UNIVERSITI SAINS ISLAM MALAYSIA

جامعة العلوم الإسلامية الماليزية

ISLAMIC SCIENCE UNIVERSITY OF MALAYSIA

Islamic Banking, Takaful and Al Rahnu

LCA4562

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- Takaful model
  - Mudharabah:
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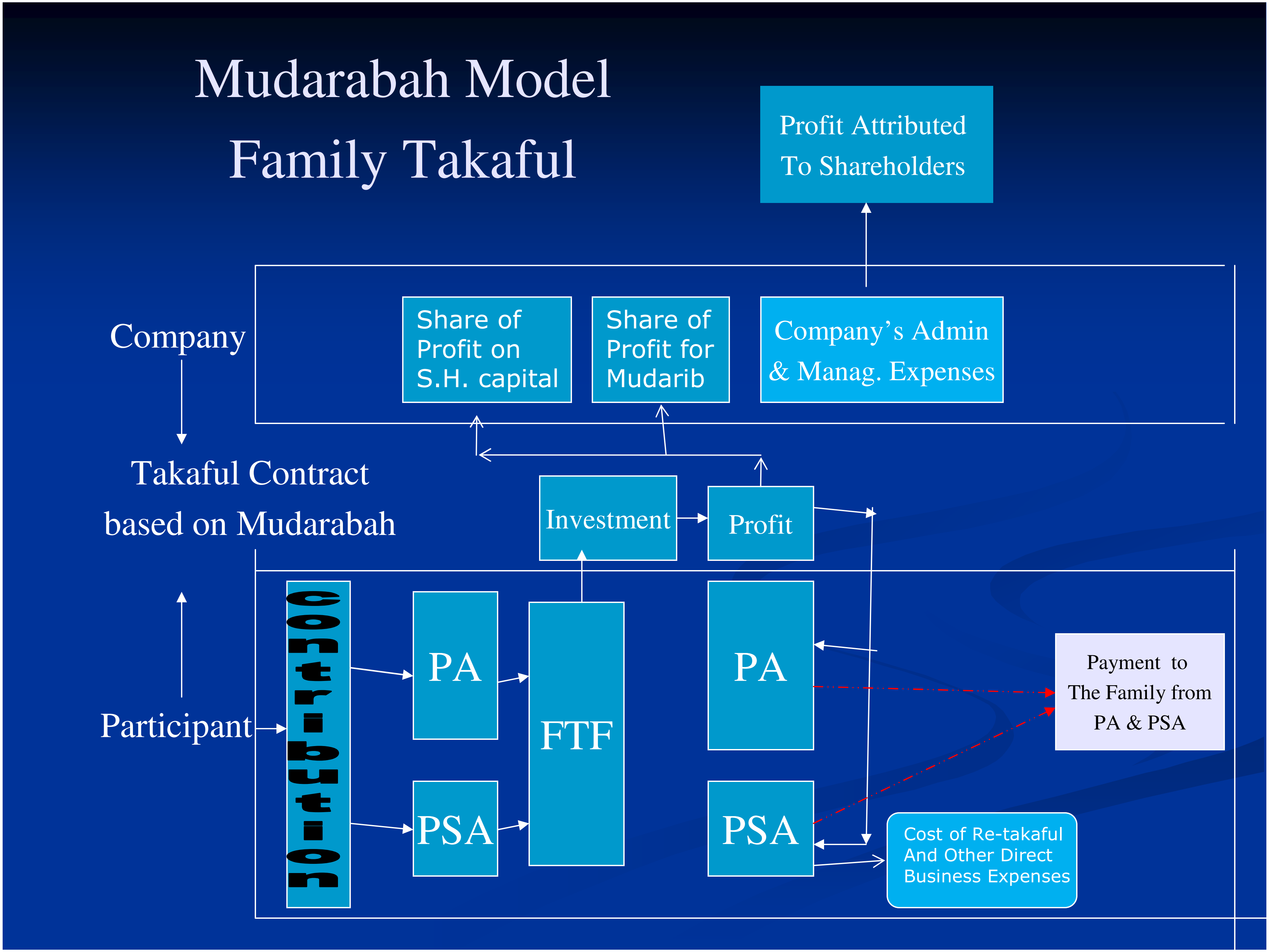
Takaful model

- Mudharabah: was developed in malaysia
- Wakalah: was developed in the gulf
- Waqf : was developed in south africa
- Hybrid

Mudharabah Model

- TO as the entrepreneur will accept payment of the installments or contributions called *ra'sul mal*, from investors or provides of capital or fund, popularly known as takaful participants acting as *sahib-ul mal*. the takaful operators as the entrepreneur will accept payment of the installments or contributions called *ra'sul mal*, from investors or provides of capital or fund, popularly known as takaful participants acting as *sahib-ul mal*.
- income to the operator as *mudharib* is calculated at the end of the contract under the *al-mudharabah* model

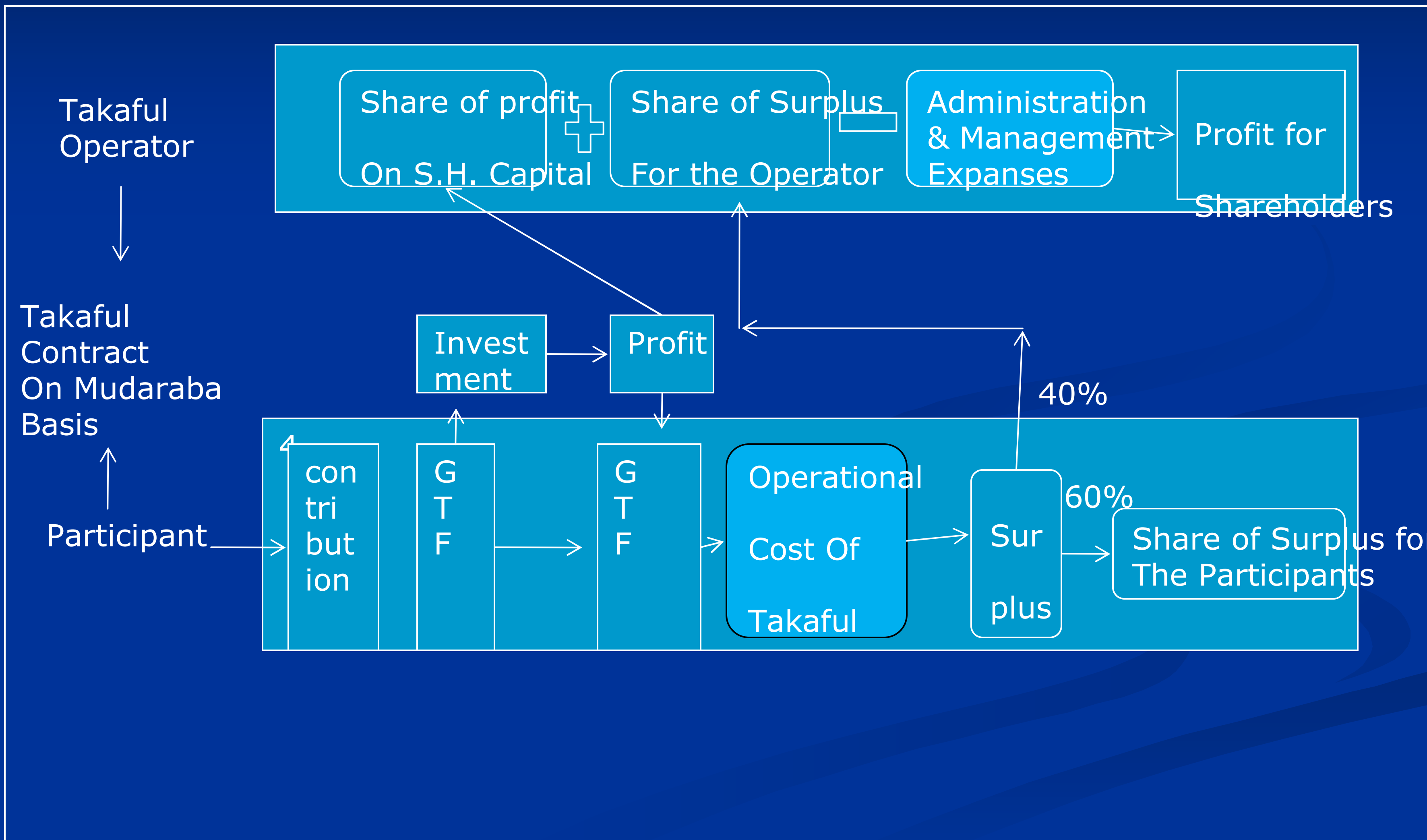
- **(Mr. Ahmad) buys Fire Takaful Policy. He pays the contribution for RM 1000 for a year. Takaful Operator invests the contribution paid by Mr. Ahmad in the investment company (Halal Investment Counter) according to principle of Al-Mudharabah. Takaful Operator get 10 % profit.**
- **So at the end the Takaful Operator will get RM 1100 (Principle + Profit).**
- **Then the amount of RM 1100 (In the General Takaful Fund) will be deducted for allowed cost such as Retakaful, Claims, and Reserves.**
- **If there is a surplus (Profit) after deduction for allowed cost, then the sharing of surplus will be distributed to both Takaful Operator and Participant 60%: 40% respectively (Based on the agreement in the contract).**


Mudarabah Model
Family Takaful
Profit Attributed To Shareholders
Company
Share of Profit on S.H. capital
Share of Profit for Mudarib
Company's Admin & Manag. Expenses
Takaful Contract based on Mudarabah
Investment
Profit
Participant
Contribution
PA
PSA
FTF
PA
PSA
Payment to The Family from PA & PSA
Cost of Re-takaful And Other Direct Business Expenses

Cont..

- In Family Takaful each Takaful installment is divided and credited into two separate Accounts namely, the Participants' Account(PA) and the Participants’ Special Account(PSA). A substantial proportion of the installments is credited into the PA solely for the purpose of savings and investment.
- The balance of the installments is credited into the PSA as `tabarru' for takaful operator to pay the Takaful benefits to the heir(s) of any participant who may die before the maturity of the contract.

Mudarabah Model: General Takaful



Shariah Concerns regarding Mudaraba Model

- Mudaraba is a commercial contract, hence not suitable for a donation (Tabarru) based scheme.
- Donation given by the participants can not become capital for Mudaraba at the same time.
- Distribution of surplus among the participants in proportion of their contributions is like a conditional gift(Hiba bis-Sawab) which is not allowed.
- Sharing of surplus in case of General Takaful(instead of profit) makes the contract essentially the same as conventional insurance contract.
- Provision of Qard Hasan from the Shareholders fund in case of deficit is not correct as Mudarib is not a guarantor.

Wakalah Model

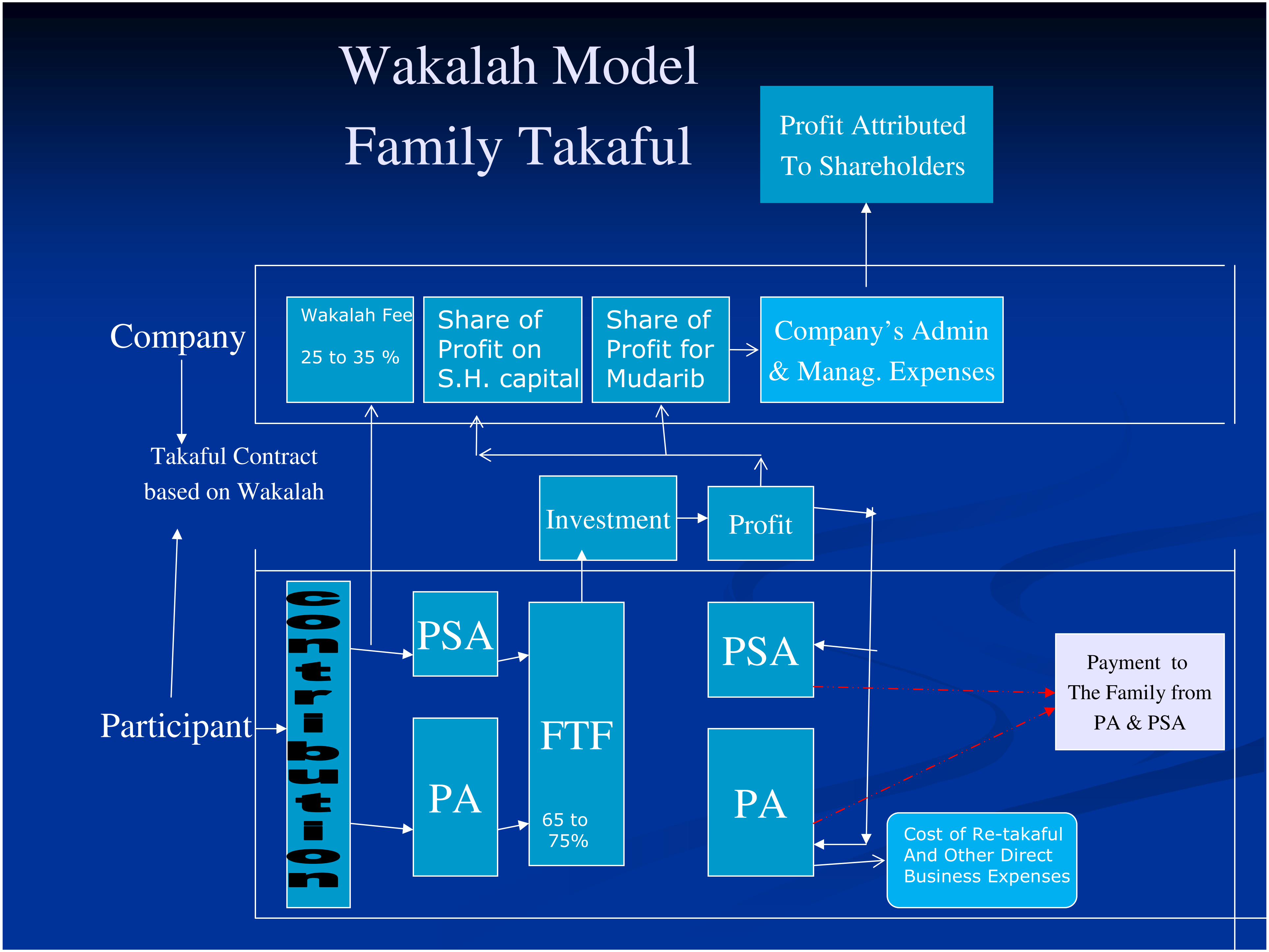
- a contract of agency in which a person delegates his business to another and substitutes the other in his place. The person delegated called wakil (agent) whose fundamental obligation is to provide his skill towards the betterment of assigned job. Thus, both the principal and the agent equally bound by each other under contract of al-wakalah.
- the practice of the al-wakalah allow the operator to charge fees as income upfront or at the point the contract is incepted.

Wakalah Model

- Consists of contribution (I*shtirak*) by Participants (*mushtarik*) that includes payments of fees and charges and a portion for donation (*tabarru*) to a community takaful fund. All risks are borne by the takaful fund and the annual operating results (Surplus/Loss) belong solely to the Participants. The takaful operator (*wakeel*) does not share directly in the risk, deficit or surplus.

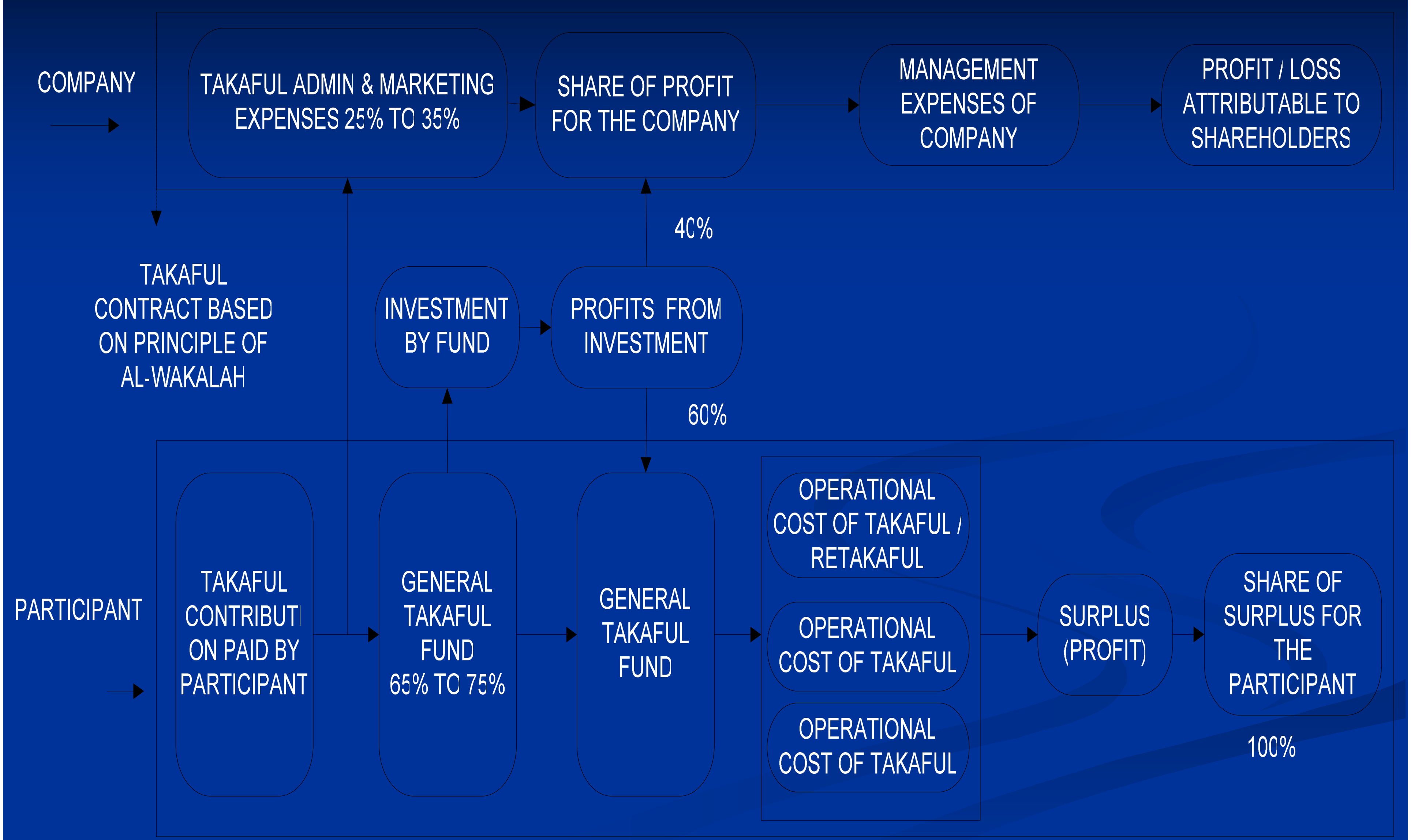
Wakalah Model

- **Participants agree to pay specified direct expenses and to pay the takaful operator a set fee (*wakala* fees) to manage the operations on their behalf, which may include a performance fee as incentive that is charged to the surplus, if any.**
- **If the takaful Operator is to generate a profit from its efforts, it must manage the operations (including salaries, overhead, selling commissions, sales and marketing expenses, etc.) entirely within the disclosed *wakala* fees.**
- **The *al-wakala* model can be viewed as transparent as fees are clearly related to operator's operational costs.**



Wakalah Model
Family Takaful
Profit Attributed To Shareholders
Company
Wakalah Fee
25 to 35 %
Share of Profit on S.H. capital
Share of Profit for Mudarib
Company's Admin & Manag. Expenses
Takaful Contract based on Wakalah
Investment
Profit
Participant
Contribution
PSA
PA
FTF
65 to 75%
PSA
PA
Payment to The Family from PA & PSA
Cost of Re-takaful And Other Direct Business Expenses

Wakalah Model General Takaful



Shariah Concerns regarding Wakalah Model

- Wakalah model is free from many objections raised against Mudaraba model but some shariah concerns are still there which are as follows:
- Distribution of surplus among the participants in proportion of their contributions is like a conditional gift (Hiba bis-Sawab) which is not allowed.
- Provision of Qard Hasan from the Share holders fund in case of deficit is not correct as Wakil is not a guarantor.

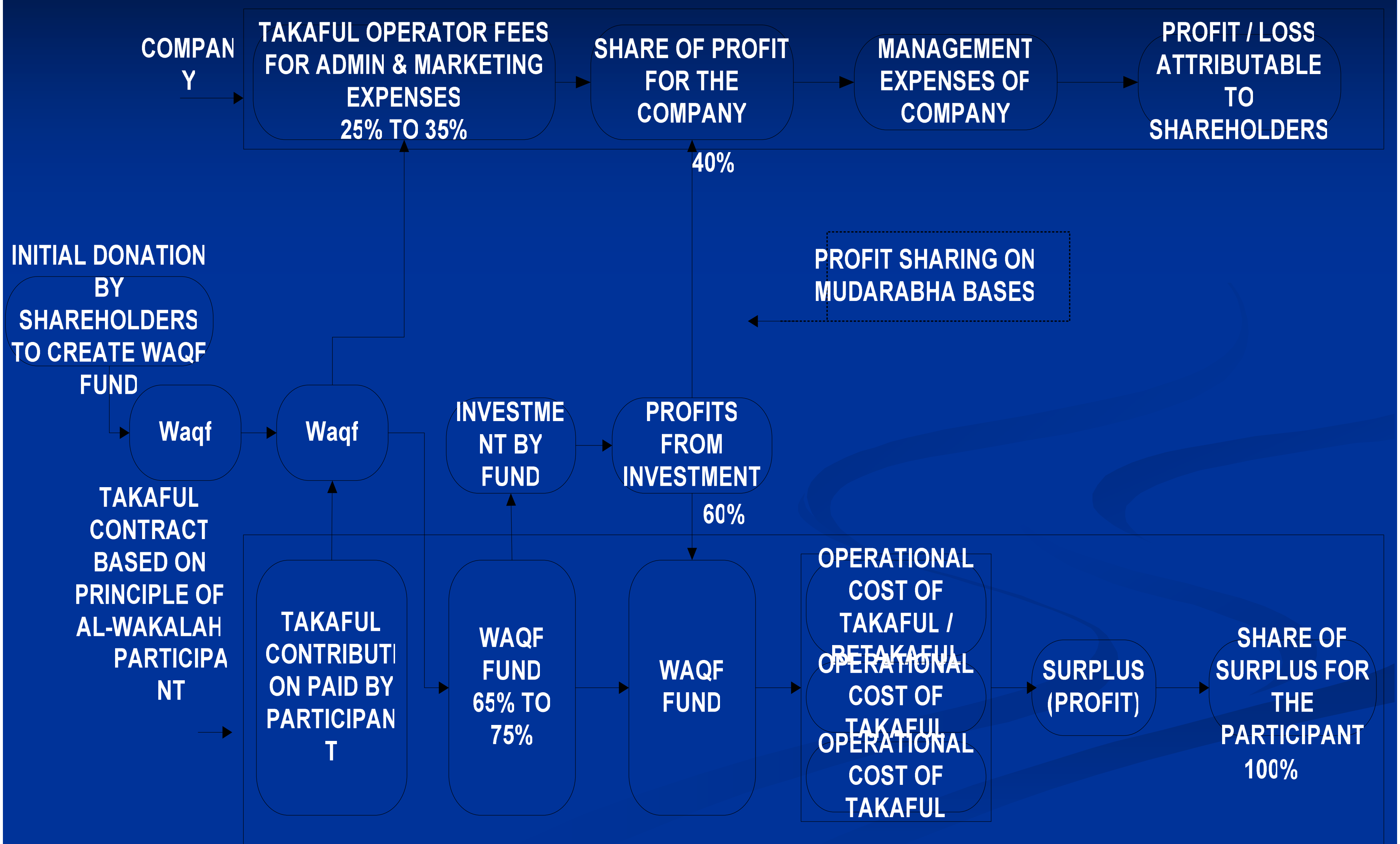
Waqf model

- A Waqf Fund would basically be a separate legal entity to which the Shareholders would initially make a donation to establish the Waqf Fund.
- The donation can be of any reasonable amount (Shariah Board may specify such an amount).
- The objectives of the Waqf fund would be to provide relief to participants against defined losses as per the rules of the Waqf fund.

Waqf model

- The relationship of the participants and of the operator is directly with the Waqf fund. The Operator is the Wakil of the Waqf Fund and the participants pay one sided donation to the WAQF fund (not conditional) which also eliminates the issue of Gharar.
- The WAQF fund rules may define the sharing of surplus and other rules under which it would operate but there is no obligation to distribute surplus. Further the Qard would be given by the shareholders to the WAQF entity and not to individuals as in the typical Wakalah model.

Waqf model


COMPAN Y
TAKAFUL OPERATOR FEES FOR ADMIN & MARKETING EXPENSES 25% TO 35%
SHARE OF PROFIT FOR THE COMPANY
MANAGEMENT EXPENSES OF COMPANY
PROFIT / LOSS ATTRIBUTABLE TO SHAREHOLDERS
40%
PROFIT SHARING ON MUDARABHA BASES
INITIAL DONATION BY SHAREHOLDERS TO CREATE WAQF FUND
Waqf
Waqf
INVESTME NT BY FUND
PROFITS FROM INVESTMENT
60%
TAKAFUL CONTRACT BASED ON PRINCIPLE OF AL-WAKALAH
PARTICIPA NT
TAKAFUL CONTRIBUTI ON PAID BY PARTICIPAN T
WAQF FUND 65% TO 75%
WAQF FUND
OPERATIONAL COST OF TAKAFUL / RETAKAFUL
OPERATIONAL COST OF TAKAFUL
OPERATIONAL COST OF TAKAFUL
SURPLUS (PROFIT)
SHARE OF SURPLUS FOR THE PARTICIPANT 100%

Thank You

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