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## EXPLORING WAQF-BASED TAKAFUL FUND AS FINANCIAL AID FOR THE B40 GROUP IN MALAYSIA

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### **Abstract**

*Family and life takaful play an important role in providing individual financial security especially for 40 percent of households with the lowest income (B40) who are considered to be a vulnerable group in the event of financial depression. The household income for B40 is below RM3,860 per month and is expected to increase to RM5,270 in 2020 as stated in the 11th Malaysia (Economic) Plan. The importance of family and life takaful becomes more significant with increasing risks faced by the B40 such as the higher cost of living, lower savings and high indebtedness, which in turn expose this group to the risk of economic insecurity. Some initiatives have been introduced in order to help the B40 groups such as giving financial aid to encourage them to be involved in entrepreneurship, providing special training sessions to enable them to manage their finances, and providing special takaful coverage (group takaful) for the B40. The objectives of this paper are to explore the viability of establishing a takaful fund for this target group by leveraging on the waqf model; to investigate the extent of the ownership of family and life takaful among the B40; and to identify how the waqf fund can potentially become a mechanism to initiate an exclusive takaful coverage for the B40. This research has been conducted using the qualitative method by focusing on articles, journals and library-based sources. The paper also identifies the Takaful as providing the element of savings and security to policy owners, who usually the main income earner or breadwinner, if something untoward happens and they require financial aid in the future.*

*Besides, takaful is also presented as a savings mobilizer, financial intermediary and promoter of investment activities.*

**Keywords:** *Waqf, Takaful, B40, Investment, Takaful coverage*

## **Introduction**

In May 2018, Malaysia came under the rule of the new Pakatan Harapan government whose major concerns remain the strengthening the country's economy and the eradication of poverty. Many initiatives were taken immediately to restore favourable economic conditions such as the replacement of GST with SST, a cut in government servants' salary and bonus and cancellation of some projects undertaken by the previous government. The concern for people in the Bottom 40% (B40) income group however remains at the top of the national agenda to ensure that this group will not be neglected. Statistically, 2.7 million Malaysian households were categorised as B40 with an average monthly household income of RM2,537. According to the 11<sup>th</sup> Malaysia Plan (RMK 11), in 2017 the household income for B40 was below RM3,860 per month and this was expected to increase to RM5,270 in 2020.<sup>1</sup> There are various initiatives to improve the quality of life for the B40 households. The Malaysian government has developed various programmes and strategies which focus on efforts to enhance income-earning opportunities in order to improve the living conditions of the poor.<sup>2</sup>

In this context the ownership of *takaful* coverage is advantageous especially for those who already have a family. In other words, it is very important for the B40 households to have at

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<sup>1</sup> Malaysia's Prime Minister Office. "Eleventh Malaysia Plan 2016-2020: Anchoring Growth On People." Speech By The Prime Minister In The Dewan Rakyat. May 21, 2015. [https://www.pmo.gov.my/dokumenattached/speech/files/RMK11\\_Speech.pdf](https://www.pmo.gov.my/dokumenattached/speech/files/RMK11_Speech.pdf). Accessed April 12, 2019.; Zarinah A, Farah S. P., Zanariah I.. "B40 Family: Stress and Strength", *Journal of Advanced Research in Social and Behavioural Sciences*, 10, no. 1, (2018): 91-102.

<sup>2</sup> Normaliza Abdul Manaf, and Kamarulazizi Ibrahim. "Poverty reduction for sustainable development: Malaysia's evidence-based solutions." *Global Journal of Social Sciences Studies* 3, no. 1 (2017): 29-42.



least one family member with an insurance or *takaful* policy. The importance of family *takaful* or life insurance becomes more obvious with increasing risks faced by the B40 such as the higher cost of living, lower savings and high indebtedness which in turn expose this group to the risk of economic insecurity. The B40 is considered vulnerable especially during an economic slowdown or depression because they do not have enough savings or other types of financial security. According to the Malaysian Department of Statistics, the low-income group in Malaysia also known as the B40 spends almost 80 percent of household income on routine essential expenses, whereas the Top 20% (T20) and Middle 40% (M40) spend about 64 and 48 percent respectively. The gap between the household income and the expenditure of B40 shows that with the high cost of living there is limited room for future savings.

*Takaful* coverage can lessen the family burden and help the household to manage their finances. *Takaful* provides the element of savings and security to the policy owner for the future especially if something untoward happens to the policy holder (usually the main income earner or the breadwinner), and the family requires financial aid. Additionally, *takaful* is also presented as a savings mobilizer, financial intermediary and promoter of investment activities.<sup>3</sup>

### ***Takaful* Awareness Among B40**

*Takaful* has been offered widely all over the world as the alternative to an insurance product which is more suitable for the Muslim community. Currently in Malaysia, there exists the *Sharī'ah* governance framework under the Islamic Financial Services Act (IFSA) 2013 for Islamic financial institutions that governs the *takaful* industry. The Central Bank of Malaysia regulates and monitors the *takaful* operators. In recent years there have been an increase in awareness about the importance of *takaful* products among Malaysians.

Despite rising awareness of the need for insurance among the lower-income group or the bottom 40% of Malaysian households

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<sup>3</sup> Sharifah Rubayah S.S.H, Mohd A, B., "Kajian Konseptual: Pemilikan Terhadap Perlindungan *Takaful* Keluarga", *Jurnal Muamalat* 9, (2016): 89-105

(B40), most of them chose to lapse their life policies when immediate needs arose.<sup>4</sup> The reason is that they could not afford to continue with their current *takaful* policy which was considered quite expensive for the B40. The lack of insurance and *takaful* products for B40 households is a good example of the market failure to provide protection for the low-income segment of society. It shows that awareness is not enough to overcome the problem, but the *takaful* provider needs to create a suitable *takaful* product for the low-income earner.

There are researches that investigate the factors which affect awareness among Malaysian citizens about *takaful* especially in terms of demography and socio-economy.<sup>5</sup> Other than demographic and socio-economic factor which determine awareness of *takaful* among the B40 are marital status, race, number of dependants, types of property and ownership of the property. Those who were already married and had children tended to subscribe to *takaful* policy because of the sense of responsibility in contrast to the single or unmarried person.<sup>6</sup> The factor of desire to provide some funds for family members via a will (*wasiat*) after the policy holder has passed away also contributes to the purpose of subscribing to an insurance or *takaful* policy.<sup>7</sup>

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<sup>4</sup> The Edge Communications Sdn. Bhd. "Cover Story: Insuring the B40". The Edge Weekly. November 9, 2017. <https://www.theedgemarkets.com/article/cover-story-insuring-b40>. Accessed March 20, 2019.

<sup>5</sup> Rohayu Roddin, Noor Sharipah Sultan Sidi, Yusmarwati Yusof, Maziana Mohamed, and Abdul Rasid Abdul Razzaq. "Poverty alleviation among single mother in Malaysia: Building entrepreneurship capacity." *International Journal of Business and Social Science* 2, no. 17, (2011); Md Husin, Maizaitulaidawati, and Asmak Ab Rahman. "What drives consumers to participate into family *takaful* schemes? A literature review." *Journal of Islamic Marketing* 4, no. 3 (2013): 264-280; Manab, Norlida Abd, Rosemaliza Ab Rashid, and Yusnidah Ibrahim. "Awareness and Ownership of Family *Takaful* Scheme Among Muslim Community in Malaysia." *The Journal of Muamalat and Islamic Finance Research* (2004): 121-136.

<sup>6</sup> Nurul Shahnaz Mahdzan, and Sarah Margaret Peter Victorian. "The determinants of life insurance demand: A focus on saving motives and financial literacy." *Asian social science* 9, no. 5 (2013): 274.

<sup>7</sup> Menahem E. Yaari, "Uncertain lifetime, life insurance, and the theory of the



## Current Practice of *Takaful* and *Waqf* in Malaysia

*Takaful* is based on the concept of mutual assistance and contribution. It represents an alternative to insurance, and it can be a business entity and not a charity. Since *takaful* is a business entity, risks cannot be avoided and the need for risk management is therefore crucial. *Takaful* can be a profit-oriented or a non-profit oriented entity depending on which type of *takaful* model is adopted.

In a *takaful* plan, all participants (certificate holders) agree to guarantee each other and, instead of paying premiums, they make contributions to a mutual fund on the basis of *tabarru'*. *Tabarru'* is the most important element in *takaful* operation which differentiates it from conventional insurance. *Tabarru'* is derived from Arabic word, '*tabarra'a*' that carries the literal meaning of charity, donation, and gift. It is a voluntary contribution by a person to another person during his lifetime without any request for return or exchange. It transfers the ownership of subject matter from the donor to the recipient. *Tabarru'* is classified as a unilateral, charitable contract, i.e where a benefit or consideration is given to the donee without getting anything in exchange. The pool of collected contributions creates what is commonly called *tabarru'* fund whereby the amount of contribution that each participant makes into the *tabarru'* fund is based on the type of coverage they require and on their personal circumstances. The *takaful* plan specifies the period of cover and nature of the risk.

In accordance with the *Takaful* Operational Framework issued by Bank Negara Malaysia,<sup>8</sup> sharing of surplus may be applied where the *takaful* operator may enjoy not more than fifty percent (50%) of the distributable surplus. Based on the nature of *tabarru'*, the subject matter which has been donated could not be taken back by the donor from the donee. The establishment of this *tabarru'* contract is due to a dedicated purpose, to benefit participants from the pool of fund when a peril causes a loss to him occurs. It is essential to

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consumer." *The Review of Economic Studies* 32, no. 2 (1965): 137-150.

<sup>8</sup> Bank Negara Malaysia. "*Takaful* Operational Framework." Bank Negara Malaysia. BNM/RH/PD 033-7. June 26, 2019.

<http://www.bnm.gov.my/index.php?ch=57&pg=140&ac=807&bb=file>. Accessed June 4, 2019.

highlight that the money in the pool is owned by all participants and the *takaful* contract gives rise to a parallel commitment by the parties, namely the participants and the fund. As the fund contains others' money, the utilisation of the fund has to be through lawful acts or means only.

As reported by RAM Ratings Bhd.,<sup>9</sup> the combined general and family *takaful* sector's capital adequacy ratio stood at 227.5% at end of June 2018 compared to 213.7% at end of December 2017. It is comfortably above the minimum regulatory requirement of 130%. The family *takaful* new business contributions ascended a quicker 13.1% to RM4.9 billion in 2018 compared to +10% in 2017, but the sector's profitability was affected by soft investment conditions. An anticipated moderation in private consumption growth may tamper with near-term demand. It is expected that the recently announced MySalam<sup>10</sup> national health protection scheme which provides *takaful* coverage to the B40 lower-income group may act as a catalyst for future purchases of individual protection plans. The family *takaful* penetration rate is currently low, at about 15%.<sup>11</sup>

*Waqf* on the other hand promotes the spirit of charity but unlike *zakāt* the fund is not distributed to a specific group. *Waqf* plays a huge role in expanding Muslim society economics such as in Malaysia, where increasing numbers of *waqf* land are being identified for charitable use. However, these lands have not been fully utilized and it becomes impractical if large numbers of *waqf* land lie dormant with no benefits to the community. In 2009, there were 9,937 hectares of *waqf* land with the estimated values of RM 1.9 billion which are dormant and unutilized.<sup>12</sup> In 2010, the number increased

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<sup>9</sup> RAM Ratings Sdn. Bhd.. "Malaysian *takaful*: Resilient growth amid evolving operating landscape." Press Releases. March 18, 2019. <https://www.ram.com.my/pressrelease/?prviewid=4923>. Accessed June 18, 2019.

<sup>10</sup> MySalam is A Non-Profit Health Protection Scheme Applicable In Government, University, and Military Hospitals – Not Private Hospitals. See Ministry of Finance Malaysia. "Skim Perlindungan Kesihatan Nasional mySalam." Introduction. 2019. [https://www.mysalam.com.my/b40/info?url=intro\\_EN](https://www.mysalam.com.my/b40/info?url=intro_EN). Accessed August 7 2019.

<sup>11</sup> RAM Ratings Sdn. Bhd.. "Malaysian *takaful*: Resilient growth amid evolving operating landscape." Press Releases. March 18, 2019. <https://www.ram.com.my/pressrelease/?prviewid=4923>. Accessed June 18, 2019.

<sup>12</sup> Utusan Malaysia. "10,000 Hektar Tanah Wakaf Bakal Dibangun." November 6,

to 11,511 hectares, yet only 0.72% of the *waqf* land was utilised. As reported by Yayasan Wakaf Malaysia (YWM) and Department of Wakaf, Zakat and Hajj (JAWHAR) of Malaysia Prime Minister Office, there are currently 87% (26,100 hectares) from an approximate of 30,000 hectares of the *waqf* assets has not yet been fully utilised.<sup>13</sup> In order to strengthen the economy, the *waqf* assets must be properly managed and utilised as soon as possible. The *waqf* institution has long been recognized and has played a vital role in the history of the Islam. However, the lack of management has caused a decline in the effectiveness of present-day *waqf* institutions throughout the Muslim world. Hence, these institutions need enhancement to be revived, revitalised and turned into productive *waqf* which will not only be self-financing but also provide considerable financing for the primary projects of the *waqf*.<sup>14</sup>

*Waqf* funding is sustainable in Malaysia because there are many unused *waqf* assets which can be utilised after identifying their potential. The amount of cash *waqf* is also increasing because of the increasing awareness among Malaysian who are regularly reminded and encouraged to give *waqf* donations. Research findings identify several internal factors that can help to maintain the sustainability of cash *waqf* in Malaysia such as religious obligations, benevolence, familiarity with *waqf* institutions and access to cash *waqf*. These factors show a strong relationship between *waqf* and donors' intention to make repeated cash contributions in the future. *Waqf* institutions also need to build up their reputation and integrity in order to win the trust of potential Muslims donors in Malaysia, trust in the institution is a significant factor for people to give *waqf* donations. *Waqf* institutions should there seriously consider these

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2009. <https://www.ywm.gov.my/j-ywm/pdf/akhbar/wakaf1.pdf>. Accessed January 3, 2019.

<sup>13</sup> BERNAMA. "Tanah Wakaf Boleh Dimanfaatkan Untuk Kumpulan B40." Terkini. June 25, 2019. <http://www.bernama.com/bm/news.php?id=1738830>. Accessed October 21, 2019.; New Straits Times Press (M) Bhd. "Bina rumah mampu milik di tanah wakaf." Berita Nasional. December 2, 2018. <https://www.bharian.com.my/berita/nasional/2018/12/504389/bina-rumah-mampu-milik-di-tanah-wakaf>. Accessed January 10, 2019.

<sup>14</sup> AbulHasan M. Sadeq. "Waqf, Perpetual Charity And Poverty Alleviation." *International Journal of Social Economics* 29, no. 1/2 (2002): 135-151.

factors to ensure that funds can accommodate further developments for the benefit of the ummah. The importance of *waqf* in socio-economic development is shown in the ability of *waqf* to function as a third sector distinct from the profit-motivated private sector and the authority-based public sector.<sup>15</sup>

### **The Concept of *Waqf*-Based *Takaful* Fund**

To implement the *waqf* concept in *takaful*, the *takaful* provider or the company must establish a *waqf* fund. Most of the funds are collected in the form of cash *waqf*. Cash *waqf* is an easy and flexible mechanism; anybody can contribute or donate in the form of cash as long as they have cash in hand.<sup>16</sup> It was successfully implemented in the Ottoman Caliphate era.<sup>17</sup> It is used to finance various types of activities such as education, food security, maintenance of *waqf* buildings and mosques, social services, water works and workers wages.

*Takaful* can be a profit oriented as well as a non-profit oriented entity. It depends on which type of *takaful* model is adopted by the entity. For instance, models such as *mudārabah*, *wakalah* and hybrid<sup>18</sup> (*wakalah and mudārabah*) are intended for profit but *waqf* can be used for non-profit purposes. This is when the *waqf* fund is created from portions of the company's capital which has been donated as *waqf* for *takaful* members. The fund can also be used for investment purposes and the returns and profit will be channelled

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<sup>15</sup> Fuadah Johari, Mohammad Haji Alias, Syadiyah Abdul Shukor, Kalsom Abd Wahab, Muhammad Ridhwan Ab Aziz, Nursilah Ahmad, Zurina Kefeli, Fauzi Abu Hussin, and Patmawati Ibrahim. "Factors That Influence Repeat Contribution of Cash *Waqf* in Islamic Philanthropy." *Malaysian Accounting Review* 14, no. 2 (2015); Johari, Fuadah, Wan Abdul Fattah Wan Ismail, Muhammad Aunurrochim Mas'ad, Hanim Misbah, Ahmad Syukran Baharuddin, and Nurul Asikin Abdul Razak. "Penerokaan Konsep Al-Tawriq dalam Pencairan Aset Wakaf." *Journal of Fatwa Management and Research* (2018): 198-214.

<sup>16</sup> Haslindar Ibrahim, Afizar Amir, and Tajul Ariffin Masron. "Cash *Waqf*: An Innovative Instrument for Economic Development." *International Review of Social Sciences and Humanities* 6, no. 1 (2013): 1-7.

<sup>17</sup> Murat Çizakça. "Cash waqfs of Bursa, 1555-1823." *Journal of the Economic and Social History of the Orient* 38, no. 3 (1995): 313-354.

<sup>18</sup> Hybrid is a combination of two or more *Shari'ah* concepts in one *takaful* model.

back into the specific account for charitable purposes or to maintain the original objective of *waqf*.

*Waqf* is also known as an instrument for social guarantee where it can be used to provide help for single mothers and orphans or women who do not have family support, are disabled or suffer from chronic diseases. *Waqf* is also meant to be donated to the poor and needy in the same way as *zakat*.<sup>19</sup> The basic requirement of the model is that the *waqf* fund will lay down the rules for distribution of its proceeds to beneficiaries and will determine how much compensation should be paid out to participants. The operator will hold the dual post as manager and *muḍārib* or entrepreneur when managing the *waqf* fund.

In Pakistan, the concept of the hybrid product of *waqf* and *takaful* has been established by using the *wakalah* model. The origin of the fund comes from the company shareholders and contributions from other members who want to be involved in *waqf*. The fund can be expanded from the profit via investment activities and the profit will be channelled to the *waqf* fund. Any surplus from the fund will be used to cover losses, distributed to shareholders and channeled towards charity. All expenses related to the underwriting and operational cost of *takaful* are charged to the *waqf* fund. The *takaful* operator will perform all functions necessary for the operations of the *waqf* against a *wakalah* fee to be deducted from the contributions paid by participants. As *muḍārib* the operator will manage the investment of the *takaful* fund including its *waqf* account in *Sharī'ah*-compliant investment avenues and will share returns on investment at an agreed ratio similar to the profit sharing structure under the *muḍārabah* contract. It is important to mention that different principles of *Sharī'ah* are used in the *takaful* contract to express the consent of participants for their contributions to be credited into the *takaful* fund for the purpose of undertaking the concept of joint guarantee as stated in the term '*takaful*'. In contrast to the *waqf* model, the other three models apply the principle of

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<sup>19</sup> Shaikh Hamzah Abdul Razak. "Zakat and Waqf as Instrument of Islamic Wealth in Poverty Alleviation and Redistribution." *International Journal of Sociology and Social Policy*, Vol. ahead-of-print, No. ahead-of-print (2019).  
<https://doi.org/10.1108/IJSSP-11-2018-0208>

*tabarru'* to the contract which are *muḍārabah*, *wakalah* and hybrid. One of the models is the *wakalah* model with *waqf* fund which has been approved by the Securities and Exchange Commission of Pakistan after its approval by the Islamic Ideological Council and Ulama of Darul Uloom.<sup>20</sup>

This model has also been adopted by *takaful* operators in South Africa with a modification of the *wakalah* model.<sup>21</sup> In this modified *wakalah* model of the *waqf* fund, the relationship of the participants and the operator is directly with the *waqf* fund. The operator is the *wakīl* (representative) of the *waqf* fund and the participants pay a one-sided donation to the *waqf* fund.

In Malaysia different approaches have been used where the principal of *muḍārabah* with *waqf* has been implemented. The participants join *waqf* with the intention of giving their contributions for charitable purposes, and all benefits will be channelled directly to *waqf* beneficiaries at the maturity date (or before the maturity date in case of death or losing the capability to work). However the *muḍārabah* contract has been questioned due to massive losses via bad investments and this has affected the trust of prospective participants and contributors in the *waqf-takaful* product. Besides, the issue of the *waqf* acceptance of more than 1/3 has also become one of the reasons why the previously successful *waqf-takaful* product lost its appeal from 2005 until it was revoked in 2009. Due to the failure, there are suggestions to overcome the problem and work on the revival of the product. This *waqf-takaful* problem can be overcome by creating a special *waqf* account known as “additional *waqf* rider”.<sup>22</sup> This problem also can be solved via re-*takaful* which is a basic concept to safeguard the *takaful* industry from any potential

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<sup>20</sup> Waheed Akhter. "Potential of *Takāful* in Pakistan: Operational and transformational paradigm." PhD dissertation, National University of Modern Languages, Islamabad, 2009; Akhter, Waheed. “*Takaful* Models and Global Practices” *Journal of Islamic Banking And Finance* , 27, no. 1 (2010): 30-44.

<sup>21</sup> Tolefat, Adulrahman. *Mixed Model Is Best Approach*. (Kuala Lumpur, Malaysia: ICMIF *Takaful*, 2006).

<sup>22</sup> Asmak Ab Rahman and Wan Marhaini Wan Ahmad, “The Concept Of *Waqf* And Its Application In An Islamic Insurance Product: The Malaysian Experience”, *Arab Law Quarterly*, 25 (2011): 203-219.

risks. The revival of the *waqf-takaful* product can be proposed for the benefit of the B40 community in Malaysia.

### **Relevancy of *Waqf-Based Takaful* for B40 Community and Its Proposed Model**

*Takaful* can be categorised into two major products which are the individual and the family *takaful*. For the B40 segment, the family *takaful* is seen as the most suitable type for them to subscribe to. Family *takaful* is a plan which covers policy holders if they pass away or face permanent disability which can cause them to lose their jobs. However the premium for this *takaful* policy is usually quite high.<sup>23</sup> For the B40 owning the *takaful* policy is crucial but the majority of families in Malaysia do not have enough savings or are not able to save at all as their income is only enough for daily consumption to buy food and clothes, and to pay the house rent. According to Bank Negara Malaysia, life insurance and family *takaful* penetration rate is lower among B40 with only 30.3% owning a policy, compared to the general insurance and *takaful*.<sup>24</sup> Some initiatives have been introduced to improve their economic condition and lessen the financial burden faced by the B40 via crowdsourcing and the introduction of microcredit programmes.

Crowdsourcing is gaining in popularity via new online distribution problem-solving and production models where people join forces to undertake a task. Since the internet has become a basic necessity for people today and its use is unavoidable, the idea of generating jobs among internet users will provide openings for the public to raise their monthly income and at the same time enhance their skills. In Malaysia it appears that the level of awareness and development of crowdsourcing is still low as potential job providers

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<sup>23</sup> Maizaitulaidawati Md. Husin. "The Dynamics of Malaysian *Takaful* Market: Challenges and Future Prospects." *Journal of Islamic Finance* 8 (2019): 131-137.

<sup>24</sup> Bank Negara Malaysia. Bank Negara Malaysia Financial Stability and Payment Systems Report 2017. (Kuala Lumpur: Bank Negara Malaysia, 2018); *Ibid.*



from the government sector have concerns regarding data confidentiality and payment mechanism.<sup>25</sup>

Another initiative is to introduce the B40 to microcredit programmes. The basic assumption behind the microcredit programme is that borrowers will capitalize on the credit they have obtained in revenue producing tasks which mainly includes small scale production or farming or microenterprise activities which can increase their socio-economic well-being as well as address their economic vulnerability.<sup>26</sup>

Some people question the capability of the B40 to get involved in entrepreneurship. Basic needs, surrounding challenges and demographic constraints are the three main factors that prevent a person from participating in entrepreneurship.<sup>27</sup> This is because they have no proper assistance and guidance which lead to failure in running a business. Besides this, the majority of the B40 are also in the category that lack education and training which contributes to the failure.<sup>28</sup> Although there are many problems that prevent the B40 from becoming successful entrepreneurs, the issue can be resolved through the right methods and support systems especially from government agencies such as Amanah Ikhtiar Malaysia (AIM) and TEKUN Nasional. These problems can be viewed from various aspects. For instance, if the drawbacks are due to the lack of certain attributes such as skills, physical ability, personality and talent, they can be overcome with the right initiatives given by the government.

In order to build up the economic status of the underprivileged, the *waqf*-based *takaful* fund can be used as start-up capital to start a

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<sup>25</sup> Mohd Fitri Mansor, Hasliza Abdul Halim, and Noor Hazlina Ahmad. "Leveraging crowdsourcing practices in small and medium enterprises (smes)." *Journal of Entrepreneurship Education* 21, no. 4 (2018): 1-11.

<sup>26</sup> Heather Montgomery, and John Weiss. "Can commercially-oriented microfinance help meet the millennium development goals? Evidence from Pakistan." *World Development* 39, no. 1 (2011): 87-109.

<sup>27</sup> Rohayu Roddin, Noor Sharipah Sultan Sidi, Yusmarwati Yusof, Maziana Mohamed, and Abdul Rasid Abdul Razzaq. "Poverty alleviation among single mother in Malaysia: Building Entrepreneurship Capacity." *International Journal of Business and Social Science* 2, no. 17 (2011).

<sup>28</sup> Radieah Mohd. Nor. "Inclusive Development for B40 Households Group: Malaysian Reality in Achieving Developed Nation Status by 2025." *International Journal of Academic Research In Business And Social Sciences* 9, no. 7 (2019).

small business. Several studies have been done on the achievement of microcredit programmes in Malaysia in the context of poverty eradication and Malaysia's microcredit programmes have shown improvement in increasing the income of the people. Microcredit programmes created by AIM and targeted specifically for the poor have progressively increased the borrowers' income and lowered the poverty level. For the record, 413,278 entrepreneurs have gained from a total of RM8.6 billion loans offered by AIM and TEKUN Nasional during the period of 10<sup>th</sup> Malaysia Plan (RMK 11).<sup>29</sup> Using the *takaful* funds, family members of policy holders are trained to get involved in business not only to sustain the family economy but also to acquire skills to become successful entrepreneurs. With the support and encouragement by the government, there is no reason for this group of people to neglect their talents and capabilities to become successful businessmen in the future. B40 entrepreneurs should fully utilise government initiatives that promote entrepreneurship among them. This can also indirectly lead to the eradication of poverty especially among the B40 group in Malaysia.

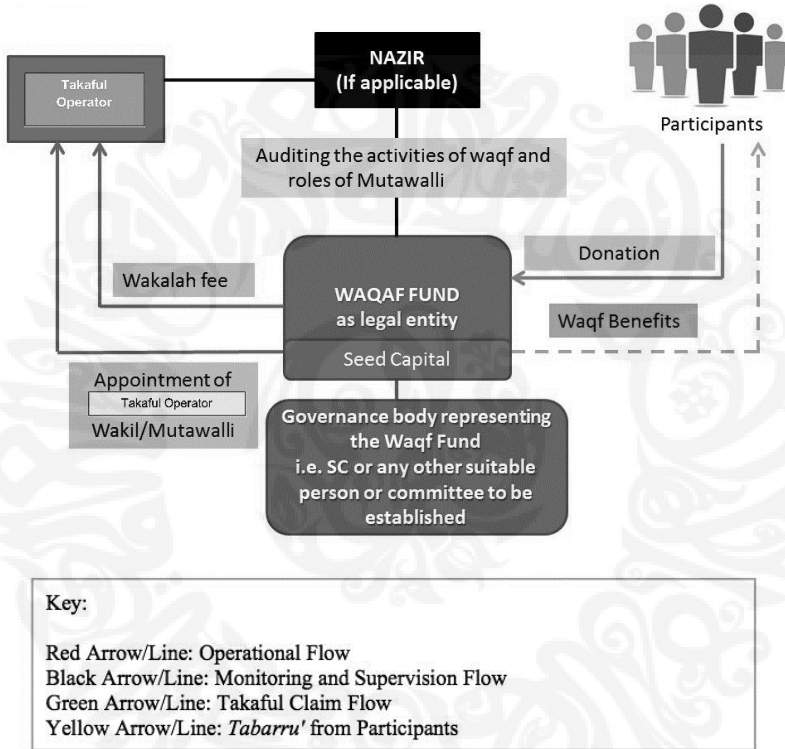
Another initiative is to introduce a *waqf*-based *takaful* model for the specific target of B40 community. Based on the foregoing, we are of the view that the standing of the *tabarru'* fund should be further enhanced so as to eliminate the risk of the *takaful* contract being perceived as similar to an exchanged conventional contract. The *Shari'ah* and legal challenges associated with characterising participants' payments as *tabarru'* can be more successfully addressed should the fund be managed in accordance with the *waqf* concept. Needless to mention, the source of indemnification in any *takaful* arrangement should be the risk fund (*tabarru'* fund), not the *takaful* operator. A relevant question to be posed is then – who (or what) shoulders the collective burden of compensating the participants? The answer would definitely be the risk fund. This fact needs to be clearly highlighted in the product offering to the potential participants. Another relevant question to be asked is whether the

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<sup>29</sup> Yee Wah Ching and Ee Shiang Lim. "Policies and Performance of SMEs in Malaysia." *Journal of Southeast Asian Economies* 35, no. 3, Special Issue: The Indonesian Economy in Transition: Policy Challenges in the Jokowi Era and Beyond (Part II) (December 2018): 470-487.

rights, duties, roles and responsibilities of all the parties involved have been comprehensively and adequately delineated into proper set of documentation and structure. It can be viewed through the diagram below:<sup>30</sup>

**Diagram 1:** *Waqf* -Based *Takaful* Model



The *modus operandi* of this model can be described as follows:

- a) *Takaful* operator may form a *waqf* fund and segregate from the capital of the company. The purpose of the *waqf* monies is for the participants/covered person who face mishap, pursuant

<sup>30</sup> Ahmad Zaki Salleh, Yusaini Yusof and Abdul Hakim Johari. "Managing *Tabarru'* Fund in the *Takaful* Industry: Challenges and Way Forward". Paper presented at the International Conference on Islamic Economics and Financial Inclusion, Universitas Muhammadiyah Yogyakarta, April 2015.

to the rules of the waqf fund. Payment of the benefit to the covered person is on *ta'āwun* basis and this does not contravene the *Shari'ah*. The available monies in the *waqf* fund shall be invested through *muḍārabah/wakalah bil istithmār* arrangement, and the proceeds will be included into the *waqf* fund for the implementation of the *waqf* purposes/objectives.

b) The fund is not owned by any party, where it is considered as an independent entity recognised by the law that enables the *waqf* entity to own asset, invest the fund and to make payment to others, in accordance with the determined rules.

c) The parties that require protection/coverage will participate in the fund in accordance with the rules that have been determined.

d) Any contribution by the participant will be considered as no longer his and will be in the ownership of the *waqf* fund, not considered as the asset of the *waqf* fund per se but as part of monies to form the fund the purpose of which pursuant to paragraph c) above. Hence, the monies contributed by the participant are not to be mandatorily kept as it should be on a *waqf* asset. Investment is allowed to ensure sustainability of the fund and both the contribution and the profit are to be utilised for the payment of compensation and other purposes.

e) The conditions on the eligibility of the participant and amount of contribution for each *takaful* plan are determined by the rules of the fund. It can also be determined via actuarial assessment as practiced by conventional insurance companies.

d) Any coverage received by the participants is not a counter value on their contribution, but is a gift from the *waqf* fund to those who are categorised as *waqf* recipient in accordance with the conditions of *waqf*. Historically, the *waqf* giver is entitled

to enjoy the benefits of the *waqf* and that the enjoyment/usage is not a counter value on the *waqf* that he has performed.

e) *Waqf* fund has absolute right on the assets in the fund in accordance with the conditions determine in the rules of the fund as the *waqf* fund owns all the assets that consist of the profit on the *waqf* asset, and the contribution from the participants together with the profit on the investment. The fund has the right to stipulate conditions for itself with regards to surplus, and it also has the right to maintain the surplus for possible future deficit. In addition, it also has the right to stipulate condition to distribute the whole surplus or any part thereof to the participants. There is a possibility that the fund view that the surplus be divided into three parts namely reserve, portion to be distributed to the participants (so that the difference with conventional insurance is clearer), and a portion to be spent every year for the welfare of the fund.

The income of the *waqf* pool is from:

- (a) Contributions paid by the participants;
- (b) Claim payments received from the *retakaful* operators;
- (c) Profits made from investing the available funds in the *waqf* pool;
- (d) *Qard* paid by the *takaful* operator in the event of deficit; and
- (e) Any other donations made to the *waqf* pool.

Expenses of the *waqf* pool are:

- (a) Claims payments;
- (b) *Retakaful* payments;
- (c) *Wakalah* fee of *takaful* operator;
- (d) *Takaful* operators percentage share in the investment profits;
- (e) Portion of distributed surplus;
- (f) Repayment of *qard*; and
- (g) Any donations paid on the recommendation of the *Shari'ah* Committee (SC).

A committee shall be formed to formally represent and look into matters in relation to the fund to ensure that the *waqf* fund is properly managed and the interest of the beneficiaries are protected at all times. In the current *takaful* structure practiced in Malaysia, theoretically, the SC at institutional level is being given the prerogative to make decision assessing the interest of the *tabarru'* fund. The role of the *waqf* committee would not be so different from the current role of the SC. It is proposed that with the adoption of the *waqf* concept, the governance structure would be consistently enhanced.<sup>31</sup>

### **Promoting Global Peace Through Waqf-Based Takaful Fund**

As mentioned earlier, one of the purposes of *takaful* is to become a source of financial aid for the policy holder, especially if they are categorised under the B40 group. But how do we relate financial aid with global peace? Firstly, we have to understand the meaning of peace. Peace is built upon respect for the development of human life which in turn involves the protection of rights, dignity and freedom of the people.

*"Peace' might be like 'happiness', 'justice ' and other human ideals, something every person and culture claims to desire and venerate, but which few if any achieve, at least on an enduring basis"*<sup>32</sup>

Entrepreneurship has long been acknowledged as a driver of economic growth. It is also an instrument of social transformation in developing countries. There is evidence in the transformation produced by business innovation since the industrial revolution. More specifically, the availability of electricity, technology (wireless and internet) and air travel are recent phenomena in terms of human history. Therefore, via technology and financial aid together with

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<sup>31</sup> *Ibid.*

<sup>32</sup> Fen Osler Hampson, Chester A. Crocker and Pamela R. Aall , "Negotiation and International Conflict" , in *Handbook of Peace and Conflict Studies* edited by Charles Webel and Johan Galtung (Abingdon: Routledge, 2007 ). <https://www.routledgehandbooks.com/doi/10.4324/9780203089163.ch3>. Routledge Handbooks Online. Accessed May 20, 2019.

assistance from government agencies and the private sector, we can create a group of successful entrepreneurs amongst the B40.

An economy can expand at the overall activity levels, either in real GDP or in labour market distribution of income and wealth. The poverty eradication programmes of some international organisations have this very purpose, and it would be expected that a well-balanced world would be the outcome.<sup>33</sup> When the economy flourishes, it can promote global peace where the connection between the particular country with other countries can be established and will create a huge potential in trading and other business opportunities. In the last 70 years, the GDP growth per capita has been three times higher in highly peaceful countries. Over the last decade, countries with the largest improvement in peace recorded seven times higher GDP growth per capita than those that have deteriorated the most. Peaceful countries participated more in trading activities and achieved greater economic prosperity.<sup>34</sup>

## Conclusion

*Waqf*-based *takaful* fund which has been long established in Malaysia was very successful in the period between 2002-2004 before the management crisis which led to the cancellation of the product in 2009. However, there are those who suggest that the *waqf* based *takaful* product can be recreated if the core problems are solved. The new *waqf* -based *takaful* concept can be used mostly for charitable purposes and also to help build up the B40 community. It is very important for the B40 to own at least one family *takaful* policy to provide the element of savings and security if something untoward occurs to the policy holder (usually the main income earner or the breadwinner) in the future and they require financial aid. In order to increase the number of *takaful* policy holders among the B40, *takaful* providers need to come out with exclusive affordable plans. The *waqf* -based *takaful* fund appears to be a potential product that can overcome the problem. Besides increasing awareness through

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<sup>33</sup> Gustav Ranis, Frances Stewart, and Alejandro Ramirez. "Economic Growth and Human Development." *World Development* 28, no. 2 (2000): 197-219.

<sup>34</sup> Jurgen Brauer, and William G. Gissy. *The Economics of Conflict and Peace*. (New York: Routledge, 2017).



campaigns among the B40 group, they should be exposed to ways of managing their funds in order to sustain and improve their economic status if the family loses its main income earner. By encouraging family members to involve themselves in entrepreneurship, the particular government agency will also play their role in assisting the family groups and ensuring the success of their plans. Poverty may be one of the main causes of violence, crimes and other social problem and by eradicating poverty through the improvement of the economic status of the B40 group via the *waqf*-based *takaful* fund, global peace which includes the ideals of freedom and happiness can be achieved among and within all nations. The term ‘peace’ is sometimes used to refer to a termination of hostility among all individuals by crossing boundaries via economics, human rights, technology, education, engineering, medicine, diplomatic efforts and/or an end to all forms of fighting. With the prosperity of the country poverty can be reduced and crime rates will decrease, which will in turn gradually promote global peace.



## TRANSLITERATION TABLE

### CONSONANTS

Ar=Arabic, Pr=Persian, OT=Ottoman Turkish, Ur=Urdu

Ar	Pr	OT	UR	Ar	Pr	OT	UR	Ar	Pr	OT	UR	
ء	ء	ء	ء	ز	z	z	z	گ	—	g	g	g
ب	b	b	b	ژ	—	—	ʀ	ل	l	l	l	l
پ	—	p	p	ژ	—	zh	j	م	m	m	m	m
ت	t	t	t	س	s	s	s	ن	n	n	n	n
ث	—	—	ṭ	ش	sh	sh	ş	ه	h	h	h¹	h¹
ث	th	th	th	ص	ş	ş	ş	و	w	v/u	v	v/u
ج	j	j	c	ض	ḍ	ḍ	ḍ	ی	y	y	y	y
چ	—	ch	çh	ط	ṭ	ṭ	ṭ	ة	-ah	—	—	-a²
ح	ḥ	ḥ	ḥ	ظ	ẓ	ẓ	ẓ	ال	al³	—	—	—
خ	kh	kh	kh	ع	‘	‘	‘	—	—	—	—	—
د	d	d	d	غ	gh	gh	ğh	—	—	—	—	—
ڈ	—	—	d	ف	f	f	f	—	—	—	—	—
ذ	dh	dh	dh	ق	q	q	q	—	—	—	—	—
ر	r	r	r	ك	k	k/g	k/ñ	—	—	—	—	—

¹ – when not final  
² – at in construct state  
³ – (article) al - or l-

### VOWELS

	Arabic and Persian	Urdu	Ottoman Turkish
Long	ا	ā	ā
	آ	Ā	—
	و	ū	ū
	ي	ī	ī
Doubled	ي	īy (final form ī)	īy (final form ī)
	و	uww (final form ū)	uvv
	و	uvv (for Persian)	uvv
Diphthongs	و	au or aw	ev
	ی	ai or ay	ey
Short	ا	a	a or e
	ا	u	u or ū
	ا	i	o or ö
	ا	i	i

### URDU ASPIRATED SOUNDS

For aspirated sounds not used in Arabic, Persian, and Turkish add h after the letter and underline both the letters e.g. چ jh گ gh

For Ottoman Turkish, modern Turkish orthography may be used.

# AL-SHAJARAH

Special Issue

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