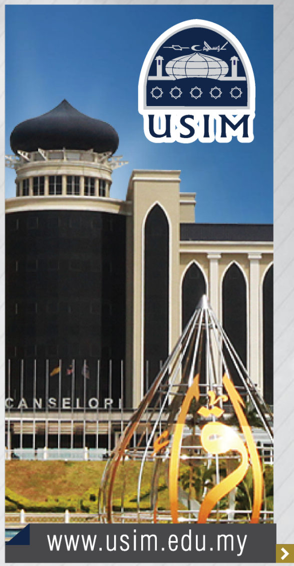

Takaful Model

MEMPELOPORI SAINS ISLAM • MEMIMPIN KEILMUAN
PIONEERING ISLAMIC SCIENCE • SPEARHEADING KNOWLEDGE

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- Takaful model
  - Mudharabah:
  - Wakalah
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    - Musharakah Taawuniyah

Takaful model

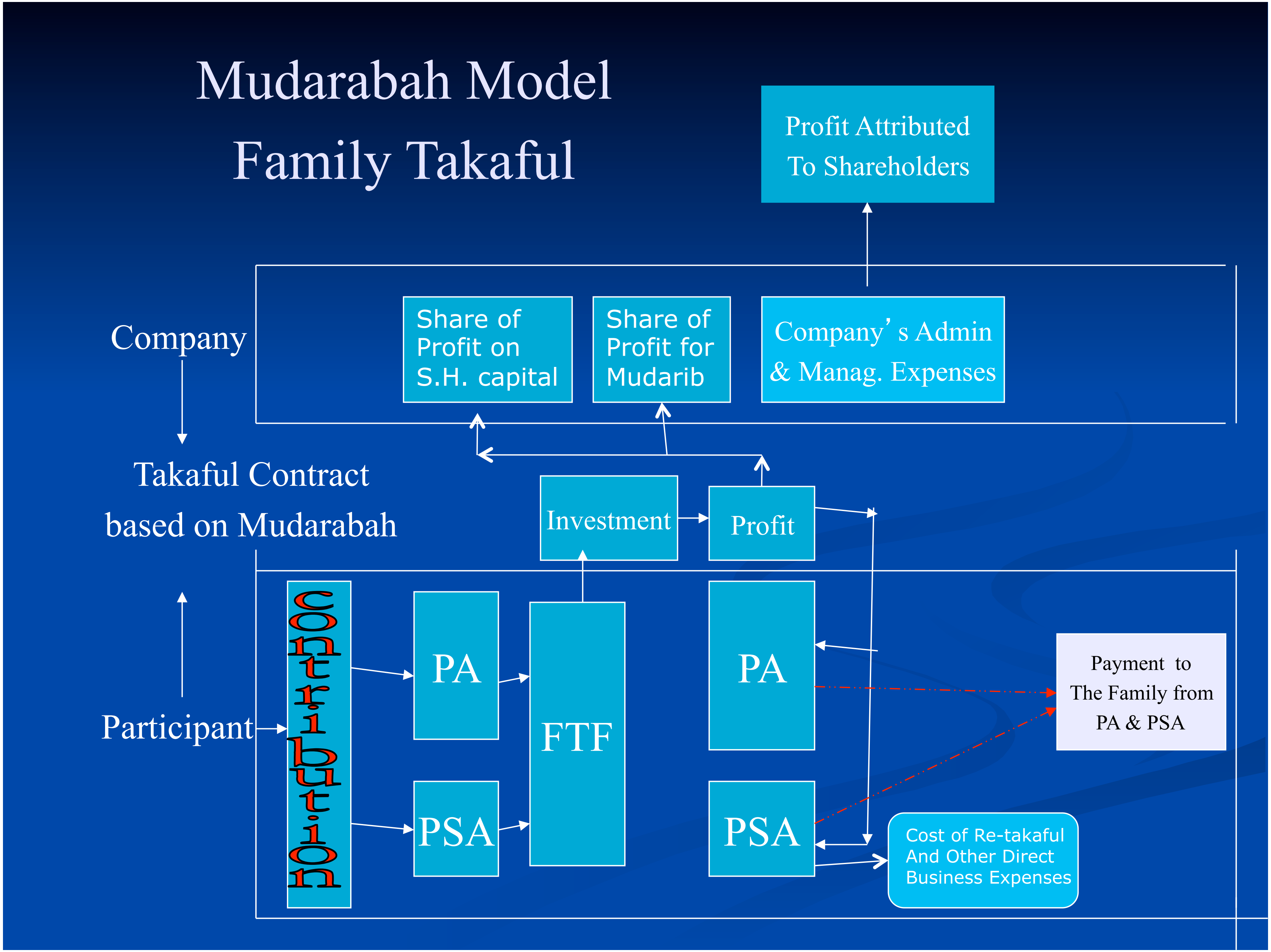
- Mudharabah: was developed in malaysia
- Wakalah: was developed in the gulf
- Waqf : was developed in south africa
- Hybrid
- New Model
  - Wadiah ya dhamanah
  - Musharakah Taawuniyah

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

Family Takaful Business (mudharabah)

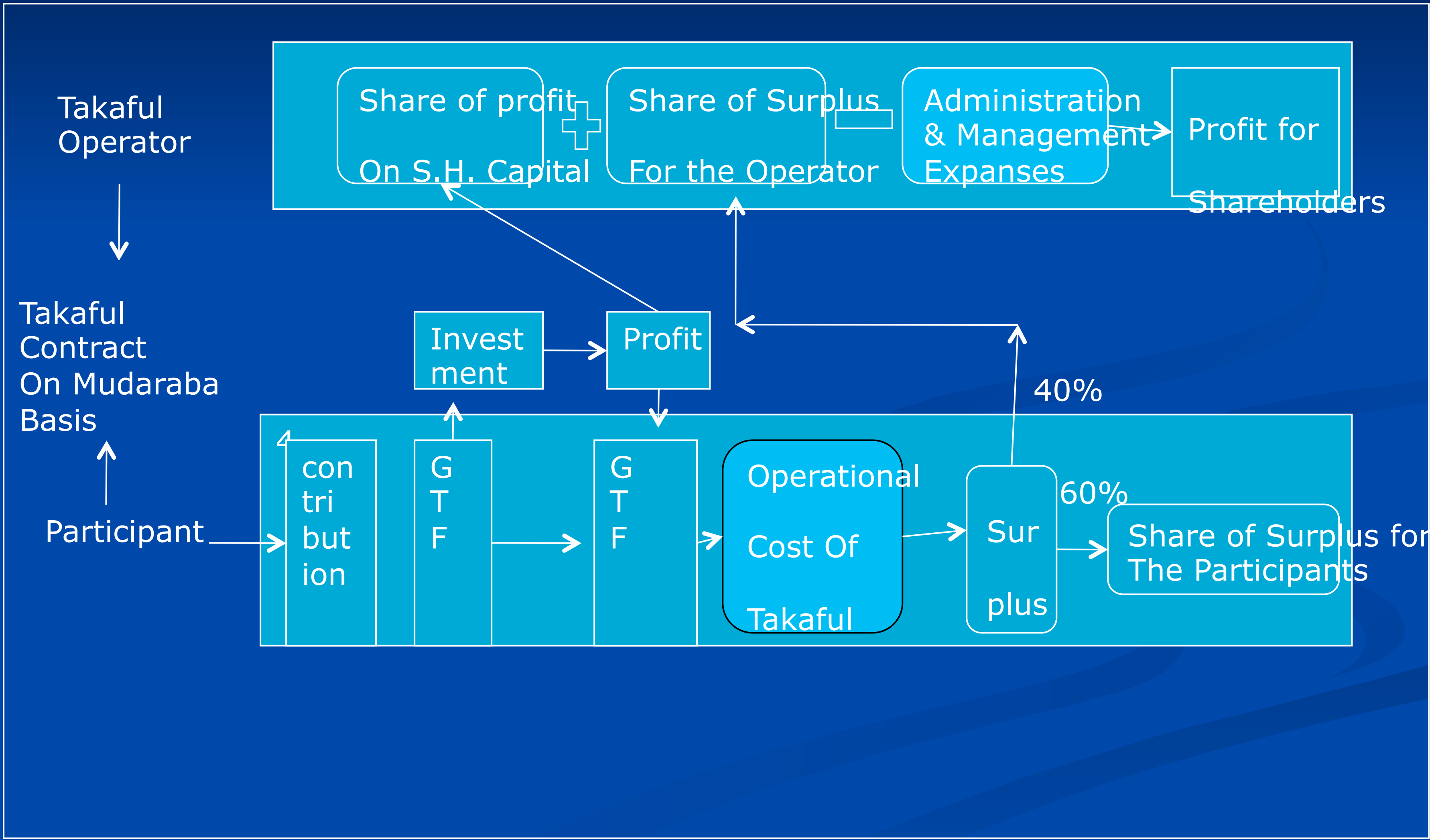
- In Family Takaful each Takaful installment is divided and credited into two separate Accounts namely, the Participants' Account(PA) and the Participants' Special Account(PSA). A substantial proportion of the installments is credited into the PA solely for the purpose of savings and investment.
- The 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
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

General Takaful Business

- C 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: General Takaful



Shariah Issues on Mudarabah Model

- Mudarabah 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.

Fees in Mudharabah Model

- The SAC in 2006
- “For takaful model based on mudarabah contract, takaful company is not allowed to charge any management fee on contribution paid by takaful participants. On the other hand, all operational expenses shall be borne by the shareholders’ fund whereby its income is derived from its share of investment profits or surplus of the takaful fund” (SAC BNM, 2010, 77).

Investment and PRF

- investing PRF the tabarru fund may trigger potential Shariah and operational issues
- legality of investing the risk fund and the contract being used to invest the risk fund
- the donation must be used for the specified purpose or the designated recipients unless the donors later authorized for another purpose such as investment, either on their own initiative or in response to the agent's request.

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 al-wakalah allows the operator to charge fees as income upfront or at the point the contract is incepted.

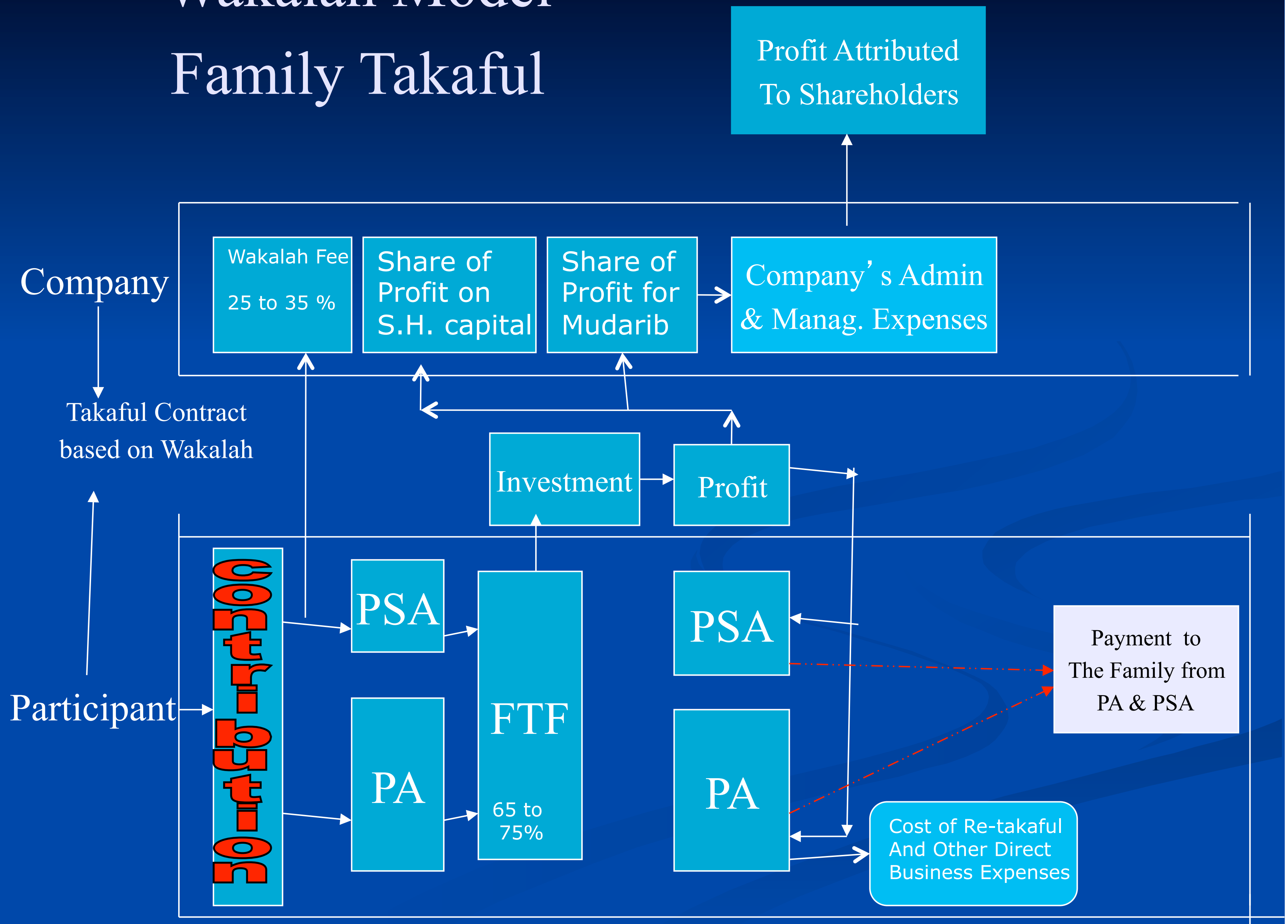
Wakalah Model

- 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.

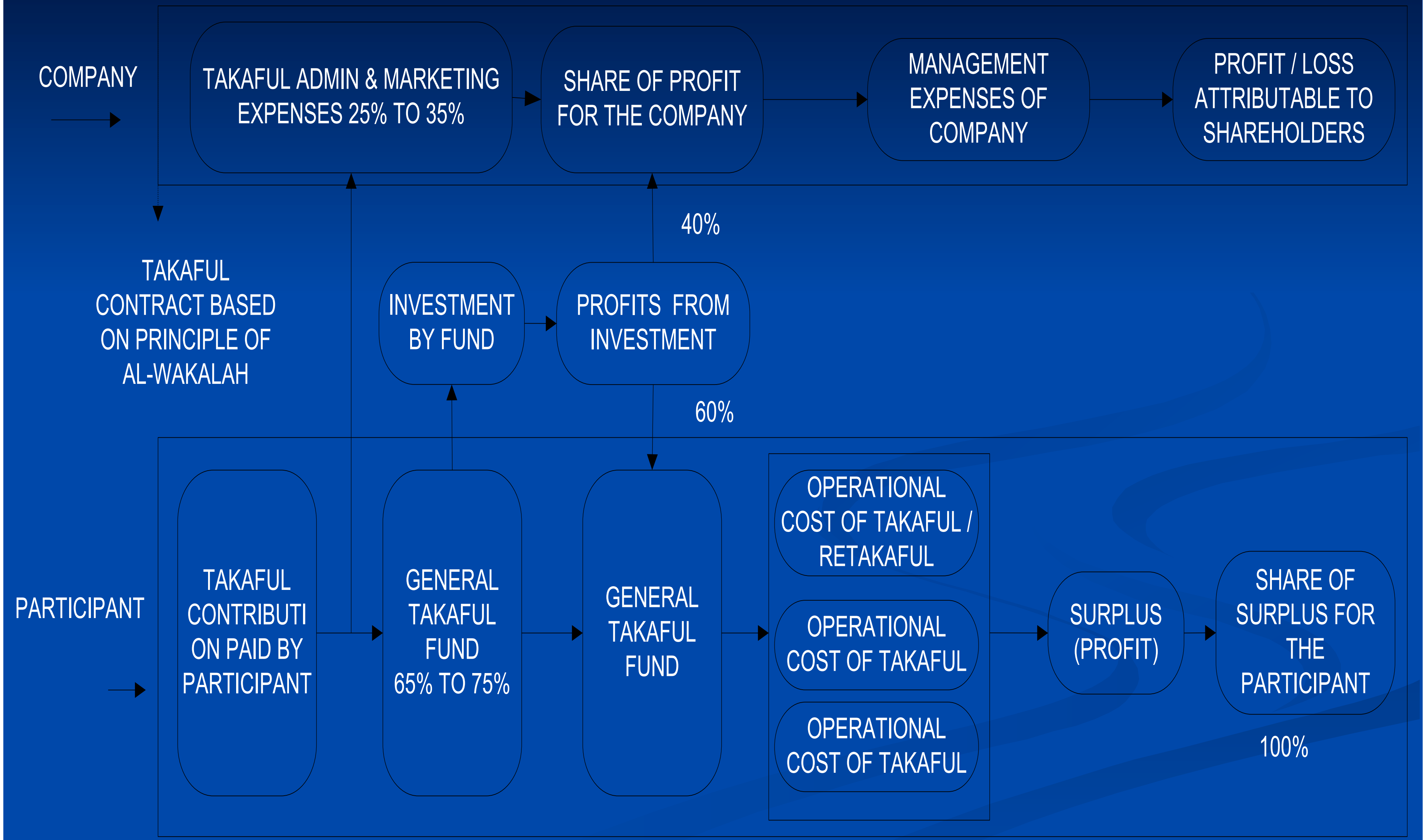
Wakalah Model

- 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.
- *al-wakala* model can be viewed as transparent as fees are clearly related to operator's operational costs.

Wakalah Model
Family Takaful



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.

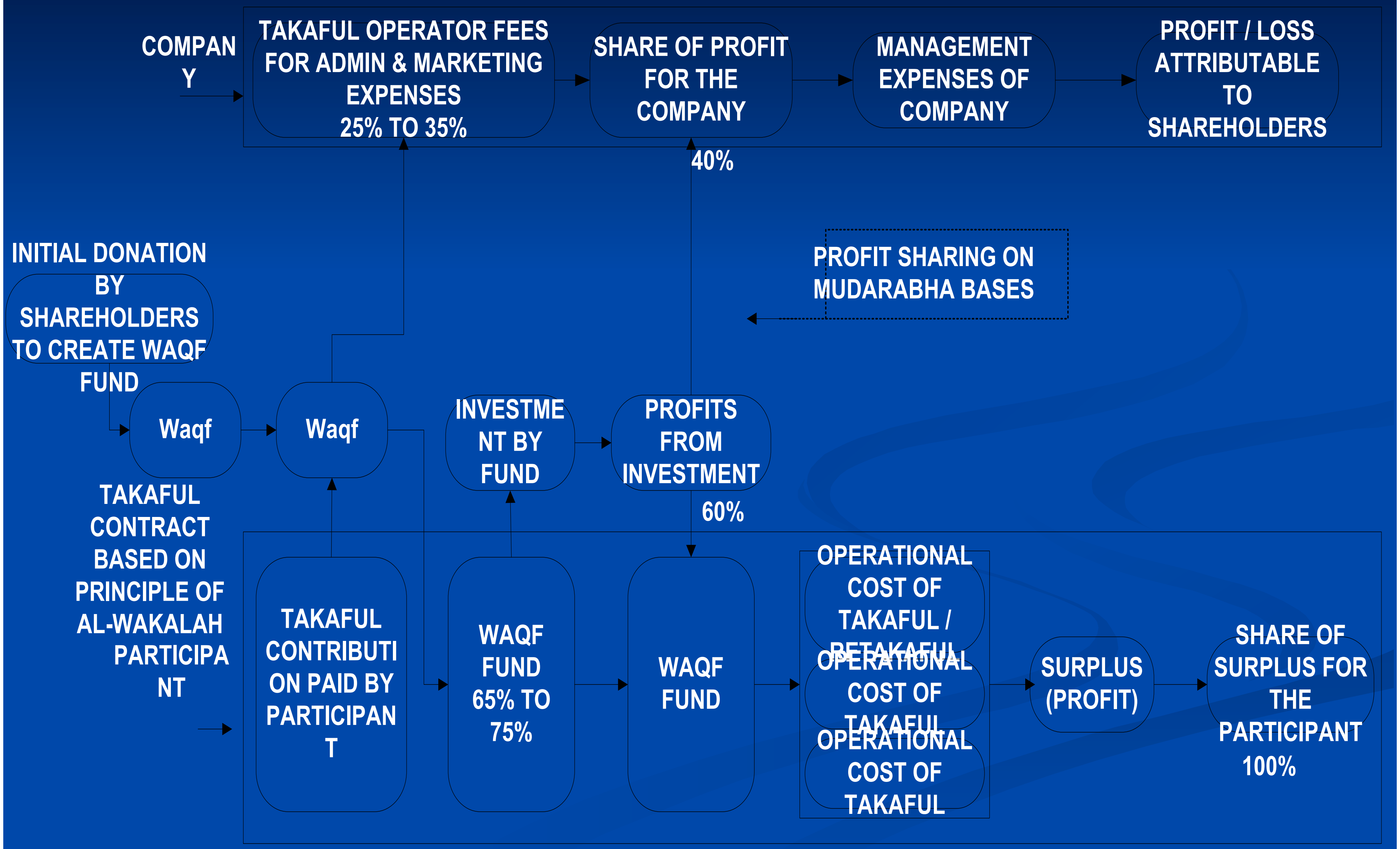
Waqf model

- 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


COMPANY
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
INVESTMENT BY FUND
PROFITS FROM INVESTMENT
60%
TAKAFUL CONTRACT BASED ON PRINCIPLE OF AL-WAKALAH
PARTICIPANT
TAKAFUL CONTRIBUTION PAID BY PARTICIPANT
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%

Hybrid of wakalah and mudharabah

- Underwriting activities: The TO is entitled to an agency fee for managing the fund as a wakil.
- Investment activities: The TO is entitled to share of profit for managing the investment of the fund as mudarib.

Hybrid of wakalah and waqf

- The shareholders and participants make donation to establish waqf fund.
- Both sholders and participants would lose ownership rights on their contribution
- Waqf fund will be managed by the TO
- Agency fees are deducted from the waqf fund.
- The TO undertakes the role of investment agent (wakalah bil istithmar) when it invests the waqf fund and is entitled to a certain percentage of the investment profit as a performance fee.

Issues on Wakalah and Mudharabah Models

- TOs cannot offer various forms of guaranteed benefits, such as cash dividend payouts, cash surrender value, survival value and others, in a way that is acceptable from the Shariah standpoint due to the inherent impediments in the existing structure related to the tabarru, mudharabah and wakalah principles governing various funds in family takaful models.

Guaranteed Investment Scheme

- Weaknesses of Takaful
  - expensive than the equivalent conventional products
  - giving lower returns than the conventional products
  - its inability to offer minimum guaranteed returns as its conventional equivalent does.
- Guaranteed investment return, cannot be mirrored in takaful.
- As guaranteeing the investment return is not allowed in an investment contract such as mudarabah, the takaful industry currently uses indicative returns in describing what contributors might expect from the TO's investment strategy.

Wadiah ya dhamanah

- custodian of the fund provides a total guarantee of the savings, while the ownership of the fund belongs entirely to the participants or depositors.
- The participating fund is the mudharabah fund, as TOs share the profits of the investments of the fund, whilst the non-participating funds are the wadiah and the tabarru' funds as both provide the guaranteed benefits. The former is on the concept of qard, and the latter is on the concept of risk sharing.
- The wadiah fund functions to provide the guaranteed survival benefits (non-forfeiture benefits), similar to conventional life insurance (guaranteed cash values that the insurance company guarantees will be owned by the policyholder as he continues to pay the premium.)

Musharakah Taawuniyah Model

- The participants will be the small equity holders joining together with the objective of helping one another in any hazardous situation.
- the participants will agree beforehand that they would have both risk and reward of the cooperative activity for mitigation of losses.
- Mutually agree beforehand that they would pay extra contribution in case the claims are more than the net revenues.
- Reserves to cover the possible losses in future but also to build-up capacity to sustain any voluminous losses in future.

Income Purification

- Even though takaful is operated under Shariah principles, non-Shariah income may arise when a non-compliant business activity is inadvertently undertaken.
- This commonly happens when the fund manager appointed by the TO invests in listed companies whose status changes, after a periodic review, to Shariah non-compliant. Non-Shariah income may arise when a takaful operator covers a risk that contains both Shariah-compliant and non-compliant elements.

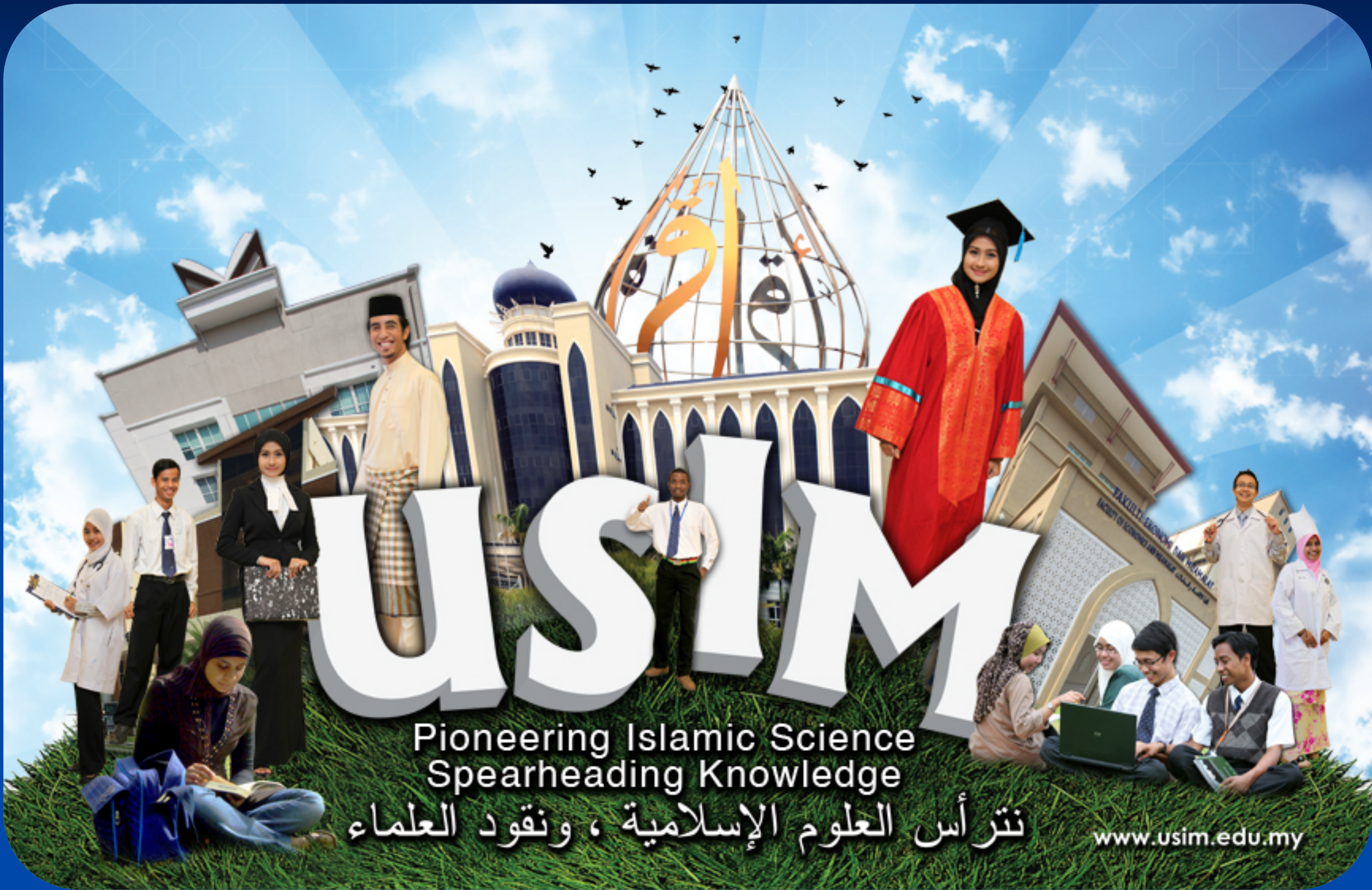
RETAKAFUL

- Purpose-
- Risk spreading or transfer
- Protection against catastrophic risks
- Surplus stability
- Capacity boosting
- Services
- Sources of profit

Types of Retakaful

- Facultative- Proportional facultative and non-proportional facultative
- Treaty- Proportional Treaty and non-proportional treaty

THANK YOU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