees provident fund (EPF) scheme or also known as Kumpulan Wang Simpanan Pekerja (KWSP). The main objective of this scheme is to maintain the quality of life for the elderly during their retirement years (Hassan & Othman, 2018). However, Anwar (Hassan et al., 2018) alarmed about 80 percent of total workers in Malaysia who turned 55 in 2015 (based on the released figures in EPF 2014), did not have adequate savings from their EPF accounts to survive above the RM830 poverty line.

Nowadays, there are various financial instruments that could be relied on by senior citizens on top of the EPF scheme to sustain and thrive during retirement years by engaging in takaful and investment products, safeguarding both their health and finances, as these aspects complement each other. However, there is still a gap spotted in the financial products offered in the market by the industry players which offer systematic financial assistance (monthly or quarterly income) and protection for the elderly.

In general, takaful is the manifestation of the spirit of mutual responsibility, cooperation and protection for the well-being of the people and solidarity of the society (Yusuf & Mobolaji, 2016). The market offers a diverse array of products from takaful operators, encompassing both family and general takaful plans. Additionally, there is a takaful product crafted specifically for senior citizens, addressing their retirement planning

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requirements through offerings such as takaful annuity plan and takaful retirement plan. However, the discussion conducted on 23rd Feb 2024 with the Product Development team (Product team) of the TO have revealed lower demand for this product, influenced by various factors to be detailed in the problem statement in this research paper. Conversely, bancatakaful has emerged as a crucial distribution channel for takaful operators, especially for family takaful products (Bank Negara Malaysia, 2022). This practice holds the potential to significantly improve the synergy and integration between takaful and banking products, particularly benefiting senior citizens.

On the other hand, banking products are continuously evolving to meet the growing needs of society. Islamic banking offerings encompass various products such as deposit products, treasury products, trade financing products, debt-based financing products and equity-based financing (Md Husin & Ab Rahman, 2013). Abdul Rahman (2014) emphasized that financing activities contribute significantly 50% to 80% of the total assets of Islamic banking. Given the high demand and opportunities within financing activities, researchers are in view of the potential blending and integration particularly focusing on combining takaful with financing products. This research will explore how the financing products can be creatively integrated for the utmost protection for the elderly certificate holder and at the same time allowing them to remove the financial hardship through guaranteed income protection during this critical phase of life.

According to the Ministry of Economy, Department of Statistics Malaysia (DOSM) the composition of the population aged 65 years and over (old age) increased from 7.2% in 2022 to 7.4% in 2023. It also indicates that Malaysia is experiencing population ageing and slowly shifts towards becoming an ageing population by 2030. Even a small increase in the percentage; it gives a significant number of increasing senior citizens' population in Malaysia, necessitating a creative product that is marketable and caters their post-retirement needs.

While the EPF serves as the primary savings scheme for senior citizens' post-retirement, it cannot be solely relied upon, as 80% of retirees have insufficient savings from their EPF accounts to maintain a standard of living above the RM830 poverty line as mentioned by Anwar (Hassan et al, 2018) According to a survey conducted by HSBC in 2018, nearly half of parents with children in university, which is 49% expressed their concerns on the lack of financial means to adequately support them. Similarly, an equal percentage regretted not commencing saving earlier. These findings underscore the challenges faced by parents in accumulating savings for their children, primarily due to the necessity of allocating funds toward essential monthly expenses. Anwar (Hassan et al, 2018) further elucidated this issue through a random survey conducted by the provident fund. The research revealed that the feasible range to survive financially monthly lies between RM510 and RM1,000 in the case of contributors that already withdrawn all their savings at the initial start of retirement and being excluded from paying medical expenses on catastrophic illnesses.

In the meantime, the product offered by takaful operators such as annuity/retirement plans in the market also has low demand because of the reluctance of senior citizens to give up access to their life savings in the annuity product (Webb et al., 2007). This product is also structured with an accumulation and decumulation period which requires the annuitant to contribute either a single contribution or a series of regular contributions prior to the start of the annuity payments (Ali et al., 2018). Not everyone has the consciousness to start at an early age or has excess money to contribute to such a product with a lump sum payment in a single contribution.

This research aims to resolve the problems above by investigating how takaful and financing products can be innovatively combined to offer comprehensive protection for elderly certificate holders while also alleviating financial burdens through guaranteed income during this crucial phase of life.

## **2. Literature Review**

In addressing the research questions and meeting the objectives, this study employs a qualitative research methodology. It begins with gaining a thorough understanding of the financial challenges encountered by senior citizens, as outlined in the problem statement, and identifying the typical advantages they have during this life stage. Subsequently, the research examines the available products offered by takaful operators and banks, analyzing their potential for integration to offer comprehensive protection and to alleviate financial stress for retirees. The study proposes several structural models, evaluating their strengths and weaknesses, with the aim of ensuring a reliable income stream post-retirement. This is done by conducting literature reviews by studying primary and secondary references from academic papers, books and articles related to the topic of this research.

In addition to the textual analysis, researchers have also conducted non-structured interviews and discussions with stakeholders of one of the Takaful Operator (TO) which are representatives from Product

Development, Legal, Appointed Actuary and Compliance Division. The objective is to gain information which is not available in the texts as well as to seek their input from different perspectives and expertise.

### **3. Existing Retirement/ Annuity Takaful Product**

A retirement/annuity Takaful plan operates on the principles of mutual assistance and risk-sharing, structured to provide financial security during retirement while complying with Islamic ethical guidelines. The process begins with participants contributing regular payments (contributions) to a collective fund managed by a Takaful operator.

These contributions are divided into two key components: the Participant's Account (PA), which functions as personal savings, and the Participant Risk Fund (PRF), which serves as a pooled risk-sharing fund. The operator invests the funds in Shariah-compliant ventures, ensuring transparency and adherence to Islamic principles. Over time, the savings grow based on the profits generated from these investments (Khan & Bhatti, 2008).

Upon reaching retirement, participants receive regular payouts from their accumulated savings and returns, ensuring a steady income. In the event of a participant's untimely death, the PRF provides a financial benefit to the participant's beneficiaries, fulfilling the product's protection component. If any surplus remains in the PRF, it is redistributed among the participants or retained to support the fund, reinforcing the communal nature of Takaful (Yusuf & Mobolaji, 2016). This structure ensures fairness, as the operator earns a fee for managing the fund rather than generating profits through interest-based mechanisms.

Despite its potential, a key gap in the existing retirement Takaful products is that they inadequately address the unique financial situation of elderly individuals who lack regular income or liquid cash but possess substantial immovable assets, such as property. Therefore, researchers propose several structures to cater for this issue in the later section.

### **4. Proposal**

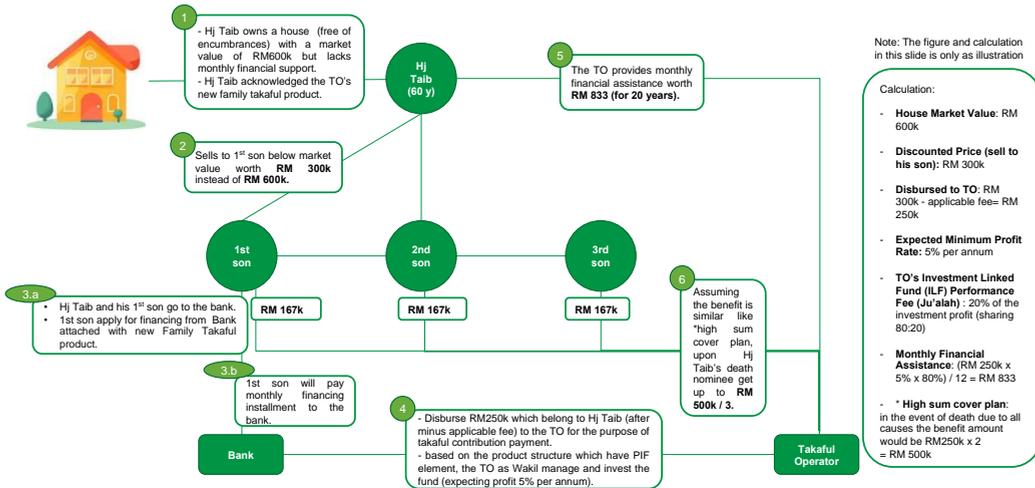
To develop a comprehensive product proposal, researchers have analyzed the financial obstacles faced by senior citizens and examined the reasons behind the low demand for existing market offerings, as outlined in the problem statement. Additionally, researchers have identified a common advantage among senior citizens during post-retirement which many of them own homes, even if they lack sufficient savings, as they have utilized their funds to finance monthly housing payments. Sherif & Shaairi (2013) enlightened that the accumulated savings of the EPF are inadequate to support retirement expenses over a long period, of which one key problem is primarily stems from the early withdrawals for financing monthly housing payments and reaping other pre-retirement benefits such as education and health. According to the Khazanah Research Institute, Malaysia has a homeownership rate of 72.5% in 2011. This figure is notably high compared to developed countries, where homeownership rates, except for Singapore, were below 70% during the same year.

Based on the above, the researchers are of the view that both challenges and benefits experienced by senior citizens, particularly their homeownership, are useful in developing a comprehensive product which could address their needs and can overcome their financial obstacles. This involves concentrating on housing-related solutions such as house financing and reverse mortgages, providing customized solutions specifically designed for senior citizens.

In this section, researchers will present three (3) separate proposals, including the one suggested by the Product team. The first proposal involves incorporating Family Takaful into house financing, while the second proposes integrating Family Takaful into reverse mortgages. The third proposal, originating from the Product team, will also be outlined. For the first and second proposal, researchers will first explain its structure, followed by an exploration of its features and the considerations necessary for its implementation. Finally, after presenting these proposals, researchers will analyze key challenges and common ground elements of the products that must be considered, especially regarding senior citizens. This analysis aims to determine the most suitable product to offer in the market, considering the specific needs and preferences of this demographic.

#### *4.1 First Proposal – Integration of Family Takaful with House Financing*

For the first proposal, the product is structured by integrating family takaful product with house financing. The proposed structure and its explanation are shown below:



**Explanations:**

- i. Hj Taib, owner of a house (free of encumbrances), finds himself in need of monthly financial support. Upon learning about one of the TO's new products (Integration of Family Takaful in House Financing), he decides to explore it further.
- ii. To alleviate his financial strain and recognize the potential benefits of the product, he opts to participate by selling his house at a reduced/discounted price of RM 300k, significantly below its market value of RM 600k to his son.
- iii. His 1st son;
  - a. together with Hj Taib come to bank to apply for House financing attached with Family Takaful (New Product of the TO).
  - b. will pay monthly financing installment to the bank.
- iv. Upon approval, the bank disburses RM 250k to the TO (upon obtaining consent from Hj Taib) as a single contribution, after deducting any applicable fees. The TO, acting as a Wakil, takes charge of managing and investing the funds on Hj Taib's behalf (as participant). The fund will be credited into PIF and dripped into PRF on a monthly basis. In managing the PIF, the TO aims for a projected minimum profit of 5% per annum, employing strategies such as dividing the funds into various investment vehicles.
- v. As part of the new product plan, the TO provides Hj Taib with monthly financial assistance amounting to RM 833 for a duration of 20 years, helping to cover his expenses and alleviate his financial burden.
- vi. In the event of Hj Taib's demise, his nominated beneficiaries are entitled to receive RM 500k ensuring that his loved ones are financially supported even after his passing.

**4.1.1 Product Features of First Proposal**

The proposed product features of the first proposal are as follows:

Features	Description
Coverage Tenure	20 years
Benefits	Fixed monthly pay-out to certificate holder Death coverage; or Total and Permanent Disability (TPD) coverage. Get savings amount after maturity
Contribution Mode	Single Contribution disbursed by bank directly to the TO
Initial Expenses	- Customer/buyer to absorb the initial expenses such as property valuation, legal fee, and/or fire takaful coverage of the charged property. - Such initial expenses can be financed in the House Financing

#### 4.1.2 Considerations of First Proposal

Several aspects of consideration need to be considered for this first proposal as follows:

i. Shariah Consideration

Protecting property is one of the *dharuriyyat al-khams* (five necessities) and Islam is very concerned about protecting and managing property. Particularly for senior citizens, there is a right for them and a right they need to deliver. Given that, Shariah consideration specifically for this first proposal is closely related to the sale of the property below market price by a father to his son where it is known as *al-muḥābātu fī al-bay' wā al-shirā'* which *al-muḥābāh* literally means favouritism, discrimination or bias. Muhammad bin Abi Al –Baali (Dadah, 2019) defined *al-muḥābāh* technically is when someone sells without following the market price, or buy above market price, so he has done discrimination by donating the excessive amount (as indirect donation). On the other hand, Nazih Hammad (Dadah, 2019) defined it as an 'intended donation within the contract of exchange'. In simple terms, *al-muḥābātu* means giving someone an amount of money indirectly (By naming it as discount or with other same meaning) during a buying and selling contract. In the context of this research, the term "*al-muḥābāh*" refers to a situation where the father (Hj. Taib) sells the house to his son (first son) at a price lower than the prevailing market value. The concern is to mitigate any potential conflicts and to safeguard the rights of all heirs, particularly as this matter pertains closely to the elderly. Generally, scholars categorize this issue into three situations: *al-muḥābāh* in buy and sale occurring during a person's health, *al-muḥābāh* in buy and sale with other than heirs occurring during sickness leading to death (*maraḍ al-mawt*) and *al-muḥābāh* in buy and sale with heirs occurring during sickness leading to *maraḍ al-mawt*. The deliberation of the issue is as follows:

a. *Al-muḥābāh* in buy and sale with other than heirs occurring during a person's health

In *al-Mausu'ah al-Fiqhiyyah al-Kuwaitiyyah*, topic of *al-muḥābātu fī al-bay' wā al-shirā'*, writers explain that *Hanafiah*, *Shafi'iah*, and *Hanabilah* are in view the recipient (buyer) entitled to all of the property including the discounted portion if the transactions occur during a person's health because *al-muḥābāh* in buy and sale is considered a valid contract which necessitates the immediate transfer of ownership, hence no one including his heirs or creditors shall have the right over his money (discounted portion) and it is also not subject to the requirement of one third in bequest (Transaction made during sickness leading to *maraḍ al-mawt*). In this context, the father may sell his house to the son at a discounted price as long as he sells the house during his health by fulfilling the *Shariah* and law requirement of buy and sell. *Al-Malikiyyah* also shared the same view on its validity as long as possession (*qabd*) had occurred on the part of the buyer.

b. *Al-muḥābāh* in buy and sale with other than heirs occurring during sickness leading to *maraḍ al-mawt*

For this case, it is also noted in the *al-Mausu'ah al-Fiqhiyyah al-Kuwaitiyyah* that the *Hanafiah*, detailing the issue where *al-muḥābāh* in buy and sale with other than heirs during person's sickness leading to *maraḍ al-mawt* is not allowed if he is in debt, and the debt amount is equivalent to the value of his entire property. In this case the consent from the heir will not be considered as it is related to the right of the creditor. Consequently, the buyer must pay the *al-muḥābātu* portion according to the market price or cancel the sale and purchase (*faskh*). However, if the sick person has no debt, he can give *al-muḥābātu* portion within 1/3 or less of his property and if more than 1/3, the heir's permission is required. One of the opinions of *Malikiyyah* the buyer is given option of either completing the full payment according to the market value of the item or taking only what was paid (according to market value) and for the buyer what within one third of the seller's property (for the *al-muḥābāh* portion) while according to the *Shafiyyah* the buyer has option between canceling the sale and purchase and may accept a one third of the market price of the property to separate the portion of the property (combination of the sale and purchase with *wasiat* (Will))

c. *Al-muḥābāh* in buy and sale with heirs occurring during sickness leading to *maraḍ al-mawt*  
In this case, *Hanafiyah*, *Malikiyyah* and *Shafiyyah* are in the view that if *al-muḥābāh*

between heirs occurs during sickness leading to *marad al-mawt*, then it is not allowed unless the rest of the heirs consented to the portion given. *Al-muḥābāh* from a sick person which leads to the *marad al-mawt* is considered as a *wasiat*. And a will to an heir cannot be made except with the permission of the heir.

In summary, this first proposal, which involves selling property at a price below market value, is closely tied to the concept of *al-muḥābāh*. Therefore, this part serves as a concise explanation of *al-muḥābāh* as a Shariah consideration for the first proposal. This concept of *al-muḥābāh*, an indirect donation often disguised as a discount or other form of benefit, carries significant implications in Shariah law. It is crucial to safeguard the rights of all parties including heirs and creditors. *Al-muḥābāh* concept as above may be considered and applied to ensure this first proposal is carried out in accordance with Shariah principles.

Another *Shariah* consideration that requires attention is the fact that the banks intend to collaborate with the TO in offering *Shariah*-compliant residential financing products. This entails ensuring that any financial arrangements or agreements entered into are aligned with Islamic principles and are in accordance with Shariah guidelines.

#### ii. Legal Consideration

Based on consultations with the legal team of the TO, it has been determined that this first proposal necessitates the preparation of a comprehensive set of documents. These documents will likely require customization and discussion with the financial institutions which the TO would like to engage with for the house financing, such as banks, to ensure compliance and effectiveness. Additionally, a crucial legal consideration involves the drafting and execution of a Letter of Assignment, specifically designed to facilitate direct disbursement to the relevant party, the TO, as per the requirements of the proposal. This meticulous attention to legal details ensures the robustness and legality of the proposed structure can take place.

#### iii. Marketability Consideration

One notable advantage of this product is that the ownership of the house remains within the family member, particularly transferred to the senior citizen's son. This arrangement can hold significant sentimental value, addressing the emotional attachment that many senior citizens have towards their homes. However, significant concern arises if the senior citizen only possesses one house, as there is a risk of being displaced from their residence, even if they sell the house to their own son. This risk emerges from the possibility that the son, upon becoming the owner, may find it more profitable to rent the house to others rather than allowing his father to reside there.

Another critical consideration arises when the senior citizen either has no children to sell the house to or if none of their children are interested in purchasing the property. In such cases, this product becomes inapplicable, posing a significant challenge for senior citizens without willing or eligible family members to transfer ownership to. This highlights a limitation of the proposal, as it may not address the housing needs of senior citizens who lack familial options for property transfer.

Additionally, this first proposal exists a similar concept to Islamic reverse mortgage, which is exclusively offered by Cagamas in Malaysia. This alternative presents both advantages and disadvantages worth considering. On the positive side, it provides an avenue for senior citizens to access funds based on the equity of their homes without the need to sell the property outright. This can be particularly beneficial for senior citizens seeking financial support while retaining ownership and occupancy of their homes. However, it is essential to acknowledge the limitations and potential drawbacks of this option. For instance, the availability of this product is limited to certain areas, thereby restricting its accessibility for senior citizens residing elsewhere. Therefore, these all considerations addressed encompass Shariah compliance, legal adherence and market feasibility. These factors are paramount in ensuring the proposed products or services are aligned with Islamic principles, meeting legal requirements and having potential for success in the market. Each aspect necessitates thorough examination and meticulous attention to detail to ensure the viability and integrity of the proposal.

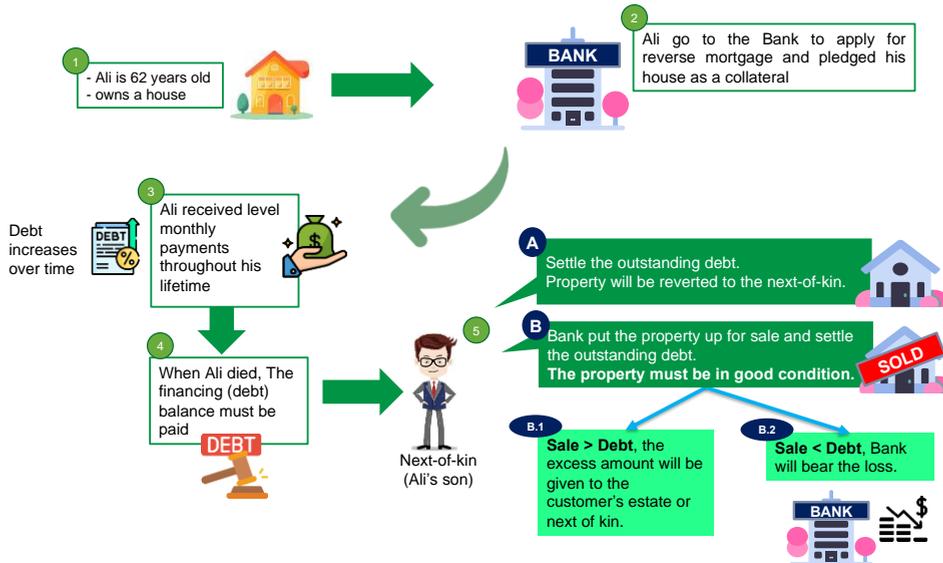
#### 4.2 Second and Third Proposal – Integration of Family Takaful with Reverse Mortgage

For the second and third proposals, the product is designed by integrating Family Takaful with reverse mortgage. However, since reverse mortgage may not be widely known by readers, this paper shall provide a

brief explanation of its structure for better comprehension.

#### 4.2.1. Reverse Mortgage Structure

Reverse Mortgage (“RM”) is a type of financing that is targeted for the elderly or retirees who own a home and allows them to convert their one big asset (their residential property) into a fixed monthly income stream throughout their lifetime, without sacrificing ownership whilst continuing to stay in their home. The reverse mortgage structure and its explanation are as follows:



Explanations:

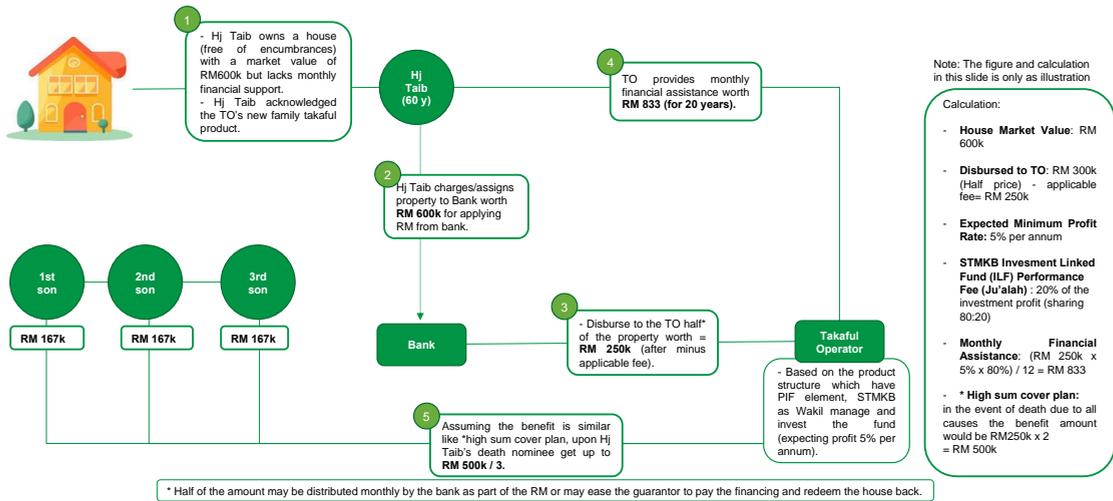
- Ali, aged 62, is a retiree and owns a house outright.
- Ali, realizing his need for additional financial support during retirement, decides to explore the option of a reverse mortgage. He visits his local bank and applies for a reverse mortgage, using his house as collateral.
- Upon approval of his application, Ali begins receiving monthly payments from the bank. For certain institutions, they have the option to provide a lump sum payment to the customer. These payments serve as a steady source of income for him to cover his living expenses throughout his retirement years.
- Upon his demise, the outstanding debt from the reverse mortgage must be addressed. The bank presents two options for settling the debt:
  - Option A: Ali's next of kin may settle the outstanding debt directly. Upon settlement, the property will be reverted to them, ensuring that Ali's family retains ownership of the house.
  - Option B: If Ali's next-of-kin is unable or unwilling to settle the debt, the bank will initiate the sale of the property to settle the outstanding balance with two situations apply:
    - If the sale price of the property exceeds the outstanding debt, the excess amount will be distributed to Ali's estate or next of kin. This ensures that any surplus funds from the sale benefit Ali's beneficiaries.
    - If the sale price of the property is lower than the outstanding debt, the bank will bear the loss. This means that Ali's estate or next of kin will not be responsible for covering the shortfall, providing them with financial protection.

This serves as a concise overview of reverse mortgage, a concept that will be applied in the second and third proposals for reference.

#### 4.2.2. Second Proposal – Integration of Family Takaful with Reverse Mortgage

For the second proposal, research will be structuring the product by integrating family takaful product with

reverse mortgage. The proposed structure and its explanations are as below:



**Explanations:**

- i. Hj Taib, the owner of a house (free of encumbrances), finds himself in need of monthly financial support. Upon learning about the TO's new family takaful product (Integration of Family Takaful in Reverse Mortgage), he decides to explore it further.
- ii. To alleviate his financial strain and recognizing the potential benefits of the product, he opts to participate by assigning his house as collateral to Bank worth RM 600k for applying Reverse Mortgage from bank attached with Family Takaful plan.
- iii. Upon approval, the bank disburses RM 250k to the TO, after deducting any applicable fees. The TO acting as a Wakil, takes charge of managing and investing the funds on Hj Taib's behalf (as participant). The fund will be credited into PIF and dripped into PRF monthly. In managing the risk by splitting the disbursed amount into PIF and PRF, the TO aims for a projected minimum profit of 5% per annum, employing strategies such as dividing the funds into various investment vehicles.
- iv. As part of the product plan, the TO provides Hj Taib with monthly financial assistance amounting to RM 833 for a duration of 20 years, helping to cover his expenses and alleviate his financial burden.
- v. In the event of Hj Taib's demise, his nominated beneficiaries are entitled to receive RM 500k ensuring that his loved ones are financially supported even after his passing.

**4.2.3. Product Features of Second Proposal**

The proposed product features of the second proposal are as follows:

Features	Description
Coverage Tenure	20 years
Benefits	<ul style="list-style-type: none"> <li>- Fixed monthly pay-out to certificate holder</li> <li>- Death coverage; or</li> <li>- Total and Permanent Disability (TPD) coverage.</li> <li>- Get savings amount after maturity</li> </ul>
Contribution Mode	Single Contribution disbursed by bank directly to the TO
Initial Expenses	<ul style="list-style-type: none"> <li>- Customer to absorb the initial expenses such as property valuation, legal fee, and/or fire takaful coverage of the charged property.</li> <li>- Such initial expenses can be financed in the House Financing</li> </ul>

**4.2.4. Considerations of Second Proposal**

Several aspects of consideration need to take into account for this second proposal are listed as follows:

i. Shariah Consideration

Shariah consideration for the second proposal involves ensuring that engagement with the reverse mortgage institution is Shariah-compliant. Since the reverse mortgage will be offered by the bank, it is crucial to ensure that it is structured with applicable Shariah contracts, such as *Tawarruq* for financing or *Rahn* for collateral arrangements, or any other Shariah contract applicable to reverse mortgage.

ii. Legal Consideration

Following consultations with the legal team of the TO, this second proposal also requires a comprehensive set of documents. These documents will require customization and discussions with financial institutions, including banks, which the TO intends to collaborate with for the reverse mortgage. The objective is to ensure compliance and effectiveness. Additionally, a critical legal aspect involves drafting and executing a Letter of Assignment, tailored to facilitate direct disbursement to the TO, as stipulated in the proposal requirements. This meticulous approach to legal considerations underscores the solidity and legality of the proposed structure.

iii. Marketability Consideration

Based on discussion with product team it is noted reverse mortgage is a relatively unfamiliar concept among Malaysian citizens, but there is growing interest among banks other than Cagamas, which are currently exploring its potential. However, it may take another 2 or 3 years for it to become fully developed and widely known.

In Malaysia (as Cagamas offering), the standard practice for disbursement or pay-out is monthly, rather than as a lump sum. Offering this product as a lump sum payment to the TO, banks may find this product less profitable to them since they would need to provide a lump sum disbursement amount of cash to the TO. This could lead to some reluctance from banks to accept the product. Considering this concern, the product proposition shall be customized to balance the bank's profitability with the TO as a takaful operator.

However, a key advantage of this proposal is that the ownership of the property remains with the individual, and there is no risk of being evicted from the property. This aspect could serve as a significant selling point for the product, addressing concerns about property rights and security for the elderly population in Malaysia. Hence, all these considerations addressed, including Shariah compliance, legal adherence, and market feasibility, are crucial. Ensuring alignment with Islamic principles, meeting legal requirements, and gauging potential success in the market are paramount for this second proposal. Thorough examination and meticulous attention to detail are required for each aspect to ensure the proposal's viability and integrity.

#### 4.3 Third Proposal from Product Team – Integration of Family and General Takaful in Reverse Mortgage

For the third proposal proposed by the product team it will be structured by integrating family and general takaful with reverse mortgage. The product team proposed that it would not be the TO providing financial assistance, but rather the reverse mortgage product itself would support the monthly expenses. In this scenario, the TO would only complement the product, indicating TO's support for the bank's product. This approach emphasizes TO's collaboration with banks and shows TO's support of their offerings that may make them attracted to the TO's product.

As explained in the 3.2, there will be two options for the debt settlement as follows:

- i. Option A: Ali's next-of-kin could settle the outstanding debt directly. Upon settlement, the property will be reverted to them, ensuring that Ali's family retains ownership of the house.
- ii. Option B: If Ali's next-of-kin are unable or unwilling to settle the debt, the bank will initiate the sale of the property to settle the outstanding balance with two situations apply:
  - a. If the sale price of the property exceeds the outstanding debt, the excess amount will be distributed to Ali's estate or next of kin. This ensures that any surplus funds from the sale benefit Ali's beneficiaries.
  - b. If the sale price of the property is lower than the outstanding debt, the bank will bear the loss. This means that Ali's estate or next of kin will not be responsible for covering the shortfall, providing them with financial protection.

From these two options there are takaful plans/products that can be integrated as complement for the reverse mortgage product as follows:

- i. Death and TPD Benefit to Cater First Option

A Takaful plan covering death and Total Permanent Disability (TPD) of the individual could be integrated into the reverse mortgage. In this setup, if the individual passes away or becomes totally and permanently disabled, the sum covered by the Takaful plan would be paid to the bank. This payment would help cover the outstanding amount owed under the reverse mortgage.

ii. Homeowner & Fire Takaful to Cater Second Option

For option B, where the bank initiates the sale of the property to settle the outstanding balance, it's important to note that the property must be in good condition. This ensures that the property can fetch the maximum profit from the sale, allowing the bank to settle the debt and distribute any excess amount to Ali's estate or next of kin. To address this, integrating a Homeowner & Fire Takaful product could be beneficial. This Takaful coverage would protect the property against damage from fire or other hazards, ensuring that it remains in good condition and maximizing its value for sale.

In conclusion, the product team suggests that it may not be necessary to develop a new product from scratch. Instead, existing products can be strategically positioned to fit into arrangements such as house financing or reverse mortgage. By researching current Takaful offerings, the TO can identify suitable products and adapt with the existing offerings to align with these arrangements. For instance, the TO can explore how their current Takaful products can be integrated into reverse mortgage structures to provide added value and support for customers. This approach allows the TO to leverage on their existing product portfolio effectively and cater to the evolving needs of the market.

## 5. Analysis of the Proposals

### 5.1 Key Challenges of the Proposals

During the discussion with Product team, it was noted one of challenges for the proposals especially when it is offered for senior citizens is the high amount to be contributed by older ages. As the older age, contribution increases, potentially making the product less attractive to the market. The high required contribution may discourage senior citizens from participating in the Takaful plan. Consequently, it poses an additional challenge in product pricing.

Another challenge stems from the limitation of the current product offered by TO. Existing products do not offer increasing sum coverage which is necessary for a reverse mortgage in third proposal which the debt increasing over the time. Developing new products with increasing sum coverage takes time, and currently TO only has products that the maximum entry age is limited to 65-70 years old. Furthermore, there are issues related to medical requirements and non-medical limits. For older individuals, the Non-Medical Limit (NML) is capped at a maximum of RM150,000. Customers must undergo a cumbersome medical check-up process to enroll in the Takaful plan, which may deter participation.

Additionally, the lack of Retakaful support for products targeting older ages poses a challenge due to longevity risk. This complicates the development of such offerings by Takaful Operators, as they may face difficulties in managing risks associated with older age groups. During a discussion with a Legal representative, they highlighted that the Senior Citizen Bill will likely be tabled in the Parliament this year (2024). This bill may introduce related acts that could influence the structuring of products for senior citizens in the future. Additionally, Compliance representatives have reminded that senior citizens are considered vulnerable customers. Therefore, it is essential to refer to the Fair Treatment of Vulnerable Consumers Exposure Draft, as it will likely apply in this case. This draft outlines guidelines for ensuring fair treatment of vulnerable consumers, including senior citizens, and should be considered when designing products and services tailored to their needs.

### 5.2 Comparison and Discussion of the Proposals

The summarized comparison between the proposals is tabulated as below:

Criteria	Proposal 1: Family Takaful + House Financing	Proposal 2: Family Takaful + Reverse Mortgage	Proposal 3 (Product Team): Family + General Takaful + Reverse Mortgage
Shariah Compliance	The provisions of <i>al-muḥābātu fī al-bay' wā al-shirā'</i> and Shariah-compliant	Shariah-compliant reverse mortgage arrangements need to be	Shariah-compliant reverse mortgage arrangements need to be taken into account.

	house financing arrangements need to be taken into account.	taken into account.	
Legal Adherence	Requires preparation of comprehensive legal documents, including a Letter of Assignment, and compliance with relevant laws and regulations.	Similar legal requirements as Proposal 1, with additional considerations for reverse mortgage structures.	Utilize existing legal documentation, as it's readily available takaful product.
Ownership	Ownership stays within the family member which is passed to the buyer (his son), preserving sentimental value. However, there is risk of displacement if the senior citizens own only one house.	Property ownership remains with the individual (while he's alive), eliminating the risk of eviction and providing security for the elderly in Malaysia.	Property ownership remains with the individual (while he's alive), eliminating the risk of eviction and providing security for the elderly in Malaysia.
Market Feasibility	Demand may be limited due to high <i>tabarru'</i> charges for older ages and lack of interest from potential buyers. However, House financing is widely recognized and can be leveraged through bancatakaful arrangement.	Demand may be limited due to high <i>tabarru'</i> charges for older ages and Reverse mortgage is currently unfamiliar in Malaysia.	Demand may be limited due to high <i>tabarru'</i> charges for older ages and Reverse mortgage is currently unfamiliar in Malaysia.
Integration Complexity	Requires integration of Takaful with house financing products, which may require customization of documentation and coordination with Islamic financial institutions.	Integration of Takaful with reverse mortgage entails document customization and coordination with Islamic institutions. In Malaysia, disbursements are usually monthly, posing potential reluctance from banks due to profitability concerns with lump sum payments.	Requires integration of Takaful with reverse mortgage product, which may require coordination with Islamic financial institutions. However, the TO will just complement the reverse mortgage showing support for banks and their offerings that may attract them to the TO's product.

After analyzing the proposals and considering the common key challenges and comparisons, researchers acknowledge the pros and cons of the proposals. However, it is evident that settling third proposal from the product team offers the most advantages for all related parties which are the customer, takaful operator and banks. One significant advantage is the utilization of existing legal documentation for the TO's readily available takaful product, streamlining legal processes. Furthermore, the third proposal safeguards property ownership for the individual, mitigating the risk of eviction. It also offers options such as death benefit and Total Permanent Disability (TPD) coverage to settle outstanding debt, ensuring financial protection for the individual's heirs. Additionally, integrating homeowners and fire Takaful ensures the property remains in good condition, increasing its appeal and demand for potential buyers when the bank sells the house.

In terms of integration complexity, this third proposal requires coordination with Islamic financial institutions to integrate Takaful with reverse mortgage products. However, TO's role is only to complement the reverse mortgage, showing support for banks and their offerings, which could make them more inclined to collaborate with the TO. This approach emphasizes partnership and may enhance the attractiveness of TO's product to banks.

Researchers view that the proposal has the potential to address key issues identified in the problem

statement, including the lack of monthly financial support and insufficient savings among senior citizens and the low demand for current products available in the market.

## 6. Conclusion

In conclusion, the integration between Takaful and banking products presents a promising avenue for addressing the dynamic needs of senior citizens in the family Takaful sector. Through this integration, senior citizens can benefit from a comprehensive suite of financial solutions tailored to their specific requirements, including retirement planning, healthcare coverage and inheritance management. By leveraging the synergies between Takaful and banking offerings, Islamic financial institutions can enhance the accessibility, affordability, and effectiveness of their products for this growing demographic segment. Moreover, such integration fosters financial inclusivity and social welfare by ensuring that senior citizens have access to robust protection and wealth management solutions aligned with their ethical and religious beliefs. However, successful implementation requires careful consideration of regulatory frameworks, product design, distribution channels and customer education initiatives. As the population ages and demand for Sharia-compliant financial products continues to rise, exploring the potential of integration between Takaful and banking products remains imperative for promoting financial resilience and well-being among senior citizens in the Muslim community.

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