

Cooperative Takaful for Non-Banking Financial Institutions: Islamization of SOCSO in the case of Malaysia

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Abstract: By the introduction of Takaful as an alternative for conventional insurance in the early 1980s and with more than 30 year experience in Islamic Banking and Finance, it is time for Malaysia to make a move in completing its Islamic financial ecosystem by islamizing non-Banking Financial Institutions. This paper aims to investigate a potential approach to apply the concept of cooperative Takaful in transforming the Social Security Organization (SOCSO) into a Shariah-compliant institution using the concept of cooperative Takaful by emphasizing the similarity between current practices of SOCSO and cooperative Takaful. This paper highlights the difference between normal Takaful and cooperative Takaful. This paper proposes that the cooperative Takaful i.e. *Musharakah Ta'awuniyyah* model to aid the integration and transformation of SOCSO into a Shariah compliant institution. The contribution of this paper is twofold: First, this paper contributes to the existing literature on application of *Musharakah Ta'awuniyyah* as another alternative for the Takaful model. Second, it provides the possibility for SOCSO to convert its operation to Shariah compliant concept.

Keywords: Takaful, Cooperative Takaful, SOCSO, Islamic finance

Abstrak: Dengan pengenalan kepada Takaful sebagai alternatif kepada insuran konvensional pada awal tahun 1980an dan dengan pengalaman

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pelaksanaan sistem perbankan dan kewangan Islam selama lebih 30 tahun, maka sudah tiba masanya Malaysia untuk menawarkan solusi kewangan Islam kepada bukan sahaja institusi kewangan. Kertas kerja ini bertujuan mengkaji potensi penggunaan model takaful koperatif (*Musyarakah Taawuniyyah*), dan pelaksanaannya bagi PERKESO (Pertubuhan Keselamatan Sosial) Malaysia. Kertas kerja ini menyumbang kepada kajian tambahan kepada teori takaful koperatif dan pada masa yang sama menawarkan cadangan kepada PERKESO untuk mengorak langkah ke arah pematuhan kepada Syariah.

Kata Kunci: Takaful, Koperasi Takaful, PERKESO, kewangan Islam

1.0 Introduction

As a Muslim country, over the past 30 years Malaysia managed to strive to become important player in Islamic banking and finance. Shariah compliant products and services in Malaysia received great recognition internationally. Islamic banking systems in Malaysia have shown excellent results and have become more competitive towards servicing its client locally and internationally.

In order to further enhance the banking ecosystem in Malaysia, Nonbanking Financial Institutions (NBFI) participation in implementing Shariah-compliant products should be given priority. Recently Employee Provident Funds (EPF) has officially introduced Shariah compliant schemes. This is a big step for public funds management companies to Islamize their products thus their operation in future. In conjunction to this, another public fund or sovereign wealth funds under highlight would be Pertubuhan Keselamatan Sosial (PERKESO) also known as the Social Security Organization (SOCSO).

The Social Security Organization (SOCSO) is an organization set up under the Minister of Human Resources to administer, enforce and implement the Employees' Social Security Act, 1969 and the Employees' Social Security (General) Regulations 1971. The Social Security Organization provides social security protection through social insurance, including medical and cash benefits, provision of artificial aids and rehabilitation to employees to reduce suffering and provide financial guarantees and protection to the family. Given the fact that by law, contributions made by employers on behalf of the employee are made compulsory, thus over time SOCSO accumulated a huge amount of funds.

Demographically, all these funds are largely contributed by Muslim employees therefore a *Shariah*-compliant framework for SOCSO is needed. Therefore, this paper will try to introduce a concept of a Cooperative *Takaful* model which is to be incorporated into SOCSO in order to provide protection for employees who contribute to the funds. The structure of the paper is as follows: Section 2 provides the definitions *takaful* and its concept. Section 3 discusses the concept of cooperative *Takaful*. Section 4 points out the similarity that made the integration of cooperative *Takaful* into SOCSO possible. This paper will conclude with challenges and recommendation.

2.0 Literature Review

2.1 Concept of Islamic Insurance and Takaful

Generally, the purpose of insurance used by the conventional system to manage and mitigate financial losses are associated with theft, accident, poor health and other perils. However the nature, structure and contract used contradict *Shariah* principles. Muslim scholars around the globe do not allow insurance as it involves prohibited elements by *Shariah* which are *riba*, *gharar* and *maysir*. Elements of *riba*, *gharar* and *maysir* exist due to the nature of the contract used in conventional insurance which utilizes the contract of sale and purchase (Wan Marhaini et al. 2008). Given the circumstances, in order to provide *Shariah*-compliant insurance for Muslims, the key revision that needs to be made on the insurance concept is the substitution of the sale and purchase contract (*aqad mu'awadhat*) with a donation based contract (*aqad tabarruat*) with a condition of compensation (Engku Rabiah & P.Odierno, 2008). In the Arabic language the word *tabarru*, which means 'donation', is also used to refer to donation-based contracts. Therefore, the primary difference between conventional insurance and Islamic insurance is the element of donation (*tabarru*) (Engku Rabiah & P.Odierno, 2008). The utilisation of *tabarru* contracts in Islamic insurance make the transaction permissible and valid according to *Shariah*. This is because when a contract is charity based, the rule against uncertainty (*gharar*) cannot be applied due to its nature and the existence of *gharar* in this case can be tolerated (Saiful & Wan Marhaini, 2003, Engku Rabiah & P.Odierno, 2008). This modification makes it possible for Muslims to have *Shariah*-compliant insurance under the concept of *Takaful*.

Takaful is a mechanism of mutual indemnification based on the principle of *ta'awun* or mutual assistance. It is a system of Islamic

insurance where risk is shared collectively by a group of participants voluntarily. Literally *Takaful* means “mutual guarantee” or “guaranteeing each other” (Anwar, 2008). *Takaful* is derived from the Arabic root word *kafala*, a verb which means guarantee, bail, warrant or an act of securing one’s need (Engku *et al.*, 2008, Stagg-Macey, 2007). In some other source, *Takaful* is derived from the ‘*aqilah* and *diyyah* systems, whereby people of a given tribe would come to the financial rescue of one of its members should he face an unexpected liability, such as the pay need to for blood money (*diyyah*) (Manjoo, 2007). A cooperative fund organized to offer protection for the assets, property and other items of value of its members which adheres to *Shariah* rules is called a *Takaful*. According to this scheme, the members or participants in a group jointly agree to guarantee themselves against loss or damage. The entire group would assist the incumbent person to indemnify his loss and to provide him with financial help. Not unlike mutual insurance, *Takaful* is a legally binding agreement between all the participants of the scheme to pay any of its members who suffer a loss as specified in the *Takaful* policy document. *Takaful* is based on the concept of mutual cooperation, where the insured is also the insurer and therefore shares in the profit or loss of the institution to which they are paying (the contribution) (Anwar, 2008). Risks of each member are shared collectively by the group (not transferred as in conventional insurance from an individual to the insurer company) through participation in the cooperative fund. *Takaful* exists primarily to spread a risk and to alleviate a financial loss suffered by somebody.

The Malaysian government then promulgated legislation known as the *Takaful Act*, 1984, which regulates the Islamic insurance (*Takaful*) of Malaysia (Ali, 2008). Currently, Malaysia has the most mature *Takaful* businesses operating alongside conventional banking and insurers (Anwar, 2008). With experience at hand, SOCSO should take this initiative by providing protections to the contributors using the Cooperative *Takaful* model in order to move parallel to the national agenda which is to make Malaysia a Centre of Excellence for Islamic Banking and Finance in the globe.

3.0 Discussion on the Cooperative Takaful Concept

Cooperative *Takaful* or *Musharakah Ta’awuniyyah* is the ideal model of Islamic insurance where each of the participant, also known as a

contributor, will make contribution to form a pool of money under the contract of *Tabarruat* (gratuitous, charitable contract) where it could nullify any *gharar*, in which the *tabarru'* fund will be used to help the participant in case of peril or unfortunate events. At the beginning of the emergence of commercial insurance institutions, Islamic finance experts have been trying to seek the approval of *Shariah* on commercial insurance; they found that there are many evidences in *Shariah* which lead to *ta'awun* (helping) and *Takaful*, and this is one of the highest *maqasid* where it is intended to preserve the relationship among Muslim communities. According to the decision on the establishment of the *al-ta'awun al-Islami* bill. 2001, the OIC Fiqh Academy stated that "*al-Musharakah al-Ta'awuniyyah*" is a new term, and it is also a new method in the field of Islamic insurance or cooperative *takaful* (Azman, 2015). The use of the term Islamic Cooperative Insurance or *Takaful* insurance was prevalent in some Arab countries, as an alternative to conventional insurance. The *Takaful* name without "cooperative" has also been popular in some countries such as Malaysia, Pakistan and Indonesia.

In the early stage in developing this concept, *Shariah* scholars were divided into two; First, a group involved in *Musharakah Ta'awuniyyah* through exploratory research results for the manuscript scripture supported the concept of *ta'awun*, *takaful*, *iltizam bi al-tabarru* (commitment to contribute) and operating principles for reducing risk referred to the rules of *maslahah* and disadvantages. The scholars found that *Musharakah Ta'awuniyyah* is not in conflict with Islamic law, and it should be developed to benefit the people. The model used by some companies is based on the idea and the change in the name of the principle of "*iltizam tabarru*" to the principle of "*al-Musharakah al-Ta'awuniyyah*". While another group saw *al-Musharakah Ta'awuniyyah* from another perspective that resulted in significant changes in the structure of *Takaful*. Therefore, in order to better explain the concept of *Musharakah Ta'awuniyyah*, it is better to look through the fundamentals and general principles (new methods for *Takaful*) associated with it using the method of "in order to judge something you need to know the overall picture behind it"², in which the description of the problem with the actual picture will lead us to *takyif syar'ie* (adjustment in Islamic law).

3.1 Definition of *Musharakah al-Ta'awuniyyah*

Literally *Al-Musharakah al-Ta'awuniyah* is a combination of two words: *Al-Musharakah* literally means people who share something together in the form of money, property and the like to become a partner³. *Musharakah Ta'awuniyah* is part of a new venture capital transaction. These transactions can be viewed in the business through *aqad mu'awadhat* (exchange contracts) or by agreement of *al-Musharaka al-Ta'awuniyyah (tabarru')*. There are a number of hadiths on *Musharakah* or partnership, for example in a hadith narrated by Abdullah bin' Ubaid bin Umair's, he said: "*the Prophet, may Allah exalt his mention, regarding the people of Khaybar; that half of the dates are for the Muslims and the other half are for them, on condition they guarantee the labour*"⁴. The word *Al-ta'awuniyyah* which means mutual help is linguistically originated from '*a wa na (عَوْن)*' which means to give help⁵. This is in line with the verses from the Al-Quran:

"And let you help one another in righteousness and piety, and do not help one another in sin (disobedience) and intrusion"
(Al-Maidah: 2).

The term *Ta'awun* mentioned in the verse is one of the highest aspects of Islam in educating humans: It concerns feeling happy with the relationship of love and affection with one other. In terms of language, this term suggests that it is the continuous habit of a community in creating harmony and carrying out responsibilities together through the concept of *ta'awun* and cooperation in order to avoid harm by some individuals, whether in public or in an institution, a company, an association and so on. The linguistic definition of the meaning of the term *al-musharakah al-ta'awuniyyah* is any action that contains elements of usury, gambling and *gharar*: all illegal because these elements cause harm to individuals and society. Texts of Islamic law also does not support any assistance that affects harm to humans. Accordingly, the term *al-musharakah al-ta'awuniyyah* can be said to represent a new way of *takaful* when it comes to the final objective of its establishment which is to protect and preserve the community.

Terminologically the terms *al-musharakah al-ta'awuniyyah* can be further explained in two ways. One of these is absolute *musharakah ta'awauniyyah* (general) which means cooperation in all matters for either an individual or an institution, but there are also *musharakah*

ta'awuniyyah for *muqayyad* (specific) discussed in this paper. Gharib al-Jamal, as quoted by the scholars in the OIC Fiqh Academy conference defined *musharakah al-ta'awuniyyah* as: "It is the scheme of cooperation agreed upon by a group of people where they agreed to bear together any losses that fall upon one of the participants by paying compensation through money donated"⁶.

He believes that the definition of *al-musharakah al-ta'awuniyyah* is a more suitable approach described by a real adjustment for transactions of this type. Thus *al-musharakah al-ta'awuniyyah* is: "Participation agreement between groups of individuals to bear any harm that occurs on one of the participants by paying compensation through money donated for the safety of their way to help, not by exchange". Since *al-musharakah al-ta'awuniyyah* is an agreement over a *takaful* scheme, it is more appropriate to refer to the definition as *al-musharakah al-ta'awuniyyah* as one of a new contract even if it combines *ta'awun* and *takaful*. The effort to find a suitable definition for *al-musharakah al-ta'awuniyyah* is still ongoing because it is an agreement among the participants under a contract of *tabarru ta'awun* based on *al-iltizam* (commitment).

From the *Shariah* perspective, the *tabarru'* contracts become the main focus in order to identify the concept of *musharakah ta'awuniyyah* or *al-ta'amin al-ta'awuni* (cooperative *takaful*). The joint protection and aids towards any of the participants in case of peril and misfortune have become the real intention for the *tabarru'* fund. While the relationship between the participants in the *al-ta'amin al-ta'awuni* (cooperative *takaful*) is a relationship of mutual indemnity and shared responsibility, and it is not a relationship to make profits because funds are not intended to make profit. If there are some surplus profits, it should be returned to each participant without exception, depending on the proportionate amount of their contribution. Thus, elements prohibited in *Shariah*-like *riba'*, *maysir*, gambling and *gharar* can be avoided, while in commercial insurance, it is based on the concept of mutual exchange and profits⁷.

There is one Hadith that supports the concept of cooperative *Takaful* which was narrated by Abu Musa Al-Ash'ari, who said, The Messenger of Allah, may Allah be pleased upon him, said, "When the people of Ash'ari had lost their spouses in battle or their children in Madinah had insufficient food, they would gather everything they have into one

garment, and equally divide it among themselves into one vessel. The Prophet SAW said: “They are from me, and I am from them” (al-Bukhari 1422H).

The difference between the current *Takaful* model and proposed *Musharakah al-Ta’awuniyyah* is that the current *Takaful* model has been designed to provide alternative to the conventional insurance but at the same time allows Takaful Operator (TO) to generate profits from high *wakalah* fees for the operation and the investments of the pooled funds. Imposing high *wakalah* fee is not necessary in cooperative takaful, since it is for the preservation of social welfare, thus its concept is most suited for non-profit oriented organizations.

Based on the definitions and discussions above, we could conclude the model that would reflect the concept of *al-Musharakah al-Ta’awuniyyah* or Cooperative *Takaful* is as below:

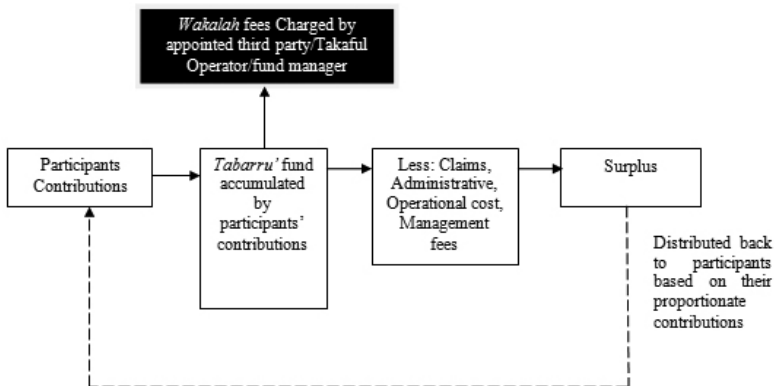


Figure 1. The Model of *al-Musharakah al-Ta’awuniyyah*

4.0 Integration of Cooperative Takaful concept into SOCSO

As mentioned in the early part of the paper, SOCSO, since its establishment in 1971 has provided protection to employees under its Employment Injury Insurance Scheme and Invalidation Pension Scheme. Under these schemes, workers are protected against industrial accidents, including accidents that occur while working or occupational diseases, invalidity or death due to any cause. If we look into the operational framework and protection provided, SOCSO perform functions similar to an insurance company. There are three guided principles that help SOCSO in fulfilling its responsibility:

i) *Solidarity Fund*

Solidarity is the fundamental value of social protection. It works similarly to the *Tabarru'* fund in the *Takaful* concept where it is a series of mechanisms for the redistribution of income towards contributors who are disabled or invalid and families with dependent children. Contributions made by its members to SOCSO are channeled to the solidarity fund. The amount of contribution to be paid is based on an employee's monthly salary. Through this consideration, it could categorize employees who share the same level of exposure and risk, regardless of industry in which they operate in into similar fund.

The sharing of risk in this context brings the understanding that all contributors agree and mutually allow SOCSO to use the solidarity fund to pay benefits to employees who suffer disability or invalidity and pension to dependants in the case of death. Again, it has similar elements to the *Tabarru'* and the *Takaful* concept where the pool of money is used for mutual indemnity to protect the participants or contributors during perils. Recently the SOCSO Board just announced that employees earning up to RM4,000 are eligible for coverage.

ii) *Replacement of Income*

This principle applies when determining the amount of benefit payments. It is related to the amount of contributions paid based on the employees' salary. This concept is to ensure that the employees do not feel financially affected if they have disabilities or invalidity. In the case of death of an insured person, replacement of income is provided to dependants through monthly pensions. Again, if we look closely, the principle of indemnity have been applied here in order to protect the participants or contributors against the loss(es) suffered by putting them in the condition before it happens which is similar to General Takaful products under the Workmen Compensation Takaful.

iii) *Equality*

The essential foundation of this principle is within the Act and Regulation itself. By virtue of the concept of social justice, the

coverage of the scope encompasses all employers and employees registered to SOCSO. Through this concept, prevention of accidents with the objective of zero accident that foster a culture of healthy lifestyle should be implemented because the real definition of social security is keeping employees in the workforce until retirement. Rehabilitation is also given to employees who suffer disability and invalidity. If we compare closely, the principle of equality are parallel with the concept of *Ta'awun* where it educates people to foster happiness among the community.

With all these similarities, integration of the Cooperative *Takaful* or *al-Musharakah al-Ta'awuniyyah* into SOCSO can be made possible without major changes into the current operational framework through. This is done by adapting *Shariah* principles in its operation by redefining the underlying contract used for contribution to *Tabarru'*, implementation restriction against prohibited elements by *Shariah* in its operational model and investment, reemphasizing the relationship between the contributors and SOCSO as the operator, and the formation of a *Shariah* Committee for compliance supervision and advise on matters pertaining to *Shariah* in its operation and investment alike.

4.1 Rationale behind the Integration

Since the first time it was launched, accumulated contributions under the SOCSO administration have grown into a critical mass where the size of the fund is huge. Thus it promotes stability and exhibit the strength of the institution to absorb any short term down fall in financial systems. There are several factors that is worth mentioning to show the rationale behind the integration of cooperative *Takaful* into the SOCSO operational model.

Firstly, it would be the size of the funds itself. Since it has already reached the optimum level, investment and management of the funds are more effective. Return from investments could generate extra surplus for the participants and the operators to share accordingly based on *Mudharabah* (profits sharing).

Secondly, contributions from the participants are made compulsory by law under the Employees' Social Security Act, 1969 and the Employees' Social Security (General) Regulations 1971. It means

that all employers must ensure contributions are made for all eligible employees under them, so that they are covered. That arrangement has secured a stable stream of cash flow to SOCSO as the sole entity who is responsible to manage the funds as it allows the operator to have sufficient liquidity to cover claims and other expenses related to managing the funds.

Thirdly, as a Muslim country, Malaysia is committed in providing *Shariah* compliant products and services locally and internationally in order to become the center of excellence for Islamic banking and finance in the region. Parallel to the national agenda, this integration could further enhance the image of Malaysia in its effort to Islamize its financial systems where actually it works best for the *maslahah* of the Muslim populations in the work force.

Institution	Fund Size (USD)
Employees Provident Fund (EPF)	100 billion as at March 2010
Retirement Fund incorporated (KWAP)	19 billion as at December 2009
The Social Security Organisation (SOCSO)	5 billion as at December 2007
Pilgrimmige Fund	7 billion as at December 2009
Permodalan Nasional Berhad	47 billion as at December 2009
Army Pension Fund	2 billion as at December 2009
Amanah Raya Berhad	19 billion as at December 2009
Khazanah National Berhad	29 billion as at December 2009
1Malaysia Development Berhad	3 billion as at December 2010

Table 1. Government Sovereign Funds in Malaysia

Source: <http://www.malaysiapropertyinc.com>

4.2 Model of SOCSO Cooperative Takaful

In order to develop a model for SOCSO, other than including all the features discussed in previous parts of the paper we also need to ensure that significant differences in *al-Musharakah al-Ta'awuniyyah* are included. This is to differentiate between normal *Takaful* and the Cooperative *Takaful* model. Both share almost similar aspects in terms of mutual indemnity and cooperation, but evidently Cooperative *Takaful* differs in terms (Azman, 2015):

- i. Pure cooperative basis – Involving mutual assistance among the participants where they made the contributions for mutual protection and jointly manage the fund.
- ii. Risk-Sharing – Risks are shared among the participants equally and collectively.
- iii. Participation and Representation in operation – It allows the participants who contribute to the *tabarru'* fund opportunity to participate in managing the company by having representatives to oversee the operations.
- iv. Surplus sharing is not the main target – Unlike normal *Takaful*, protection becomes the main target as the fund is raised to provide mutual indemnity and helps the participants during hardship.
- v. More transparency – Participation and having representatives to oversee the operations allow higher level of transparency compared to normal *Takaful*.
- vi. Cost effective – Since it is jointly managed by the participants, it could avoid some unnecessary fees to be imposed unlike normal *Takaful*, thus may lower the contribution rate.
- vii. Non-profit oriented – Investment is not the main agenda, therefore it might not generate returns or surplus for sharing.

It is noted that the main objective is to provide mutual protection and assistance to the participants; therefore *mudharabah* model will not suit for this as it steers for investment motives. Thus, the *wakalah* model would be more appropriate to represent the model for the cooperative *Takaful*. It is important to highlight that the *Takaful* operator, in this case SOCSO, is not part of the donation or mutual assistance, but acts as the agent of the participants to use their expertise in order to provide management, administration, underwriting, issuing *Takaful*

certificates and payment of claims. Since it involves two parties here, the participants of the *Tabarru'* funds and the *Takaful* operator shareholder funds (i.e. SOCSO), should employ two separate accounting treatment for each. These two funds must not commingle and in case of deficits in participants of the *Tabarru'* funds, as in normal *Takaful*, this deficit will be covered by the shareholders' fund as *Qard Hassan* (free of interest loan) which is to be reclaimed from future surpluses.

Based on all the consideration above, there are two possible models that could be used by SOCSO under the *Wakalah* model.

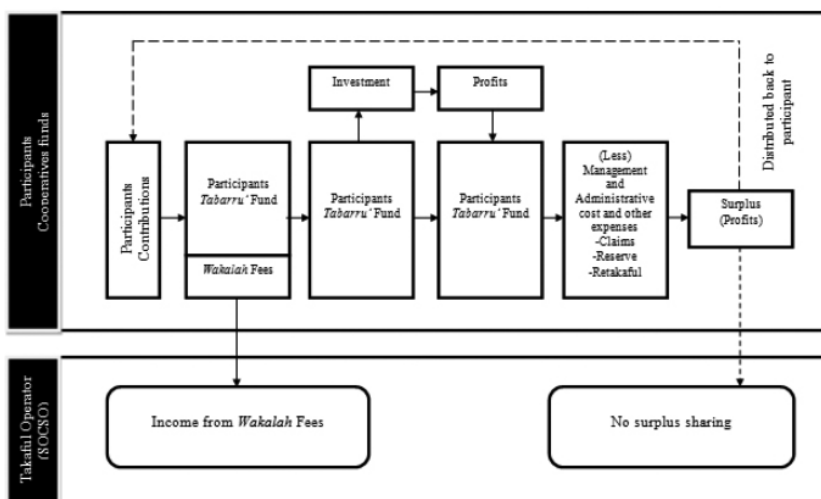


Figure 2. the SOCSO Cooperative Takaful under the Wakalah Model

In the first model (see Figure 2), it uses pure *Wakalah* where *Takaful* or fund Operator (SOCSO), will only charge *Wakalah* fees for services rendered. It is done this way since the *Tabarru'* funds belong to the participants while the fund operator is only employed to manage the funds. However, in this case it will have a downfall because the operator has a limited income. Thus it will cause them to be less motivated in managing the funds due to the absence of incentives. Due to this, in the second model (see Figure 3), it has an enhanced version where apart from the *Wakalah* fees charged up front, the fund operator also could participate in the surplus sharing where it can be based on either the *Wakalah* or the *Mudharabah* arrangement. For a distribution arrangement based on the *Wakalah* model, the surplus distribution to the fund operator is considered as performance fees in return for the fund's

operator role as the manager of the fund. For a distribution arrangement under Mudharabah model, the surplus distribution is shared between the fund’s operator and participants according to an agreed sharing ratio(BNM,2010). This addition could encourage and at the same time motivate the operator to better serve the participants and make better investments, since both parties at the end will enjoy any surplus available. In both models, it is also possible for the surplus shared to be used by the participants as rebate in order to reduce the amount of the contributions.

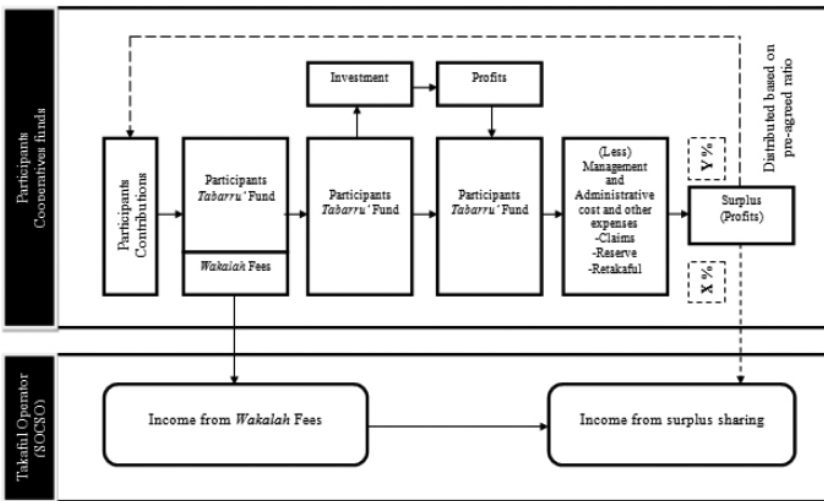


Figure 3. SOCSO Cooperative Takaful under Modified Wakalah Model

5.0 Challenges and recommendation

Without a doubt, this concept is far from complete and requires more observation in terms of operation and *Shariah*. One of the major obstacles would be the legal framework to support these changes. It requires a lot of work and time to revamp the current operations and governance framework since SOCSO is strictly governed by specific laws which are the Employees’ Social Security Act, 1969 and the Employees’ Social Security (General) Regulations 1971. Since Takaful is governed under the Islamic Financial and Services Act 2013, the implementation of this concept would cause conflict between these two jurisdictions and might create confusion in the enforcement of the laws. Therefore, a clear cut definition to which SOCSO will be bound to after the implementation is vital so that it could avoid unnecessary legal disputes in the future.

Other than that, in realizing this concept, SOCSO would need to hire additional staff in order to provide the expertise in certain areas, especially in the *Shariah* division which covers the portfolio of the *Shariah* secretariat, advisory, research, compliance and audit. As a guidance to become a *Shariah*-compliant institution, SOCSO may adopt the guidelines from the *Shariah* Governance Framework 2010 introduced by Bank Negara Malaysia (BNM) and included in Islamic Financial Services Act 2013 which is among others that there should be at least five *Shariah* Committee members and at least three of them with a strong *Shariah* background to supervise, provide advice regarding *Shariah* issues and approve products. The *Shariah* supervision framework includes introducing a *Shariah* compliant contract and structure in collecting monthly contributions or premiums from the employee, investment activities, payment of claims in the event of total disability or death.

There is also a need for SOCSO to have a *Shariah* governance framework. since it has been introduced by Bank Negara Malaysia to Islamic financial institutions in order to ensure the whole business operation is in compliance to *Shariah*. A strategic collaboration with *Shariah* scholars and experts to providing in-house training and to give exposure from early stages would help educate the staff and thus reduce the likelihood of *Shariah* non-compliant risks.

Thus, a strategic plan is required in order to prepare the implementation of the model where it should be done in phases because we need to ensure that participants and SOCSO as operator, are both aware and ready for the integration. The transformation will affect the organizational structure, managements and operations. Their roles will be different where both of them need to be clear about each other's responsibilities. In order to curb this, effective dissemination of information between parties should be made as early as possible. Regular meeting should be held between SOCSO and participant representatives in order to better understand each other. This is in line with the cooperative Takaful model.

6.0 Conclusion

In conclusion, Muslims are duty bound to find alternatives to any transactions, investments and protection schemes that contradict with *Shariah* principles. As a Muslim country, with more than 30 year

experience in Islamic banking and finance, it is about time for Malaysia to take initiatives in transforming its sovereign wealth funds specifically and non-Banking Financial Institution (NBFI) to be *Shariah*-compliant. With positive, suitable approaches and well thought out strategies, the potential in integrating the Takaful *Musharakah Ta'awuniyyah* model in the SOCSO framework and the product structure could be achieved. The nature of obligatory contribution in SOCSO is in line with the contract of pure *tabarru'* (charity) and *ta'awun* (cooperative) where in normal conditions, it is not profit oriented and with or without expectation of surplus sharing. There should not be major issue in charging fees from the participating members in order to provide viable income for SOCSO to support its operations.

Apart from that, with the integration of this model, it will give rise to some concerns such as inconsistency in making periodic agreed contributions, whether it should be forgiven or will affect the payment of the claims, method of payments and claims, Underwriting Losses (UWL) and other operations and *Shariah* issues. Creativity, professionalism, competence, innovations and efficiency are key requirements to ensure the successfulness of the transformation in Islamic Banking and Finance. As long as these key requirements remain guided by *Shariah* principles and compliance concern, it will definitely add value in spurring a vibrant growth of *Shariah* compliant transactions and funds in Malaysia and other Muslim countries.

Endnotes

1. OIC Fiqh Academy Council on the establishment of al-al-Islami ta'awun bill. 200, 21st Conference in Madinah, Riyadh, Kingdom of Saudi Arabia, 15-19 Muharram 1435H, corresponding to 18 to 22 November 2013.
2. See al - Fatuhi , Muhammad bin Ahmad bin Abd al - Aziz , Sharh al - Kawkab al - Munir (t.t : Maktabah al - O'beikan , 2nd printing . 1418H / 1997M) vol . 1 , m / s 50
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